



THE MINISTRY OF EDUCATION

Annual Report

2017 *For the year ended 30 June 2017*

New Zealand Government

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THE MINISTRY OF EDUCATION

Annual Report

2017 *For the year ended 30 June 2017*

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

Hon Nikki Kaye

Responsible Minister for the Ministry of Education
Minister of Education

Hon Paul Goldsmith

Minister for Tertiary Education, Skills and Employment

Hon Louise Upston

Associate Minister of Education
Associate Minister for Tertiary Education, Skills and Employment

Hon Tim Macindoe

Associate Minister of Education

David Seymour

Parliamentary Under-Secretary to the Minister of Education

Report of the Ministry of Education

For the year ended 30 June 2017

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 2017.



Iona Holsted

Secretary for Education

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Foreword from the Secretary for Education

The Ministry's purpose is to shape an education system that delivers equitable and excellent outcomes for children and young people. A strong focus on student learning and wellbeing underpins all our policy advice and the services we provide.

During 2016/17, a huge milestone for New Zealand's education system was reached with the passage of the most significant update to education legislation in nearly 30 years. The Education (Update) Amendment Act 2017 presents the opportunity to publish a statement of National Education and Learning Priorities (NELP) to set out the Government's priorities for the early childhood and compulsory schooling sector. The updated Act sets out the objectives of the education system, enhances the options for collaboration between education providers, and modernises our education system to meet the challenges of the 21st century. The Act also disestablished Careers New Zealand (CNZ) and created a refocused careers service within the Tertiary Education Commission (TEC).

To promote collaboration and provide seamless pathways for children and young people's learning we have supported the implementation of Communities of Learning | Kāhui Ako bringing schools, early learning services and tertiary providers together where they form a pathway of learning. By 30 June 2017, 1,630 schools, 184 early learning services and four tertiary providers – across every education region – were part of a Community of Learning | Kāhui Ako.

During the year we have been working on other system changes to help create the right conditions for children and young people to progress and achieve. This included:

- developing and testing a new model for learning support services. Changes are based on the recommendations of the 2016 Learning Support Update and are designed to provide a system that is easier to access, and more child-focused and efficient
- developing draft Digital Technologies | Hangarau Matihiko content for the *New Zealand Curriculum* and *Te Marautanga o Aotearoa* which comprise our National Curriculum for schools and kura. This was launched for consultation in June 2017 and is the biggest change to our curriculum in 10 years. This content is designed to help ensure young New Zealanders are digitally fluent for the future
- redesigning the Professional Learning and Development (PLD) system to be more responsive to the needs of teachers, education leaders and students
- promoting a systematic Positive Behaviour for Learning approach and providing practical resources on bullying to help improve children's wellbeing and increase educational achievement
- developing advice on replacing the current decile system as part of a new funding model for early learning and schooling. The aim is to have a new system that funds schools and, in due course, early learning services in relation to the needs of the individual students
- developing, with the Ministry of Business, Innovation and Employment, the Government's response to the Productivity Commission inquiry into *New Models of Tertiary Education*. This inquiry was the largest review of tertiary education in more than a decade, and the Government's planned work in response sets a substantial work programme for coming years.

We continue to provide the sector with the core infrastructure, services and information they need. We are actively addressing roll growth in Auckland and since 2014 have delivered places for 8,978 students. We finished the year slightly ahead of schedule on our school property work supporting the Canterbury rebuild and also provided emergency support to schools following the North Canterbury earthquake in November 2016.

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

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

Through all my engagements with staff and sector partners, since joining the Ministry in December 2016, I have been inspired and energised by their commitment to delivering equity and excellence in education. I want to thank everyone sincerely for their efforts during 2016/17. I am confident our combined efforts are helping shape an education system with high quality teaching, a strong local curriculum, personalised learning pathways, and transparency of progress and achievement toward equity and excellence for all children and young people.



Iona Holsted
Secretary for Education

The year at a glance

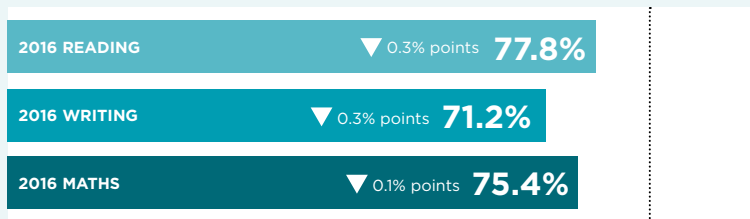
Progress on our five key indicators...

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



98%
DECEMBER
2016 TARGET

Primary school age student achievement of National Standards is being maintained



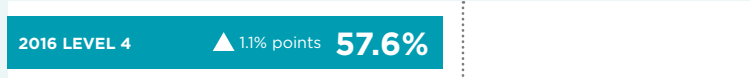
85%
DECEMBER
2017 TARGET

More 18 year olds are achieving NCEA Level 2 qualifications



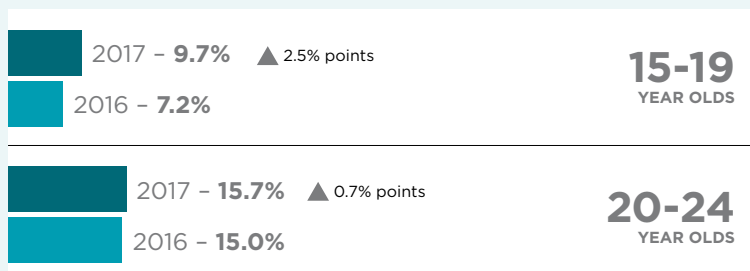
85%
DECEMBER
2017 TARGET

More young people have Level 4 qualifications...

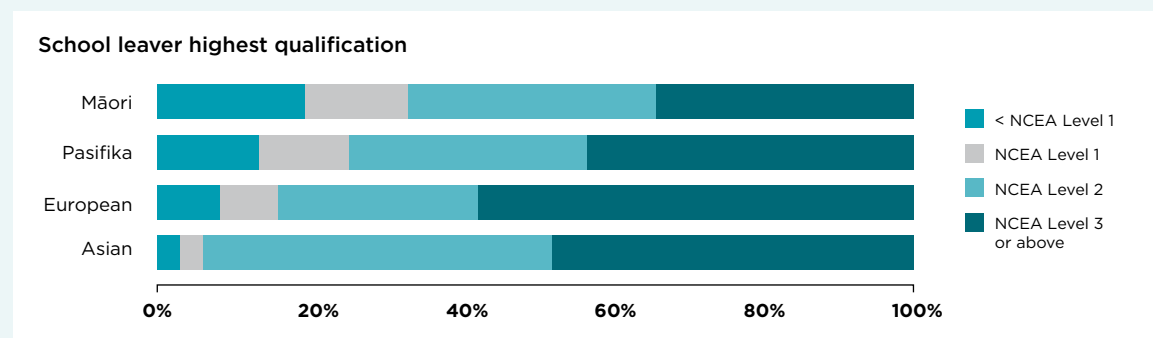


60%
DECEMBER
2017 TARGET

...however more young people are not in employment, education or training¹



Disparity of achievement remains a challenge...



¹ The survey questions that provide the data for this measure were changed in 2016 to better identify those in education. Rates should be interpreted with caution as it is not clear what impact these changes had on the number of people recorded as not in employment, education or training in 2016/17. See page 35 for additional commentary.

EARLY CHILDHOOD EDUCATION

NEARLY **200,000**

children were enrolled in ECE services

Over 5,000 ECE services and playgroups.

PRIMARY & SECONDARY EDUCATION

OVER **799,000**

children and students in primary and secondary schools

New Zealand's curriculum was taught in over 2,500 schools by over 54,300 teachers.

TERTIARY EDUCATION

OVER **576,000**

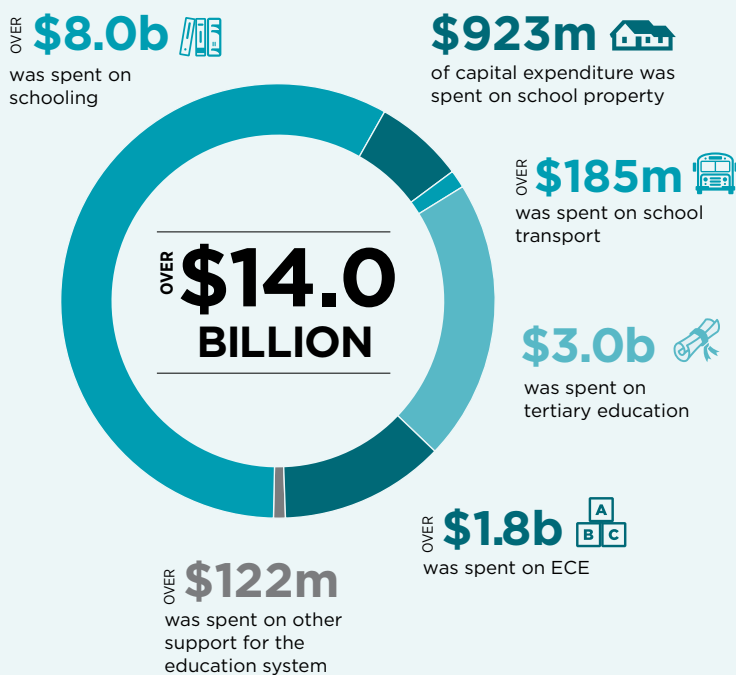
students were in formal tertiary education, including 148,000 in industry based training

In 2016/17, we spent over **\$14.0 billion**

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

We manage a property portfolio of **\$17.2 billion**

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



Our people

WE EMPLOYED OVER

2,630 people in full-time equivalent roles (as at 30 June 2017).

We work from 37 locations around New Zealand, as well as our National Office in Wellington. Around 75% of our staff directly support either children and young people, or educators and education services.

Our purpose and role

Our purpose

We shape an education system that delivers equitable and excellent outcomes.

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 stewardship role

The Ministry of Education is the lead advisor to the Government on education, and also the steward of the education system. Stewardship in this context means:

- focusing on educational achievement for all children, young people and adult students, in support of their social and economic outcomes
- providing advice on the long term health and performance of the education system
- providing support to raise the quality of teaching
- ensuring the system reflects and fulfils our responsibilities under the Treaty of Waitangi.

What we do

We need to make sure 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:

- regulate and support 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 learning support services to children and young people, and support to early learning services and schools
- deliver direct infrastructure services to help schools function – including property, transport and information technology
- set payroll strategy and monitor the schools payroll service to support an effective school workforce
- administer the funding for early learning services and for schools, and hold responsibility for tertiary education funding which is administered by the Tertiary Education Commission
- gather, analyse, publish and use evidence, data and knowledge across the system
- provide advice to government across the system.



PART 1

Our key achievements

This section outlines our key achievements during 2016/17 and how our work has delivered against the priorities set out in the Ministry's *Four Year Plan 2016-2020*.

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 2016/17 in our stewardship role and managing the Ministry itself, through sections on:

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

Introduction

This section outlines our key achievements during 2016/17 and how our work delivered against the priorities set out in the Ministry's Statement of Intent, *Ambitious for New Zealand, Four Year Plan 2016-2020*. The strategic framework for the organisation was updated during 2016/17 and 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.

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.

In *Ambitious for New Zealand, Four Year Plan 2016-2020* we identified five key indicators which provide a litmus test of the Ministry's progress in raising achievement:

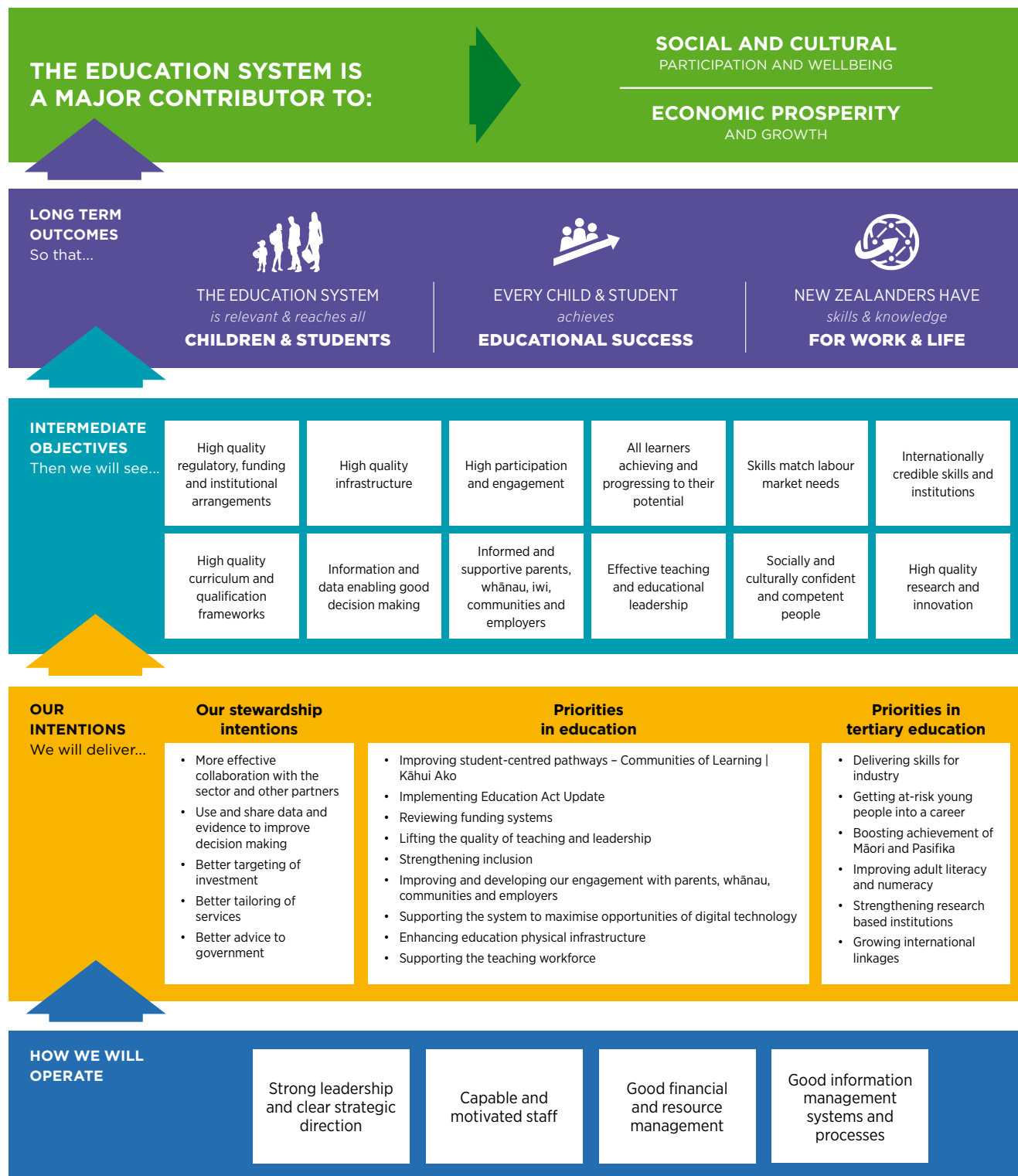
- **Indicator 1:** Increase participation in early childhood education (ECE) (see page 19)
- **Indicator 2:** Increase the proportion of enrolled students at or above National Standards levels (see pages 21 and 22)
- **Indicator 3:** Increase the proportion of 18 year olds with NCEA Level 2 or equivalent qualifications (see page 23)
- **Indicator 4:** Increase the proportion of 25 to 34 year olds with advanced trade qualifications, diplomas and degrees (at Level 4 or above) (see page 33)
- **Indicator 5:** Decrease the proportion of youth not in employment, education or training (see pages 35).

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 2016/17 performance measures are reported in *Part 2 – Our performance information*.

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

Four Year 'Plan-on-a-Page'



The education system is relevant and reaches all children and students

Our education system must meet the needs of our diverse population, be accessible and relevant to all, and flexible enough to accommodate different aspects and stages of children and young people's lives.

Supporting high quality regulatory, funding and institutional arrangements

Regulatory, funding and institutional arrangements must be effective and support the educational achievement of all children and young people, and the outcomes of the education system.

Supporting the development of Communities of Learning | Kāhui Ako

Through Communities of Learning | Kāhui Ako, we are working to get our early learning services, schools and tertiary institutions working together to lift education achievement for all children and young people.

Communities of Learning | Kāhui Ako, as at 30 June 2017

197 established Communities of Learning | Kāhui Ako, including
1,630 schools,
184 early learning services &
4 tertiary providers

67 Communities of Learning | Kāhui Ako have achievement challenges endorsed by the Minister of Education

OVER 550,000

students including **132,000** Māori students and over **55,000** Pasifika students within Communities of Learning | Kāhui Ako

110 + **198** + **1,009**
leaders appointed across school teachers appointed within school teachers appointed

Communities of Learning | Kāhui Ako help raise the quality of teaching and leadership through collaborative inquiry and the sharing of best practice across the education sector. Communities set shared achievement challenges to raise student performance based on the needs of each Community's children and young people. Three new roles – Community Leader, Across Community of Learning Teacher, and Within School Teacher – have been created, and are appointed by communities, to work across and within schools to support and share effective school leadership and practice.

According to a December 2016 report², our Communities of Learning | Kāhui Ako are “growing momentum”, showing “high levels of shared purpose and commitment”, and are “confident about their capacity to use student data to identify their achievement challenges.”

Evaluation by the Ministry and sector partners has highlighted the need to continue to refine the policy, especially in relation to the scale of the change, supporting teachers and principals with their new responsibilities.

We showcased tools and resources to support education leaders, teachers and board members through a series of Regional Cross Sector Forum Expos across all 10 education regions between April and June 2017. These were a follow up to a national forum held in Auckland in March 2017. The Expos were an opportunity for us to increase understanding across the country of what we are doing to support Communities of Learning | Kāhui Ako. Seventy-eight percent of respondents reported that their overall experience of the Forum was relevant. A total of 74% said the Forum was useful and 77% learned something new that they would share with others.

² www.educationcounts.govt.nz/publications/schooling/181545

Updating the Education Act 1989

The Education (Update) Amendment Act 2017 became law on 19 May 2017. It is the most comprehensive update to New Zealand's education legislation in almost 30 years.

The Education (Update) Amendment Act 2017 puts the achievement of children and young people at the heart of the education system. It does this by setting clear objectives for the early childhood and compulsory education system. It also introduces a new stand alone document called the statement of National Education and Learning Priorities (NELP), through which the Government will set its education priorities.

The Act also enhances the options for collaboration between education providers, and modernises our education system to meet the challenges of the 21st century.

Key themes of the Education (Update) Amendment Act 2017



During 2016/17, the Act was introduced to Parliament, open for public submissions and referred to the Education and Science Select Committee. We provided support to these processes, and are now focusing on implementation of the updated Act. Our first steps include planning the new statement of NELP, designing a new planning and reporting regime for schools, and developing regulations to enable the establishment of Communities of Online Learning.

Improving the flexibility and responsiveness of the tertiary education system

The legislation for the tertiary education system is also being updated to be flexible, innovative and accountable, and ensure it delivers the right skills for the 21st century.

The changes in the Education (Tertiary Education and Other Matters) Amendment Bill will:

- increase flexibility, innovation and accountability in the tertiary education system
- enable the delivery of the right skills for the 21st century
- enhance the welfare of international students studying in New Zealand.

Public submissions on the draft Bill closed in October 2016. Through this process, we sought feedback on whether the amendments were clear and easily understood, if any implementation issues are likely, and the potential impact of the proposals on tertiary education organisations and students.

The Education (Tertiary Education and Other Matters) Amendment Bill was introduced in the House in May 2017, received its first reading, and was referred to the Education and Science Committee for its consideration. The Committee called for submissions, which closed on 23 June 2017, and over 2,000 were received. The Bill is not expected to be reported back to the House until after the general election.

We updated our forecast of future demand for provider based tertiary education at Level 3 and above following the release of updated population and unemployment data by Statistics New Zealand and the Treasury. In line with the forecasted gradual improvement of the economy, our most recent forecast showed a slight year-on-year decrease of demand between 2017 and 2021. Despite this, Student Loan expenditure is still forecast to increase slightly each year, mostly due to increased borrowing for course fees. This forecast informed government decisions for Budget 2017, and planning for the Tertiary Education Commission (TEC) and sector.

The direction set out in the Government's July 2017 response to the Productivity Commission's inquiry into *New Models of Tertiary Education* signals some immediate and long term changes to improve the responsiveness, innovation and effectiveness of the tertiary education system. We, along with the Ministry of Business, Innovation and Employment, advised the Minister for Tertiary Education, Skills and Employment on this response and will lead the work programme set out in it. This will help to ensure the system is well positioned to meet the challenges of the future, including rapid changes across our population, in our workplaces and through evolving technology. It is focused on four key areas:

- creating a more student-centred system – so that students can make good decisions about their education and move easily through education and between education and employment
- meeting the needs of industry through relevant, responsive and supportive teaching – to ensure graduates have the skills needed to find and maintain sustainable employment
- improving performance across the system – so that providers and government can adapt and respond quickly and effectively to changing needs
- enabling and encouraging innovative new models and providers – so that tertiary education is open to new and innovative ideas that contribute to strong outcomes for New Zealand.

Updating funding systems for early learning and schooling

In October 2016, Cabinet agreed to further testing and development of a possible new funding model for early learning and schooling. The new funding model will be more student-focused and support more equitable outcomes for all children, while retaining a viable network of providers throughout New Zealand.

Technical reference groups comprised of sector experts were established in late 2016. These groups are providing advice on the different elements of the funding review. A particular focus for us in 2016/17 was developing advice on the replacement of the decile system.

A new Risk Index will be used to better target funding to student need. Schools and services will be funded based on their estimated number of children at greater risk of educational underachievement using the new Risk Index. The factors that will make up the index are yet to be finalised.

This is a complex project and we expect engagement, design and implementation processes to continue until 2019, with changes to the system in place prior to the next decile review which is due in 2020.

Developing a new education resourcing system

We are developing a new resourcing system that will calculate funding for early childhood education (ECE), school operational grants, staffing entitlements and special education.

Our current funding system, the Education Management Information System (EDUMIS), will be replaced by a new, long term and sustainable information technology solution called the Education Resourcing System (ERS). The new ERS will also replace many other resourcing systems.

The high level design for the ERS was approved in May 2017. The technology will be developed and built by mid-2019, and will be progressively rolled out in ECE services and schools between 2018 and 2020.

Providing better careers information

Following on from the review of the careers system last year, in 2016/17 we supported the TEC and Careers New Zealand (CNZ) as they prepared for the transfer of CNZ's functions to TEC. This move aims to ensure the availability of earlier, better and more consistent careers information. This has involved preparing legislative changes, keeping Ministers updated on the progress of integration planning and gaining Ministers' agreement on the amount of savings that will be redirected to strengthen schools based careers services, then setting up a new appropriation to fund the TEC's new careers service.

We consulted with the sector on the future of schools based careers services and provided a Cabinet paper proposing options for change.

Delivering high quality curriculum and qualification frameworks

The education system needs curriculum and qualification frameworks that support learning.

Improving learning outcomes in early childhood education

We launched the updated early childhood curriculum, *Te Whāriki*, in April 2017. During 2016, we drafted the curriculum, sought consultation from the sector through 36 hui, an online survey and submissions of feedback, and began implementation. The updated curriculum has clearer learning outcomes for children, makes explicit connections to the *New Zealand Curriculum* and *Te Marautanga o Aotearoa*, and includes specific references to Pasifika children's participation and learning. *Te Whāriki* includes two documents in one flip book, the early childhood curriculum (*Te Whāriki: He whāriki mātauranga mō ngā mokopuna o Aotearoa Early childhood curriculum*) and the curriculum for ngā kōhanga reo (*Te Whāriki a te Kōhanga Reo*). The two documents share a common framework while describing alternative curriculum pathways.

The 2017 update is being supported by an implementation package to help educators understand and engage with the updated *Te Whāriki*. This has included nationwide workshops to introduce the sector to *Te Whāriki* and provide support for curriculum Champions who will lead networks of educational leaders focused on effective curriculum implementation. Te Kōhanga Reo National Trust are leading this work in kōhanga reo.

Supporting Communities of Learning | Kāhui Ako to design a quality curriculum

In 2016/17, we worked with Māori-medium and English-medium education stakeholders to develop a Communities of Learning | Kāhui Ako curriculum design tool. The tool will help each Kāhui Ako implement a 'quality local curriculum' that is responsive to the learning needs and interests of their students and their community. Leaders and teachers can draw on the *New Zealand Curriculum* and *Te Marautanga o Aotearoa* to plan coherent learning pathways and community based experiences for their students, as they progress from early learning through senior secondary and beyond.

Incorporating Digital Technologies | Hangarau Matihiko into the curriculum

Digital Technologies | Hangarau Matihiko are transforming how we live by shaping our homes and workplaces, and changing the way we interact with each other and live our everyday lives. Our education system needs to adapt and change how we prepare our children and young people to participate, create and thrive in this fast-evolving digital world.

As one of the actions within the Science and Society National Plan, *A Nation of Curious Minds – He Whenua Hihiri I te Mahara*, Digital Technologies | Hangarau Matihiko will be fully integrated into the *New Zealand Curriculum* and *Te Marautanga o Aotearoa*. During 2016/17, we developed draft curriculum content for Digital Technologies | Hangarau Matihiko. The strengthened curriculum will support students to learn skills such as how to build computer programmes, create digital content and design digital devices.

Digital Technologies | Hangarau Matihiko content was introduced in June 2017, alongside a \$40 million investment package. This investment will focus on upskilling teachers to deliver the new curriculum, shifting our education system to a more digitally-oriented environment, and providing more opportunities for young people to learn about Digital Technologies | Hangarau Matihiko.

We are now consulting with stakeholders on the draft curriculum content and achievement goals. As part of the consultation process, we ran workshops nationwide between July and September 2017.

From the first term of 2018, Digital Technologies | Hangarau Matihiko will be included in the *New Zealand Curriculum* and *Te Marautanga o Aotearoa*.

We are also reviewing how we recognise the achievement of our young people with revised Digital Technologies | Hangarau Matihiko National Certificate of Educational Achievement (NCEA) standards. We have worked with the sector to consult on draft NCEA Level 1 Achievement Standards and these are now being trialled in 35 secondary schools and wharekura. These standards will be published in December 2017 for use in schools and wharekura from 2018. Development of NCEA Levels 2 and 3 Achievement Standards is underway for use from 2019.

Improving STEM skills and competencies

Science, technology, engineering and mathematics (STEM) builds creativity, curiosity and innovation. The Science in Society National Plan, *A Nation of Curious Minds – He Whenua Hihiri I te Mahara*, sets out the Government's goal to encourage and enable better engagement with science and technology for all New Zealanders.

A further year of funding for the Teachers in Industry and the Science Skills in Education initiatives has been confirmed, to align with the initial three years of actions in the Science in Society National Plan. The Teachers in Industry programme connects schools and kura with science or technology-intensive businesses in their community to help develop relevant curriculum content for the classroom. Through the Science Skills in Education initiative, we are improving science-related Professional Learning and Development (PLD) opportunities for primary and secondary school teachers.

We are working with Initial Teacher Education (ITE) providers, qualification accreditation bodies and professional bodies to lift the science and technology content in ITE courses. This included working with the Education Council to determine the improvements needed to ITE.

New species discovered by New Zealand school students

During 2016/17, school students identified and named three new yeast species which were included in a scientific journal read by adult researchers all over the world.

Three research papers, published in *Fungal Planet* in June 2017, were based on findings from students at Rongomai Primary School, Kura Kaupapa Māori o Kaikohe and Karamu High School.

Each paper submitted by the individual schools highlights the origins of the students' chosen name for the yeast they found, as well as what makes the yeast distinctive enough to be classed as a new species.

Rongomai Primary students named their yeast Rongomai-pounamu, which means 'treasure of Rongomai' when translated. The students at Kura Kaupapa Māori o Kaikohe named theirs ngohengohe, which is based on their school motto, E rere, kia koi, kia ngohengohe – 'Fly, be onto it, be humble in your success'. Karamu High School pupils spotted the third yeast but were stung by wasps when collecting it from the forest, so they named it vespimorsuum - Latin for 'wasp stings'.

The students carried out this research as part of the Unlocking Curious Minds programme run by the Ministry of Business, Innovation and Employment, with help from fungi experts at Landcare Research.

Using information and data to enable good decision making

Everyone from students, their families, business and employers, education providers to Ministers must have access to good information and data, and know how to use it, to support decision making.

Improving access to data

The Integrated Education Data (iEd) programme will make education data more accessible for educators to support students with their progress and achievement. It will ensure children and young people receive the right support at the right time. It complements ongoing improvements in tertiary education performance data, which are driven by our analysis of employment outcomes and provider and learner performance.

The programme focuses on making full use of education data by using technology innovation to improve education information management systems and build on people capability. iEd will be delivered progressively in stages over the next five years.

In 2016/17, we began the tender process for an IT partner to help us develop detailed requirements for the Student Information Sharing Initiative. The aim is to have a secure electronic platform to enable the transfer of a student's information as they move through the education system.

Promoting the Progress and Consistency Tool

The Progress and Consistency Tool (PaCT), introduced to primary schools in 2013, helps teachers make dependable judgements on student progress in reading, writing and mathematics in the *New Zealand Curriculum*.

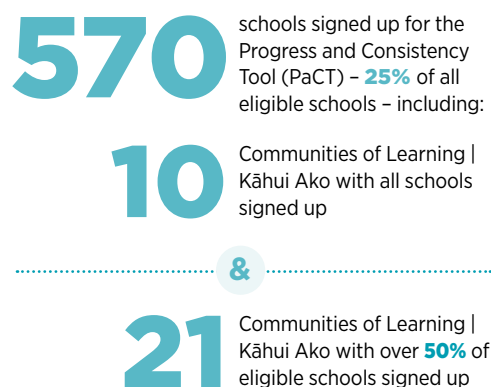
Teachers are in the best position to make accurate judgements about the progress of their students.

Supporting a progress approach to learning

Lynmore School in Rotorua have been using PaCT since its implementation four years ago. They are now focusing on the power of PaCT to increase student engagement in their own learning progression. This is already off to a good start, as students are familiar with the tool and use it to articulate where they are at with their learning.

We continue to promote the PaCT through the Learning with a Progress Tool support package, introduced in March 2017 and targeted specifically towards Communities of Learning | Kāhui Ako. To date, we have received 162 requests for support, of which 44 are from Communities of Learning | Kāhui Ako.

Progress and Consistency Tool, as at 30 June 2017



An updated version of the Te Waharoa Ararau was released in July 2016, which is an online system that collects and reports on student achievement against Ngā Whanaketanga Rumaki Māori (the expectations set for students in Māori-medium schooling). It ensures information can be readily monitored by kaikao (teachers) and shared within kura (schools). Eighty-four percent of kura have signed up to the tool. We are encouraging kura who have not yet registered with Te Waharoa Ararau to do so.

Information on employment options

Students expect their tertiary study will improve their career prospects and help them get a job. Better information tools are assisting more young people and their families to make informed decisions.

To help students decide what and where to study, information from providers about employment outcomes such as employment rates and earnings of their graduates was published for the general public from August 2017. During 2016/17, we worked with the TEC on how to present the data and on improvements to broaden the data available and make it more useful for young people. We have also begun work with the industry training sector on developing employment outcome measures for that important sector.

Providing high quality infrastructure

We provide and 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

The State school property portfolio that we manage is the Crown's second largest social asset property portfolio.

During 2016/17, capital expenditure of \$771 million was spent on maintaining, upgrading and expanding the school property portfolio. This included the provision of new schools and classrooms to cater for growing school rolls. We also provided \$33 million to schools to spend on new or updated furniture and equipment.

During the year we delivered:

- six new schools, including three schools through the Christchurch Schools Rebuild (CSR) programme (public-private partnerships delivered two of the CSR schools and one school in Auckland)
- major redevelopments at 17 existing schools
- 66 new learning spaces as part of the modular building programme, with a further 37 scheduled for completion by December 2017
- 3,294 additional learning spaces to accommodate roll growth in Auckland
- property modifications at 294 schools to help children with learning support needs engage more effectively in education.

An additional 524 capital works projects are also currently in progress at 493 schools. This includes 73 schools under the CSR Programme and 10 schools under public-private partnerships.

School property portfolio

\$17.2	\$30.0	8,000
BILLION CARRYING VALUE	BILLION REPLACEMENT VALUE	HECTARES OF OCCUPIED LAND

OVER
2,100
STATE SCHOOLS

OVER
30,500
BUILDINGS

OVER
35,500
LEARNING SPACES



50

frontline Ministry property
advisors to assist schools

Contributing to the Canterbury rebuild

The Government will have invested \$1.137 billion in rebuilding, remodelling and renewing schools in the greater Christchurch area by the end of 2022. To date, we have spent \$277 million (or 30%) of the budget made available for the programme. Of the 115 schools covered by the rebuild programme, we have completed projects at 12 schools and commenced construction for 26 schools. Of the remaining schools, 47 schools are at various stages of planning and design, and 30 are yet to enter the programme. The programme is tracking slightly ahead of schedule and we expect the last of the schools to enter the programme by July 2020.

Following the North Canterbury earthquakes in November 2016, the Ministry assisted with emergency funding and support for schools. This included the provision of water trucks and tanks, engineering assessments and emergency repairs.

In 2016/17, \$15 million was paid to the University of Canterbury, which was the final instalment for stage two of the University of Canterbury's Science Business Case. A further and final \$50 million is scheduled for payment in 2018. In June 2017, Cabinet also agreed to contribute \$85 million in capital funding to Lincoln University to contribute to its share of the joint facility project with AgResearch Limited, which will replace Lincoln University's earthquake damaged science facilities.

The scale of the damage and disruption of schools in the wake of the Canterbury earthquakes meant we did not get everything right. In June 2017, the Ministry issued an apology for failures during our early engagement with the Christchurch community over school closures and mergers. As the Office of the Ombudsmen's report found, we have done a lot of work since the beginning of 2013 to provide the right information to the schooling sector in Christchurch and to put things right. We now engage with schools earlier in the process and are working with the sector to revisit the closure and merger guidelines that we developed with them in 2013 to ensure they provide sufficient clarity around our policy and practice and reflect good consultation practice.

Responding to growth in Auckland

Auckland is growing at an unprecedented pace due to an increase in birth rates and migration. We are continuing to add significant capacity to the education network in the Auckland region to support population growth.

We have delivered 8,978 additional student spaces of the 17,000 announced in 2014. With additional funding announced in Budget 2017 for a further 4,000 spaces, we expect to deliver a total of 21,000 new spaces in Auckland by 2021.

Investing in digital infrastructure

We continue to improve schools' digital infrastructure to ensure that every student in every school has access to high quality and reliable ICT infrastructure and broadband. As at 30 June 2017, 2,394 (98% of) schools have access to unlimited, fast, reliable and safe internet through the managed network (Network for Learning). There are 798,000 students and teachers using the network on a daily basis across New Zealand.

We have also retrofitted ICT networks in 786 schools with wireless equipment. Wireless networks provide more flexible digital learning and teaching, by ensuring that schools are able to make full use of their ultrafast broadband connection, enabling students to bring their own devices, and giving teachers and students better ways to work.

Delivering school transport

Over the last year, we assisted over 100,000 students across New Zealand to get to and from school each day by managing around 7,000 daily vehicle movements.

We provided transport funding directly to around 400 schools and kura who organise and manage transport assistance for their students. Parents and caregivers of around 6,000 students, who do not have access to a transport service, receive allowances to help them to and from school. We also provided transport for 25,000 Year 7 and 8 students who do not have technology facilities at their own school to enable them to travel to their closest technology provider.

We also provided Specialised School Transport Assistance (SESTA) for over 6,000 students with specific safety or mobility needs, mostly through a door-to-door service. We undertook a national tender for SESTA services, and our contracts with providers now require security cameras, GPS monitoring and panic alarms in all vehicles, as well as multiple new safety requirements.

Delivering an effective payroll service

Payroll services to over 93,000 school staff in around 2,500 schools are delivered each fortnight under a service agreement between us and the Crown-owned company Education Payroll Limited (EPL). The schools payroll is the largest payroll in New Zealand, disbursing about \$4.6 billion annually.

We monitor the performance of the service provided by EPL to ensure the schools payroll is accurate and timely.

We began a refresh of the Ministry's 10 year education payroll strategy to ensure the schools payroll is well positioned for the future.

The Ministry of Business, Innovation and Employment has identified widespread non-compliance with the Holidays Act 2003, and, given the size of the schools payroll, this is a significant issue for us. We completed an initial Holidays Act 2003 compliance review with EPL and Deloitte. The review identified some areas of non-compliance in the schools payroll, generally relating to the way pay for different types of leave was recorded, calculated and applied. Work is now underway to confirm and address those areas of non-compliance, and calculate and deliver remediation to affected staff.

Enabling schools to focus on teaching and learning

With assets ranging from teaching and administration blocks through to science laboratories and performing arts centres, the management of school property is complex.

We have strengthened our frontline property advisory support to boards of trustees so that property management matters can be addressed promptly. We also provided a number of centrally-funded services to schools, including insurance for school buildings, leasing and rental payments for land and buildings, building warrant of fitness inspections, maintenance of houses used by schools and the removal of surplus buildings.

Additional advice for boards of trustees is now available on our website, with a focus on advice around health and safety matters.

Supporting the sector with their health and safety responsibilities

We have continued to support schools and early childhood services to enable them to comply with their obligations under the Health and Safety at Work Act 2015. In 2016/17, we launched a range of specific guidelines at the request of the sector including a joint resource with WorkSafe on Notifiable Events in the Education Sector and a guide for employers hosting students on work experiences. Over 250,000 views were recorded on our health and safety webspace. Fourteen workshops to over 1,400 science and technology teachers were delivered nationally. This is in addition to the 83 health and safety workshops that were delivered since late 2015 and attended by 3,211 board of trustee chairpersons and school principals.

We have also provided property information to help guide the education sector on various topics, including on managing asbestos and health and safety risks for small projects.

Every child and student achieves educational success

Every student should be supported to meet their potential. We are focused on raising the quality of teaching and learning, and supporting all children and students to meet their potential.

Increasing participation and engagement

In order to learn and achieve, children and young people must participate and be engaged in what they are learning.

Improving participation in quality early learning

Participation in quality early learning has positive and long lasting associations with students' literacy, numeracy and social skills. The Government set a Better Public Services (BPS) goal to increase participation, with a target that by December 2016, 98% of children starting school would have participated in quality early childhood education (ECE).

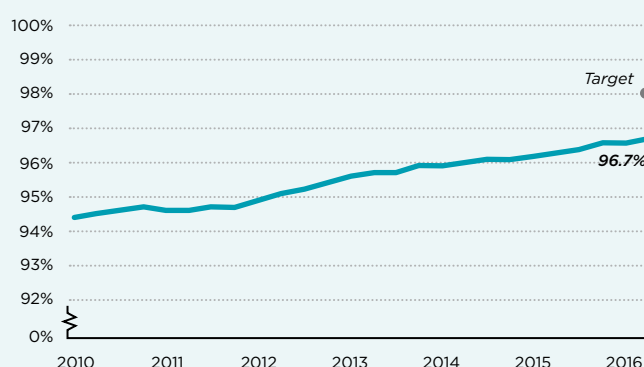
As at December 2016, 96.7% of children had participated in ECE prior to starting school. The 98% target had been reached in some regions, including Nelson/Marlborough, Canterbury and Otago/Southland and by 30 June 2017 most places have very few children not participating in ECE.

While the period for the BPS target has officially ended, we continue to focus on lifting participation in early learning, particularly for Māori and Pasifika children and those from low socio economic communities. As at June 2017, 96.8% of children starting school had participated in ECE, an increase of 0.2 percentage points from June 2016.

Participation in ECE remains a key performance measure for the Ministry.

In January 2017, new Engaging Priority Families and Supported Playgroup initiatives began in areas with high numbers of non-participating children.

Indicator 1 Increase participation in Early Childhood Education (ECE)
Better Public Services: Supporting Vulnerable Children, Result 2



	Jun 2016	Dec 2016	Change (% points)	Dec 2016 target
All	96.6%	96.7%	▲ 0.1%	98.0%
Māori	94.9%	95.0%	▲ 0.1%	98.0%
Pasifika	92.7%	92.9%	▲ 0.2%	98.0%
Decile 1-3 schools	93.7%	94.0%	▲ 0.3%	98.0%

The Engaging Priority Families initiative provides coordinators to help 3 and 4 year old children to go to ECE. They support the hardest to reach families, helping them to find the right early learning option for them, encouraging regular attendance, supporting learning at home and helping them with the transition to school. The Ministry currently contracts 12 providers across the country, working in communities with the most need. These providers engage and support almost 900 children from priority families at any given time.

Through Supported Playgroups, we provide an early learning option for communities with large numbers of children who do not attend ECE because parents want to stay with their children or where there are significant barriers to setting up and sustaining an ECE service. A Supported Playgroup is a certificated playgroup, with regular support from a Kaimanaaki or Playgroup Educator to ensure the provision of quality ECE and encourage involvement by families. The Ministry currently contracts 12 Supported Playgroups in targeted areas.

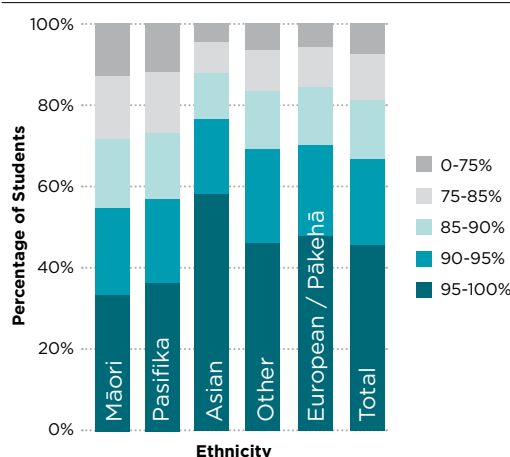
We continued to implement the Strengthening Early Learning Opportunities (SELO) for children, whānau, families and communities programme. It is a professional development programme for early learning, targeted at ECE providers and kōhanga reo that have low participation rates or need support in providing quality early learning. The evaluation of SELO (*SELO Evaluation Report – Cognition Education*) confirmed that it reached the intended targeted group, which included Māori, Pasifika and low socio-economic families. Generally, ECE me ngā kōhanga reo were satisfied with the SELO model, in particular the localised approach.

Improving participation at school

Our research has shown a clear link between attendance and achievement at school. Nationally, there has been a decrease in the number of students attending school regularly. During Term 2 of 2016, 67.2% of students attended school regularly compared with 69.5% in 2015³. Māori and Pasifika students had the lowest regular attendance rates, with 54.7% and 57.2%, respectively.

In the Attendance Survey Report, regular attendance is defined as more than 90% of half days. This does not mean we regard 90% as adequate for learning; it is the threshold we use to benchmark attendance.

Half-day attendance, by ethnicity, Term 2 2016



We are increasing the number of tools available to schools to help them increase their understanding of absence and its impact on achievement.

Our Attendance Service supports schools and students to manage and improve attendance. We contract providers to deliver the service throughout New Zealand. Five additional providers were contracted to deliver the service at the beginning of 2017, bringing the total number of Attendance Service providers to 16 across 24 service areas.

³ The national attendance rate for 2015 has previously been reported as 69.4%. The restated figure of 69.5% excludes private schools, which ensures data is consistent with previous years and for 2016 where private schools have been excluded from the calculation.

As of Term 1 2017, 82% of schools are signed up to use the Attendance Service and refer students who are unjustifiably absent. This is an increase from 68% in Term 1 2016.

Through the initiative Every Day Matters, we provide schools with individualised analysis of their attendance data. This is a voluntary initiative, with 209 schools registering to send their complete data from their student management system each term. We anticipate more schools will sign up during the remainder of 2017 as they see the value this reporting provides.

In 2016, the age standardised stand down rate increased slightly for the first time in 10 years but remains lower than rates prior to 2013. The rates for suspensions and exclusions remained consistent with 2015. Schools continue to stand down, suspend and exclude more Māori students than any other group.

Per 1,000 students	2015 ⁴	2016	Change
Stand downs	19.3	20.6	▲ 1.3
Suspensions	3.5	3.6	▲ 0.1
Exclusions	1.4	1.4	No change

Research shows that children with significant behavioural problems are highly likely to experience poor education and life outcomes, and that timely and effective interventions can help them improve their self-control and learn more positive ways of behaving. Budget 2017 gives \$34.7 million in funding to provide specialist behaviour services to an additional 1,000 children aged 0 to 8 years old.

Improving educational achievement

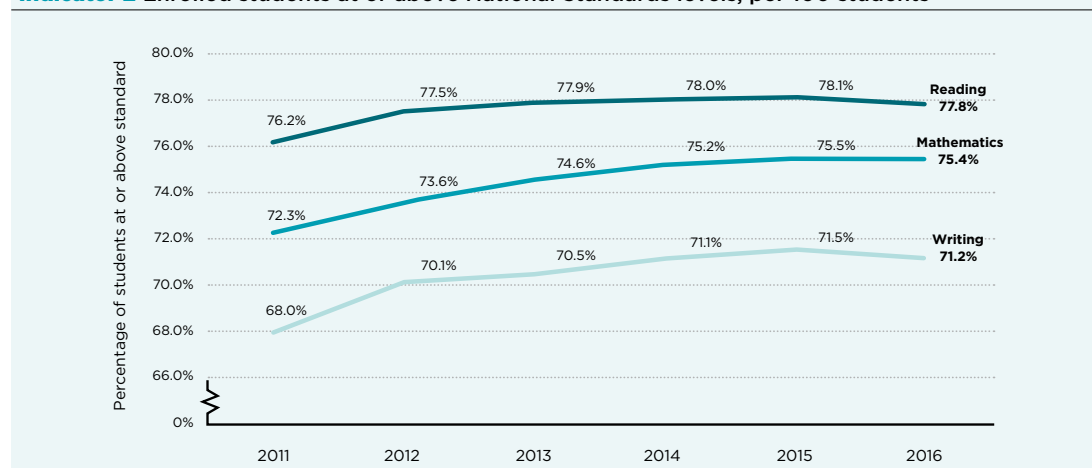
We want New Zealand's education system to deliver equitable and excellent outcomes for children and young people.

Maintaining performance in National Standards and Ngā Whanaketanga Rumaki Māori

National Standards and Ngā Whanaketanga Rumaki Māori set clear expectations that students need to meet in their first eight years at school. For National Standards these expectations are set across reading, writing and mathematics, and for Ngā Whanaketanga Rumaki Māori expectations are set across pānui, pāngarau, tuhihihi and kōrero.

The introduction of National Standards has led to a small and sustainable increase in reading, writing and maths since 2011. However, the proportion of students achieving at or above National Standards decreased slightly between 2015 and 2016 with decreases of 0.3% in reading and writing, and a 0.1% decrease in maths. Achievement has consistently remained highest in the reading standard, followed by maths and then writing. Achievement is not increasing year on year at a rate we would like to see and our target of 85% by the end of 2017 is unlikely to be met. There are challenges and successes for each group; however achievement for Māori and Pasifika remains lower than other groups across the three standards.

Indicator 2 Enrolled students at or above National Standards levels, per 100 students



⁴ In 2016/17 a large data cleanse was carried out on the data in the stand-downs and suspensions database, including all data since 2009, which has changed some of the rates we had previously reported.

Indicator 2 Enrolled students at or above National Standards levels, per 100 students				
	Year to December	2015 ⁵	2016	Change (% points)
Reading	All	78.1%	77.8%	▼ 0.3
	Māori	68.9%	68.8%	▼ 0.1
	Pasifika	66.1%	66.0%	▼ 0.1
	Decile 1-3 Schools	65.5%	65.5%	No change
Writing	All	71.5%	71.2%	▼ 0.3
	Māori	61.8%	61.6%	▼ 0.2
	Pasifika	60.6%	60.5%	▼ 0.1
	Decile 1-3 Schools	58.8%	59.1%	▲ 0.3
Maths	All	75.5%	75.4%	▼ 0.1
	Māori	65.6%	65.3%	▼ 0.3
	Pasifika	63.3%	62.7%	▼ 0.6
	Decile 1-3 Schools	63.4%	63.0%	▼ 0.4
				2017 target
				85.0%

Ngā Whanaketanga Rumaki Māori results:

Year to December	2015	2016
Pānui	68.5%	69.0%
Tuhituhi	59.8%	58.0%
Pāngarau	60.9%	57.7%
Kōrero	63.0%	59.8%

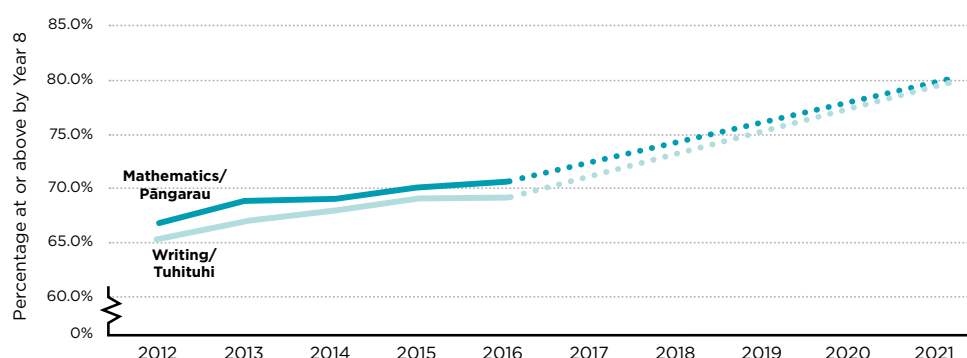
During 2016/17, we continued to support programmes to accelerate achievement of National Standards and Ngā Whanaketanga Rumaki Māori. Students from different backgrounds tend to make the same level of progress year on year. Because levels of progress are similar, students whose progress falls behind early struggle to catch up in later years. The Ministry has developed tools to help teachers understand more about the rate and pace of progress to enable them to better target resources to lift performance.

A new set of BPS results was agreed in 2016/17, which has a focus on improving mathematics, pāngarau, literacy and tuhituhi skills for all students. They are designed to help keep a system focus on these important foundation skills.

To help us meet the 2021 BPS target, we will review and develop the programmes that have the greatest impact on student progress.

During 2016/17, we reviewed and will be enhancing Programmes for Students and Mauri tu Mauri Ora. These programmes aim to accelerate the achievement of students who are not meeting the National Standard in mathematics, or at Manawa Ora in Ngā Whanaketanga Rumaki Māori.

New BPS Result 5 - Improve mathematics and literacy skills



Data in the graphs comes from school and kura reports of student achievement against National Standards or Ngā Whanaketanga Rumaki Māori provided to the Ministry of Education under National Administrative Guideline 2A. The percentage at or above standard or Manawa Ora or Manawa Toa is calculated using all the Year 8 students that we have information about.

⁵ We have restated previous years data which means there are some small differences from what was previously reported. This is due to some schools sending in late data returns and others correcting their information.

New BPS Result 5 targets

By 2021

80% of Year 8 students are achieving at or above the National Standard in writing, or at Manawa Ora or Manawa Toa in Ngā Whanaketanga Rumaki Māori tuhituhi.

By 2021

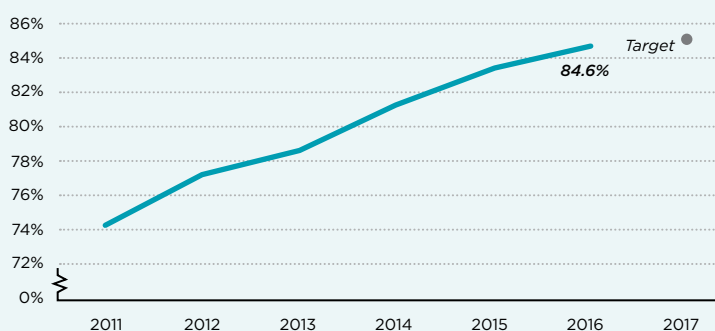
80% of Year 8 students are achieving at or above the National Standard in mathematics, or at Manawa Ora or Manawa Toa in Ngā Whanaketanga Rumaki Māori pāngarau.

Improving performance at NCEA Level 2

The National Certificate of Educational Achievement (NCEA) measures students' achievement at secondary school. NCEA Level 2 is the minimum qualification that young people need to progress into further education or training. The Government set a Better Public Services target in 2012 to increase the number of 18 year olds achieving NCEA Level 2 or an equivalent qualification to 85% by 2017.

Since its introduction, the percentage of 18 year olds with NCEA Level 2 has reached record highs. The number of 18 year olds with NCEA Level 2 or above increased from 83.3% in 2015 to 84.6% for 2016 (an increase of 1.3 percentage points). This means we are very close to reaching the BPS target of 85%.

The national NCEA Level 2 achievement rates for Year 12 students are increasing across all ethnic groups, with Māori and Pasifika achievement improving at a faster rate than the national average since the targets were introduced. This is narrowing the gap between Māori and Pasifika and total achievement, but the gap persists. We are continuing to monitor these groups closely.

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	2015	2016	Change (% points)	2017 target
All	83.3%	84.6%	▲ 1.3	85.0%
Māori	71.1%	74.3%	▲ 3.2	85.0%
Pasifika	77.6%	78.7%	▲ 1.1	85.0%
Decile 1-3 schools	75.0%	76.9%	▲ 1.9	85.0%

Supporting Māori and Pasifika students to participate and achieve in education

Ka Hikitia – Accelerating Success 2013-2017 and the *Pasifika Education Plan 2013-2017* set out our commitment to improve educational outcomes for Māori and Pasifika students.

During 2016/17 we identified the key education areas to prioritise in the future. The transformation of the education system through Communities of Learning | Kāhui Ako and the statement of National Education and Learning Priorities (NELP) provide an opportunity to link these key system levers with our updated plans.

The Building on Success initiative supported school leaders and teachers to develop professional leadership and schooling practices to deliver the curriculum effectively and increase educational success for Māori. Through this initiative, the national provider Kia Eke Panuku and Te Kāhahu, the Whanganui rohe provider, worked with 103 secondary schools to raise Māori student achievement and develop more culturally responsive teaching practices over the past three years. A Ministry survey of Kia Eke Panuku indicated that in 2016, schools had made positive improvements, particularly around increasing teachers' ability to teach in more culturally responsive ways and increasing the use and understanding of te reo for Māori students.

Similarly, schools involved in Te Kāhahu from 2014 progressed well and were creating better connections between the schools, whānau and iwi. Schools who joined the programme later remained in a developing phase, with most uncertain or not confident about the improvements they had made. The initiative ended in 2016 in alignment with the new PLD structure. Both providers have assisted these schools and Communities of Learning | Kāhui Ako to evaluate their priorities as they transition to the new structure.

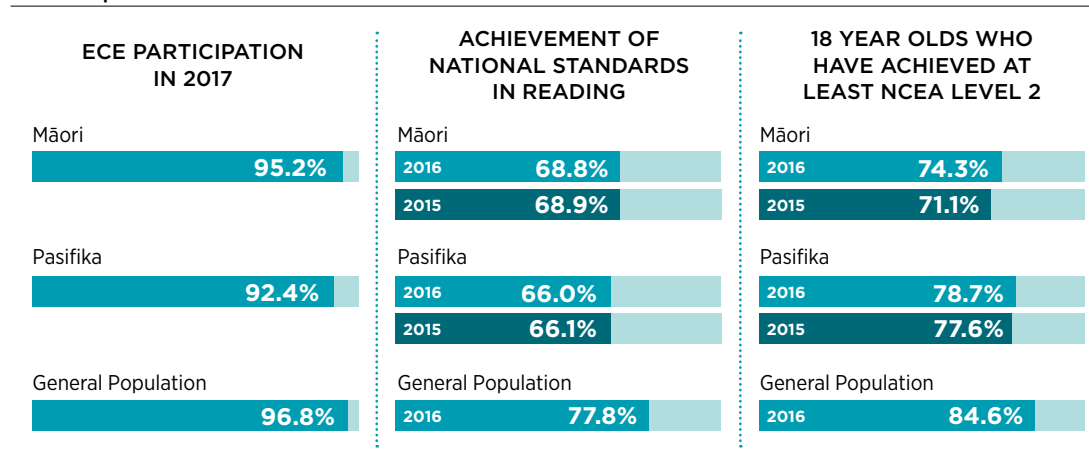
The Māori Achievement Collaboratives (MACs) focuses on leadership, fostering collaboration and professional growth leading to changes in individual schools aimed at Māori success. The initiative will help to achieve the *Ka Hikitia – Accelerating Success 2013-2017* goal of Māori students enjoying and achieving educational success through change in the hearts and minds of principals.

The initiative was piloted in 2014 with six clusters supporting 46 principals. The MAC initiative is now delivered across nine clusters supporting 157 Principals. Nationally, 12,119 Māori students are targeted under the initiative. However, because the initiative supports system change the total numbers of students impacted nationally is 41,681.

The latest survey results on the effectiveness of the MAC initiative indicates that:

- 68% of respondents rated the MACs PLD delivery as either very effective or highly effective

Despite improving in many achievement rates over previous years, Māori and Pasifika students still face inequitable outcomes:



- 29% rated MACs as effective
- 92% of respondents agreed that the MACs PLD has impacted positively on Māori student achievement
- 84% of respondents agreed that Māori student achievement had improved in their school.

To encourage participation and achievement for Pasifika students, we developed Tapasā – a competency framework for teachers of Pasifika children and young people. During 2016/17, we strengthened the connection of Tapasā with ECE and learning support, and completed consultation with the sector. The Education Council will lead implementation with the sector.

Providing Te Reo Māori language pathways

Te Rāngai Kāhui Ako ā-Iwi is a framework to support quality and sustainable Māori-medium education, recognising diversity region by region, iwi by iwi. We have been introducing Te Rāngai Kāhui Ako ā-Iwi to iwi in four of the 10 education regions, and to Māori-medium peak bodies and government agencies. This will be rolled out to the remaining six education regions from August 2017.

To support Te Rāngai Ako Kāhui ā-Iwi, we are working alongside iwi to identify ways to ensure children and young people in Māori-medium education have access to quality and sustainable learning pathways. We are working with iwi to draft regional action plans to set out their aspirations for Māori-medium education in their region, and their plans to make this a reality.

At the end of 2016, we completed the development of NCEA Achievement Standards, derived from *Te Marautanga o Aotearoa*, for Levels 1, 2 and 3. This supports all wharekura students to follow a Māori-medium derived qualification pathway through to the end of schooling, and to transition appropriately into tertiary education.

We continue to support Te Kura Whānau Reo, a language programme administered through Te Ataarangi which seeks to develop the language capabilities of 75 whānau to support their tamariki learning in and through te reo Māori.

Providing Pasifika language resources

The Ministry has been piloting the use of Pasifika Dual Language resources that build on Pasifika language knowledge in order to improve English literacy.

A research project into the benefit of using the Pasifika Dual Language resources found that 82% of the children involved in a three month pilot have improved between two to 15 reading levels, and that their confidence and self esteem have also been significantly raised. Another 24 Pasifika Dual Language resources were completed in 2016/17, meaning schools will now be able to order a full set of early readers online from September 2017. Support for teachers and parents to use these readers is also available.

Enabling all children and young people to achieve their potential

New Zealand needs an inclusive education system where all children get the support they need to access the curriculum, participate fully and achieve in education.

Modernising learning support

We are modernising our learning support system so that it is easier to access, child-focused and more efficient. Through the Learning Support Update, we have been testing a new service delivery model for learning support in the Bay of Plenty – Waiairiki region since March 2017. The new model and implementation plan were co-designed with regional sector partners and key stakeholders from Whakatane, Ōtūmoetai and Taupo.

Key features of the new model include:

- providing a streamlined process for parents and schools/kura to access support
- using Communities of Learning | Kāhui Ako as the primary platform for delivering learning support
- local learning support teams who will coordinate service providers and facilitate flexible, tailored, dedicated solutions for children and young people
- using a single Learning Support Plan to document actions, resources and goals

- collecting individual student data related to learning support and achievement.

Early indications from the Bay of Plenty – Waiairiki test suggest that the new model is facilitating quicker and easier access to learning support when needed.

We will continue to roll out the new model to further Communities of Learning | Kāhui Ako throughout the remainder of 2017 and during 2018.

Maintaining and improving learning support

During 2016/17, we provided or funded specialist services and support to over 36,000 children and young people with additional learning needs.

Over the last year we have reduced the average time children and young people have to wait for support to be provided following a referral, from 73 days in June 2016 to 60 days in June 2017.

We continued to fund Resource Teachers: Learning and Behaviour to work with teachers, schools and kura to support over 17,000 Year 1 to 10 students with learning and behavioural difficulties. Resource teachers have a particular focus on supporting Māori and Pasifika students, as well as children and young people moving into state care.

Our Intensive Wraparound Service (IWS) supported over 320 children and young people who were struggling to stay at school and learn. These children struggle due to their complex and challenging educational, behavioural and social issues at school, in their families and whānau, and in their communities.

With the additional funding for In-Class Support received through Budgets 2016 and 2017, around 3,375 students who have ongoing high learning needs will receive up to five additional teacher aide hours per week through this initiative from the start of Term 3, 2017.

We continue to monitor the satisfaction of parents and educators of young people who receive our special education core services. As the preschool age population and school rolls continue to grow, there are more children receiving these services than ever before.

Our 2016 client satisfaction survey found:

- 64% (down 8% from 2015) of respondents were satisfied with the overall quality of our service delivery. Parents reported the highest levels of satisfaction with being included in developing the plan and goals for their child, feeling like their cultural needs were well considered, and being treated fairly
- 63% (down 6% from 2015) of respondents were satisfied with the child's progress after receiving the service. Educators reported the highest levels of satisfaction with being treated fairly, staff competency, and being included in developing the plan and goals for the student.

Parents and educators experienced the lowest levels of satisfaction with the same aspects of service delivery. These were the amount of time it took to get the service, the child's progress after the service, and value for tax dollars spent.

We are disappointed with these results, both of which fell short of our stretch targets of 85%. We know that we have more work to do to meet the expectations of parents, caregivers and educators, and this work is underway.

In mid-2015, we consulted extensively with over 3,650 parents, whānau, schools and local communities to understand their frustrations with dealing with the Ministry's Special Education provision. Both families and educators told us the special education system could be hard to navigate, with too many hurdles to get to the right support. Parents told us that they don't always get support for their child soon enough. We have used this feedback to inform our approach to modernising how learning support is delivered across the sector.

We worked with the New Zealand School Trustees Association (NZSTA) to develop a Disputes Resolution Process for schools, families and whānau where there are issues and concerns about students with learning support needs that cannot be resolved between the parties. We held workshops with a wide range of stakeholders including representatives of teacher unions, disabled people's organisations, parent support groups and education sector groups.

The new process will focus on early resolution of issues by supporting facilitated conversations, introducing a review process to consider all options and provision of a mediation service for complex issues. There will be a phased implementation in three regions (Auckland, Whanganui/Manawatu and Marlborough), which will be evaluated before being rolled out nationally.

Providing additional support through targeted initiatives

Year 9 Plus

Year 9 Plus was established in 2016 to provide intensive educational and social support to 100 of the most vulnerable Year 9 students in Gisborne.

Early findings show the Year 9 Plus trial is improving outcomes for vulnerable youth with complex educational needs. The majority of whānau surveyed attribute the improvements in their child's attitude to learning in the last six months to Year 9 Plus. They also report improved family relationships and students having increased confidence.

At Risk of Not Achieving programme

Through our At Risk of Not Achieving programme, we continued to work with 349 secondary schools where there were high numbers of Māori and Pasifika students at risk of not achieving NCEA Level 2. During 2016/17, we worked with schools and kura to provide additional resources to support students. This included mentoring, providing whānau and iwi support, and working with schools to make Pathway Support programmes available to students. An additional 542 Māori students and 161 Pasifika students achieved NCEA Level 2 or equivalent.

In 2016, we also worked with 85 national tertiary providers in 148 locations where there are high numbers of Māori and Pasifika students who are at risk of not achieving NCEA Level 2. Utilising tools and resources such as Vocational Pathways, schools and providers can work on curriculum review and design to increase student achievement and progression through the education system into training and/or employment.

New ways to support students at risk of not achieving

In 2016, an Auckland school was able to dramatically increase achievement of students who were at risk of not achieving NCEA Level 2 or 3.

Glenfield College profiled 38 students studying NCEA Level 2 and 25 studying NCEA Level 3 and shared them with their staff. Teachers were briefed regularly on the number of credits each student was achieving and their other achievements. This helped teachers mentor students through regular one on one sessions to get them over the line and achieve NCEA.

This alternative strategy paid off. In 2016, Glenfield College lifted its NCEA Level 3 pass rate in Year 13 from 69% to 94%, and its NCEA Level 2 pass rate in Year 12 from 81% to 95%.

Throughout New Zealand, national average pass rates rose slightly in 2016 with:

- 89.4% of Year 11 students gaining NCEA Level 1
- 80.3% of Year 12 students gaining NCEA Level 2
- 53.9% of Year 13 students passing NCEA Level 3.

Count Me In

Through Count Me In, we supported Māori and Pasifika 16 to 18 year olds to reengage in learning and attain NCEA Level 2 or an equivalent qualification.

On entry to Count Me In, over 780 (or 89%) of the young people we supported through the programme had no NCEA Level 1 literacy and numeracy credits and 779 (or 89%) had no NCEA Level 2 credits. When the Count Me In programme ended on 30 June 2017, 64% of the young people we supported had attained NCEA Level 2 credits, with 145 (or 17%) attaining either NCEA Level 2 or an equivalent qualification. We expect the attainment to increase once first semester courses are completed.

Count Me In, as at 30 June 2017

1,293 young people referred to
Count Me In
of **876** active cases, **76%** were Māori, **18%** Pasifika,
5% Māori/Pasifika, **1%** Other

Count Me In provided several valuable insights into the issues that adversely affect the ability of Māori and Pasifika young people to re-engage in learning and attain relevant qualifications. We will continue to use these insights as we work to reduce the number of young people that are not in education, employment or training. We will also encourage other agencies working with young people not in education, employment or training to adopt the methodology, and have refined our original Facilitators Guide and published a new Supporter's Guide which contains tools for use by parents, families, agencies and employers.

Partnership Schools | Kura Hourua

Partnership Schools continue to target our most vulnerable students, providing a schooling option to help them reach their potential. This year, we initiated two further Partnership Schools procurement application rounds – one resulting in two new Partnership Schools to open in 2018, and another is currently underway for schools to open in 2019.

Creating a positive environment for learning

Positive Behaviour 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. The initiatives are designed to help parents, whānau, teachers, early childhood centres and schools address problem behaviour, improve children's wellbeing and increase educational achievement.

As at 30 June 2017, 174 secondary schools are participating in PB4L Restorative Practice and 779 schools are implementing PB4L School-Wide. We are looking to significantly increase the number of schools accessing the School-Wide framework over the coming year.

Since the beginning of the initiative over 22,000 parents have participated in the Incredible Years Parent programme, as well as 15,900 teachers and early childhood educators in the Incredible Years Teacher programme. These PB4L programmes are targeted at students who need additional support.

Restraint and seclusion

In November 2016 the Secretary for Education wrote to all schools stating the expectation that they should cease the practice of seclusion. Schools were offered support to enable the change of this practice immediately.

Schools should be, and usually are, a safe and happy place. But there are times when things risk getting out of control and someone needs to step in. On rare occasions a student may need to be physically restrained.

During 2016/17 we worked with a sector-based advisory group to develop new rules and guidance on physical restraint. The new rules, which came into force in August 2017, require schools to notify, monitor and report on the use of physical restraint.

Preventing bullying

Rates of bullying in New Zealand schools are high compared with most other countries. Some schools already have comprehensive approaches to bullying prevention and are building positive school environments, while others are still developing their approaches.

The Secretary for Education established the Bullying Prevention Advisory Group in 2013 to begin cross-sector work to address bullying in New Zealand schools. The group is a collaboration of 18 organisations, with representatives from across the education, health, justice and social sectors, as well as internet safety and human rights advocacy groups.

Bullying-Free New Zealand Week, which ran between 22 and 26 May in 2017, provided schools with an opportunity to review their bullying prevention policies, run classroom activities, and get their students and community talking about bullying. This year's theme was 'New Zealand students with solutions – working together to end bullying'.

Prior to the Week, schools accessed more than 900 copies of the Ministry developed activity pack from the bullyingfree.nz website. This pack provided a range of bullying prevention-themed ideas, classroom activities and information.

We are also developing a Bullying-Free New Zealand School Toolkit to provide practical resources for schools to use. So far, we have completed:

- a parent's pack with information and tips on how to deal with and talk about bullying issues
- 10 professional learning and development stand-alone downloadable modules for school staff
- *Tackling Bullying: A Guide for Boards of Trustees*, to help boards provide leadership and direction in bullying prevention in their school.

Suicide prevention

We are an agency partner in the Ministry of Health-led draft Suicide Prevention Strategy. The draft Strategy builds on previous strategies and new knowledge about preventing suicidal behaviour. The document identifies a range of priority population groups including young people aged between 15 to 24 years old. Our focus on promoting student wellbeing and building resilience aligns well with the proposed pathways within the draft Strategy.

International student wellbeing

We also led the development of a new International Student Wellbeing Strategy which was launched in June 2017. The Strategy ensures international students have their safety and wellbeing needs met, and will support the new International Education Strategy when it is finalised. The Wellbeing Strategy was developed with input from students, communities and providers.

As part of the Education (Tertiary Education and Other Matters) Amendment Bill, we worked with the sector on changes to enable schools to manage international students' misconduct outside school. We also looked at how we can improve the regulatory settings that ensure provision of a quality international education system.

Supporting effective teaching and educational leadership

The quality of teaching and leadership is one of the most important factors in enabling all children and young people to succeed in their education. Research shows that professions who collaborate, mentor and learn from each other grow in quality.

Supporting high quality and innovative teaching

Communities of Learning | Kāhui Ako each have a number of teachers who share their subject and practice expertise, both within and across schools. With our support, these teachers will drive a shared view of best practice and support its implementation. Teachers can move within Communities of Learning | Kāhui Ako to have the greatest impact on children and young people's progress and achievement. This is being realised with the appointment of 198 across school teachers and 1,009 within school teachers by 30 June 2017.

The Teacher-Led Innovation Fund supports teachers to develop innovative practices that improve learning outcomes, particularly for students who are Māori, Pasifika, have special education needs or come from low socioeconomic backgrounds.

The first 17 schools completed their projects at the end of 2016 and we are compiling summaries of them for publication to spread effective practice.

Schools that were approved in the second round are currently implementing their projects.

The third round of the Teacher-Led Innovation Fund commenced on 1 July 2017 and widened eligibility to include early learning services. Thirty-three new projects were selected in the third funding round, including six led by early learning services and kōhanga reo.

Investing in leadership

The Principal Recruitment Allowance (PRA) attracts a wider pool of experienced applicants to vacant principal roles in our struggling schools. It helps our most high need schools and kura attract effective principals who can provide the leadership needed to lift student achievement.

Principal Recruitment Allowance, as at 30 June 2017

45 schools have expressed interest in offering the PRA
of these, **27** have been approved to recruit
13 principals have been appointed with the allowance

An evaluation of the implementation of the PRA is currently underway and will focus on the quality of the allowance design and how it is being implemented, which will help identify improvements to support progress towards intended outcomes.

Improving professional learning and development

Professional learning and development (PLD) equips teachers and leaders with the knowledge, skills and confidence to work with an increasingly diverse population and use technologies to support their teaching where possible.

In 2016/17, 67% of schools targeted for professional learning and development demonstrated a positive shift in capability, which was just below our target of 70%.

We have redesigned the PLD system to improve the quality of PLD provision and enable schools to have greater choice about the PLD they receive. The new PLD system is now operational and two allocation rounds of PLD have been undertaken. Over 1,000 schools and kura (including Communities of Learning | Kāhui Ako) received a PLD allocation from the first two rounds.

Cabinet agreed that the Education Council will take responsibility for implementing PLD from early 2018 as it is consistent with their role in promoting high quality teaching and leadership. We are working with them on this transition.

Informed and supportive parents, whānau, iwi communities and employers

Research shows home environment and parental involvement have a significant impact on educational achievement. Parents need to be informed and supportive to help children succeed.

Informing and engaging parents and whānau through our online channels

Over the last year we have updated our parent's website with new information, including:

- information on the changes to the Education Act, including links to 22 fact sheets
- a 'know your rights' section providing more information on cohort entry and compulsory attendance
- news items about the importance of children attending schools, with links to information on attendance and what to do if your child is stood down, suspended or expelled
- four videos outlining the benefits of Communities of Learning | Kāhui Ako and how they link with local communities.

In the first six months of 2017, we have seen a steady increase in the average monthly activity on the parent's website. In 2016, there were 25,565 visitors and 56,438 page views per month, and between January and June 2017, this has increased to an average of 33,670 visitors and 72,348 page views per month. The number of followers of our Facebook page for parents has also increased by 60% from 2,752 in January 2017 to 4,400 at the end of June 2017.

We have supported children's access to universal services by delivering education content for the *Hand in Hand* book targeted at caregivers; a joint early enhancement for the Investing in Children programme sponsored by the Minister of Health. This is targeted at caregivers and is also available from Ministry of Education regional offices, and online via a link from the Ministry's parent's website to the copy on the Oranga Tamariki website.

Engaging parents, whānau and iwi

Ka Hikitia Express to Success hubs are places of additional support outside school for secondary students to catch up, get ahead or get back on track. The students are primarily 16 to 18 year old Māori and the hubs help them achieve NCEA Level 2 or an equivalent qualification in a positive, supportive environment. In 2016, 341 students participated in eight hubs. The hubs are based in areas where there are high proportions of Māori students disengaged from education.

In previous years the hubs have focused on working with students, but in 2017 there has been a shift to focus on Māori whānau. This has involved providing whānau workshops and toolkits, for example, helping to understand NCEA, providing information on career opportunities for youth/whānau and tips to support youth success. Some hubs also develop whānau education plans with whānau and their children. Formal analysis of the impacts of the hubs will be undertaken in 2018.

To support iwi partnerships with Communities of Learning | Kāhui Ako, we have released the first of two videos to showcase iwi partnerships in action, based on the Te Matakōkiri programme. Te Matakōkiri encourages young people to explore, experience, engage and learn alongside expert partners within their community.

Work is underway in three regions to pilot tools to support partnerships between iwi and Communities of Learning | Kāhui Ako. This work will continue into 2017/18.

Engaging Pasifika parents, families and communities

The PowerUP programme aims to lift participation in early learning and accelerate achievement for Pasifika primary and secondary students by providing information and support to parents, families and children. PowerUP is located in community settings and delivered by community providers. The programme reached over 18,000 families, parents, adults, students and children through 20 PowerStations in 2016.

	Target (2016)	In 2016 PowerUP reached:
Parents and families	800	3,634
Pasifika NCEA students	1,500	4,514
NCEA Level 2 students	800	1,502
Year 9 and 10 students	1,000	2,452
Primary school students	1,000	6,249

After attending the parent/adult sessions at a PowerStation:

- 82% of adults were very confident in their understanding of what a child gains from going to early childhood education (compared with 33% before attending the sessions)
- 68% of adults were very confident in understanding National Standards (compared with 33% before attending)
- 70% of adults were very confident in their understanding of how the credits a student achieves contribute to NCEA qualifications (compared with 44% before attending).

PowerUP Plus, a strengths based programme to enable PowerUP to increase its reach to Pasifika parents, families and communities, was evaluated in 2016/17. The key findings were that the programme:

- was relevant to parents and is delivered in a way that is authentic for parents to learn from and reflect on, and which encourages positive changes within families to support their children's education journey
- provides a safe space for students to engage with teachers and academic mentors to better understand how to approach their learning to achieve success
- enables parents and other adults to build trusting relationships, such as with providers and teachers, that support change.

The first year of longitudinal profiles has also been completed, which gives us a better understanding of what families learnt during PowerUP and how they used this information.

New Zealanders have skills and knowledge for work and life

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

The priorities to improve the contribution of tertiary education to New Zealand are set out in the *Tertiary Education Strategy 2014-2019* (TES). We are focusing on building a more relevant tertiary education system that is outward-facing, with strong links to industry, community and the global economy.

The direction set out in the Government's July 2017 response to the Productivity Commission inquiry into *New Models of Tertiary Education* signals some immediate and long term changes to improve the responsiveness, innovation and effectiveness of the tertiary education system. More information on the key areas of change can be found on pages 11 and 12.

Socially and culturally confident and competent people

Our objective is for the education system to support all children and young people to develop social, emotional and cultural skills that will help them succeed in work and life. These basic skills should be developed through early childhood learning and the schooling system and enhanced through tertiary education.

Improving adult literacy and numeracy

There are still many young people leaving school without sufficient literacy and numeracy skills to enable access to training and employment opportunities, financial capability and social inclusion.

Fees-free foundation education was implemented to enable second-chance students to gain the basic skills they need to progress to higher study or gain employment. Over the last year, we worked with the Tertiary Education Commission (TEC) to finalise funding rates and other policy settings so that NCEA Level 1 and 2 foundation education can now be delivered fee-free to students of all ages.

Ensuring skills match labour market needs

People who gain higher level qualifications, especially at degree level and above, are more likely to be employed, have higher earnings, and less likely to be receiving a benefit. The education system needs to support the skills development and gaining of qualifications necessary to thrive in a globally competitive labour market.

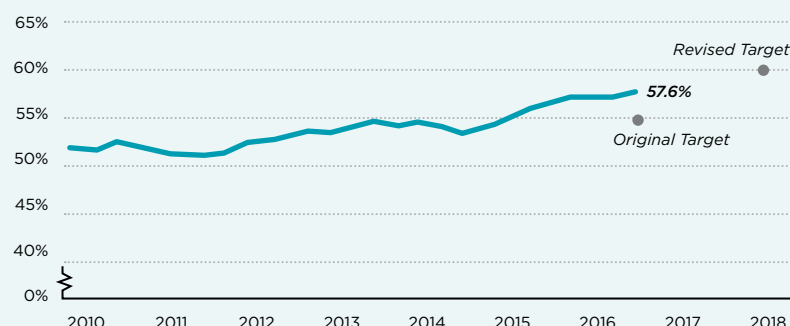
Boosting workforce skills

With the number of young people achieving NCEA Level 2 increasing, we are focusing on progressing young people into NCEA Level 3 and to further education at Level 4 or above. The Government has a Better Public Services (BPS) target to increase the percentage of 25 to 34 year olds with qualifications who have qualifications at Level 4 or above. In 2012, a target of 55% for 2017 was set. Better than expected results in 2014 led to an increase in the target to 60% by 2018.

As part of the 2017 refresh of the BPS Results, the title for BPS Result 6 was changed to better reflect the desired outcome: 'Upskill the New Zealand workforce'.

In the year to June 2017, 57.6% of 25 to 34 year olds had a qualification at Level 4 or above, up from 56.5% in June 2016.

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



	Jun 2016	Jun 2017	Change (% points)	2018 target
25 to 34 year olds	56.5%	57.6%	▲ 1.1	60.0%

Providing pathways across the system

The education system needs to provide pathways across the system to allow young people to move from each stage of learning to the next, and from learning to sustainable employment.

Vocational Pathways

The Vocational Pathways framework helps young people align their learning with skills needed by industry. The Vocational Pathways also enable employers to assess whether potential employees' skills align with their industry requirements more easily. In each of the six Vocational Pathways, a range of assessment standards provide a curriculum foundation for students at NCEA Levels 1 to 3 to develop skills valued by industry. In addition, qualifications from Level 2 to Level 7 have been mapped to the six Vocational Pathways, to help students navigate learning options related to industry needs.

The proportion of school leavers leaving school with at least NCEA Level 2 with a Vocational Pathway Award, indicating alignment of credits achieved in NCEA Level 2 to an industry pathway, is up from 27.2% in 2015 to 32.9% in 2016.

Youth Guarantee

Youth Guarantee continues worked with over 250 secondary schools and 110 Youth Guarantee Fees-Free providers to improve the transition of students aged 16 to 19 from school to further study, work or training. Through Youth Guarantee, we are providing a wider range of learning opportunities, making better use of the education network and clarifying pathways from school. Youth Guarantee Fees-Free supported 13,579 young people in 2016. Other Youth Guarantee initiatives, such as Trades Academies, supported 6,900 young people in 2016, working towards attainment of NCEA Level 2 or equivalent qualifications while still at school.

DualPathways

In 2016, the TEC launched a new pilot called DualPathways to support secondary school students to gain NCEA Level 2 and 3, or equivalent, and help them move into work and/or higher level education. The DualPathways pilot builds on feedback from schools and tertiary education providers that further support is needed in providing relevant programmes for students at NCEA Level 3, and to support progression to further study at Level 4 or above, particularly for students not planning on going to university.

The DualPathways pilot extends the collaboration that is happening between schools, tertiary providers and industry training organisations across the system. Up to 1,200 student places have been available to 18 tertiary education providers through the DualPathways Pilot in 2017.

Trades Academies

Trades Academies are another example of the secondary-tertiary programmes we support. They give students a head start in training for vocational qualifications and improve the responsiveness of schools to local business and economic needs. We provided 6,190 places in Trades Academies in 2016/17, up from 5,520 in 2015/16. Research shows that participants in Trades Academies are more likely than a comparison group to achieve NCEA Level 2 by age 18.

Trades training cooks up pathway to jobs at Northland College

From latte making to cow milking, practical training in crucial work skills is being provided at Northland College, which now has a full-sized professional catering kitchen that can feed 200 people and a working farm.

The trades training programme at the college is aimed at getting students ready for real-life work. Students can leave school knowing how to drive a tractor, cook meals and run a kitchen, or chop down trees and manage forests. This means they can either find a job immediately or go onto further specialist study in a particular career area.

The college was rebuilt by the Ministry with a \$14 million upgrade completed in July 2017, which promises to improve achievement levels. The new facilities include 21 teaching spaces, a multi-purpose gym, technology area and library, as well as the kitchen.

The college's unique trades training teaches practical work skills to complement its academic training, and that can open doors to jobs or qualifications in fast-growing fields like forestry, farming and hospitality in the North and elsewhere. These fields all need work-ready staff with the right skills and attitude.

Regional He Poutama Rangatahi/Youth Employment Pathways Strategy

The Ministry, alongside the TEC, has worked as part of the Ministry of Business, Innovation and Employment-led cross-agency initiative to develop the regional He Poutama Rangatahi/Youth Employment Pathways Strategy. The Strategy focuses on understanding both what support youth need to become work-ready, and what support employers need to invest in employing and retaining young people at risk of long term unemployment. It focuses on four regions with the highest rates of young people not in employment, education or training.

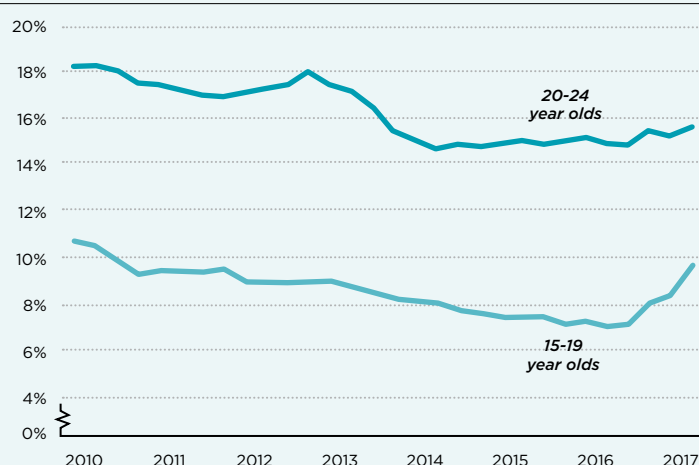
Māori and Pasifika Trades Training

Māori and Pasifika Trades Training enables Māori and Pasifika students to obtain practical qualifications that lead to an apprenticeship or employment. Over the last year, the Ministry provided advice on how to expand Māori and Pasifika Trades Training to meet the Government's target of 5,000 places by 2019, while also strengthening the focus on improving employment outcomes. In 2017, 3,000 places were available, up from around 2,500 in 2016.

Apprenticeships

The growth of demand for trades skills provides a key opportunity to give more New Zealanders access to on-job training to prepare them for skilled employment, while delivering the skills industry needs in accordance with the Tertiary Education Strategy. We are working with the TEC on actions to achieve the Government's target of raising participation in apprenticeships from around 43,000 in 2016 to 50,000 in 2020.

We also advised the Minister for Tertiary Education, Skills and Employment on providing enough funding to enable the growth of industry training, with \$7 million in funding to be transferred over four years from providers to industry training.

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

	Year to June 2016	Year to June 2017	Change (% points)
15 to 19 year olds	7.2%	9.7%	▲ 2.5%
20 to 24 year olds	15.0%	15.7%	▲ 0.7%

Getting at risk young people into a career

A significant number of young people in New Zealand are Not in Education, Employment or Training (NEET). The needs of these young people are wide-ranging and complex, and require a coordinated cross-agency approach. We are delivering a package of services that address the drivers of NEET rates related to the education system, while focusing support for groups overrepresented in NEET statistics. We are working to increase education retention and reconnect those who have already left the system through providing a wider range of learning opportunities, better use of the education network, and clearer pathways from school to work and further study.

At the end of June 2017, 9.7% of 15 to 19 year olds and 15.7% of 20 to 24 year olds were not in employment, education or training. Statistics New Zealand runs the Household Labour Force survey, which provides us with these figures. The survey questions have been changed to allow more accurate identification of education and caregiving status, and self-employment. This may have changed the number of people classified as NEET since the change took effect in June 2016. It is not clear whether these questionnaire changes increased or decreased the number of people reported as being NEET, so the increases in NEET rates since December 2016 need to be interpreted with caution.

For 15 to 19 year olds, programmes including Trades Academies, the DualPathways Pilot, Gateway and Youth Guarantee Fees-Free support the sector to identify and re-engage those at risk of disengaging from education. These programmes are designed to reduce the flow of young people becoming NEET.

For 20 to 24 year olds, tertiary education provisions such as fees-free provision at Levels 1 and 2, subsidised higher level study, and Māori and Pasifika Trades Training provide opportunities to engage in education and gain skills to transition into employment.

These programmes are underpinned by Vocational Pathways, which provide a framework for students to show how their learning and achievement is valued in the workplace by aligning learning to the skills needed for six broad industry areas.

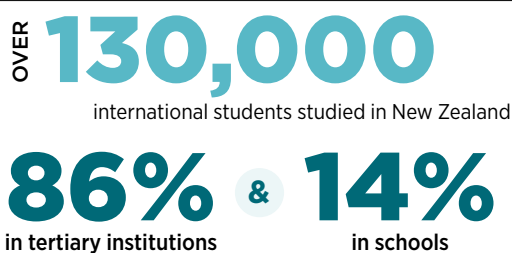
We monitor performance of Youth Guarantee programmes (Trades Academies and Youth Guarantee Fees-Free) through an annual monitoring report. The programmes are shown to be successful in supporting learners to achieve a Level 2 qualification, and have a temporary effect engaging young people in education, but do not reduce the flow of young people becoming NEET in the long term. We are reviewing current policy settings to identify what has the best long term impact on young people's education and employment outcomes.

Building links to employment pathways and access to other social support is a key part of ensuring NEETs successfully transition into sustainable employment.

Maintaining internationally credible skills and institutions

Human capital is one of New Zealand's major resources, and education is one of this country's major exports. Our institutions must maintain their good reputation to support employers and graduates to be competitive in the global labour market, and to attract international students and high quality staff. This helps New Zealand graduates and firms to thrive in domestic and international markets.

Number of international students in 2016



We implemented the Budget 2016 International Connections for New Zealanders package, which supports New Zealand students to gain international experience. This included expanding the Prime Minister's Scholarships, and increasing access to New Zealand tuition subsidies and student financial support for overseas study, alongside student loan interest exemptions for overseas study.

Budget 2017 allowed for \$372.8 million in the tertiary education and science and innovation systems. This will see a total of \$203 million invested over the next four years in science and innovation, \$132 million in tertiary education and skills, plus \$31 million of regional development initiatives to build a stronger economic future for New Zealand.

We led, with Education New Zealand, the development of a draft government International Education Strategy for sector consultation between July and September 2017. The draft Strategy sets out the Government's proposed vision, goals and immediate priorities for the international education sector through to 2025. It was developed with input from the international education sector, including an online survey and a series of workshops in 2016 to identify the future challenges and opportunities of international education in New Zealand. A final International Education Strategy for New Zealand will be launched by the end of 2017.

During 2016/17, we consulted on proposed changes to the Export Education Levy, which is paid by all education providers who enrol international students in New Zealand. We also consulted on new expenditure proposals, to support international students' wellbeing and Education New Zealand brand and marketing initiatives.

The Government ensures quality education is delivered to students and that New Zealand qualifications are robust, credible and internationally recognised. Where providers are not meeting the standards we expect of them, the government takes action to ensure the integrity of New Zealand's education system. Over the last year, the government has taken a number of steps to assure the quality of education delivered to international students including NZQA's assessment of compliance through extensive monitoring visits and external moderation of Tertiary Education Organisation (TEO) assessment samples. Where international students have been affected by poor quality provision, the Export Education Levy has been used to cover tuition fees or costs.

Providing high quality research and innovation

Tertiary education organisations play a vital role in creating the knowledge that drives economic growth and development through research and innovation.

We provided advice leading to the Budget 2017 Innovative New Zealand package, including a \$15 million per annum investment in the Performance-Based Research Fund that complements increasing investment in Vote Science and Innovation.

We supported the TEC to implement the Budget 2016 Entrepreneurial Universities initiative, which provides funding for universities to attract internationally regarded academics to New Zealand.

We supported the Research, Science and Innovation Domain Plan, released in 2016/17, which is an extension of the National Statement of Science Investment. The Plan will lead to improvements in the transparency and discoverability of New Zealand research. We are working actively with the Ministry of Business, Innovation and Employment to develop the National Research Information System, an online portal that will provide information and data on research projects done in New Zealand.

A key action of the Plan is to embed the Open Researcher and Contributor Identifier (ORCID) across the system. ORCID is an international hub that connects to other researcher identification systems, publishers, funders, professional associations and higher education bodies. In 2016/17, we were a foundation signatory to the New Zealand ORCID Joint Statement of Principles which will enable the future direction of ORCID in New Zealand.

We also supported the TEC's mid-term review of Centres of Research Excellence (CoREs). CoREs are inter-institutional research networks that support growth in research excellence and contribute to New Zealand's development of world class researchers.

As part of the next steps following from the Government's response to *New Models of Tertiary Education*, we will be thinking about the appropriate balance of incentives to support teaching and research across the tertiary system.

Effective stewardship of the education system

We are the lead advisor to the Government on education, from early childhood education to tertiary education. We are also the steward of the education system. This means we must focus on the long term health and performance of the whole system, and provide support to enable the sector to raise achievement.

Collaborating more effectively

Working with other education agencies

There are seven agencies responsible for different parts of the education sector. A shared vision and planning process during 2016, using a Performance Improvement Framework approach, generated the *Blueprint for Education System Stewardship*, which was released in September 2016. The priorities identified are now incorporated into agencies' annual work programmes.

Education agencies are also working together to create a digitally enabled, connected education system that helps prepare all ages for the digital era. The Education System Digital Strategy, *Transforming Education for the Digital Age*, continues to drive a number of work programmes for the education system. It sets out a vision for a highly connected, interdependent education system that equips students with skills for the future, fosters their identity, language and culture, and prepares them to participate as successful citizens in the 21st century. Key achievements from the last year include:

- completing a programme business case and receiving initial funding for the Integrated Education Data (iEd) programme
- developing a proof of concept for and piloting the Schools Cloud programme to enable flexibility around the use of software applications such as Microsoft and Google office
- designing the new Education Resourcing System (which will replace EDUMIS).

Collaborating to progress shared goals

After consultation with staff, our Child Protection Policy has been finalised, implemented and is now available on Te Tāhuhu, our internal intranet. The purpose of this policy is to embed a culture of child protection that consistently safeguards and promotes the wellbeing of children. All staff have been made aware of the policy and are in the process of completing online training in relation to their obligations under the policy. As required by the Vulnerable Children Act 2014, all our contract templates have a placeholder to include suppliers adopting a child protection policy if it is relevant to the service they are providing.

We are also involved in the development of a new government-wide Vulnerable Children's Plan. We are taking part in the development of an investment approach with the Ministry for Vulnerable Children Oranga Tamariki. This includes providing input to the framework and design of the valuation model, as well as relevant education data.

We are participating in the Direct Purchasing Demonstration, which is being implemented in the Bay of Plenty and Waitemata. Through this process recent assessments of 200 children and young people will be reviewed to ensure they are receiving the right services and, if not, whether the appropriate services can be purchased for them.

We continue to work with several other agencies, including the Ministry of Social Development, the Ministry of Business, Innovation and Employment, and the Treasury, to provide data to support the implementation of regional economic development plans. The data will help determine which areas will need support such as further investment or innovation to support young people who are not in education, employment or training.

To increase student achievement, we work with other agencies using shared information to provide comprehensive assessments and a single plan of wraparound support for an individual child or young person.

During 2016/17 this included:

- provision of children's teams, where staff provide information to support assessment, planning and intervention processes for the child or young person
- the Integrated Safety Response pilots, which ensure families experiencing violence get the help they need through provision of education assessments, attendance at planning and decision making meetings, and support and coordination with schools and early childhood education centres
- the Intensive Wraparound Service which involves working with around 330 students per year who have highly complex challenging behaviour across several settings.

Testing a place-based approach

In September 2016, the Government launched Kāinga Ora, a Place-Based Initiative in Northland. The Ministry of Education is the lead agency.

The initiative is led by a group of local leaders of government agencies and iwi representatives and aims to provide integrated responses for at-risk 0 to 24 year olds. Kāinga Ora partners with communities to co-design responses for at-risk groups to ensure we invest in what will best support them and the Northland community, and be self-sustainable over time. Setting up the initiative, and recruitment of appropriately skilled staff for the associated executive office, took longer than was anticipated. This delayed progress on initial milestones.

The initiative initially focused on undertaking 90 safety assessments for children and young people with the greatest number of risk factors and completing integrated service plans for 20 of the most complex cases. This proved challenging and has impacted on the ability to scale up quickly, while responding to the identified needs of those children and young people.

From July 2017 the focus will broaden to include those with a slightly lower level of vulnerability and adopt a more preventative approach in three target locations in Northland. This will also enable moving more rapidly to scale. The initiative is working with communities to align work with existing community plans and aspirations. Despite the delays, the building blocks are progressively being put in place to deliver integrated services to 570 children, young people and their whānau in 2017/18.

Using and sharing data and evidence to improve decision making

Data and evidence provide important insights into how well students are currently achieving and how we can support them to do better.

During 2016/17, we began to develop an Evidence Strategy to ensure our understanding of the performance of the education system is underpinned by data, research and evidence. This work resulted in a number of priorities, which will form part of our annual planning processes and inform longer term strategic thinking. A portfolio approach to setting priorities for our major research studies was also completed as part of this work.

In early 2017, we completed analysis to identify risk factors for non-participation and underachievement by young people in tertiary education at Level 4 or above. The next stage of this programme, due to be completed in November 2017, will identify the size and characteristics of those most at risk. This analysis will be used to inform our future policy advice on improving participation and achievement in the tertiary education system.

The Tertiary Information Enhancement project was completed in 2016/17 and is now being implemented. Access by the education agencies (the Tertiary Education Commission, the New Zealand Qualifications Authority and Education New Zealand) to a central repository of tertiary education data is on track for the end of 2017. This data includes consistent, longitudinal data on tertiary education organisations and their students' pathways and achievement.

The New Zealand results from the Programme for International Assessment of Adult Competencies (PIAAC) were released in June 2016. These results provide information on the literacy, numeracy and problem solving skills of adults aged 16 to 65. Overall, New Zealanders performed well compared to other OECD countries, particularly in problem solving. However, New Zealand youth (age 16 to 24) do not perform as well in these areas compared to young people in other countries. While results have improved for Māori and Pasifika compared with earlier surveys, their skills levels remain below the rest of the population on average. The Ministry of Education and the Ministry of Business, Employment and Innovation have an ongoing work programme to analyse the data from the survey. These results are informing policy and implementation, particularly in adult foundation education.

Providing better advice to government

Our role as steward of the education system means we need to provide quality policy analysis and advice that supports the whole system in the long term.

We have continued the development of our Graduate Policy Analyst programme. The programme is designed to identify, hire and develop a high quality group of graduates to grow talent within the organisation. The programme is now in its third year.

New Zealand is culturally diverse, and we need to value, reflect and understand our different communities. A joint Treasury and Ministry of Education series of Pasifika cultural workshops were developed and delivered to staff in 2016/17. The three workshops built the cultural competency and understanding of Pasifika cultures for staff within the policy community. As part of the workshops, participants applied a Pacific Analytical Framework tool to show how Pasifika cultural competency can be integrated into policy advice.

On behalf of the Minister of Education and the Minister for Tertiary Education, Skills and Employment, we monitor three Crown agencies – New Zealand Qualifications Authority, the Tertiary Education Commission and Education New Zealand.

We monitored Careers New Zealand up until its disestablishment, effective 1 July 2017. We also have a short term monitoring role over the Education Council, with a specific focus on its financial sustainability.

Over the last year, we have put in place changes to implement an integrated, transparent and collaborative monitoring approach. These changes include:

- having more proactive engagement with entities
- enhancing reporting, financial analysis and monitoring
- strengthening our quality assurance process.

Our revised approach has given us additional insights into areas of the entities' business, including risk management and financial forecasting. We will continue to develop and embed this approach over the next year.

Ministerial servicing, in 2016/17 we:

Responded to		Provided
671	&	658
Ministry Official Information Act (OIA) requests		Parliamentary Question (PQ) responses

Improving how we target investment

As steward of the education system, we need to focus on the sustainability of the whole system.

During 2016/17, we focused on using and understanding data on disadvantage so that we can use our resources to the best effect in future. We have identified three risk factors which are strongly correlated with poor educational achievement and life outcomes for children later in their lives. They include whether a child has been notified to the Ministry for Vulnerable Children Oranga Tamariki, been stood down or suspended from school, and whether they have spent over 50% of their life in households supported by welfare.

In 2016/17, we also introduced the Targeted At Risk Grant which gave schools additional funding for each child who had spent significant proportions of their lives in benefit dependent households. Through our Budget 2017 advice, we continued to apply the social investment approach to education by extending this model to include early childhood.

Building capability and managing responsibly

We are building our capability and better aligning our resources to help shape an education system that delivers equitable and excellent outcomes.

Providing strong leadership and clear strategic direction

During 2016, we updated the Ministry's 'Plan on a Page' (see page 9) to include a set of objectives for the whole education system to:

- provide a clearer line of sight between work priorities and what we are seeking to achieve and how we measure progress
- work towards the Ministry's new Investment Management Framework | Portfolio Approach and expectations for improved linkages between investment intentions and benefits.

We have incorporated the framework into our planning and reporting documents for 2017/18 and are progressively developing improved performance measures linked to these objectives.

Since joining the Ministry, the Secretary for Education has led a discussion about the core purpose of the Ministry. The aim was to better articulate our stewardship role and what we are seeking to achieve. We settled on this purpose statement: "We shape an education system that delivers equity and excellent outcomes". We are now starting work on describing an operating model for the Ministry – setting out how we do things and what support we need to achieve our purpose.

Our purpose:
We shape an education system that delivers equity and excellent outcomes.

During this year, we have updated our governance arrangements:

- with the leadership team having an extended monthly meeting to review organisational performance
- setting up an Investment and Finance Board to approve and monitor the delivery of investments.

There have also been several organisational changes in 2016/17 to enhance our capability and strengthen our strategic leadership:

- the Parent Information and Community Intelligence team was established to raise the awareness of parents and whānau about the importance of their engagement in their children's learning, and to help the education system respond in ways that encourage that engagement
- we renamed Special Education to Learning Support, and reviewed our structure to improve integration and local delivery of services for learning support functions
- we reviewed the structure of the Early Learning and Student Achievement group to focus on the pathways of New Zealand children and young people from 0 to 18 years.

Our people

Staff numbers, as at 30 June 2017

2,631.9 FULL-TIME
EQUIVALENT
STAFF

Staff in
37 Locations
60% based in regions
40% based at the
National Office in Wellington

At 30 June 2017, we had 2,631.9 full-time equivalent (FTE) staff working from 37 locations around New Zealand. Of our workforce, 60% are based in the regions and 40% at our National Office in Wellington.

Our unplanned turnover remained higher than the public sector average in 2016/17, with 14.6% of staff leaving the Ministry (compared with the public sector average of 11.1%). We are implementing enhanced exit interview systems to better understand the reasons why people leave.

We completed a staff engagement survey in mid-2016. Our overall engagement score was 3.65 out of 5, which is consistent with our 2012 score of 3.64. The survey identified key areas we need to improve on, including ensuring there are clear expectations of our staff and empowering them to give their best every day. We are improving these areas through programmes of work focused on enhancing our work environment and developing our culture. To check our progress, we will run two Pulse Surveys in 2017 before running another full survey in 2018.

Capable and motivated staff

During 2016/17, we rolled out our People Strategy which supports the Ministry's continued focus on building our capability. Our key focus areas were:

- ongoing development of leadership and management capability
- enhancing our performance and remuneration systems
- improve workforce planning, right person, right role for the right period of time
- selecting and implementing a people based information system.

Our Leadership and Management Framework, Te Urunga pai, is now well developed.

Throughout 2016/17, we continued to run our foundation leadership programmes as part of this framework. We have begun work to ensure our Leadership and Management Framework delivers leadership competencies that align with the outcomes set by the State Services Commission. We have a strong focus on talent management and support a Career Board across the Education Sector to help identify leaders and work with them to progress their careers. We also participate in state sector system talent programmes that enable people across the government system to find development opportunities.

We have also worked on enhancing Ministry-specific management tools and material as part of our efforts to facilitate talent development, which are being delivered online as part of induction.

We are updating our performance management and remuneration framework. We are seeking a consistent, transparent and inclusive approach across the Ministry, rather than the multiple frameworks that currently exist. In developing the new framework, we are seeking to modernise our approach, offer rewards and recognition that support the needs of our diverse workforce, and align with other government agencies to support the development of capability across government at all levels.

Growing a culture of diversity and inclusion

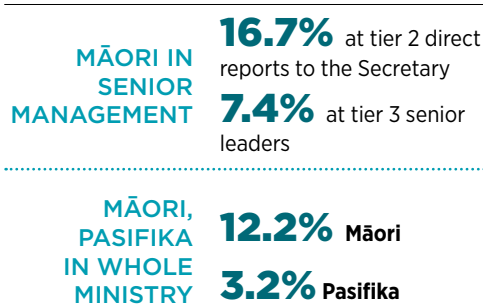
Public Service chief executives have made a commitment to a shared vision for diversity and inclusion in the State services. We have already made a start and will work progressively to widen and deepen our approach to diversity and inclusion.

During 2016/17, we developed our Diversity and Inclusion Framework and now have a programme of work underway to enable us to achieve its outcomes. We want our workforce to reflect, understand and value the communities we work in.

We are improving our human resources data so we can continue to develop our understanding of our workforce and monitor the outcomes of the initiatives we are implementing. During 2016/17, we have focused on understanding the drivers for our gender pay gap and we will focus over the next year on initiatives to close our gender and ethnicity pay gaps.

We are reviewing our diversity analytics to ensure that they will help monitor our progress as we implement our new Diversity and Inclusion Framework and programme of work.

As at 30 June 2017



We continue to support the development of and provide ongoing support to a range of staff networks. Our Māori and Pasifika networks have been in place for some time and our Women's Network was launched in July 2017. These foster an inclusive environment and provide an engagement opportunity for staff across many offices.

We support staff to take action during focus weeks, for example, Mental Health Awareness week and Sign Language week. This year, we also introduced a wellness portal called the Wellbeing Hub, which provides a wide range of health and wellbeing options for all of our staff.

Supporting health and safety at work

Following implementation of the Health and Safety at Work Act in 2015/16, we have continued to support the health and safety of our people. Within the Ministry significant progress on health and safety has been made in the following areas:

- worker representation, including holding the first National Forum for Health and Safety representatives from across the Ministry

- governance and leadership, with the establishment of a new Health, Safety and Security Leadership Team Sub-Committee
- raising health and safety knowledge and awareness across the Ministry, through online training modules for staff and managers.

5 NATIONAL HEALTH AND SAFETY FORUMS HELD

Developing good financial and resource management

Putting in place strong governance, finance and planning systems, and controls has been a priority over the last 18 months. These changes have already been reflected in improved ratings for the Ministry's ESCO (Environment, Systems and Controls) ratings. The 2016 audit assessment concluded that the Ministry had improved from:

- "Needs Improvement" to "Good" for systems to define, evaluate and manage the Ministry's performance information
- "Needs Improvement" to "Good" for financial information systems and controls.

We continued to progress the Ministry's Finance Transformation programme during 2016/17. The programme aims to reduce fiscal risk, improve financial management and better position core systems and processes to support our activities. Key achievements over the last year include:

- establishing an Investment Management Framework, which will support the Finance Investment Management Board
- enhancing our strategic financial planning capability which we are using to inform the financial information provided as part of the *Four Year Plan 2016-2020*
- launching the online financial reporting tool called the Performance Hub, which gives managers easy access to financial information to help them monitor their budget.

Improving our infrastructure

Supporting new ways of working

We have begun planning for our Ten-Year National Property Strategy. As part of this, we are working on a coordinated approach to improve our technology and building infrastructure as leases expire or come up for renewal. This year, it included relocating our Kaikohe office to Kerikeri and moving our Tauranga office to a new site. Both offices are in newly refurbished premises with new ways of working, including the provision of tablet devices and Skype for Business, consistent with our National Office.

Results from research in Wellington, Kerikeri and Tauranga once staff had moved into new accommodation were very positive.

In particular, our people responded positively to improved security, new furniture settings and the introduction of new technology that makes it easier to securely access Ministry networks.

In April 2017, our Christchurch staff moved into the new Te Urutī building as part of the Christchurch Integrated Government Accommodation programme. The building is co-located with the Ministry of Health and enables our Christchurch staff to work in a completely new flexible working environment.

The November 2016 Kaikoura earthquake had only a small impact on our Wellington buildings, with the Mātauranga House closed for one working day and the Justice Centre for six working days following it. We temporarily housed 140 staff from Education Payroll Limited in Mātauranga House due to damage to their building from the earthquake, to ensure school employees continued to be paid on time.

Enhancing privacy and security

Over the past year, we supported robust privacy and security best practice within the Ministry. This has included standard operating procedures for things such as information security, and physical security processes and procedures. We have also updated our online resources to help our people understand their security and privacy responsibilities, and ensure they have easy access to the right tools, policies and procedures.

We completed a physical security review to ensure that the appropriate safeguards are in place to protect our staff, visitors and property. A work plan for the implementation of the recommendations has been developed and it is expected they will take effect in December 2017.

We have developed an ongoing work programme on protective security and privacy requirements which has delivered a number of improvements. This includes enhancements in governance, reporting and building staff capability.

Refreshing risk and assurance governance arrangements

The Risk and Assurance Board comprises four independent and highly experienced individuals, who meet up to eight times a year to review the Ministry's operational risk management and control environment. They provide the Secretary with unbiased insights and risk advice from their discussion with senior management on assurance matters. A long standing member retired in 2016/17 and a new member was introduced to keep the Board fresh. The Board will be invited to engage with the Leadership Team quarterly on strategic risks.

Our governance

Our Ministers at 30 June 2017

We administered Vote Education and Vote Tertiary Education on behalf of our Ministers, as set out below.

Vote	Minister and Portfolio	Associates
Education	Hon Nikki Kaye Responsible Minister for the Ministry of Education	Hon Louise Upston Associate Minister of Education
	Minister of Education	Hon Tim Macindoe Associate Minister of Education
		David Seymour Parliamentary Under-Secretary to the Minister of Education
Tertiary Education	Hon Paul Goldsmith Minister for Tertiary Education, Skills and Employment	Hon Louise Upston Associate Minister for Tertiary Education, Skills and Employment

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.

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.

Education New Zealand (ENZ) – The lead government agency for the promotion of New Zealand education internationally. ENZ works to build awareness of this country 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.

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 TEC also provide career services from education through to employment.

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 at 30 June 2017

The **Secretary for Education (Iona Holsted)** leads the organisation which is structured to support our stewardship role and achieve the priorities set out in *Ambitious for New Zealand, 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, Craig Jones)** is 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, Ellen MacGregor-Reid)** focuses on raising the quality of teaching and leadership and system performance by setting the direction for 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 international education, tertiary education and achievement, and secondary-tertiary transitions.

The **Parent Information and Community Intelligence group (Deputy Secretary, Apryll Parata)** involves parents, families, iwi, communities and employers in education because they matter to the success of children and young people.

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

The **Education Infrastructure Service group (Head of Education Infrastructure Services, Kim Shannon)** contributes to the achievement of education outcomes by working with school boards of trustees to manage the school property asset portfolio. They support 21st century learning practices through the provision of flexible learning spaces and ICT infrastructure, and help students access education by providing school transport assistance. They also monitor the schools payroll service.

The **Strategy, Planning and Governance group (Acting Deputy Secretary, Jeff Gibson)** is responsible for the development, coordination and oversight of organisation strategy and planning.

The **Business Enablement and Support 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 our business strategies.

Our governance arrangements

We have various governance arrangements in place to ensure appropriate scrutiny of the Ministry's performance.

We introduced a new governance and management structure in September 2016 which includes:

- Leadership Team Governance Board
- Health and Safety Sub-Committee
- Investment and Finance Board
- ICT Governance Board
- Risk and Assurance Board
- Infrastructure Board (for school property matters).

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 2017 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 2018 and its operations for the year ending on that date.



Iona Holsted

Secretary for Education
29 September 2017



Independent Auditor's Report

TO THE READERS OF THE MINISTRY OF EDUCATION'S ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

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, on his behalf, the audit of:

- the financial statements of the Department on pages 84 to 122, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2017, 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 2017 on pages 8 to 40 and 54 to 80;
- the statements of budgeted and actual expenses and capital expenditure incurred against appropriation of the Department for the year ended 30 June 2017 on pages 131 to 135; and
- the schedules of non-departmental activities which are managed by the Department on behalf of the Crown on pages 123 to 130 that comprise:
 - › the schedules of assets and liabilities; commitments; and contingent assets and liabilities as at 30 June 2017;
 - › the schedules of revenue and expenses for the year ended 30 June 2017; and
 - › the notes to the schedules that include accounting policies and other explanatory information.

Opinion

In our opinion:

- the financial statements of the Department on pages 84 to 122:
 - › present fairly, in all material respects:
 - its financial position as at 30 June 2017; and
 - its financial performance and cash flows for the year ended on that date; and
 - › comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.
- the performance information of the Department on pages 8 to 40 and 54 to 80:
 - › presents fairly, in all material respects, for the year ended 30 June 2017:
 - 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; and
 - › complies with generally accepted accounting practice in New Zealand.

- the statements of expenses and capital expenditure of the Department on pages 131 to 135 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 123 to 130 present fairly, in all material respects, in accordance with the Treasury Instructions:
 - › the assets and liabilities; commitments; and contingent assets and liabilities as at 30 June 2017; and
 - › revenue and expenses for the year ended 30 June 2017.

Our audit was completed on 29 September 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Secretary for Education and our responsibilities relating to the information to be audited, we comment on other information, and we explain our independence.

Basis for our opinion

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

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

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

Responsibilities of the Secretary for Education for the information to be audited

The Secretary for Education is responsible on behalf of the Department 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 is responsible for such internal control as is determined is necessary to enable the preparation of the information to be audited that is free from material misstatement, whether due to fraud or error.

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

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

Responsibilities of the auditor for the information to be audited

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

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

For the budget information reported in the information we audited, our procedures were limited to checking that the information agreed to the Department's Budget and Economic Fiscal Update and Supplementary Estimates of Appropriation.

We did not evaluate the security and controls over the electronic publication of the information we audited.

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

- We identify and assess the risks of material misstatement of the information we audited, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Secretary for Education.
- We evaluate the appropriateness of the reported performance information within the Department's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Secretary for Education and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Department's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the information we audited or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Department to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the information we audited, including the disclosures, and whether the information we audited represents the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Secretary for Education is responsible for the other information. The other information comprises the information included on pages 2 to 6 and 41 to 48, but does not include the information we audited, and our auditor's report thereon.

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

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

Independence

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

In addition to the audit we have carried out engagements in the areas of school payroll reporting assurance, assurance in relation to a new financial management information system and accreditation in relation to cyber security.

Other than the audit and these engagements, we have no relationship with, or interests in, the Department.



Stuart Mutch

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



PART 2

Our performance information

This section describes what we were funded to deliver in 2016/17. The information in this section is audited and reports on what we achieved with each appropriation against what was intended to be achieved and how performance would be assessed, as set out in the Estimates of Appropriations for Vote Education and Vote Tertiary Education in 2016/17.

We are the appropriation administrator for some multi-category appropriations which include both departmental and non-departmental expenditure. For these appropriations, we must report on what has been achieved with the whole appropriation as well as each of the categories. Non-departmental categories have been highlighted grey. Non-departmental output expense and non-departmental other expense categories are purchased from a provider other than the Ministry. The provider may be a government agency, a non-governmental organisation or a private sector organisation.

Vote Education

Portfolio Minister – Minister of Education

Policy Advice

About this appropriation

This appropriation supports the provision of advice to assist Ministers in their decision making on education-related matters. This includes providing second opinion advice and contributing to policy advice led by other agencies.

What we intended to achieve

This appropriation is intended to provide quality advice to Ministers, ensuring that education policy and programmes support the performance of the whole education system.

What was achieved

Performance 2015/16	Performance Measure	Budget Standard 2016/17	Actual Performance 2016/17	Comment
73%	Independent assessment of the quality of the Ministry's policy advice (see Note 1).	75%	74%	Not achieved We set ourselves a more challenging target of 75% from 2015/16 and are continuing to make steady progress towards this target.
8	The satisfaction rating given by Ministers for the quality and timeliness of policy advice (as per the Common Satisfaction Survey) (see Note 2).	7	Not available	Due to the timing of Ministerial portfolio changes it was not possible to confirm a year-end result for this measure.
\$139	The total cost per hour per person of producing policy outputs (see Note 3).	At most \$155	\$134	Achieved

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 to 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

	2015/16 Actual	2016/17		
		Budget	Supplementary Estimates	Actual
	\$000	\$000	\$000	\$000
Revenue				
From the Crown	16,824	16,442	16,442	16,442
Other	-	-	-	-
Total revenue	16,824	16,442	16,442	16,442
Total expenses	16,681	16,442	16,442	15,419
Net surplus/(deficit)	143	-	-	1,023

Approval has been obtained to transfer \$1 million of unspent funding in 2016/17 to 2017/18 for the Education Funding Review, a multi-year programme of work.

Stewardship of the Education System

About this appropriation

This appropriation supports the provision of advice and services by the Ministry of Education in our role as steward of the education system. This includes services that support Ministers in their portfolio responsibilities, but excludes policy advice services and does not apply to the tertiary education system.

What we intended to achieve

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

What was achieved

Performance 2015/16	Performance Measure	Budget Standard 2016/17	Actual Performance 2016/17	Comment
Research and Analysis				
Data quality 100% Timeliness 100%	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%	Achieved
Monitoring the Education System				
Forecasts were accurate to within 1% of actual values	Forecasts of enrolment numbers, and expenditure for early childhood education and primary and secondary schooling, are accurate.	Accurate within ± 3% of actual values	Forecasts were accurate to within 1% of actual values	Achieved
9	The satisfaction rating given by the Minister of Education on the monitoring advice provided by the Ministry about the Government's ownership and purchase interest in Crown agencies (see Note 1).	7	Not available	Due to the timing of Ministerial portfolio changes it was not possible to confirm a year-end result for this measure.
Support for the Education Minister				
99%	Ministerial correspondence replies completed within 20 working days of receipt by the Ministry, unless otherwise agreed.	95%	99%	Achieved
97%	Parliamentary question responses provided to the Minister's Office so that answers can meet the timeframe set in Parliamentary Standing Orders.	95%	100%	Achieved

Performance 2015/16	Performance Measure	Budget Standard 2016/17	Actual Performance 2016/17	Comment
96%	Ministerial Official Information Act request replies completed five days prior to the statutory time limit, unless otherwise agreed.	95%	100%	Achieved

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

Financial performance

	2015/16 Actual	Budget	2016/17 Supplementary Estimates	Actual
	\$000	\$000	\$000	\$000
Revenue				
From the Crown	34,827	33,404	37,287	37,287
Other	80	10	10	-
Total revenue	34,907	33,414	37,297	37,287
Total expenses	33,282	33,414	37,297	35,485
Net surplus /(deficit)	1,625	-	-	1,802

Approval has been obtained to transfer \$1.807 million of the \$1.812 million under-spend to 2017/18, notably \$1.307 million for the Integrated Education Data (iEd) programme that commenced in 2016/17. The iEd programme is a system-wide information management programme to make education data accessible to inform decision making by learners, various education stakeholders and government.

Improved Quality Teaching and Learning

About this appropriation

This is a multi-category appropriation containing the following categories of expense.

Support and Resources for Teachers (Departmental Output Expense) – Through this category, we provide policies and services to support the work teachers do and enhance their capability.

Curriculum Support (Non-Departmental Output Expense) – This category provides additional educational programmes for schools and communities to ensure wider access to these opportunities.

Professional Development and Support (Non-Departmental Output Expense) – This category delivers professional development and advisory support to early childhood education services and schools to encourage effective teaching and enhance self-management.

What we intended to achieve

This appropriation is intended to improve the quality of teaching and learning across schooling from years 0 to 18.

What was achieved

Performance 2015/16	Performance Measure	Budget Standard 2016/17	Actual Performance 2016/17	Comment
Improved Quality Teaching and Learning				
New measure	Percentage of centrally-funded PLD experts who are accredited under the new PLD framework (see Note 1).	80%-100%	100%	Achieved
Support and Resources for Teachers				
This category is intended to achieve a highly effective workforce and resources to enhance learning for years 0-18.				
New measure	Percentage of school teachers surveyed who are satisfied that the teaching and learning resources provided support curriculum delivery.	80%	92%	Achieved
Curriculum Support				
This category is intended to achieve wider access to opportunities within schools.				
508	Number of schools supplied with Books in Homes in the calendar year.	500-520	517	Achieved
98%	Percentage of eligible principals provided with laptops in the calendar year (see Note 2).	90%	93%	Achieved
93%	Percentage of eligible teachers (at least half full-time equivalent) provided with laptops in the calendar year (see Note 2).	90%	94%	Achieved

Performance 2015/16	Performance Measure	Budget Standard 2016/17	Actual Performance 2016/17	Comment
Professional Development and Support				
This category is intended to achieve a more effective educational workforce and provide resources to enhance learning for years 0-18.				
82%	Percentage of Early Childhood Education services participating in the Strengthening Early Learning Opportunities for children, whānau, families and communities (SELO) programme demonstrate positive shifts in practice.	80%	82%	Achieved
New measure	Percentage of schools targeted for Professional Learning and Development (PLD) that have demonstrated a positive shift in capability.	70%	67%	Not achieved The Ministry set this measure based on results achieved in previous years. With improved evaluation skills, better data and greater knowledge about effective practices, some schools reported that they either stayed the same or had not improved from when they re-assessed their initial capability.

Note 1 - A PLD expert is an external facilitator who works with schools and teachers to support them to raise student achievement. Improved procurement processes under the new PLD framework, together with accreditation of expert PLD providers, help build sector confidence about the quality of PLD services.

Note 2 - Laptops are leased by the Ministry and eligible for replacement on a three year basis.

The following activity information relates to output volume measures that are demand-driven and therefore outside the control of the Ministry.

Performance 2015/16	Activity information	Budget Standard 2016/17	Actual Performance 2016/17
Professional Development and Support			
1,974	Number of Early Childhood Education services participating in the Strengthening Early Learning Opportunities for children, whānau, families and communities (SELO) programme.	1,200-1,500	2,022

Financial performance

A multi-category appropriation (MCA) provides increased financial flexibility across a number of categories of expenses that all contribute to a single overarching purpose, while preserving transparency about what is achieved with each category of an MCA. The amount of the MCA is for the MCA as a whole (the amount of each category of the MCA in the Estimates is a forecast of expenditure).

The 2015/16 actual results have been restated in the 2016/17 Appropriation Structure for comparative purposes.

	2015/16 Actual	Budget	2016/17 Supplementary Estimates	Actual
	\$000	\$000	\$000	\$000
Improved Quality Teaching and Learning MCA as a whole				
Total expenses for MCA	209,514	218,227	224,328	209,343

This is made up of the following category information:

	2015/16 Actual	Budget	2016/17 Supplementary Estimates	Actual
	\$000	\$000	\$000	\$000
Support and Resources for Teachers (Category)				
Revenue				
From the Crown	64,563	67,255	72,753	72,753
Other	96	10	10	47
Total revenue	64,659	67,265	72,763	72,800
Total departmental output expenses	61,546	67,265	72,763	66,892
Net surplus/(deficit)	3,113	-	-	5,908
Curriculum Support (Category)				
Non-departmental output expenses	52,323	56,833	57,164	54,628
Professional Development and Support (Category)				
Non-departmental output expenses	95,645	94,129	94,401	87,823

Approval has been obtained to carry forward \$11.179 million of the \$14.985 million under-spend in 2016/17 to 2017/18 (\$7.879 million) and 2018/19 (\$3.300 million) mainly to:

- provide for delays in allocation of centrally-funded professional learning and development (PLD) under category Professional Development and Support due to changes in the way schools, kura and Communities of Learning access PLD – proposals for PLD are now assessed and approved by regional panels and a facilitator is chosen to deliver the PLD (\$4.779 million in 2017/18)
- support implementation of the Communities of Learning initiative under category Support and Resources for Teachers (\$1.250 million in 2017/18 and \$3.300 million in 2018/19), and
- support participation in the National Aeronautics and Space Agency Teacher Researcher Ambassador Programme under category Curriculum Support (\$300,000 in 2017/18 and 2018/19).

Outcomes for Target Student Groups

About this appropriation

This is a multi-category appropriation containing the following categories of expense.

Interventions for Target Student Groups (Departmental Output Expense) – Through this category we provide policies and services which support targeted student groups or individuals' participation in education.

Service Academies (Non-Departmental Output Expense) – This category provides military-focused programmes for disengaged or disengaging senior students in secondary schools.

Students Attendance and Engagement (Non-Departmental Output Expense) – This category provides services to help increase attendance for non-attending students.

Special Needs Support (Non-Departmental Other Expense) – This category provides additional resources to enable students with special education needs to participate in education.

What we intended to achieve

The purpose of this appropriation is to improve outcomes for targeted student groups.

What was achieved

Performance 2015/16	Performance Measure	Budget Standard 2016/17	Actual Performance 2016/17	Comment
Outcomes for Target Student Groups				
Performance will be assessed by participation in education:				
96.6%	Early childhood education: Percentage of children starting school who have participated in quality early childhood education	98% by December 2016	96.7% by December 2016	Not achieved Overall participation continues to increase – reaching 96.8% by 30 June 2017 (see page 19 for additional commentary).
90%	Primary and secondary education: National average attendance rate	88%	89.2%	Achieved
Interventions for Target Student Groups				
This category is intended to achieve equitable participation and outcomes in education for targeted student groups.				
Māori 94.9% Pasifika 92.7% Decile 1-3 93.7%	Percentage of children who have attended early childhood education prior to starting school: • Māori • Pasifika • Decile 1-3.	Māori 98% Pasifika 98% Decile 1-3 98%	Māori 95.2% Pasifika 92.4% Decile 1-3 94.1%	Not achieved Participation continues to improve for most target groups and remains a priority for the Ministry (see page 19 for additional commentary).
73 calendar days	Average number of days eligible children wait to receive a Ministry provided special education core service after referral.	75 calendar days	60 calendar days	Achieved

Performance 2015/16	Performance Measure	Budget Standard 2016/17	Actual Performance 2016/17	Comment
71%	Percentage of parents and educators of children receiving a special education core service who are satisfied with the overall quality of the Ministry's service delivery.	85%	64%	Not achieved These measures fell short of our stretch target of 85% and 2015/16 performance. Through the Learning Support Update, we are trialling a new service delivery model which specifically addresses the areas and reasons for dissatisfaction expressed by parents and educators in the survey (see pages 25 and 26 for additional commentary).
69%	Percentage of parents and educators of children receiving a special education core service who are satisfied with the child's progress after the service from special education.	85%	63%	
New measure	Percentage of children whose behavioural issues have improved following their parents' completion of the Incredible Years Parent Programme.	70%	71%	Achieved
Service Academies				
This category is intended to achieve re-engagement of senior students in secondary schools.				
81%	Percentage of students enrolled in Service Academies at the start of the academic year retained by the Service Academy for that academic year.	80%	73%	Not achieved Retention is influenced by the rate that students leave the academies to take on employment or alternative training. The figure reflects both of these factors and we are working with both Service Academies and providers to ensure appropriate retention.
83%	Percentage of students retained in Service Academies who achieve both Literacy and Numeracy Level 1.	80%	93%	Achieved

Performance 2015/16	Performance Measure	Budget Standard 2016/17	Actual Performance 2016/17	Comment
Student Attendance and Engagement				
This category is intended to achieve maximum attendance at schools by reducing unjustified absence rates and non-enrolment and reducing the time it takes to return students to education.				
40 days	The median numbers of school days before excluded learners are returned to schooling.	40 days or less	36	Achieved
New measure	Percentage of schools signed up to the Attendance Service system.	65%	82%	Achieved
Special Needs Support				
This category is intended to achieve equitable participation and education outcomes for targeted student groups.				
100%	Percentage of specialist service providers reviewed who meet at least 90% of the required service standards.	90%	91%	Achieved

The following activity information relates to output volume measures that are demand-driven and therefore outside the control of the Ministry.

Performance 2015/16	Activity information	Budget Standard 2016/17	Actual Performance 2016/17
Interventions for Target Student Groups			
34,226	The number of children receiving a special education core service.	27,345–33,425	36,693
Special Needs Support			
2,592	Number of young people enrolled in the Alternative Education programme.	2,500	2,784
14,938 individual students and 12,826 groups of students	Number of students supported through the Resource Teacher Learning and Behaviour service.	15,000–17,000	17,742

Financial performance

A multi-category appropriation (MCA) provides increased financial flexibility across a number of categories of expenses that all contribute to a single overarching purpose, while preserving transparency about what is achieved with each category of an MCA. The amount of the MCA is for the MCA as a whole (the amount of each category of the MCA in the Estimates is a forecast of expenditure).

The 2015/16 actual results have been restated in the 2016/17 Appropriation Structure for comparative purposes.

	2015/16 Actual	Budget	2016/17 Supplementary Estimates	Actual
	\$000	\$000	\$000	\$000
Outcomes for Target Groups MCA as a whole				
Total expenses for MCA	647,504	671,136	683,803	678,400

This is made up of the following category information:

	2015/16 Actual	Budget	2016/17 Supplementary Estimates	Actual
	\$000	\$000	\$000	\$000
Interventions for Target Student Groups (Category)				
Revenue				
From the Crown	237,678	256,438	255,673	255,673
Other	749	1,700	1,700	902
Total revenue	238,427	258,138	257,373	256,575
Total departmental output expenses	238,800	258,138	257,373	255,117
Net surplus/(deficit)	(373)	-	-	1,458
Service Academies (Category)				
Non-departmental output expenses	3,621	3,640	3,640	3,310
Students Attendance and Engagement (Category)				
Non-departmental output expenses	9,426	9,551	9,551	9,590
Learning Support (Category)				
Non-departmental other expenses	395,657	399,807	413,239	410,383

Funding for this appropriation increased by \$36.299 million from the 2015/16 Actual to 2016/17 Supplementary Estimates mainly due to:

Under category *Interventions for Target Student Groups*

- an increase in demand for the Ongoing Resourcing Scheme (\$5.090 million)
- replacement of the legacy Education Sector Logon service with an all-of-government identity and access management system that will enable interaction with other agencies related to but outside the education system (\$4.950 million)
- increased access to the Intensive Wraparound Service (\$2.620 million increase)
- support for youth mental health initiatives (\$2.354 million)
- increased availability of in-class support for students with special education needs (\$2.155 million)
- settlement of the Special Education Field Staff Collective Agreement (\$1.700 million)

Under category *Learning Support*

- the impact of higher national roll projections on teacher salaries and school operations grants (\$11.243 million), and
- settlement of the Primary Teachers', Primary Principals', Area School Principals', Area School Teachers', Special Education Field Staff and Secondary Principals' Collective Agreements (\$2.427 million).

Approval has been obtained to carry forward \$2.235 million of the \$2.856 million under-spend under category *Interventions for Target Student Groups* in 2016/17 to 2017/18 mainly to complete implementation of the Education Sector Identity and Asset Management system (\$1.485 million).

Support and Resources for Parents and the Community

About this appropriation

Through this appropriation we provide policies and programmes which focus on parents' and the community's knowledge of and participation in the education system.

What we intended to achieve

This appropriation is intended to deliver programmes and services that support parents, families, whānau and iwi to participate in and with the education system.

What was achieved

Performance 2015/16	Performance Measure	Budget Standard 2016/17	Actual Performance 2016/17	Comment
88%	Coverage of target communities – Percentage of whānau and young people receiving community-based engagement, information and support programmes for parents, families, whānau and iwi who are from targeted priority communities (see Note 1).	85%	85%	Achieved
95%	Impact of community-based engagement – Percentage of whānau and young people receiving community-based engagement, information and support programmes who, after receipt of such support, report that they are more confident and better equipped to support their children's learning and make informed decisions about learning pathways (see Note 2).	95%	96%	Achieved
New measure	Impact of Pasifika community-based engagement – Percentage of Pasifika families receiving community-based engagement, information and support from the PowerUP programme who, after receipt of such support, report that they are more confident and better equipped to support their children's learning and make informed decisions about learning pathways (see Note 2).	80%	80%	Achieved

Performance 2015/16	Performance Measure	Budget Standard 2016/17	Actual Performance 2016/17	Comment
Revised measure	Impact of tailored services for individuals – Percentage of parents and whānau receiving tailored services for individuals who, after receipt of such support, report that they are more confident and better equipped to support their children's learning and make informed decisions about learning pathways (see Note 2).	95%	96%	Achieved
977	Number of contracted Early Childhood Education child places created to meet the needs of targeted communities as a result of the Targeted Assistance Programme.	948-1,100	1,397	Achieved

Note 1 - Includes the 'Count-Me-In' and 'At Risk of Not Achieving' work being delivered to priority students outside of the target communities.

Note 2 - As measured by the percentage of participants who showed a 'positive' or higher rating in their programme completion surveys.

Financial performance

	2015/16 Actual	Budget	2016/17 Supplementary Estimates	Actual
	\$000	\$000	\$000	\$000
Revenue				
From the Crown	12,126	11,730	12,797	12,797
Other	-	10	10	-
Total revenue	12,126	11,740	12,807	12,797
Total expenses	10,601	11,740	12,807	12,139
Net surplus/(deficit)	1,525	-	-	658

Baseline funding for this appropriation is essentially unchanged from 2015/16 to 2016/17. The increase in expenses in 2016/17 is due to the transfer of funding from 2015/16 for specific and discrete work programmes that are across financial years such as the Pasifika PowerUp programme.

Support and Resources for Education Providers

About this appropriation

Through this appropriation we provide policies, regulations and services that focus on the governance, management and operation of education providers.

What we intended to achieve

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

What was achieved

Performance 2015/16	Performance Measure	Budget Standard 2016/17	Actual Performance 2016/17	Comment
Accurate 100%	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%	Accurate 100%	Achieved
On time 100%		On time 100%	On time 75%	Not achieved Payments were made on time in three out of the four reporting periods. All payments would have been made on time if it had not been for an external system outage which occurred in October 2016. Communication was provided to schools and payment made the next working day.
Accurate 99.8%	Percentage of payroll payments to eligible teachers and school support staff are accurately calculated and sent to financial institutions on time in order to be processed on or before advised pay dates.	Accurate 99.5%	Accurate 99.79%	Achieved
On time 99.99%		On time 99.5%	On time 99.99%	
97%	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.	95% or more	97%	Achieved

Performance 2015/16	Performance Measure	Budget Standard 2016/17	Actual Performance 2016/17	Comment
New measure	Percentage of eligible Early Childhood Education (ECE) services connected to Early Learning Information System (ELI).	98%	99.4%	Achieved

Financial performance

	2015/16 Actual	Budget	2016/17 Supplementary Estimates	Actual
	\$000	\$000	\$000	\$000
Revenue				
From the Crown	96,145	93,310	95,272	95,272
Other	678	1,140	1,140	595
Total revenue	96,823	94,450	96,412	95,867
Total expenses	96,910	94,450	96,412	93,663
Net surplus/(deficit)	(87)	-	-	2,204

Approval has been obtained to carry forward the entire \$2.749 million under-spend to 2017/18 (\$2.049 million) and 2018/19 (\$700,000) mainly for the ongoing:

- development and implementation of the Education Resourcing System (ERS), a new resourcing system to administer funding and staffing entitlements allocated to early childhood education services and schools (\$1.700 million with \$700,000 to 2018/19), and
- investigation into the nature and extent of any non-compliance with the Holidays Act (\$800,000).

Place-Based Initiative – Te Tai Tokerau, Northland

About this appropriation

This appropriation is limited to the delivery of services to help achieve the outcomes of the Te Tai Tokerau, Northland Place-Based Initiative and the operational support of that initiative. In September 2016, the Government launched the new Place-Based Initiative, Kāinga Ora, with this appropriation set up in the Supplementary Estimates 2016/17. The initiative is led by the Ministry but partners with other government agencies and Northland communities to achieve results.

What we intended to achieve

This appropriation is intended to achieve better long term outcomes for children and young people and their whānau/families through a social investment approach co-designed with three high-needs communities in Northland.

What was achieved

Performance 2015/16	Performance Measure	Budget Standard 2016/17	Actual Performance 2016/17	Comment
New measure	570 children and their whānau and families in Otangarei, Kaikohe and Kaitia/Te Hiku have an integrated service plan.	Achieved	20 integrated service plans put in place for some of the most complex cases.	Not achieved The Place-Based Initiative report that the time taken setting up the initiative and an immediate need to focus on the most complex cases, and respond to their needs, meant the year-end target was not achieved and remains a target for 2017/18 (see page 39 for additional commentary).
New measure	Research and analytical capability is being used to identify at-risk children, young people, whānau and communities together with service coverage and gaps.	Achieved	Achieved Staff with expertise in data and analytics were employed and have been producing data and evidence which is being used to inform decision making by the governance group in terms of targeting groups and investing in initiatives. See commentary on page 39.	Achieved
New measure	Information sharing framework established.	Achieved	Not achieved	Not achieved The Place-Based Initiative report that a draft memorandum of understanding (MOU) to support information sharing was developed in consultation with the Office of the Privacy Commissioner. Following feedback from some of the agencies, the MOU is being redrafted for consideration by all of the agencies involved. Meanwhile agencies are sharing information where possible, for example in cases of family harm/abuse.

Performance 2015/16	Performance Measure	Budget Standard 2016/17	Actual Performance 2016/17	Comment
New measure	Number of assessments and plans that demonstrate joined up service offerings without duplication.	570	Multi-agency safety assessments and planned actions have been completed for 90 children and young people identified at risk of family harm/violence. Actions are immediately taken by agencies if child safety issues arise.	Not achieved The Place-Based Initiative report that time taken setting up the initiative and an immediate need to focus on the most complex cases, and response to their needs, meant that the year-end target was not achieved (see page 39 for additional commentary). Safety assessments were completed by a multi-agency team. The approach includes assessing and coordinating the tasking of actions related to family harm/violence.
New measure	Co-designed Community Action Plans for Otangarei, Kaikohe and Kaitaia/Te Hiku in place.	Achieved	Not achieved	Not achieved The Place-Based Initiative report that since Kāinga Ora was established, a stock take of existing community action plans has been completed. Kāinga Ora will not seek to develop new plans until the existing plans have been reviewed and recommendations to proceed have been agreed with the communities (see page 39 for additional commentary).
New measure	Duplication and fragmentation of services is reduced.	Achieved	Achieved Agency information sharing and integrated tasking and triage has improved and systematised identification of at risk children/whānau. A combined family harm table enables agencies to undertake a single assessment, allocation, coordination and monitoring approach of tasks and services to identified children/whānau.	Achieved

Financial performance

	2015/16 Actual	Budget	2016/17 Supplementary Estimates	Actual
	\$000	\$000	\$000	\$000
Revenue				
From the Crown	-	-	1,687	1,687
Other	-	-	-	-
Total revenue	-	-	1,687	1,687
Total expenses	-	-	1,687	1,029
Net surplus/(deficit)	-	-	-	658

This new appropriation was created during 2016/17 with further funding of \$1.683 million in 2017/18. Approval has been obtained to transfer \$650,000 unspent funding in 2016/17 to 2017/18 due to delays in the establishment of the Executive Office. The Executive Office will address the skill gap remaining after in-kind support from agencies and local initiatives has been leveraged or used.

School Property Portfolio Management

About this appropriation

Through this appropriation, we support the provision of 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 we intended to achieve

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

What was achieved

Performance 2015/16	Performance Measure	Budget Standard 2016/17	Actual Performance 2016/17	Comment
Lower Advanced (83%)	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	Achieved
New measure	Percentage of State schools with a utilisation ratio between 75% and 105% as an indicator of the effective use of the school property portfolio.	65%	72% ⁶	Achieved

Note 1 - The Asset Management maturity index scale is 0-20% Aware, 20-40% Minimum, 40-60% Core, 60-80% Intermediate, and 80-100% Advanced on the index criteria established by the Treasury, where Lower Advanced means 80-90% on that scale.

⁶ Utilisation is expressed as the ratio of the number of classrooms a school is entitled to relative to its actual number of classrooms at the school. Classroom entitlement is calculated based on maximum roll projections from the July 2016 actual school roll, school types, Māori immersion rolls, special needs and technology aspects of the school. This measure excludes schools with 100 or fewer students (because small variations in enrolments will result in major changes in utilisation) and schools which are less than 10 years old (because they would have been built in anticipation of future need for increased space).

Financial performance

	2015/16 Actual	Budget	2016/17 Supplementary Estimates	Actual
	\$000	\$000	\$000	\$000
Revenue				
From the Crown	1,588,658	1,620,276	1,645,025	1,645,025
Other	48,926	3,186	26,725	38,106
Total revenue	1,637,584	1,653,462	1,671,750	1,683,131
Total expenses	1,621,415	1,653,462	1,664,067	1,647,556
Net surplus/(deficit)	16,169	-	7,683	35,575

The \$32.047 million increase in expenses from the 2015/16 Actual to Budget is mainly due to a baseline funding increase for the operating costs of new schools and additional roll growth classrooms (\$32.724 million increase).

The \$10.605 million increase from Budget to Supplementary Estimates is mainly due to:

- an increase for depreciation (\$45 million) and capital charge (\$152.640 million) as a result of the revaluation of the school property portfolio at 30 June 2016
- a decrease in capital charge rate from 8% to 6% per annum (\$209.724 million)
- provision for additional costs associated with weather-tightness issues in schools (\$9.056 million) funded from successful legal claims
- increased provision for rationalising under-utilised assets and demolition and disposal of surplus assets (\$6.800 million) funded from gain on sale of property
- increased provision for schools to enter into rental arrangements where building construction solutions are not available or are uneconomic (\$2.104 million), and
- provision to undertake a review and analysis of organisational options for delivering strategy for and managing the Ministry's education infrastructure services (\$2 million).

Actual expenditure for 2016/17 was less than Supplementary Estimates by \$16.511 million due to savings in capital charge through the deferral in drawing down capital injections from Treasury for the capital expenditure programme (\$11.566 million) and the approval to carry forward funding from 2016/17 to 2017/18 due to delays in some work programmes (\$4.945 million), including the pursuit of weather-tightness product liability claims relating to defective products.

In addition to the \$16.511 million under-spends, the \$35.575 million operating surplus was due to third party contributions towards the development of school building assets (\$11.171 million) and income from the sale of surplus properties and weather-tightness settlements (\$7.893 million).

Ministry of Education – Capital Expenditure PLA

About this 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 we intended to achieve

This appropriation provides 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.

What was achieved

Performance	Performance Measure	Budget Standard	Actual Performance	Comment
2015/16		2016/17	2016/17	
Revised measure	Percentage of State school buildings with a property condition of '3' or better, as an indicator of the condition of the school property portfolio (see Note 1).	85%	93%	Achieved

Note 1 - The condition of school buildings is rated on a scale of 1 to 5 (1 being the highest condition rating). The scale is based on a ratio of the expected 10 year cost of maintenance relative to estimated replacement value, defined as follows: 1 is a ratio of less than 5%; 2 is 5-10%; 3 is 10-20%; 4 is 20-30%; and 5 is over 30%. This measure represents over 95% of total replacement value and about 70% of the number of buildings in the entire State school portfolio, excluding about 10,000 minor buildings such as sheds and covered walkways.

Financial performance

	2015/16 Actual	Budget	2016/17 Supplementary Estimates	Actual
	\$000	\$000	\$000	\$000
Capital Expenditure				
Land	41,462	15,000	43,120	38,163
Property, Plant and Equipment	714,349	823,816	915,954	871,885
Intangibles	16,649	21,117	35,739	21,054
Total Capital Expenditure	772,460	859,933	994,813	931,102

Capital expenditure was \$63.711 million less than forecast in the Supplementary Estimates mainly due to a lower spend than expected in the Five Year Agreement (5YA) programme where the timing of expenditure is controlled by schools (\$14 million), delays in settlement of three new schools sites (\$14 million), redevelopment of existing schools (\$11 million) and new schools (\$6 million), along with delays in the delivery of the Education System Digital Strategy programme (\$13 million).

Services to Other Agencies RDA

About this 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 we intended to achieve

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.

What was achieved

Performance 2015/16	Performance Measure	Budget Standard 2016/17	Actual Performance 2016/17	Comment
96%	The minimum percentage of service standards which are agreed as 'Achieved' with the recipient of those services (see Note 1).	95%	95%	Achieved

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

Financial performance

	2015/16 Actual	Budget	2016/17 Supplementary Estimates	Actual
	\$000	\$000	\$000	\$000
Revenue				
From other government agencies	1,152	845	3,252	1,232
Total revenue	1,152	845	3,252	1,232
Total expenses	1,152	845	3,252	1,232
Net surplus/(deficit)	-	-	-	-

Under a Revenue Dependent Appropriation (RDA) expenses incurred are limited to the amount of revenue earned. The RDA provides flexibility to respond to unanticipated changes in the level of demand.

Vote Tertiary Education

Portfolio Minister – Minister for Tertiary Education, Skills and Employment

Stewardship of the Tertiary Education System

About this appropriation

This is a multi-category appropriation containing the following categories of expense.

Policy Advice (Departmental Output Expense) – This category 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 and international education related matters.

Research, Data Analysis and Monitoring (Departmental Output Expense) – This category is limited to the production and dissemination of research and data analysis, monitoring and reporting on tertiary education at a system-wide level, and the provision of services (other than policy advice) to support the work of other agencies and Ministers in discharging their responsibilities for tertiary education and international education related matters.

What we intended to achieve

This appropriation is intended to provide advice to Ministers to support decision making, managing the Government's investment in the tertiary education sector, and monitoring and oversight of the sector.

What was achieved

Performance 2015/16	Performance Measure	Budget Standard 2016/17	Actual Performance 2016/17	Comment
Stewardship of the Tertiary Education System				
New measure	Overall average (mean) satisfaction rating given by the Minister for Tertiary Education, Skills and Employment for the Ministry's policy advice, monitoring advice and support for ministerial delegations.	7	7	Achieved
Policy Advice				
This category 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.				
73%	Independent assessment of the quality of the Ministry's policy advice (see Note 1).	75%	74%	Not achieved We set ourselves a more challenging target of 75% from 2015/16 and are continuing to make steady progress towards this target.

Performance 2015/16	Performance Measure	Budget Standard 2016/17	Actual Performance 2016/17	Comment
7	The satisfaction rating given by Ministers for the quality and timeliness of policy advice (as per the Common Satisfaction Survey) (see Note 2).	7	7.5	Achieved
\$139	The total cost per hour per person of producing policy outputs (see Note 3).	At most \$155	\$134	Achieved
Research, Data Analysis and Monitoring				
This category is intended to contribute to a shared strategic direction and alignment across the education system.				
Forecasts were accurate to within 2.0% of actual values	Forecasts of student loans and student allowances are accurate within an agreed average of actual values.	Accurate within $\pm 3\%$ of actual values	Forecasts were accurate to within 2.5% of actual values	Achieved
7	The satisfaction rating given by the Minister for Tertiary Education, Skills and Employment for monitoring advice provided by the Ministry about the Government's ownership and purchase interest in Crown agencies (see Note 4).	7	7	Achieved
Very good	The quality and range of the Ministry's analytical outputs is assessed through an independent expert review (see Note 5).	Quality is assessed as 'Good' or better	Good	Achieved The Ministry continues to perform to very high standards (on or above target). There is a continuous improvement process in place to further improve the reporting quality.
New measure	The satisfaction rating given by Ministers for the quality and timeliness of support for ministerial delegations and visits (see Note 4).	7	7	Achieved Due to the timing of Ministerial portfolio changes it was not possible to confirm a ministerial delegations response for the Minister of Education.

Performance 2015/16	Performance Measure	Budget Standard 2016/17	Actual Performance 2016/17	Comment
98%	Ministerial Correspondence replies completed within 20 working days of receipt by the Ministry, unless otherwise agreed.	95%	98%	Achieved
99%	Parliamentary question responses provided to the Minister's Office so that answers can meet the timeframe set in Parliamentary Standing Orders.	95%	100%	Achieved
100%	Ministerial Official Information Act request replies completed five days prior to the statutory time limit, unless otherwise agreed.	95% or if less than 20, no more than 1 late	90%	Not Achieved This year, a new policy for completing responses to OIA requests was launched which will support the Ministry to meet the standard in 2017/18.

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 to 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.

Note 4 - The rating measures Ministers' satisfaction on a scale from 1 to 10, where 1 means unsatisfied and 10 means extremely satisfied.

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

Financial performance

A multi-category appropriation (MCA) provides increased financial flexibility across a number of categories of expenses that all contribute to a single overarching purpose, while preserving transparency about what is achieved with each category of an MCA. The amount of the MCA is for the MCA as a whole (the amount of each category of the MCA in the Estimates is a forecast of expenditure).

The 2015/16 actual results have been restated in the 2016/17 Appropriation Structure for comparative purposes.

	2015/16 Actual	Budget	2016/17 Supplementary Estimates	Actual
	\$000	\$000	\$000	\$000
Stewardship of the Tertiary Education System MCA as a whole				
Total expenses for MCA	12,458	12,141	12,901	12,788

This is made up of the following category information:

	2015/16 Actual	Budget	2016/17 Supplementary Estimates	Actual
	\$000	\$000	\$000	\$000
Policy Advice (Category)				
Revenue				
From the Crown	4,856	4,856	4,856	4,856
Other	-	-	-	20
Total revenue	4,856	4,856	4,856	4,876
Departmental output expenses	4,800	4,856	4,856	5,396
Net surplus / (deficit)	56	-	-	(520)
Research, Data Analysis and Monitoring (Category)				
Revenue				
From the Crown	7,985	7,285	7,545	7,545
Other	-	-	500	490
Total revenue	7,985	7,285	8,045	8,035
Departmental output expenses	7,658	7,285	8,045	7,392
Net surplus/(deficit)	327	-	-	643



PART 3

Annual financial statements

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 123) and appropriation statements (page 131).

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Ministry of Education Departmental Financial Statements

for the year ended 30 June 2017

Statement of Comprehensive Revenue and Expenses for the year ended 30 June 2017

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.

2016 Actual			2017 Actual	2017 Budget	2017 Supplementary Estimates	2018 Forecast
\$000	Notes		\$000	(unaudited) \$000	(unaudited) \$000	(unaudited) \$000
Revenue						
2,063,662	Revenue Crown		2,149,337	2,140,996	2,149,337	2,144,076
51,681	Other revenue	2	41,417	6,901	33,347	11,631
2,115,343	Total operating revenue		2,190,754	2,147,897	2,182,684	2,155,707
Expenses						
275,502	Personnel costs	3	287,294	279,451	288,208	294,080
510,282	Depreciation and amortisation	10,11	580,650	523,123	579,721	592,655
997,311	Capital charge	4	962,029	1,032,644	962,030	904,971
5,630	Finance costs	5	11,079	12,349	12,060	20,540
304,120	Other operating expenses	6	300,293	300,330	332,982	343,461
2,092,845	Total operating expenses ¹		2,141,345	2,147,897	2,175,001	2,155,707
22,498	Net operating surplus		49,409	-	7,683	-
Remeasurements ²						
(35,616)	Net unrealised gain/(loss) on derivative financial instruments	19	16,571	-	-	564
(13,118)	Net surplus/(deficit)		65,980	-	7,683	(564)
Other comprehensive revenue and expenses						
2,180,577	Gain on property revaluations	9,10	2,354,550	-	-	-
2,180,577	Total other comprehensive revenue and expenses		2,354,550	-	-	-
2,167,459	Total comprehensive revenue and expenses		2,420,530	-	7,683	(564)

¹ Total operating expenses excluding \$25,000 against a Ministry of Justice departmental output expense equals total departmental output expenses and appropriations in the Statement of Budgeted and Actual Expenses and Capital Expenditure Incurred Against Appropriations on page 131.

² Remeasurements mean 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 2017

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.

2016 Actual			2017 Actual	2017 Budget	2017 Supplementary Estimates	2018 Forecast
\$000	Notes		\$000	(unaudited) \$000	(unaudited) \$000	(unaudited) \$000
Assets						
Current assets						
54,014	Cash and cash equivalents		40,547	39,826	50,000	50,000
439,881	Debtors and other receivables	7	568,119	417,638	506,741	471,385
20,703	Prepayments	8	37,789	28,431	21,500	21,500
22,404	Non-current assets held for sale	9	29,655	30,000	25,000	25,000
537,002	Total current assets		676,110	515,895	603,241	567,885
Non-current assets						
14,593,188	Property, plant, and equipment	10	17,244,492	12,918,882	14,948,426	15,337,062
56,826	Intangible assets	11	64,570	68,545	79,801	95,829
14,650,014	Total non-current assets		17,309,062	12,987,427	15,028,227	15,432,891
15,187,016	Total assets		17,985,172	13,503,322	15,631,468	16,000,776
Liabilities						
Current liabilities						
107,281	Creditors and other payables	12	151,364	105,582	96,685	96,685
7,968	Return of operating surplus to Crown	13	41,726	-	-	-
1,187	Provisions	14	1,042	-	-	-
18,118	Employee entitlements	15	18,519	14,056	17,985	17,985
1,704	Service concession liabilities	16	2,805	-	3,077	4,566
136,258	Total current liabilities		215,456	119,638	117,747	119,236
Non-current liabilities						
1,216	Provisions	14	1,490	-	1,216	1,216
9,840	Employee entitlements	15	9,245	10,000	10,000	10,000
170,185	Service concession liabilities	16	278,317	285,439	276,342	345,003
35,616	Derivative financial instruments (Net)	19	19,045	-	35,616	11,141
216,857	Total non-current liabilities		308,097	295,439	323,174	367,360
353,115	Total Liabilities		523,553	415,077	440,921	486,596
14,833,901	Net assets		17,461,619	13,088,245	15,190,547	15,514,180
Taxpayers' equity						
4,718,705	General funds	17	4,999,956	5,312,611	5,078,272	5,401,905
10,115,196	Property revaluation reserves	17	12,461,663	7,775,634	10,112,275	10,112,275
14,833,901	Total taxpayers' equity		17,461,619	13,088,245	15,190,547	15,514,180

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 2017

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.

2016 Actual			2017 Actual	2017 Budget	2017 Supplementary Estimates	2018 Forecast
			(unaudited)	(unaudited)	(unaudited)	
\$000		Notes	\$000	\$000	\$000	\$000
12,466,384	Balance at 1 July		14,833,901	12,708,940	14,833,902	15,098,615
(13,118)	Net surplus/(deficit)		65,980	-	7,683	(564)
2,180,577	Gain on property revaluations		2,354,550	-	-	-
Owner transactions						
276,871	Capital injections		352,388	475,848	452,436	447,640
(68,845)	Capital withdrawals		(103,474)	(96,543)	(103,474)	(31,511)
(7,968)	Return of operating surplus to Crown	13	(41,726)	-	-	-
14,833,901	Balance at 30 June	17	17,461,619	13,088,245	15,190,547	15,514,180

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 2017

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.

2016 Actual			2017 Actual	2017 Budget	2017 Supplementary Estimates	2018 Forecast
\$000	Notes		\$000	(unaudited) \$000	(unaudited) \$000	(unaudited) \$000
Cash flows from operating activities						
1,975,450	Receipts from Revenue Crown		2,023,028	2,083,508	2,083,027	2,064,039
16,565	Receipts from other revenue		26,386	6,901	26,074	11,631
(297,583)	Payments to suppliers		(287,685)	(302,728)	(320,571)	(344,481)
(273,604)	Payments to employees		(299,939)	(277,053)	(286,334)	(293,060)
(997,311)	Payments for capital charge		(962,029)	(1,032,644)	(962,030)	(904,971)
(8,091)	Goods and services tax (net)		2,709	-	320	-
415,426	Net cash flow from operating activities	18	502,470	477,984	540,486	533,158
Cash flows from investing activities						
58,025	Receipts from sale of property, plant, and equipment		38,361	15,000	30,450	30,395
(641,049)	Purchase of property, plant, and equipment		(766,111)	(838,300)	(866,440)	(924,959)
(16,649)	Purchase of intangible assets		(21,054)	(23,218)	(35,739)	(29,528)
(599,673)	Net cash flow from investing activities		(748,804)	(846,518)	(871,729)	(924,092)
Cash flows from financing activities						
276,871	Capital injections		352,388	475,848	452,436	447,640
(68,845)	Capital withdrawals		(103,474)	(96,543)	(103,474)	(31,511)
(12,469)	Return of operating surplus to Crown		(7,968)	-	(7,969)	-
(5,630)	Payment of finance charges on service concession arrangements		(7,093)	(12,349)	(12,060)	(22,118)
(941)	Repayment of service concession liability		(986)	-	(1,704)	(3,077)
188,986	Net cash flow from financing activities		232,867	366,956	327,229	390,934
4,739	Net (decrease)/increase in cash		(13,467)	(1,578)	(4,014)	-
49,275	Cash at the beginning of the year		54,014	41,404	54,014	50,000
54,014	Cash at the end of the year		40,547	39,826	50,000	50,000

The goods and services tax (GST) (net) component of operating activities reflects the net GST paid to and received from the Inland Revenue Department. 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 Flow should be read in conjunction with the accompanying notes.

Supplementary Information

Statement of Commitments as at 30 June 2017

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

	2016 Actual \$000	2017 Actual \$000
Capital Expenditure		
School property capital works programme		
Building		
› Not later than one year	572,011	535,151
› Later than one year and not later than five years	312,089	723,353
› Later than five years	2,575	33,424
Service Concession Arrangements		
› Not later than one year	116,390	139,991
› Later than one year and not later than five years	25,605	77,460
› Later than five years	139,358	178,641
Total school property capital works programme	1,168,028	1,688,020
Development of Education Resourcing System		
› Not later than one year	-	3,950
› Later than one year and not later than five years	-	2,714
› Later than five years	-	-
Total capital commitments	1,168,028	1,694,684
Non-cancellable operating leases		
The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:		
Ministry office premises		
› Not later than one year	16,235	15,317
› Later than one year and not later than five years	47,403	42,578
› Later than five years	64,535	55,478
School property		
› Not later than one year	9,020	10,992
› Later than one year and not later than five years	31,184	30,713
› Later than five years	81,763	83,235
Total non-cancellable operating lease commitments	250,140	238,313
Total commitments	1,418,168	1,932,997

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 arrangement (also known as a public private partnership) 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 redevelopments and upgrades in existing schools, new schools, whether by traditional procurement or under a service concession arrangement, roll growth classrooms and continuation of the Christchurch Schools Rebuild Programme.

Education Resourcing System

The Education Resourcing System is a new resourcing system that will determine funding for early childhood education (ECE), school operational grants, staffing entitlements, and learning support.

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 most significant office lease commitment is for the Ministry's National Office premises at 33 Bowen Street, Wellington. The lease expires in December 2030. The decrease from 2016 to 2017 is mainly due to the elapse of 12 months on leases.

The majority of school property leases are for Treaty of Waitangi settlement redress over some school land. Under these leases, the Crown can keep leasing the land from iwi for as long as it is needed for education purposes.

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

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 2017

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

	2016 Actual \$000	2017 Actual \$000
Legal proceedings and disputes		
Contractual disputes	35,670	9,670
Historical negligence claims of abuse in government institutions such as special schools	3,884	2,625
Total quantifiable contingent liabilities	39,554	12,295

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 (2016:Nil).

Unquantifiable contingent assets

As at 30 June 2017, 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 2016/17 financial year (refer Note 2 to the financial statements), and the Supreme Court has 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 (2016:\$Nil)

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

Notes to the Departmental Financial Statements

for the year ended 30 June 2017

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 Crown activities that it administers in the non-departmental schedules on pages 123 to 130.

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, 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 for financial reporting purposes.

The financial statements of the Ministry are for the year ended 30 June 2017. The financial statements were authorised for issue by the Secretary for Education on 29 September 2017.

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.

Changes in accounting policies

There have been no changes in the Ministry's accounting policies since the date of the last audited financial statements.

Standards issued and not yet effective and not early adopted

Standards and amendments, issued but not yet effective that have not been early adopted, and which are relevant to the Ministry are:

Financial instruments

PBE IFRS 9 *Financial Instruments* is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The main changes under the standard are:

- New financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost.
- A new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses.
- Revised hedge accounting requirements to better reflect the management of risks.

The timing of the Ministry adopting PBE IFRS 9 will be guided by the Treasury's decision on when the Financial Statements of Government will adopt PBE IFRS 9. The Ministry has not yet assessed the effects of the new standard.

Impairment of Revalued Assets

In April 2017, the External Reporting Board (XRB) issued *Impairment of Revalued Assets*, which now clearly includes revalued property, plant, and equipment in the scope of impairment accounting standards. Previously, only property, plant, and equipment measured at cost were included in the impairment accounting standards. Under the amendment, a revalued asset can be impaired without having to revalue the entire class-of-asset to which the asset belongs. The timing of the Ministry adopting this amendment will be guided by the Treasury's decision on when the Financial Statements of Government will adopt the amendment.

Omnibus Amendments to PBE Standards

In January 2017, the XRB issued *2016 Omnibus Amendments to PBE Standards*. These amendments apply to PBEs with reporting periods beginning on or after 1 January 2017. Earlier application is permitted. Of note, PBE IPSAS 32 *Service Concession Arrangements: Grantor* was amended to remove the requirement for service concession assets to be accounted for as a separate class of assets under property, plant and equipment. The effect of this is largely presentation in nature and the Ministry will apply this amendment in preparing its 30 June 2018 financial statements. The other amendments in the PBE omnibus are generally clarifications of existing standards, so will not have an impact on the Ministry's accounting policies.

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. These are 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 the receipt of 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 are classified as held for sale when they are identified as surplus to requirements and approval has been obtained to dispose of these assets. Non-current assets held for sale are measured at the lower of their carrying amount at the date the asset is designated as surplus and fair value less costs to sell.

Any impairment losses for write-downs of non-current assets held for sale carried at cost are recognised in net surplus or deficit. For revalued assets, any impairment loss is recorded first against previously recognised revaluation gains in other comprehensive revenue in respect of that asset.

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 one 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, office furniture, fittings (leasehold improvements) and equipment (including ICT), 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

A service concession arrangement (also known as a public private partnership) is an agreement between the Ministry and a private sector partner to design, build, finance and operate schools on land provided by the Ministry. The assets in the service concession arrangement are recognised as assets of the Ministry. As the schools are progressively constructed, the Ministry recognises work-in-progress at cost. 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 at operational completion, the financial liability is recognised at its fair value. Subsequently, it is measured 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.

Early childhood education 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, early childhood education 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 by the independent valuer using an Optimised Depreciated Replacement Cost (ORDC) methodology.

Additions between valuations are recorded at cost.

The Ministry accounts for revaluations of land, buildings and service concession assets on a class of asset basis.

The results of revaluing are credited or debited to other comprehensive revenue and expenses 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 and equipment (including 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.

Costs associated with maintaining computer software and training staff 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.

Website development costs are only recognised as an intangible asset if they will provide future service potential.

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 and property, plant and equipment in the course of construction 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.

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 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, 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 responsibility centres and services or projects.

Criteria for direct and indirect costs

Direct costs are those costs charged directly to non-overhead responsibility centres and services or projects. 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 responsibility centre and service.

Direct costs assigned to outputs

Non-overhead responsibility centres and services are mapped directly to outputs. Costs in these responsibility centres and services 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 responsibility centres and services, and thereby to outputs, on the basis of cost drivers such as direct salaries costs captured within the non-overhead responsibility centres and services.

There have been no material changes in cost accounting policies since the date of the last audited financial statements. However since the implementation of the new finance system, the Ministry is using responsibility centres and services rather than activities to map costs.

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

Long service leave and retirement gratuities entitlements that are payable beyond 12 months 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; and
- the present value of the estimated future cash flows using the discount rates prescribed by the Treasury as at 31 May 2017 and a salary inflation factor of 2.5% (2016:2.5%). The discount rates used are based on the yields on Government Bonds and range from 1.87% to 4.75% (2016:1.95% to 4.75%).

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 on a highest and best use basis. 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.

The construction rates applied for calculating the depreciated replacement costs have been sourced from 'QV Costbuilder' with an effective date of 30 June 2017 for classroom components and 1 April 2017 for all other components.

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	2016 unit rate	2017 unit rate
Classroom – fit out	\$659 m ²	\$781 m ²
Classroom – services	\$696 m ²	\$894 m ²
Classroom – roof	\$285 m ²	\$351 m ²
Classroom fabric – single storey	\$967 m ²	\$1,456 m ²
Classroom fabric – per storey	\$392 m ²	\$414 m ²
Ancillary buildings	\$743 m ²	\$785 m ²
Covered way	\$401 m ²	\$421 m ²
Swimming pools	\$3,217 m ²	\$3,388 m ²
Boilers	\$59,149 each	\$61,867 each
Lifts – standard (3 floors)	\$120,304 each	\$121,706 each
Lifts – additional floor	\$6,316 each	\$6,491 each
Transportables	-	\$2,633 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.

Adjustments have been made to the remaining useful life assumption for school buildings as follows:

Nature of valuation adjustment to replacement costs	Impact on the valuation
Assessment of the remaining useful life	The remaining useful life of components and consequently value has been amended based on the level of costs incurred on the component during the course of the last ten years, as an indicator of the condition of the component. Minimum useful lives are utilised to reflect residual values.
Assessment of the impact of technology change on replacement Costs	Consideration is given to the age of each component, and the building code applicable at that time, and a discount applied based on the era during which the asset was constructed.
Condition impact on remaining useful life	The remaining useful life of components and consequently value has been amended in consideration of the expected level of expenditure required to renew components during the course of the next ten years to reflect the actual state of assets in poor or very poor condition.
Expected demolition or significant redevelopment programme	The remaining useful life of components and consequently value has been amended in consideration of the expected impact on value and life that planned demolitions or major redevelopments will have on components
Assessment of weather-tightness issues on building condition	The value and remaining useful life of components has been amended in consideration of the expenditure required to return assets to an expected normal state given the age of an asset component.
Assessment of the impact of the Canterbury earthquakes	The value and remaining useful life of components has been amended in consideration of the expenditure required to return assets to an expected normal state given the age of an asset component.

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 2017 and were published in the 2015/16 Annual Report. They are consistent with the Ministry's best estimate financial forecast information submitted to Treasury for the 2016 Budget Economic and Fiscal Update (BEFU) for the 2016/17 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 2018, and are consistent with the best estimate financial forecast information submitted to Treasury for the BEFU 2017 for the 2017/18 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 Secretary for Education on 10 April 2017. The Secretary for Education 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 2018 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 2017/18 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
- 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 2018 will not be published.

Note 2 – Other Revenue

	2016 Actual \$000	2017 Actual \$000
<i>Non-exchange</i>		
Weather-tightness settlements	3,586	10,057
Third party contributions to development of school building assets	2,341	11,171
<i>Exchange</i>		
Gain on disposal of property, plant and equipment	37,268	12,444
School house rentals	3,807	3,737
Support services to other public entities	1,152	1,232
Miscellaneous revenue	3,527	2,776
Total other revenue	51,681	41,417

Note 3 – Personnel Costs

	2016 Actual \$000	2017 Actual \$000
Salaries and wages	260,672	274,381
Superannuation contributions to defined contribution plans	6,916	7,209
Training and development	3,894	3,631
Increase/(decrease) in employee entitlements (Note 15)	2,812	(194)
Increase/(decrease) in restructuring provision (Note 14)	(813)	342
Other personnel costs	2,021	1,925
Total personnel costs	275,502	287,294

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

Capital charge reflects the cost of the Crown's investment in the Ministry. The Ministry pays a capital charge to the Treasury on its taxpayers' equity as at 30 June and 31 December each year. The rate used for calculation of capital charge is the public sector discount rate. The capital charge rate for the six months to 31 December 2016 was 7% and the rate for the six months to 30 June 2017 was 6% (2016:8%).

Note 5 – Finance Costs

	2016 Actual \$000	2017 Actual \$000
Finance charges on service concession arrangements	5,630	11,079
Total finance costs	5,630	11,079

Note 6 – Other Operating Expenses

	2016 Actual \$000	2017 Actual \$000
Fees to auditors		
• Audit fees for audit of the financial statements	498	469
• Other assurance services	55	313
• Advisory services	2	-
Contracts for services	111,860	108,719
Special education payments	58,208	64,329
Maintenance of school land and buildings	52,351	33,115
Operating lease rentals	27,759	29,626
ICT costs	15,400	18,389
Loss on disposal of property, plant and equipment	11,838	6,059
Legal fees and litigation costs	7,051	6,546
Grant expenses	-	439
Write-off of software under development (Note 11)	139	389
Write-off and impairment of property, plant and equipment (Note 10)	-	6,384
Increase/(decrease) in lease reinstatement provision (Note 14)	(3,220)	(213)
Increase/(decrease) in provision for impairment of trade debtors (Note 7)	(330)	668
Other	22,509	25,061
Total other operating expenses	304,120	300,293

Fees to the auditors for other assurance services were for engagements over the transition to a new accounting system of \$19,000 (2016:\$55,000) and cyber security accreditation of \$294,000 (2016:\$0). There is a \$501,000 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 (2016: \$551,000).

Note 7 – Debtors and Other Receivables

	2016 Actual \$000	2017 Actual \$000
<i>Non-exchange</i>		
Debtor Crown	433,431	559,740
<i>Exchange</i>		
Trade debtors (net)	4,469	5,654
Accrued revenue and other receivables	1,981	2,725
Total trade debtors and other receivables	6,450	8,379
Total debtors and other receivables	439,881	568,119

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

The carrying value of debtors and other receivables approximates their fair value. The Ministry classifies total 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:

	2016			2017		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Not past due	982	-	982	2,879	-	2,879
Past due 31 - 60 days	1,496	-	1,496	1,433	-	1,433
Past due 61 - 90 days	554	-	554	60	-	60
Past due > 91 days	1,696	(259)	1,437	2,185	(903)	1,282
Total	4,728	(259)	4,469	6,557	(903)	5,654

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:

	2016 Actual \$000	2017 Actual \$000
Balance at 1 July	639	259
Increase/(decrease) in provisions made during the year	(330)	668
Debtors written off during period	(50)	(24)
Balance at 30 June	259	903

Note 8 – Prepayments

	2016 Actual	2017 Actual
	\$000	\$000
School property capital expenditure programme	11,220	20,627
Operating expenses	9,483	17,162
Total prepayments	20,703	37,789

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:

	2016			2017		
	Land	Buildings	Total	Land	Buildings	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 1 July	28,023	4,340	32,363	15,705	6,699	22,404
Revaluation decrements recognised in other comprehensive revenue and expenses	(2,056)	(848)	(2,904)	(12,713)	(139)	(12,852)
Disposals	(15,385)	(1,365)	(16,750)	(5,386)	(4,473)	(9,859)
Transfers from/(to) Property, Plant and Equipment	5,123	4,572	9,695	24,934	5,028	29,962
Balance at 30 June	15,705	6,699	22,404	22,540	7,115	29,655

The accumulated revaluation reserve balance associated with non-current assets held for sale at 30 June 2017 is \$27.184 million comprising of Land \$20.843 million and Buildings \$6.341 million (2016:\$18.410 million, Land \$12.993 million and Buildings \$5.417 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, and Equipment Cost \$000	Motor Vehicles Cost \$000	Total \$000
Cost or valuation						
Balance at 1 July 2015	3,305,748	8,760,344	90,811	75,642	12,901	12,245,446
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	(23,158)	-	23,158	-	-	-
Disposals	(4,900)	(9,297)	-	(29,718)	(124)	(44,039)
Balance at 30 June 2016	4,645,002	9,701,135	213,188	70,163	13,186	14,642,674
Additions	38,163	737,944	111,631	19,706	2,604	910,048
Revaluation increase/(decrease)	882,756	888,933	32,117	-	-	1,803,806
Reclassified from/(to) assets held for sale	(24,934)	(5,028)	-	-	-	(29,962)
Reclassification of land to service concession	(26,724)	-	26,724	-	-	-
Reclassified between categories and to intangible assets	-	-	-	(661)	-	(661)
Disposals	(8,805)	(9,722)	-	(6,007)	(7,004)	(31,538)
Balance at 30 June 2017	5,505,458	11,313,262	383,660	83,201	8,786	17,294,367
Accumulated depreciation and impairment losses						
Balance at 1 July 2015	-	1,055	-	62,313	6,969	70,337
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)
Balance at 30 June 2016	-	-	2,989	38,757	7,740	49,486
Depreciation expense	-	556,149	5,349	7,670	531	569,699
Impairment losses	-	5,707	-	-	677	6,384
Reclassified to intangible assets	-	-	-	(2,631)	-	(2,631)
Eliminate on disposal	-	(891)	-	(5,885)	(2,691)	(9,467)
Eliminate on revaluation	-	(555,258)	(8,338)	-	-	(563,596)
Balance at 30 June 2017	-	5,707	-	37,911	6,257	49,875
Carrying amounts						
At 1 July 2015	3,305,748	8,759,289	90,811	13,329	5,932	12,175,109
At 30 June 2016	4,645,002	9,701,135	210,199	31,406	5,446	14,593,188
At 30 June 2017	5,505,458	11,307,555	383,660	45,290	2,529	17,244,492

Work-in-progress

The amount of expenditure recognised in the carrying amount of property, plant and equipment in the course of construction for each class of asset is as follows:

	2016 Actual \$000	2017 Actual \$000
Buildings (net of \$5.707 million impairment in 2017)	391,283	626,622
Service Concession Assets	100,812	40,852
Office Furniture, Fittings (leasehold improvements), and Equipment (including ICT)	373	12,397
Total work-in-progress	492,468	679,871

Work-in-progress is recognised at cost less impairment and is not depreciated.

Motor vehicles

Where it is economically advantageous, the Ministry is selling down its motor vehicle fleet in favour of operating leases.

Service Concession Arrangements

The Ministry has entered into three public private partnership agreements as detailed below. Under the agreements the partner is required to:

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

The agreements run for a period of 25 years following operational completion, after which responsibility for ongoing maintenance will revert to the Ministry along with ownership of the schools.

Under the agreements, the Ministry provides the land to the partner to use for the construction and operation of the schools.

Following operational completion, the Ministry pays a quarterly unitary charge to the partner that covers, and is allocated between:

- construction of the schools – these costs are not repriced;
- finance costs – finance costs are repriced at least every five years following operational completion 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; and
- lifecycle additions – this is additional to routine repairs and maintenance carried out during the contract lifetime which is agreed upfront.

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

PPP1

The Ministry entered into a public private partnership agreement with Learning Infrastructure Partners in 2011 to provide a primary and a secondary school at Hobsonville Point.

Under the agreement, the Ministry provided two land parcels to Learning Infrastructure Partners to use for the construction of the schools valued at \$26.377 million (2016:\$6.860 million).

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

PPP2

The Ministry entered into a public private partnership agreement with Future Schools Partners in 2015 to provide the following four schools:

- Haeata Community Campus (Christchurch)
- Ormiston Junior College (Auckland)
- Rolleston College (Christchurch)
- Wakatipu High School (Queenstown).

Under the agreement, the Ministry provided four land parcels to Future Schools Partners to use for the construction of the schools, valued at \$31.276 million (2016:\$23.158 million).

The construction of three of the four schools was completed in time for the schools to open for the first term of 2017. The fourth school, Wakatipu High School, is not due to be completed until 2018. The value of work-in-progress for the fourth school as at 30 June 2017 is included in the Service Concession Assets.

PPP3

The Ministry entered into a public private partnership agreement with ShapEd NZ in April 2017 to provide the following five schools:

- Sylvester Primary (Hamilton)
- Flat Bush South East Primary (Auckland)
- Huapai/Kumeu Primary (Auckland)
- Co-location of Shirley Boys' High School and Avonside Girls' High School on one site (Christchurch).

Under the agreement, the Ministry provided four land parcels to ShapEd NZ to use for the construction of the schools, valued at \$27.710 million (2016:\$26.749 million), which have been reclassified as Service Concession Assets. The construction of the five schools is not due to be completed until 2019.

Revaluations

The annual revaluation of school land, early childhood education land and houses was conducted by Quotable Value Limited, led by Andrew Parkyn (SPINZ, ANZIV). The valuation had an effective date of 30 June 2017. 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.

The service concession assets are revalued at least triennially using a valuation prepared by an independent valuer. The valuation of the Hobsonville Point Primary and Secondary Schools' Service Concession Assets (PPP1) was conducted as at 30 June 2017 by Quotable Value Limited. The PPP2 schools delivered in the 2016/17 financial year have been valued at the present value of future financial obligations.

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

Revaluations	Land \$000	Buildings \$000	Service Concession Arrangements \$000	Total \$000
2016				
Quotable Value Limited	4,645,002	135,957	30,018	4,810,977
Internal assessment by experienced Ministry staff	-	9,565,178	180,181	9,745,359
Total valuation as at 30 June 2016 (Note 10)	4,645,002	9,701,135	210,199	14,556,336
2017				
Quotable Value Limited	5,505,458	151,270	171,216	5,827,944
Internal assessment by experienced Ministry staff	-	11,156,285	212,444	11,368,729
Total valuation as at 30 June 2017 (Note 10)	5,505,458	11,307,555	383,660	17,196,673

Restrictions

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.

Risk management of school property

The Ministry has a three-tier approach to the risk management of school property:

- the first tier focuses on upgrading and maintaining 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 is covered by an insurance policy placed with the international insurance market, which provides cover for the following:
 - › \$260 million for any one loss and in the aggregate
 - › one reinstatement to \$520 million in the aggregate
 - › fire limit of \$60 million for any one loss and in the aggregate
 - › the deductible amount for non-catastrophic losses is \$12.5 million in the aggregate and then \$25,000 each and every subsequent loss
 - › the deductible amount for catastrophic losses due to natural disasters is \$12.5 million each and every loss.

Note 11 – Intangible Assets

Intangible assets consist of developed and acquired computer software

	Total \$000
Cost	
Balance at 1 July 2015	143,128
Additions	16,649
Disposals	(18,452)
Write-offs	(139)
Balance at 30 June 2016	141,186
Additions	21,054
Disposals	(139)
Write-offs	(389)
Reclassified from property, plant and equipment	661
Balance at 30 June 2017	162,373
Accumulated amortisation and impairment losses	
Balance at 1 July 2015	88,157
Amortisation expense	13,087
Disposals	(16,893)
Reclassified from property, plant and equipment	9
Balance at 30 June 2016	84,360
Amortisation expense	10,951
Disposals	(139)
Reclassified from property, plant and equipment	2,631
Balance at 30 June 2017	97,803
Carrying amounts	
At 1 July 2015	54,971
Balance at 30 June 2016	56,826
Balance at 30 June 2017	64,570

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 \$78.025 million that are fully amortised but that are still in use (2016:\$68.9 million).

The total amount of software assets in the course of development is \$15.874 million (2016:\$6.394 million). This work-in-progress is included in above figures at cost, less impairment, and is not amortised.

Note 12 – Creditors and Other Payables

	2016 Actual \$000	2017 Actual \$000
<i>Exchange</i>		
Creditors	13,978	23,179
Accrued operating expenses	39,624	28,669
Accrued capital expenditure	44,925	88,050
<i>Non-exchange</i>		
Taxes payable	8,754	11,466
Total creditors and other payables	107,281	151,364

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

	2016 Actual \$000	2017 Actual \$000
Net surplus/(deficit)	(13,118)	65,980
Add/(deduct) net unrealised loss/(gain) on derivative financial instruments recognised in the net surplus/(deficit)	35,616	(16,571)
Less retained earnings for the school property works programme	(14,530)	(7,683)
Total return of operating surplus to Crown	7,968	41,726

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

Note 14 – Provisions

	2016 Actual \$000	2017 Actual \$000
Current portion		
Restructuring	687	1,029
Reinstatement of leased premises	500	13
Total current portion	1,187	1,042
Non-current portion		
Reinstatement of leased premises	1,216	1,490
Total provisions	2,403	2,532

Movements for each class of provision are as follows:

	Lease Reinstatement \$000	Restructuring \$000
Balance at 1 July 2015	4,936	1,500
Additional provisions made	-	687
Amounts used	-	(1,088)
Unused amounts reversed	(3,220)	(412)
Balance at 30 June 2016	1,716	687
Additional provisions made	420	2,574
Amounts used	(500)	(2,054)
Unused amounts reversed	(133)	(178)
Balance at 30 June 2017	1,503	1,029

Note 15 – Employee Entitlements

	2016 Actual \$000	2017 Actual \$000
Current portion		
Annual leave	14,752	14,794
Retirement gratuities	2,055	1,514
Long service leave	327	274
Other short-term employee entitlements	984	1,937
Total current portion	18,118	18,519
Non-current portion		
Retirement gratuities	7,782	7,247
Long service leave	2,058	1,998
Total non-current portion	9,840	9,245
Total employee entitlements	27,958	27,764

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

The actuary that provided the valuation for long service leave and retiring gratuities as at 30 June 2017 and 30 June 2016 was Jonathan Eriksen, Fellow of the New Zealand Society of Actuaries.

The financial impact of changes to the salary inflation and resignation variables are:

- If the salary inflation factor were to differ by 1.5% 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 \$838,000 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 \$3,000 higher/lower.

The decrease in liability for long service and retirement gratuities from 2016 to 2017 is due to changes in the discount rates and decrease in the number of employees entitled.

The increase in other short-term employee entitlements from 2016 to 2017 is due to the payroll accrual in 2017 being for two working days whilst for one working day in 2016.

Note 16 – Service Concession Liabilities

	2016 Actual \$000	2017 Actual \$000
Balance at 1 July	75,018	171,889
Additions	97,812	110,219
Repayments	(941)	(986)
Balance at 30 June	171,889	281,122
Current portion	1,704	2,805
Non-current portion	170,185	278,317
Balance at 30 June	171,889	281,122

The Ministry's service concession liabilities are interest bearing at the effective interest rate of 1.94% per quarter, 7.75% per annum (2016:1.94%, 7.75%, respectively) for PPP1 and 1.89% per quarter, 7.58% per annum (2016:N/A) for PPP2. The effective interest rate is subject to change at any point of refinancing, which requires the Ministry's consent.

Note 17 – Taxpayers' Equity

	2016			2017		
	General Funds	Revaluation Reserves	Total Taxpayers' Equity	General Funds	Revaluation Reserves	Total Taxpayers' Equity
	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 1 July	4,533,821	7,932,563	12,466,384	4,718,705	10,115,196	14,833,901
Net surplus/(deficit)	(13,118)	-	(13,118)	65,980	-	65,980
Revaluation gains/(losses)	-	2,180,577	2,180,577	-	2,354,550	2,354,550
Transfers on disposal of property	(2,056)	2,056	-	8,083	(8,083)	-
Capital injections	276,871	-	276,871	352,388	-	352,388
Capital withdrawals	(68,845)	-	(68,845)	(103,474)	-	(103,474)
Return of operating surplus to the Crown	(7,968)	-	(7,968)	(41,726)	-	(41,726)
Balance at 30 June	4,718,705	10,115,196	14,833,901	4,999,956	12,461,663	17,461,619
Property revaluation reserves consist of:						
Land		4,109,592			4,995,919	
Buildings		5,994,351			7,391,105	
Service concession assets		11,253			74,639	
Total property revaluation reserves		10,115,196			12,461,663	

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), remove items classified as investing or financing activities, and also for the effects of changes in working capital (that is, the changes in current assets and liabilities such as debtors and creditors).

	2016 Actual \$000	2017 Actual \$000
Net surplus/(deficit)	(13,118)	65,980
Add/(less) non-cash items		
Depreciation, impairment and write-off on property, plant and equipment	497,195	576,083
Amortisation, impairment and write-off on intangible assets	13,226	11,340
Net unrealised loss/(gain) on derivative financial instruments	35,616	(16,571)
(Decrease)/increase in non-current employee entitlements	1,635	(595)
(Decrease)/increase in non-current provisions	(313)	274
Total non-cash items	547,359	570,531
Add/(less) items classified as investing or financing activities		
Net loss/(gain) on sale of property, plant and equipment	(26,989)	(6,385)
Net loss/(gain) on sale of intangible assets	1,559	-
Finance charges on service concession arrangements	5,630	11,079
Total investing or financing activities	(19,800)	4,694
Add/(less) movements in working capital items		
(Increase)/decrease in debtors and other receivables	(86,294)	(128,284)
(Increase)/decrease in prepayments	252	(7,679)
(Decrease)/increase in creditors and other payables	(10,430)	(3,028)
(Decrease)/increase in current employee entitlements	1,177	401
(Decrease)/increase in current provisions	(3,720)	(145)
Total net movement in working capital items	(99,015)	(138,735)
Net cash flow from operating activities	415,426	502,470

Note 19 – Financial Instruments

Categories

The carrying amounts of financial assets and financial liabilities in each of the financial instrument categories are as follows:

	2016 Actual \$000	2017 Actual \$000
Cash and receivables		
Cash and cash equivalents	54,014	40,547
Trade debtors and other receivables (Note 7)	6,450	8,379
Total cash and receivables	60,464	48,926
Fair value through surplus and deficit		
Derivative financial instruments (Net)	35,616	19,045
Net liability for derivative financial instruments	35,616	19,045
Financial liabilities measured at amortised cost		
Creditors and other payables (Note 12)	107,281	151,364
Service concession liabilities (Note 16)	171,889	281,122
Total financial liabilities measured at amortised cost	279,170	432,486

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 are interest rate swaps entered into with the New Zealand Debt Management Office to manage exposure to fluctuating market interest rates as a result of its service concession arrangements which are interest bearing.

At 30 June 2017, the total notional principal of derivatives outstanding was \$451.300 million (2016:\$347.983 million). The maturity dates for the derivatives are December 2037, December 2041 and March 2043 and are fixed at rates of 4.33%, 4.43% and 4.55% per annum respectively. The Ministry is paying a fixed rate of interest over a 25 year period and as a result of the lower interest rate environment, the present value of these payments has increased. Consequently, at 30 June 2017 derivatives in loss (liabilities) exceed derivatives in gain (assets) by \$19.045 million. The \$16.571 million net unrealised movement in the fair value of the derivative financial instruments from 30 June 2016 to 30 June 2017 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 Price	Observable Inputs	Significant Non-observable Inputs	
	\$000	\$000	\$000	\$000
2016				
Financial liabilities				
Interest rate swaps (Net)	-	35,616	-	35,616
2017				
Financial liabilities				
Interest rate swaps (Net)	-	19,045	-	19,045

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 liabilities are interest bearing at the effective interest rate of 7.75% per annum for PPP1 (2016:7.75%) and 7.58% for PPP2 (2016:N/A). 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 liabilities.

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 New Zealand Debt Management Office. 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
2016					
Creditors and other payables (Note 12)	107,281	-	-	-	107,281
Service concession liabilities (Note 16)	505	1,199	15,474	154,711	171,889
Derivative financial instruments	-			35,616	35,616
Total financial liabilities	107,786	1,199	15,474	190,327	314,786
2017					
Creditors and other payables (Note 12)	151,364	-	-	-	151,364
Service concession liabilities (Note 16)	1,291	1,514	16,984	261,333	281,122
Derivative financial instruments	-	-	-	19,045	19,045
Total financial liabilities	152,655	1,514	16,984	280,378	451,531

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 (2016:\$Nil).

Key management personnel compensation disclosure

	2016 Actual	2017 Actual
Remuneration and other benefits	\$4,234,000	\$3,988,000
Full-time equivalent staff	10.7	10

Key management personnel compensation includes the remuneration for the senior management team which consists of the Secretary for Education, eight Deputy Secretaries and Head of Education Infrastructure Service (2016:nine Deputy Secretaries reduced to eight from 1 March 2016 and Head of Education Infrastructure Service). The Secretary is an employee of the State Services Commission (SSC) but the Ministry pays SSC.

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 2016/17 budget figures are as set out below.

Statement of Comprehensive Revenue and Expenses

The \$77.334 million increase in revenue Crown operating funding from 2015/16 to 2016/17 Budget is mainly due to a combination of:

Under output expense – School Property Portfolio Management

- meet operating costs of new schools including those financed under service concession arrangements, roll growth classrooms and the Christchurch Schools Rebuild programme (\$57.473 million)
- support school sector property infrastructure service delivery (\$2.600 million)
- support technology in schools through the Wireless School Network Upgrade Project (\$1.545 million)

Under output expense – Interventions for Target Student Groups

- replacement of the legacy Education Sector Logon service with an all-of-government identity and access management system that will enable interaction with other agencies related to but outside the education system (\$5.700 million)
- meet increase in demand for the Ongoing Resourcing Scheme (\$5.090 million)
- support for Youth Mental Health Initiatives (\$2.354 million)
- increased availability of in-class support for students with special education needs (\$2.155 million)
- increased access to the Intensive Wraparound Service (\$2.145 million increase)

Under output expense – Support and Resources for Education Providers

- one-off costs incurred in 2015/16 on transition to the new education payroll service (\$3.511 million decrease).

The forecast for third party revenue in the Budget is limited to rental income and services under contract, predominantly under output expense School Property Portfolio Management (school house rentals) and output expense Services to Other Agencies RDA (office rental and ICT support services on a cost recovery basis). Consistent with the forecasting policies issued by Treasury, any other revenue is recognised only when earned/realised; notably under output expense School Property Portfolio Management for gain on sale of surplus property, weather-tightness settlements, and third-party contributions to development of school building assets.

The \$27.104 million increase from Budget to Supplementary Estimates is mainly due to a combination of:

Under output expense – School Property Portfolio Management

- increase for depreciation (\$45 million) and capital charge (\$152.640 million) as a result of the revaluation of the school property portfolio at 30 June 2016
- decrease in capital charge rate from 8% to 6% per annum (\$209.724 million decrease)
- provision for additional costs associated with weather-tightness issues in schools (\$9.056 million) funded from successful legal claims
- increased provision for rationalising under-utilised assets and demolition and disposal of surplus assets (\$6.800 million) funded from gain on sale of surplus school property
- increased provision for schools to enter into rental arrangements where building construction solutions are not available or are uneconomic (\$2.104 million)
- provision to undertake a review and analysis of organisational options for delivering strategy for and managing the Ministry's education infrastructure services (\$2 million)
- adjustment between capital and operating costs for the Hobsonville Point Public Private Partnership (\$1.006 million)

Under output expense – Support and Resources for Teachers

- additional implementation activity for Investing in Educational Success through targeted change management support and building the Ministry's short-term capacity to better support Communities of Learning (\$1.613 million)
- transfer from 2015/16 for the Progress and Consistency Tool (\$1.500 million)
- a one-off allocation to strengthen digital technologies in the National Curriculum (\$1 million)

Under output expense – Stewardship of the Education System

- development of a system-wide information management programme (\$2.606 million)

Under output expense – Support and Resources for Education Providers

- transfer from non-departmental other expense Primary Education for the cost of the initial investigation into non-compliance with the Holidays Act 2003 (\$2 million).

Establishment of appropriation *Place-Based Initiative - Te Tai Tokerau, Northland* (\$1.687 million).

Forecast increase in services to other government departments and other government or education agencies on a cost recovery basis under output expense Services to Other Agencies RDA (\$2.407 million).

Actual expenditure for 2016/17 was less than Supplementary Estimates by \$33.656 million mainly due to savings in capital charge through the deferral in drawing down capital injections from Treasury for the capital expenditure programme (\$11.566 million) and the approval to carry forward funding from 2016/17 to 2017/18 and 2018/19 due to delays in some work programmes (\$19.736 million) including implementation of the Communities of Learning initiative (\$4.550 million), the Corporate Transformation Programme to improve effectiveness of the Ministry's corporate areas including Finance and Procurement (\$3.420 million), pursuit of weather-tightness product liability claims relating to defective products (\$2 million) and to complete implementation of the Education Sector Identity and Asset Management system (\$1.485 million).

In addition to the \$33.656 million under-spends, the \$49.409 million operating surplus was mainly due to unapplied revenue from third party contributions towards the development of school building assets (\$11.171 million) and gain on sale of surplus school property (\$5.644 million) offset by lower than forecast level of cost recovery activity (\$2.020 million). The Ministry has approval to retain \$7.683 million of the operating surplus for investment in the school property capital works programme.

Statement of Financial Position**Property plant and equipment and property revaluation reserves**

The Budget figures do not provide for the gain on property revaluations at 30 June 2016 (in Supplementary Estimates) and 30 June 2017 as it is Crown accounting policy not to forecast for annual revaluation movements.

Derivative financial instruments

The Ministry uses derivative financial instruments, in the form of interest rate swaps with the New Zealand Debt Management Office, to manage its exposure to fluctuating market interest rates as a result of its Private Public Partnership arrangements. The Ministry is paying a fixed rate of interest over a 25 year period and as a result of the lower interest rate environment since entering these arrangements, the present value of these payments has increased. Consequently, at 30 June 2017 derivatives in loss (liabilities) exceed derivatives in gain (assets) by \$19.045 million. The \$16.571 million net unrealised movement in the fair value of the derivative financial instruments from 30 June 2016 to 30 June 2017 is recognised in the net surplus or deficit in the *Statement of Comprehensive Revenue and Expenses*.

Debtors and other receivables, creditors and other payables & general funds

Debtors and other receivables through Debtor Crown are higher than budget due to payments for capital expenditure being lower than expected. Debtor Crown represents operating funding yet to be drawn down from the New Zealand Debt Management Office (NZDMO). The Ministry maintains sufficient cash balances to meet both its operating and investing activities and reduces the level of Debtor Crown as required. The lower level of payments for capital expenditure and higher accrued capital expenditure (in Creditors and other payables) than forecast led to the decision to defer draw down of capital injections from NZDMO until 2017/18 as reflected in the *Statement of Cash Flows*.

Ministry of Education Non-Departmental Schedules

for the year ended 30 June 2017

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 2017

2016 Actual		2017 Actual	2017 Budget (unaudited)
\$000		\$000	\$000
5,574	Tertiary recoveries	6,571	-
4,370	Export education levies	4,659	4,771
2,600	Overseas student fees	3,084	3,757
510	Tertiary investments – interest	348	122
8,210	Miscellaneous revenue	237	485
21,264	Total non-departmental revenue	14,899	9,135

Schedule of Non-Departmental Expenses for the year ended 30 June 2017

2016 Actual		Notes	2017 Actual	2017 Budget (unaudited)
\$000			\$000	\$000
1,875,851	Grant expenditure		1,939,788	2,000,884
131,986	Teachers' superannuation contributions		141,818	129,983
33,853	Social assistance benefits		51,965	64,078
5,500	Loss on sale of property		-	-
3,398	Debt impairment/(release of impairment)	2	(91)	-
	Fees to Auditors			
1,479	- Fee for audit of schools' financial statements (OAG appointed auditors)		880	889
551	- Other assurance services (EY)		501	-
8,769,143	Operating		8,859,995	8,854,716
1,596,420	GST input expense		1,641,538	1,640,471
12,418,181	Total non-departmental expenses		12,636,394	12,691,021

The fees to auditors for other assurance services relate to the delivery of education payroll services for school employees.

Further details of non-departmental expenditure and appropriations by Vote are provided in the Appropriations Statements on pages 131 to 135. 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 2017

2016 Actual		Notes	2017 Actual	2017 Budget (unaudited)
\$000			\$000	\$000
Current Assets				
259,239	Cash and cash equivalents		181,094	181,171
8,171	Debtors and other receivables	2	31,173	21,418
4,648	Prepayments		6,080	17,698
2,279	School Contents Risk Management Scheme	3	2,993	(429)
Non-Current Assets				
1,478	Debtors and other receivables	2	1,131	2,598
275,815	Total non-departmental assets		222,471	222,456

In addition, the Ministry monitors several Crown entities. These are Careers New Zealand, the New Zealand Qualifications Authority (NZQA), the Tertiary Education Commission and Education New Zealand. The investment in those entities is consolidated in the financial statements of the Government and not included in this schedule.

Schedule of Non-Departmental Liabilities as at 30 June 2017

2016 Actual		Notes	2017 Actual	2017 Budget (unaudited)
\$000			\$000	\$000
Current Liabilities				
1,046,673	Creditors and other payables	4	1,187,790	471,345
204,371	Teacher entitlements		182,524	166,346
1,251,044	Total non-departmental liabilities		1,370,314	637,691

Schedule of Non-Departmental Commitments as at 30 June 2017

The Ministry, on behalf of the Crown, has no non-cancellable capital or lease commitments (2016:\$nil).

The above schedules should be read in conjunction with the accompanying notes.

Schedule of Non-Departmental Contingent Liabilities as at 30 June 2017

Quantifiable contingent liabilities

The Ministry, on behalf of the Crown, has no contingent liabilities (2016:\$nil).

Unquantifiable contingent liabilities

There is an unquantifiable contingent liability related to the compliance of the schools payroll with the Holidays Act 2003. An initial review has identified areas of non-compliance, however, the potential impact on any specific teachers and support staff and any associated historical liability will not be known until further detailed analysis has been completed. The schools payroll is both complex and large with approximately 93,000 staff at any point in time and the issues span multiple years. The Ministry has received funding to undertake the detailed analysis over the next two years. It should be noted that this issue is distinct and unrelated to the Ministry's own payroll which operates separately on its own system.

Schedule of Non-Departmental Contingent Assets as at 30 June 2017

2016		2017
Actual		Actual
\$000		\$000
19,921	Suspensory loans – private and integrated schools	-
19,921	Total non-departmental contingent assets	-

The suspensory loans were generally for 25 years and were progressively written off over that period based on the recipient achieving particular results or milestones.

The above schedules should be read in conjunction with the accompanying notes.

Notes to the Non-Departmental Schedules

for the year ended 30 June 2017

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.

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 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, creditors and accrued expenses, 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 2017 budget figures are for the year ending 30 June 2017, which are consistent with the best estimate financial information submitted to Treasury for the 2016 Budget Economic and Fiscal Update (BEFU) for the year ending 2016/17.

Note 2 – Debtors and Other Receivables

	2016 Actual \$000	2017 Actual \$000
Debtors	12,210	27,158
Less provision for impairment	(5,611)	(5,520)
Accrued revenue and other receivables	3,050	10,666
Total debtors and other receivables	9,649	32,304
Represented by:		
Current	8,171	31,173
Non-current	1,478	1,131

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:

	2016			2017		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Not past due	1,376	-	1,376	16,918	-	16,918
Past due 1 - 90 days	1,370	-	1,370	460	112	348
Past due 90 - 180 days	490	490	-	628	119	509
Past due 180 - 360 days	953	953	-	1,734	599	1,135
Past due > 360 days	8,021	4,168	3,853	7,418	4,690	2,728
Total	12,210	5,611	6,599	27,158	5,520	21,638

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:

	2016 Actual \$000	2017 Actual \$000
Balance at 1 July	2,213	5,611
Increase/(release) of provisions during the year	5,856	(91)
Debts written-off during the year	(2,458)	-
Balance at 30 June	5,611	5,520

Note 3 – 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 \$515,259 (2016:\$169,216) and was calculated as the claim rate (0.94 claims per day) times the average delay (53 days) times the average claims cost (\$10,315).

The valuation was undertaken at 30 June 2017 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.

	2016 Actual \$000	2017 Actual \$000
Opening claims liability	1,765	1,342
Plus premiums received	(1,053)	3,148
(Less) re-insurance premiums paid	(995)	(1,198)
(Less) claims paid	(1,252)	(887)
(Less) claims liability adjustment from valuation	2,877	(1,316)
Insurance surplus/(deficit)	(423)	(253)
Closing claims liability	1,342	1,089

Note 4 – Creditors and Other Payables

	2016 Actual \$000	2017 Actual \$000
Creditors	10,393	34,764
Taxes payable (GST and ESCT)	59,168	52,779
Accrued expenses	977,112	1,100,247
Total creditors and other payables	1,046,673	1,187,790

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.

Accrued expenses include liabilities to TEC of \$611 million in relation to operating expenditure incurred by the TEC to fund tertiary institutions in accordance with Investment Plans (2016:\$574 million).

Note 5 – Explanation of Major Variances against Budget

Explanations for major variances from the Ministry's non-departmental budget figures are as follows:

Schedule of revenue and schedule of expenses

Tertiary recoveries are not budgeted for.

Schedule of assets and schedule of liabilities

The TEC component of Accrued expenses referred to in Note 4 was not budgeted for.

Appropriation Statements

for the year ended 30 June 2017

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 2017, in compliance with section 45A of the Public Finance Act. They are prepared on a GST exclusive basis.

Statement of Budgeted and Actual Expenses and Capital Expenditure incurred against Appropriations for the year ended 30 June 2017

Annual and permanent appropriations for Vote Education

Expenditure Actual 2016 As Restated ⁹ \$000	Appropriation Title	Expenditure Actual 2017 \$000	Approved Appropriation ⁷ 2017 \$000	Location of End-of-year Performance Information ⁸
Departmental output expenses				
-	Place-Based Initiative - Te Tai Tokerau, Northland	1,029	1,687	1
16,681	Policy Advice	15,419	16,442	1
1,621,415	School Property Portfolio Management	1,647,556	1,664,067	1
1,152	Services to Other Agencies RDA	1,232	3,252	1
33,282	Stewardship of the Education System	35,485	37,297	1
96,910	Support and Resources for Education Providers	93,663	96,412	1
10,601	Support and Resources for Parents and the Community	12,139	12,807	1
1,780,041	Total departmental output expenses	1,806,523	1,831,964	
Departmental capital expenditure				
772,460	Ministry of Education - Capital Expenditure PLA	931,102	994,813	1
Non-departmental output expenses				
4,636	Contribution to the Education Council of Aotearoa New Zealand	8,164	13,586	2
3,008	Education Research Initiatives	3,008	3,008	3
24,126	Provision of Information and Advisory Services	23,669	24,335	2
6,129	Qualifications Support Structures	6,049	6,049	4
4,774	Quality Assurance	5,204	5,204	4
28,677	School Managed Network Funding	29,436	31,150	5
184,828	School Transport	185,581	186,895	2
26,480	Secondary School Assessments	26,810	26,810	4
66,425	Secondary-Tertiary Interface	72,271	74,512	2
4,503	Supporting Parenting	8,628	9,329	2
353,586	Total non-departmental output expenses	368,820	380,878	

⁷ These are the appropriations from the Supplementary Estimates, adjusted for any transfers under section 26A of the Public Finance Act.

⁸ The key for the numbers in this column is located at the end of the tables.

⁹ The 2016 Actuals have been re-classified in the 2017 Appropriation Structure for comparative purposes.

Expenditure Actual 2016 As Restated ⁹ \$000	Appropriation Title	Expenditure Actual 2017 \$000	Approved Appropriation ⁷ 2017 \$000	Location of End-of-year Performance Information ⁸
Benefits or related expenses				
8,799	Boarding Allowances	9,209	11,319	3
4,128	Home Schooling Allowances	3,987	5,128	3
15,517	National Study Awards	15,236	18,997	3
1,087	Puawaitanga Scholarships	1,018	1,152	3
3,822	Scholarships for Students to Attend Private Schools	3,808	4,126	3
449	Teacher Trainee Scholarships	1,045	1,442	3
50	United World Scholarships	50	50	3
33,852	Total benefits or related expenses	34,353	42,214	
Non-departmental other expenses				
1,720,518	Early Childhood Education	1,784,929	1,814,257	2
11,500	Impairment of Debts and Assets and Debt Write-Offs	-	-	
57,744	Integrated Schools Property	63,798	67,893	2
69	Interest Subsidy for Schools	120	120	3
2,963,181	Primary Education	3,021,839	3,045,689	2
1,288	Remission of Fees	1,288	1,288	4
5,168	Schooling Improvement	5,118	5,253	2
2,146,624	Secondary Education	2,138,817	2,163,569	2
9,903	Support for Early Childhood Education Providers	11,089	11,226	2
1,753	UNESCO	1,715	2,083	3
6,917,748	Total non-departmental other expenses	7,028,713	7,111,378	
Non-departmental capital expenditure				
175	School Support Project	832	832	2
25,711	Schools Furniture and Equipment	33,432	41,549	2
25,886	Total non-departmental capital expenditure	34,264	42,381	
Multi-category expenses and capital expenditure				
209,514	Improved Quality Teaching and Learning MCA	209,343	224,328	1
This is made up of the following category information:				
Departmental Output Expenses				
61,546	Support and Resources for Teachers	66,892	72,763	
Non-Departmental Output Expenses				
52,323	Curriculum Support	54,628	57,164	
95,645	Professional Development and Support	87,823	94,401	
647,504	Outcomes for Target Student Groups MCA	678,400	683,803	1
Departmental Output Expenses				
238,800	Interventions for Target Student Groups	255,117	257,373	
This is made up of the following category information:				
Non-Departmental Output Expenses				
3,621	Service Academies	3,310	3,640	
9,426	Students Attendance and Engagement	9,590	9,551	
Non-Departmental Other Expenses				
395,657	Learning Support	410,383	413,239	
857,018	Total multi-category expenses and capital expenditure	887,743	908,131	
10,740,591	Total annual and permanent appropriations for Vote Education	11,091,518	11,311,759	

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 2016	Appropriation Title	Expenditure Actual 2017	Approved Appropriation ⁷ 2017	Location of End-of-year Performance Information ⁸
\$000		\$000	\$000	
	Appropriation for non-departmental output expense: Teacher-Led Innovation Fund			
	<i>Appropriations, Adjustments and Use</i>			
	Original Appropriation		10,000	
	Adjustments for 2015/16		8,000	
	Adjustments for 2016/17		(85)	
	Adjusted Appropriation		17,915	
-	Cumulative expenses to 1 July		1,915	
1,915	Current year expenses	2,590	2,890	
1,915	Cumulative expenses to 30 June		4,805	
	Remaining appropriation		13,110	

Annual and permanent appropriations for Vote Tertiary Education

Expenditure Actual 2016 As Restated ⁹	Appropriation Title	Expenditure Actual 2017	Approved Appropriation ⁷ 2017	Location of End-of-year Performance Information ⁸
\$000		\$000	\$000	
Non-departmental output expenses				
22,144	Access to Tertiary Education	23,677	24,216	6
46,766	Administration of and Support for the Tertiary Sector	46,918	46,918	6
50,705	Centres of Research Excellence	49,800	49,800	6
29,638	International Education Programmes	29,439	29,439	7
295,250	Tertiary Education Research and Research-Based Teaching	301,500	301,500	6
12,034	Tertiary Sector / Industry Collaboration Projects	23,664	25,378	6
-	University-led Innovation	1,600	2,500	6
456,537	Total non-departmental output expenses	476,598	479,751	
Benefits or related expenses				
2,344	Awards for Outbound New Zealand Students	4,362	4,590	3
800	Scholarships for Inbound International Students	800	800	3
30	Support to Apprentices	263	1,260	3
15,016	Tertiary Scholarships and Awards	12,187	14,447	3
18,190	Total benefits or related expenses	17,612	21,097	
Non-departmental capital expenditure				
825	Literacy and Numeracy Assessment Tool	500	500	6
-	Support for Tai Poutini Polytechnic	3,600	3,600	8
85,000	Support for the University of Canterbury	15,000	15,000	9
85,825	Total non-departmental capital expenditure	19,100	19,100	
Multi-category expenses and capital expenditure				
12,458	Stewardship of the Tertiary Education System MCA	12,788	12,901	1
This is made up of the following category information:				
Departmental Output Expenses				
4,800	Policy Advice	5,396	4,856	
7,658	Research, Data Analysis and Monitoring	7,392	8,045	
2,456,550	Tertiary Tuition and Training MCA	2,465,672	2,465,672	2
This is made up of the following category information:				
Non-Departmental Output Expenses				
75,133	Community Education	72,751	72,751	
2,069,092	Tertiary Education: Student Achievement Component	2,085,205	2,085,205	
312,325	Training for Designated Groups	307,716	307,716	
2,469,008	Total multi-category expenses and capital expenditure	2,478,460	2,478,573	
3,029,560	Total annual and permanent appropriations for Vote Tertiary Education	2,991,770	2,998,521	

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 respective Vote Ministerial reports in relation to Non-Departmental Appropriations for the year ending 30 June 2017, 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 Tai Poutini Polytechnic Annual Report.
9. The University of Canterbury Annual Report.

Statement of Expenses and Capital Expenditure Incurred Without, or in Excess of, Appropriation or Other Authority for the year ended 30 June 2017

There is no unappropriated expenditure for the year ended 30 June 2017 (2016:\$Nil).

Statement of Departmental Capital Injections for the year ended 30 June 2017

Actual Capital Injections		Actual Capital Injections	Authorised in Appropriation Act ⁷
2016		2017	2017
\$000		\$000	\$000
	Vote Education		
276,871	Ministry of Education - Capital Injection	352,388	452,436



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