

Annual Report

for the Year Ended 30 June 2014



Ko te Tamaiti te Pūtake o te Kaupapa

The Child – the Heart of the Matter



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**Education Review Office
Te Tari Arotake Mātauranga**

Annual Report

for the Year Ended 30 June 2014

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

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PART 1: CHIEF EXECUTIVE'S OVERVIEW

The Education Review Office (ERO) has a unique role within the wider education system. We provide the Government and the New Zealand public with assurance about the quality of education in our early childhood services and schools. Approximately 150 ERO reviewers have the privilege of spending time in more than 2,000 early childhood services and schools each year. They see the quality of leadership, teaching, engagement with children and young people firsthand, as well as ensure systems, processes and policies are up to scratch.

The depth of ERO's knowledge about what happens in early childhood services and schools gives meaning to performance and achievement data. Everything we do is intended to improve the performance of early childhood services and schools and hold leadership to account for that performance.

To have the greatest impact on performance, ERO's evaluation must be rigorous and transparent; our judgements must be of consistently high quality; and our findings trusted. We maintain our professional edge by continuously reviewing our own performance and improving our tools of trade. In the past year ERO has commenced a major review of its evaluation indicators for schools to incorporate new research findings that have emerged since the indicators were last revised in 2010.

The evaluation indicators project responds to the recommendations of the Organisation for Economic Co-operation and Development (OECD) Review of Evaluation and Assessment. The OECD recommended that ERO builds on the indicator framework to consolidate a common understanding of quality to ensure alignment between agencies' self review and ERO's external review. This work is being led by ERO with critical input from an Academics Expert Group. The revised indicators will provide the backbone for defining success and quality across the education system. At the same time, ERO is leading work to develop guidelines for schools about effective self-review for improvement.

In 2013, ERO contributed to the Prime Minister's Youth Mental Health Project by developing draft evaluation indicators for student wellbeing. Many schools have welcomed the indicators and found them useful. We will continue to work closely with schools to capture the most important indicators in the final document.

At the beginning of the year we published *He Pou Tātaki – How ERO Reviews Early Childhood Services*. The new methodology applies to centre-based early childhood services. New methodologies are being developed in the coming year including one for home-based education and care services.

We have progressively reviewed and developed evaluation methodologies for use in Māori medium education to acknowledge the culturally unique education provided. The 2014 evaluation methodology for the review of Te Aho Matua Kura Kaupapa Māori focuses on successful outcomes for Māori and was designed by Māori, for Māori, and with Māori.

During the past year we have published 17 national evaluation reports and three more booklets for parents. ERO's national evaluation reports are very positively received by the sector. The reports on student achievement have been particularly well received and we have been much more proactive in sharing the findings in ways that better engage the sector. The parent booklets have also been avidly taken up by the sector. We will continue to find ways of communicating our deep knowledge of what works so that more services and schools adapt their practices so they perform better for their children and students.

I am proud of the work that ERO does and want to thank the people in ERO who bring their hearts and minds to work every day to making a positive difference for our children and young people: the reviewers; the evaluators; the regional support staff; and the corporate team who support them.

A handwritten signature in black ink, appearing to read 'Iona Holsted', written in a cursive style.

Iona Holsted
Chief Executive

PART 2: NATURE AND SCOPE OF FUNCTIONS

Role of the Education Review Office (ERO)

ERO evaluates and reports on the quality of education and care in schools and early childhood services,¹ and on the implementation of Government education priorities in these sectors. The information is used to promote better practice, inform debate about a wide range of national education issues, and to provide assurance to the Government of the quality of education provided.

ERO's vision, mission and whakataukī

Children and young people are central to ERO's work. This is reflected in ERO's whakataukī and is the foundation of ERO's vision and mission statement:

Vision: ERO will be a significant contributor to a world-leading education system.

Mission

To provide high quality evaluation that contributes to high quality education for all young New Zealanders

Whakataukī

Ko te Tamaiti te Pūtake o te Kaupapa
The Child – the Heart of the Matter

Scope of ERO's Powers and Activities

Legislative authority and scope of statutory powers

The Education Review Office is a government department established under the State Sector Act 1988. The Chief Executive of ERO is the Chief Review Officer.

Under Part 28 of the Education Act 1989 it is a function of the Chief Review Officer to administer reviews of general or particular matters about the performance of pre-tertiary education providers in relation to the educational services they provide.

The Chief Review Officer can initiate reviews. The Chief Review Officer may also carry out reviews when directed to do so by the Minister of Education.

Review Officers are statutory officers designated under Part 28 of the Education Act. They exercise powers of entry, investigation and reporting.

¹ In this report, "schools" include kura kaupapa and "early childhood services" include kōhanga reo.

Scope of operation

The core activity of ERO in schools and early childhood services is the conduct of Accountability Reviews, which includes:

- *Education Reviews* – regularly scheduled reviews carried out in schools and early childhood services
- *Special Reviews* – carried out where a matter needs to be reviewed and reported outside of regular reviews
- *New School Assurance Reviews* – carried out to provide assurance to new school boards and their communities that the school has undertaken suitable administration processes and curriculum preparation
- *Private School Reviews* – carried out under section 35A and Part 28 of the Education Act 1989
- *Homeschooling Reviews* – reviews of programmes for students exempt from enrolment at a registered school, undertaken in the context of section 21 and Part 28 of the Education Act 1989 and at the request of the Ministry of Education
- *Post Review Assistance* – provided to early childhood services on request.

At a system level, ERO evaluates and reports on significant and topical education issues through:

- national evaluations of education sector performance
- reports about good practice in schools and early childhood services
- evaluation reports provided for government and policy makers.

PART 3: STRATEGIC CONTEXT

Education Sector Priorities

The sector's vision is for a world leading education system that equips all New Zealanders with the knowledge, skills and values to be successful citizens in the 21st century. This goal is supported by a number of priorities specific to pre-tertiary education. These are to:

- increase participation in early childhood education to 98% by 2016
- increase the proportion of 18-year-olds with NCEA Level 2 or an equivalent qualification to 85% by 2017
- increase the proportion of 25-to 34-year-olds with advanced trade qualifications, diplomas and degrees (level 4 or above on the New Zealand Qualifications Framework) to 55% by 2017.

ERO's evaluation work contributes to these goals by building the capacity of individual schools and early childhood services so that they perform better for our learners.

The knowledge generated through our evaluation findings contributes to further improvements to the system as a whole. Our findings are used by sector agencies to shape thinking about future policy and operational strategy, and to look at what is working well or needs improvement.

Operating Context

In recent years ERO has refined its review methodologies for schools, giving greater attention to the quality of self review and sustainability, and the use of differentiated evaluation to support improvement. Using its differentiated methodologies, ERO focuses greater attention on schools where students are not progressing and not achieving well. This helps to assure the Government, parents, communities and the sector that New Zealand's pre-tertiary education system is of a high quality and continues to provide world-leading teaching and learning outcomes for our students.

The improvements that ERO has made in recent years have been designed to ensure that we meet new demands in the sector. We have responded to increased growth in demand for early childhood services, an emphasis on priority learners – those children and students who have not been served well by the education system in the past – and the recognised need for schools and early childhood services to focus on the learners.

Schools and services will only be effective at improving children's and students' achievement by working with parents, iwi, and communities. Furthermore, we must use our expertise across the system to help target support in those communities that need it most.

To realise the Government's business growth agenda, schools must also meet the demand for higher skilled, globally equipped, well educated, and socialised young people. Closer engagement with the business community and with international jurisdictions is essential.

Finally, the rise in technology will provide new tools for learning and increase the amount of information about our learners. ERO must be at the forefront of such change yet still work within its existing baseline. Cost pressures on our public services will remain, demanding efficiency gains, value for money, and innovative approaches.

ERO must continue to strengthen the capacity of the system to keep up with these changing demands.

Strategic Objectives for 2014–2017

The core intent of ERO's strategy has been to use evaluation to raise the capacity of the education sector, while continuing to assure the Government of the quality and effectiveness of schools and early childhood services. This has complemented the Minister's priorities by supporting a lift in participation and achievement across the education system, and by addressing system failures for those learners not well served by the system. Our recent changes have also complemented the move to a more collaborative and systems-based approach, where ERO can help the sector target learners, schools and early childhood services that need further support.

ERO's specific priorities and strategic objectives are to:

- promote school, and early childhood service improvement through ensuring that all providers are focused on the learner and are supported in improving student achievement. ERO is also updating its indicators for schools to incorporate new research and good practice findings
- maintain an evaluation focus on the actions of providers in accelerating achievement for those learners who have not been served well by the system
- strengthen engagement of families, parents, whānau, hapū, and iwi
- help the education community to improve the success of all schools, and not just their own – by conducting reviews of communities of providers and also by expanding the scope of reviews to include examination of how providers are working with each other to strengthen student achievement
- support the Christchurch rebuild – by advising the Ministry and assisting the boards of merged and new schools in the Christchurch area through our 'readiness to operate' review processes and supporting communities of schools through the review process.

Outcomes

ERO's impact comes primarily through providing evidence-based evaluative information to help schools, early childhood services, parents, and government agencies make better decisions.

Table 1: Outputs, participants and outcomes

	OUTPUTS		PARTICIPANTS		OUTCOMES
ERO PROMOTES QUALITY ASSURANCE BY PROVIDING...	<i>complementary evaluation processes (accountability reviews)</i>	SO THAT...	<i>schools and early childhood services, kura and kōhanga reo</i>	CAN...	<i>increase self-review capacity, improve governance, leadership, and teaching and learning practices</i>
	<i>evaluative information and guidance</i>		<i>parents, whānau, hapū, iwi and communities</i>		<i>play a more active part in their children's education</i>
	<i>system-wide evaluations</i>		<i>government agencies</i>		<i>put in place policies and strategies, and focus resources on areas of high priority</i>

PART 4: OPERATING INTENTIONS

In the last five years, we have progressively adapted our review methodologies to influence change in the sector. This has seen us adopt a more collaborative approach, increase the focus on the quality of self review and sustainability, and use differentiated evaluation to target improvement in those areas that need it most. The impacts that we seek are reflected in our national evaluation reports (Impact 1) and our reviews of schools and early childhood services (Impact 2).

Impact 1 – National Evaluations

What did we aim to achieve?

ERO aims to inform and influence the development and implementation of education policy and practice through system-wide evaluations.

What did we achieve?

The aggregation and analysis of national review data allows us to provide a broad independent picture of the topical issues, initiatives or policies of interest to the sector and Government.

ERO completed 17 national evaluations in 2013/14 and some additional evaluations under contract. The following summarises the findings for 2013/14.

Secondary Schooling

- *Increasing educational achievement in secondary schools (August 2013)*
- *Senior Secondary Schools: Pathways for future education, training and employment (July 2013)*

ERO is committed to increasing the number of Māori and Pacific students achieving the qualifications and skills necessary for their future success. Through our national evaluation programme we identified the need for more innovation in secondary schools to meet each student's aspirations, strengths and culture.

We identified schools that most effectively responded to each student; that put considerable effort into ensuring that they understood every student's goals; and that designed and monitored individualised programmes. We also found that many schools were making limited curriculum changes and continued to provide a programme and timetable that was only suitable for some of their students. A small number of schools were encouraging Māori and Pacific students to participate in qualifications teachers knew they could pass, rather than expecting them to enter courses that could help them to reach their full potential.

- *Towards equitable outcomes in secondary schools: Good Practice (May 2014)*
- *Making Connections for Pacific Learners' Success (November 2013)*

ERO has sought to extend good practice by highlighting examples of what is working well in secondary schools with high numbers of Māori and Pacific students. In the most successful schools, the principal's leadership was pivotal in managing change

and direction so that the whole school community worked with a common purpose. In the good practice schools, trustees and school leaders were committed to relentless improvement and developed the desired culture through continually revisiting school direction, values and expectations.

- *Guidance and Counselling in Schools: Survey Findings (July 2013)*
- *Improving Guidance and Counselling for Students in Secondary Schools (December 2013)*

ERO found that secondary schools were providing guidance and counselling for students who presented with many different needs in terms of student wellbeing. In schools with good guidance and counselling provision, relationships with some external agencies were well developed. However, almost all schools in this evaluation identified challenges in working cohesively with external agencies in support of students and whānau. These challenges were often related to students and whānau feeling there was a stigma with accessing support. Some schools had difficulties getting external support for students with complex needs.

Where students were very well supported, ERO found a strong ethos of care and shared understanding about the approach to guidance and counselling. In these schools good relationships and communication, along with strategic resourcing, enabled time and space for people with the professional capacity to help manage students' problems or refer them to expert help.

Primary Schooling

- *Raising Achievement in Primary Schools (June 2014)*
- *Raising Achievement in Primary Schools: Accelerated Learning in Mathematics (ALiM) and Accelerated Learning in Literacy (ALL) (June 2014)*

ERO has continued to investigate how primary schools improve outcomes for children who have not been well served by the education system. This year, ERO found evidence of improvement in teachers' and leaders' use of assessment data to respond to students achieving below expectations. An increasing number of schools with Years 1 to 8 students were adapting their responses for students achieving below the National Standards. Half of the schools investigated had used deliberate actions to support students to accelerate progress. In particular, Māori and Pacific students, and English language learners were targeted and increased their progress and achievement. Less successful schools' responses were often too general, ineffective and lacked a sense of urgency to accelerate progress or try a new approach.

- *Including Students with High Needs: Primary Schools (July 2013)*

Inclusion of students with special needs also showed a small improvement. Good performance related to coordination between school staff and outside personnel, professional learning and development, transitions, and the appropriate use of teacher aides to support students with high needs in the mainstream class context. Schools that were less inclusive needed to improve their school-wide coordination to support students with high needs.

- *Child Youth and Family Residential Schools (November 2013)*

ERO found that the quality of education across most of the Child Youth and Family (CYF)'s residential schools was not of a consistently high standard. Most of these schools needed to make either moderate or significant improvements in the delivery of the curriculum; the planning and programme design for individual students; and the processes to transition students to further education, training or employment. While many good aspects were identified, ERO judged only two schools as effective. The schools identified as being of limited effectiveness were well below that expected for a service dealing with young people in CYF care.

ERO has continued to meet with the Ministry of Education and the Ministry of Social Development about the work programme established to respond to the report's findings.

Indicators

- *Wellbeing for Success – Draft Evaluation Indicators for Student Wellbeing*

During 2013 ERO developed a set of evaluation indicators for student wellbeing for use in all English-medium primary and secondary schools. The development of the wellbeing indicators is one of the initiatives of the Prime Minister's Youth Mental Health Project. The indicators are a tool to assist schools to identify, plan and respond to student wellbeing needs. ERO has used the draft indicators to evaluate how well schools promote and respond to student wellbeing. The findings of this evaluation will be reported in 2014/15.

Booklets for parents

- *Effective Teaching – What's happening in my child's classroom?*
- *From Education to Employment – Questions to ask at school*
- *Your Child's Education – Learning opportunities in New Zealand*

ERO published three more booklets in a series for parents to help them better engage with their child's education. The booklets include questions that parents might ask their child's teachers or school principal about their child's learning. The booklets describe best teaching practice; provide information about senior secondary programmes options for future employment; and give an overview of the whole education system.

Board and early childhood education service providers employment responsibilities

- *Student Safety in Schools – Recruiting and Managing Staff (January 2014)*
- *Supporting school improvement through effective principal appraisal (May 2014)*
- *Supporting school improvement through effective teacher appraisal (May 2014)*
- *Improving quality: service providers' employment responsibilities in kindergartens and education and care services (May 2014)*

ERO's in-depth focus on schools' and early childhood services' employment practices was prompted by a recent investigation of sexual abuse of students by teachers in schools. Although many schools and services had some processes in place for checking potential employees' backgrounds, experience, qualifications and identities many of these processes were not robust enough to ensure student safety when employing and managing staff. Many appraisals were compliance-focused rather than focused on improved outcomes for children.

ERO found some confusion about when trustees and service providers needed to report to the New Zealand Teachers Council (NZTC). ERO also identified an issue where mandatory reporting requirements do not apply to unregistered educators in early childhood services. This gap in the system is being investigated by the Ministry of Education.

ERO has met regularly with the New Zealand School Trustees Association (NZSTA) and with the Ministry of Education to ensure the recommendations for school trustees are responded to. The Ministry convened a working group with Early Childhood Advisory Committee membership to jointly consider the findings and recommendations of the early childhood report.

Early Childhood

In 2013/14 ERO published national evaluation reports of interest to early childhood services.

- *Use of Equity Funding in Early Childhood Services (October 2013)*
- *Use of Equity Funding in Pacific Early Childhood Services (October 2013)*

ERO evaluated the use of Equity Funding in early childhood services and also investigated how Pacific early childhood services used this funding. Equity Funding is one of the Ministry of Education's current funding schemes for eligible early childhood services to support and enrol vulnerable children.

Over half of the services reviewed were effective in their use of Equity Funding. These services had several strategies and initiatives to ensure and support participation in early childhood education (ECE) by vulnerable children. These included keeping costs of ECE affordable for parents; providing a supportive and inclusive environment for children with special needs; and engaging and developing relationships with the children, their parents and whānau as partners in learning.

Most Pacific services were effective in their use of Equity Funding and had several initiatives to maintain the participation of currently enrolled children and to support their language, culture and identity. The initiatives were responsive to Pacific children's interests and their parents' aspirations. ERO identified the need for more Pacific learning resources to support children's language, culture and identity.

- *Priorities for Children's Learning: Good Practice (November 2013)*

In May 2013, ERO published a report about how well early childhood services identified and responded to their priorities for children's learning. The good practice report focused on five early childhood services where priorities for children's learning were well considered and reflected on. Their priorities were clear, reflected the context and philosophy of each service, and were strongly influenced by the principles and strands of Te Whāriki. In addition, parent and whānau views influenced the priorities for their children's learning.

How effective were we?

ERO's national evaluations are intended to promote debate and influence change in the education system. ERO expects its national evaluations and reports of good practice to add value to the sector's policy decision-making processes when there is evidence that they:

- are used by the Ministry of Education and other government agencies to establish priorities for the education sector
- help the Government to target resources and interventions to areas of poor performance
- are used by schools and early childhood services to inform their own practice
- are used by parents and whānau
- are topical, timely, and consistent with the Government's priorities for education.

Use and influence of ERO's national evaluations

All national evaluation reports are available on ERO's website. ERO prints and distributes selected reports to schools and services. For national reports of particular interest we issue news releases and conduct media interviews. We also share and discuss report findings with education sector groups at regular liaison meetings, as well as at conferences and workshops.

During 2014 ERO extended processes for consulting about the draft national reports with the Ministry of Education and other relevant agencies. ERO works closely with Ministry of Education personnel to discuss each recommendation to ensure they are well understood and can lead to a work programme intended to bring about necessary improvements.

A review of the use of the national evaluation summaries and reports by schools was completed in 2013. The findings indicate that schools value the two-page summaries introduced in 2012. Most school leaders interviewed know of and use the national reports. School leaders expressed the view that ERO national reports provide relevant, New Zealand-based information about current educational issues. They believe that the reports come from an authoritative and credible source. Reports are seen as impartial. They find it useful that reports are based on practice. Leaders use them to keep up to date and to place the school in the national context. School leaders suggested ways to improve the report format and the timing of their distribution to schools, which ERO is using to improve its own processes.

Table 1 – Impact 1, measures and targets

	2013/14 ACTUAL	2013/14 FORECAST
<p>Influence change and improvement to the education system</p> <p><i>(in 2013/14, as part of its three-year cycle of internal evaluation, ERO was scheduled to review the impact of its national evaluation summaries and reports on schools)</i></p>	Achieved. As evidenced by the review of a sample of national evaluation summaries and reports.	<p>Independent evaluations will confirm evidence that they are used by:</p> <ul style="list-style-type: none"> the Ministry of Education and other government agencies to inform policy and establish priorities for the education sector schools and early childhood services to inform their own practice
Public satisfaction (sourced from the Kiwis Count survey)	Achieved (72%)	70% (increasing to 75% for 2015/16)

Impact 2 – School and Early Childhood Service Reviews

What did we aim to achieve?

In the Statement of Intent 2013/16 ERO set out to improve student achievement, the quality of teaching and learning, governance, self-review and leadership through our education reviews.

What did we achieve?

Improving the capacity of schools

In 2013/14, ERO completed 759 reviews of schools, 22 private school reviews, and 21 home school reviews.

ERO ensured that its reviews of schools benefited the child by improving the system's own capacity to deliver successful teaching and learning outcomes. This included focusing on how effectively schools are promoting the participation and learning of all children and young people, and responding to priority groups (Māori students, Pacific students, children with special education needs, and children from low income families).

In 2013/14, ERO continued to refine its reviews with schools and lift capacity by:

- sharpening lines of enquiry to strengthen the focus on the learner
- improving the use of the publically available achievement information to drive school improvement
- providing guidance to schools and early childhood services about self review and performance questions that they can ask themselves
- Undertaking self-review workshops and presentations to school leaders and trustees.

ERO is also working with the Ministry of Education to jointly identify and publish case studies of effective self review².

² This will be for both the school and early childhood sectors.

Improving the capacity of early childhood services

In 2013/14, ERO completed 1,337 reviews of early childhood services.

The early childhood methodology, *He Pou Tātaki – How ERO reviews early childhood services*, is now in its second year of implementation. The review methodology builds on earlier initiatives for increasing capacity in evaluation, and gives greater attention to the quality and effectiveness of services' self review. *He Pou Tātaki* is being well used by the sector to assist services in their own self review, and improve the quality of early childhood provision.

Like ERO's school methodology, the reviews focus on lifting quality for all children, especially those priority learners who the system has targeted as needing additional support. In May 2013, ERO introduced four different overall judgements and corresponding review return times for centre-based early childhood services:

- Very well placed – the next ERO review in four years
- Well placed – the next ERO review in three years
- Requires further development – the next ERO review within two years
- Not well placed – the next ERO review in consultation with the Ministry of Education.

ERO developed criteria to support these four categories. The criteria make it clear what ERO considers when deciding which judgement and corresponding review return time to give a centre. The criteria support national consistency across early childhood service reviews and focus attention on those services that need additional support. New processes have also been established with the Ministry of Education to assist services requiring support.

While it is too early to assess the progress of the new approach, anecdotal feedback from the sector has been positive. Data will be analysed and reported in 2014.

Over 2013/14, ERO has also continued to deliver self-review workshops and presentations to a wide range of early childhood education services and providers. Cluster reviews of services governed and managed by an umbrella organisation have also proven to be an effective way of managing reviews of groups of centres.

Home-based early childhood services

In February 2014, ERO started to revise the methodology used to review home-based education and care services. The project uses *He Pou Tātaki* as a starting point to develop a methodology that takes into account the unique characteristics of the home-based early childhood education sector. It specifically aims to find better and more innovative ways to increase the focus on the provision of quality early childhood education and contribute to the Better Public Services participation target.

ERO is currently consulting with the Ministry of Education and with home-based early childhood education sector representatives, and will trial a draft process later in 2014.

Accelerating Māori success

ERO has a continued focus on Māori learners succeeding as Māori. As part of its review process for schools, ERO focuses attention on what schools are doing to accelerate Māori success. Anecdotal information suggests that ERO is effective in encouraging and assisting schools to review their own performance, and to identify their next steps.

Like ERO's other review methodologies, the approach is collaborative. A key focus is on the development of strong relationships with the sector and with Māori through either iwi or hapū connections. As part of the review process, ERO engages with Māori students, whānau and iwi to determine the extent that schools are linking with iwi thinking and strategy. ERO has identified that further work is needed to focus on how schools increase their engagement with parents and whānau.

In the early childhood sector, ERO will soon complete a review of its approach, placing further emphasis on promoting participation and engagement of Māori children and whānau.

Further work undertaken in 2013/14 included:

- contributing to the education agency forum – supporting the sector's collaborative approaches to deliver *Ka Hikitia: Accelerating Success* and *Tau Mai Te Reo: The Māori Language in Education Strategy*
- launching the Te Aho Matua methodology and indicators in 2014 (for Māori immersion schools)³
- revising ERO's internal strategy, *He Toa Takitini*, which provides direction for ERO's review practice and building internal capability for organisational success aligned with Ka Hikitia.

Accelerating Pacific Success

ERO is currently implementing its newly revised Pacific strategies, which will help identify new approaches for promoting Pacific success through the review methodologies. ERO has held a number of workshops with targeted communities, and will work closely with those schools and centres to determine how they are accelerating Pacific success. Interagency connections are stronger and more focused discussions are happening about the progress of Pacific learners.

Internally, ERO's response to the Pacific strategy has been positive. Implementation plans were completed in 2013 with regions now strengthening their organisational capacity. There is a collective response within ERO to ensure that information on Pacific learners' success is visible and current.

³ ERO is currently in discussion with Ngā Kura a Iwi o Aotearoa about the development of a methodology that acknowledges the unique nature of these education providers. A working operational relationship with Te Kōhanga Reo continues.

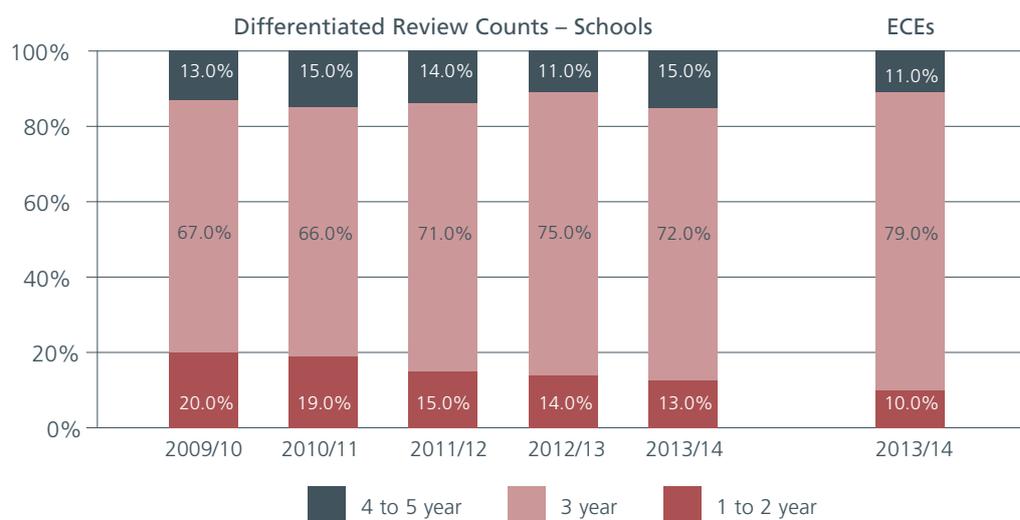
How effective were we?

ERO focuses its effectiveness measures on the impacts on and benefits to schools and early childhood education services, parents and communities, and the Ministry of Education and government agencies. We use a range of evaluation and survey techniques to collect feedback and effectiveness data about the improved capacity of schools and services.

Effectiveness of Judgement for Schools and Early Childhood Services

Using its differentiated methodologies, ERO's reviewers make a judgement about how well schools and early childhood services are performing. This determines the length of time before ERO returns for a further review. By differentiating its review return times, ERO and the sector can identify and focus greater attention on schools and services where learners are not progressing and achieving well.

The following graphs show the percentage of schools and early childhood services positioned within each review category, following these judgements.



(2013/14 is the first year that ERO has collected data for its early childhood reviews, following the implementation of the revised methodology.)

Effectiveness of ERO's School and Early Childhood Reviews

ERO uses questionnaires to help determine the effectiveness of its methodology for reviewing schools and early childhood services. In 2013/14 we surveyed a sample of schools and the findings indicated that most respondents (80%+) found the school review process to be useful.

Monitoring ERO's Review Cycles

ERO also monitors the new review return time signalled for those schools and early childhood services that have had their second review under the new methodology. This provides an indication of whether a school and early childhood service has improved and/or sustained its performance since the previous review.

For schools and services that have had a second review in 2013/14 data shows that:

- 70% of schools previously on the 1–2 year cycle have had the next review signalled as a 3 year return (with 30% remaining on the 1–2 year cycle)
- 10% of schools previously on the 3 year cycle have had the next review signalled as a 4–5 year return (with 73% remaining in the 3 year cycle and 17% signalled as a 1–2 year return)
- 73% of early childhood services previously on the 1–2 year cycle have had the next review signalled as a 3 year return (with 27% remaining on the 1–2 year cycle)
- 13% of early childhood services previously on the 3 year cycle have had the next review signalled as a 4 year return (with 81% remaining in the 3 year cycle and 6% signalled as a 1–2 year return).

It is too early to analyse the 4–5 year returns for schools as there has not been a sufficient number of years passed since the new methodology was introduced.

Table 2 – Impact 2, measures and targets

ERO demonstrates its cost-effectiveness by maintaining its review frequency (one-third of schools and early childhood services reviewed annually), while maintaining and reducing its service costs and input levels over the medium term.

		2013/14 ACTUAL	2013/14 FORECAST
Reviews	Schools	759	710 – 840
	Early childhood	1,337	1,300 – 1,460
Cost (\$000)	Schools	14,648	14,533
	Early childhood	9,478	9,690
Review frequency	Schools	33%	33%
	Early childhood	33%	33%
Review officers (FTE)		141	141
Effectiveness	80% of institutions evaluated will have used ERO's evaluation process to make improvements	Achieved	Achieved
	% of schools that move on to the 4-5 year review cycle	10%	To establish a baseline
	% of schools (previously on the 1-2 year review cycle) that move to the 3 year review cycle	70%	To establish a baseline

PART 5: ORGANISATIONAL HEALTH AND CAPABILITY

To continue to meet the Government and public's expectations, ERO has further improved its evaluation methodologies and operating model. In recent years, this has seen ERO move from a focus on building self review to a focus on improving and sustaining the use of self review to contribute to improved outcomes and achievement. To better meet the needs of its audience, ERO has also had to tailor its evaluations and tools to better support the role that learners, parents and whānau, and education agencies play.

ERO's organisational development reflects the recommendations made in ERO's *2012 Performance Improvement Framework (PIF) review*. An action plan is in place to ensure that the operating model, professional workforce, and supporting infrastructure remain fit for purpose.

Professional Learning and Development (PLD)

To support the improvements and to continue to deliver high quality evaluation processes, ERO needs skilled education evaluators, complemented by good quality managers and support staff who are committed to ERO's goals. Nationally agreed professional learning and development priorities provide the basis for carefully planned national and regional professional learning and development programmes.

In 2013/14 specific work was underway to further develop effective evaluation practice; strengthen the induction programme for new reviewers; promote national consistency; and to develop the competencies and skills needed for flexible and responsive evaluation practice. These programmes also helped staff to develop their understanding of ERO's policy context, the Government's education priorities and policy direction, knowledge of evaluation theory and practice, and developments in the education sector.

Improved leadership and management continued to be encouraged through a cross-sector aspiring leaders programme, internal and external secondment opportunities (including to the Minister's office), and professional development opportunities. Review staff also benefit from Massey University's Post Graduate Diploma in Social Sector Evaluation and Research, and from introductory in-house courses in evaluation.

Engagement Survey

ERO uses an annual engagement survey of staff to measure the 'health' of the organisation. ERO's most recent survey, undertaken in 2013, showed that ERO's overall engagement score improved to 4.05 (compared to 3.95 in 2012). ERO's overall satisfaction score had improved over this period from 3.81 to 4.03. The response rate to the survey was 86 percent.

Efficient and Effective Infrastructure

To further support improvements to ERO and the government's capability, further initiatives completed or commenced in 2013/14 included:

- the development of a new website landing page for school review reports, increasing accessibility for parents and whānau. It provides a summary about the school's performance and the review return time
- using social media, Twitter initially, as another tool to promote ERO's information more widely and for people to engage with us
- improving remote access communications for review officers through a roll-out of smart phones
- the outsourcing to a new payroll provider, and development of an associated self-service kiosk
- the upgrade of our financial management reporting system – the primary tool for managing our reviews
- ongoing review of our ICT assurances (in line with GCIO requirements) and record-keeping (by Archives NZ)
- shifting our library services to the Ministry of Education
- ongoing contribution to the open government and shared services.

ERO continues to review its office accommodation requirements as each location lease comes up for renewal or nears completion, looking to align its accommodation portfolio to Property Management Centre of Expertise (PMCoE) guidelines. ERO's total office space occupied has reduced from over 7,200 square metres at 33 square metres per person in 2009, to a little over 4,500 square metres at 22 square metres per person at the end of June 2014. In October the total space occupied will have reduced to a little over 4,000 square metres at 19 square metres per person. Further initiatives will be considered in 2015 and 2016 as leases come up for renewal.

Relationship with the Public Service Association (PSA)

ERO and the PSA continue to meet regularly at national and local levels as part of the Working Relationship Agreement. Both parties find these meetings useful.

Equal Opportunity and Diversity in the Workforce

Diversity in the Workforce

ERO remains committed to integrating equality and diversity into all aspects of its business. ERO's reviewers, where appropriate, reflect the make-up of the community and ERO recruits specialist Māori and Pacific staff. Competence in te reo Māori and Pacific languages is essential for reviewers in Māori medium contexts and Pacific language education settings. ERO also promotes cultural diversity through its Te Uepū ā-Motu and Pacific forums.

ERO's staff comprise approximately 70 percent women, 20 percent Māori, and seven percent people with disabilities. Women make up 57 percent and Māori make up 16.3 percent of senior management.

Equal Opportunity

In line with the New Zealand Public Service Equal Employment Opportunities Policy, ERO:

- treated people fairly and with respect, ensuring equality of access to opportunities (equality)
- understood, appreciated and realised the benefits of individual differences (diversity).

Integrating equality and diversity is a key ingredient for organisational success. It helps to improve services to the Government and people of New Zealand, and to attract and retain talented staff. ERO remains committed to integrating equality and diversity into all aspects of its business and reflected this in its ongoing work plans.

A recent review by the Human Rights Commission for improving equal opportunity in the public service commended ERO for having less occupational segregation than most of the public service. It further noted that ERO was the only department that looked at both ethnicity and gender in their pay and employment.

PART 6: FINANCIAL STATEMENTS AND SERVICE PERFORMANCE

Statement of Responsibility

In terms of the Public Finance Act 1989, I am responsible, as the Chief Executive of the Education Review Office (ERO), for the preparation of the financial statements and statement of service performance, and for the judgements made in them.

I have the responsibility for establishing, and I have established, a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting.

In my opinion, these financial statements and statement of service performance fairly reflect the financial position and operations of ERO for the year ended 30 June 2014. Also, in my opinion, the forecast financial statements provided in Part 7 fairly reflect the forecast financial position and operations of ERO for the year ending 30 June 2015 based on the information and decisions as at 26 March 2014.



Iona Holsted
Chief Executive



James Kwing
Chief Financial Officer

30 September 2014

INDEPENDENT AUDITOR'S REPORT

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

The Auditor-General is the auditor of the Education Review Office (the Department). The Auditor-General has appointed me, John O'Connell, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the non-financial performance information of the Department on her behalf.

We have audited:

- the financial statements of the Department on pages 31 to 48, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2014, the statement of comprehensive income, statement of changes in equity, statement of departmental expenses and capital expenditure against appropriations, statement of unappropriated expenditure and capital expenditure and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the non-financial performance information of the Department that comprises the statement of service performance on pages 24 to 30 and the report about outcomes on pages 8 to 17.

Opinion

In our opinion:

- the financial statements of the Department on pages 31 to 48:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect the Department's:
 - financial position as at 30 June 2014;
 - financial performance and cash flows for the year ended on that date;
 - expenses and capital expenditure incurred against each appropriation administered by the Department and each class of outputs included in each output expense appropriation for the year ended 30 June 2014; and
 - unappropriated expenses and capital expenditure for the year ended 30 June 2014; and
- the non-financial performance information of the Department on pages 8 to 17 and 24 to 30:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects the Department's service performance and outcomes for the year ended 30 June 2014, including for each class of outputs:
 - its service performance compared with the forecasts in the statement of forecast service performance at the start of the financial year; and
 - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 30 September 2014. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the non-financial performance information, whether due to fraud or error. In making those risk assessments,

we consider internal control relevant to the Department's preparation of the financial statements and the non-financial performance information that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.

An audit also involves evaluating:

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

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

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

Responsibilities of the Chief Executive

The Chief Executive is responsible for preparing:

- financial statements and non-financial performance information that:
- comply with generally accepted accounting practice in New Zealand;
 - fairly reflect the Department's financial position, financial performance, cash flows, expenses and capital expenditure incurred against each appropriation and its unappropriated expenses and capital expenditure; and
 - fairly reflect its service performance and outcomes.

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

The Chief Executive's responsibilities arise from the Public Finance Act 1989.

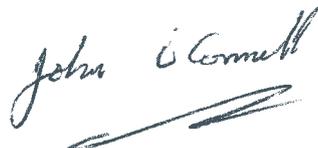
Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the non-financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

Independence

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

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



John O'Connell
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Statement of Service Performance

for the year ended 30 June 2014

The following service performance information outlines, for each output class, the actual performance measured against quality, quantity, timeliness specifications and cost.

The results for the year ended 30 June 2014 are reported against the forecast information contained in the *Estimates of Appropriation 2013/14* and of those as amended by the Supplementary Estimates. Explanations of major variations from the *Estimates of Appropriation 2013/14* are included.

Accountability Reviews – Early Childhood Education Services

Description

This class of outputs involves reporting on the performance of early childhood education services. These reviews include:

- education reviews of early childhood education services
- post-review assistance to early childhood education services.

Education reviews in the early childhood education sector focus on:

- how services are contributing to children's learning and development

- whether or not services are providing a safe environment that promotes children's safety and wellbeing
- national evaluation topics.

Post-review assistance workshops for early childhood education providers are provided in the form of specific ERO assistance to help governing bodies to develop a plan of action to address serious issues identified during an education review relating to the safety or education of children.

Review reports inform the Crown, the governing bodies of services, their staff and parents about the quality of education and management practices.

Quantity, Quality and Timeliness

ERO estimated and provided the following numbers of Accountability Reviews – Early Childhood Education Services for the year ended 30 June 2014:

2012/13 Quantity Delivered ^a	Note	2013/14 Quantity Delivered ^b	2013/14 Quantity Estimated	Percentage of Estimated ^b
1,350	1.1 Education Reviews – Early Childhood Education Services	1,337	1,300–1,460	100%
17	1.2 Post-Review Assistance workshops for Early Childhood Education Services	3	80–120	4%
	<i>Quality</i>			
100%	Consistent with approved standard procedures	100%	100%	-
100%	Reports will pass a quality assurance check	100%	100%	-

Note 1: Post-review assistance is dependent on early childhood education providers taking up the offer of a meeting and is therefore not controllable by ERO.

Note 2: All reports passed a quality assurance check (30 June 2013: 100 percent). This check involves a formal process of peer review and management sign-off confirming adherence with standard procedures. ERO's Manual of Standard Procedures provides a detailed description of these quality standards.

a ERO recognises a review as an output, in terms of the Statement of Service Performance, at the time it is available for delivery to the Minister of Education. Partially completed reports are not reported in the Statement of Service Performance.

b Percentage of Estimated is calculated using the following process:

- production falling within the 'Quantity Estimated' range is recorded as 100% achieved
- production recorded below the 'Quantity Estimated' range is measured as a percentage of the lower point of the 'Quantity Estimated' range
- production recorded above the 'Quantity Estimated' range is measured as a percentage of the upper point of the 'Quantity Estimated' range.

Statement of Service Performance

for the year ended 30 June 2014 (continued)

2012/13 Actual Timeliness %		2013/14 Actual Timeliness %	2013/14 Forecast Timeliness Standard %
	1.1 Education Reviews – Early Childhood Education Services		
	Unconfirmed report sent within:		
88	20 working days	90	80
97	25 working days	97	90
100	35 working days	100	98

Unconfirmed (near-final) reports are sent to early childhood service providers for comment on any issues of fact or matters relating to findings. The timeliness criteria require 80 percent of near-final reports to be sent within 20 working days of the end of the last week on site, 90 percent of near-final reports within 25 working days, and 98 percent of near-final reports within 35 working days. ERO met all the timeliness criteria for early childhood education services.

Revenue and Expenses

The cost of services for Accountability Reviews – Early Childhood Education Services for the year ended 30 June 2014 was:

30 June 2013 Actual \$000		30 June 2014 Actual \$000	30 June 2014 Main Estimates \$000	30 June 2014 Supp. Estimates \$000
	Revenue			
9,633	Revenue Crown	9,908	9,908	9,908
28	Revenue Department and Other	19	19	19
9,661	Total Revenue	9,927	9,927	9,927
9,610	Total Expenses	9,481	9,927	9,927

Major variances against budget

There are no major variances against budget for this output class.

Statement of Service Performance

for the year ended 30 June 2014 (continued)

Accountability Reviews – Schools and Other Education Service Providers

Description

This class of outputs involves reporting on the performance of schools and other education service providers (excluding early childhood). These reviews include:

- education reviews of state schools – primary and secondary
- homeschooling reviews
- private school reviews.

Education reviews address the following areas:

- student learning – engagement, progress and achievement, as a central focus
- compliance issues
- national evaluation topics.

Homeschooling reviews are reviews of programmes for students granted exemption from attendance at school, and are carried out at the request of the Ministry of Education.

Private school reviews are carried out in order to meet the statutory requirement to review registered private schools under section 35I and Part 28 of the Education Act 1989.

Review reports inform the Crown, the governing bodies of schools, their staff and parents about the quality of education and management practices.

Quantity, Quality and Timeliness

ERO estimated and provided the following numbers of Accountability Reviews – Schools and Other Education Service Providers for the year ended 30 June 2014:

2012/13 Quantity Delivered ^a	Note	2013/14 Quantity Delivered ^a	2013/14 Quantity Estimated	Percentage of Estimated ^b
793	2.1	759	710–840	100%
16	2.2	21	Up to 35	100%
31	2.3	22	15–25	147%
<i>Quality</i>				
100%		100%	100%	-
100%	4	100%	100%	-

Note 3: Homeschooling reviews are carried out at the request of the Ministry of Education. ERO met these demands and supplied the requested reviews to the Ministry.

Note 4: All education review reports on school service providers passed a quality assurance check (30 June 2013: 100 percent). This quality check involves a formal process of peer review and management sign-off confirming adherence with standard procedures. ERO's Manual of Standard Procedures provides a detailed description of these quality standards.

Statement of Service Performance

for the year ended 30 June 2014 (continued)

2012/13 Actual Timeliness %		2013/14 Actual Timeliness %	2013/14 Forecast Timeliness Standard %
	2.1 Education Reviews of State Schools		
	Unconfirmed report sent within:		
86	20 working days	87	80
95	25 working days	97	90
99	35 working days	99	98
	2.2 Homeschooling Reviews		
	Unconfirmed report sent within:		
100	20 working days	95	80
100	25 working days	95	90
100	35 working days	100	98
	2.3 Private School Reviews		
	Unconfirmed report sent within:		
81	20 working days	100	80
100	25 working days	100	90
100	35 working days	100	98

Unconfirmed (near-final) reports are sent to schools for comment on any issues of fact or matters relating to findings. The timeliness criteria require 80 percent of near-final reports to be sent within 20 working days of the end of the last week on site, 90 percent of near-final reports within 25 working days, and 98 percent of near-final reports within 35 working days. ERO met all the timeliness criteria for schools and other education service providers.

Statement of Service Performance

for the year ended 30 June 2014 (continued)

Revenue and Expenses

The cost of services for Accountability Reviews – Schools and Other Education Service Providers for the year ended 30 June 2014 was:

30 June 2013 Actual \$000		30 June 2014 Actual \$000	30 June 2014 Main Estimates \$000	30 June 2014 Supp. Estimates \$000
	Revenue			
15,093	Revenue Crown	15,069	14,950	15,069
40	Revenue Department and Other	42	41	41
15,133	Total Revenue	15,111	14,991	15,110
14,818	Total Expenses	14,859	14,991	15,110

Major variances against budget

There are no major variances against budget for this output class.

Quality of Education Reports and Services

Description

This class of outputs comprises:

- education evaluation reports
- policy services
- ministerial services
- contractual services.

Each year ERO reports on educational matters such as delivery of the curriculum, governance, management structures and systems, student achievement, the delivery of teaching services, and barriers to learning across a number of institutions. These education evaluation reports may also include case studies of good practice.

Education evaluation reports tend to follow specific themes. A theme may arise out of the Government's education initiatives or may surface as an issue of strategic importance identified by ERO in its regular reporting on schools and early childhood education services.

Policy services involve advice to, or on behalf of, the Minister of Education, on policy proposals or any other issues referred to, or identified by, the Chief Executive.

ERO is not primarily a provider of policy advice.

From its regular presence in schools and early childhood services it is, however, in a position to make a useful contribution to assist the policy agencies. This service contributes to the Government's policy priorities for schools and early childhood education service providers.

Ministerial services include the provision of oral briefings and briefing papers to the Minister, preparation of answers to parliamentary questions, drafting of ministerial correspondence and speech notes, and responding to general and official information requests.

Ministerial services also include advice to the Minister on the implementation of recommendations arising from institutional evaluations and evaluation reports, or any other matter on which the Minister seeks additional information or feedback.

Contractual services include one-off reviews of institutions (or certain aspects of them), and analyses of particular matters under specific terms of reference agreed with ERO. Contractual reviews are conducted on a fee-for-service basis.

Statement of Service Performance

for the year ended 30 June 2014 (continued)

Quantity, Quality and Timeliness

ERO estimated and provided the following numbers of Quality of Education Reports and Services for the year ended 30 June 2014:

2012/13 Quantity Delivered	Note	2013/14 Quantity Delivered	2013/14 Quantity Estimated	Percentage of Estimated ^b
17	3.1	13	Up to 20	100%
	<i>Quality</i>			
100%	Consistent with approved standard procedures	100%	100%	-
30	3.2	14	25–30	56%
	<i>Quality</i>			
100%	Consistent with approved presentational standards	100%	100%	-
100	3.3	105	145–210	72%
	<i>Quality</i>			
100%	Consistent with formal parliamentary and Minister's requirements	100%	100%	-
9	3.4	5	5–10	100%
	<i>Quality</i>			
100%	Consistent with terms of contracts	100%	100%	-

Note 5: The majority of services provided under this output are subject to external demand factors. ERO met these demands and supplied the requested services to the Minister of Education.

Note 6: In no cases did the information gathering and consultation process exceed 15 days (30 June 2013: nil). There were also no first drafts returned by the Minister of Education (30 June 2013: nil).

Statement of Service Performance

for the year ended 30 June 2014 (continued)

Revenue and Expenses

The cost of services for Quality of Education Reports and Services for the year ended 30 June 2014 was:

30 June 2013 Actual \$000		30 June 2014 Actual \$000	30 June 2014 Main Estimates \$000	30 June 2014 Supp. Estimates \$000
	Revenue			
2,671	Revenue Crown	2,438	2,557	2,438
250	Revenue Department and Other	740	531	1,524
2,921	Total Revenue	3,178	3,088	3,962
3,031	Total Expenses	3,596	3,088	3,962

Major variances against budget

Other Revenue received for contractual services was \$209,000 above budget due to higher levels of activity than anticipated. Total Expenses were above budget by a similar amount as revenue in order to remain fiscally neutral.

Statement of Comprehensive Income

for the year ended 30 June 2014

30 June 2013 Actual		Note	30 June 2014 Actual	30 June 2014 Main Estimates \$000	30 June 2013 Supp.* Forecasts \$000
\$000			\$000		
Revenue					
27,397	Crown		27,415	27,415	27,415
249	Departments		723	425	1,418
293	Other	1	80	61	57
<u>27,939</u>	Total Revenue		<u>28,218</u>	<u>27,901</u>	<u>28,890</u>
Expenses					
19,646	Personnel	2	19,993	20,061	21,123
6,636	Operating	4	6,825	6,276	6,400
877	Depreciation and Amortisation	6,7	818	981	832
300	Capital Charge	5	300	300	300
<u>27,459</u>	Total Expenses		<u>27,936</u>	<u>27,618</u>	<u>28,655</u>
<u>480</u>	Net Surplus		<u>282</u>	<u>283</u>	<u>235</u>
-	Other comprehensive income		-	-	-
<u>480</u>	Total Comprehensive Income		<u>282</u>	<u>283</u>	<u>235</u>

Explanations of major variances against budget are provided in the Notes to the Financial Statements.

Statement of Changes in Taxpayers' Funds

for the year ended 30 June 2014

30 June 2013 Actual		30 June 2014 Actual	30 June 2014 Main Estimates	30 June 2014 Supp.* Forecasts
\$000		\$000	\$000	\$000
480	Total Comprehensive Income	282	283	235
(480)	Repayment of Surplus to the Crown	(282)	(283)	(235)
-	Movements in Taxpayers' Funds for the Period	-	-	-
<u>3,746</u>	Taxpayers' Funds at the Start of the Year	<u>3,746</u>	<u>3,746</u>	<u>3,746</u>
<u>3,746</u>	Taxpayers' Funds at the End of the Year	<u>3,746</u>	<u>3,746</u>	<u>3,746</u>

Explanations of major variances against budget are provided in the Notes to the Financial Statements.

* These are the estimated actuals presented in the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2014, as amended by the Supplementary Estimates. The individual output statements disclosed with the Statements of Service Performance reflect the appropriations for the 2013/14 Supplementary Estimates.

Statement of Financial Position

as at 30 June 2014

30 June 2013 Actual		Note	30 June 2014 Actual	30 June 2014 Main Estimates \$000	30 June 2014 Supp.* Forecasts \$000
\$000			\$000		
Assets					
<i>Current Assets</i>					
6,612	Cash		7,188	4,999	5,758
37	Debtors and Other Receivables	3	12	175	105
91	Prepayments		103	89	85
<u>6,740</u>	<i>Total Current Assets</i>		<u>7,303</u>	<u>5,263</u>	<u>5,948</u>
<i>Non-Current Assets</i>					
2,655	Property, Plant and Equipment	6	2,239	3,300	2,981
577	Intangibles	7	425	422	493
<u>3,232</u>	<i>Total Non-Current Assets</i>		<u>2,664</u>	<u>3,722</u>	<u>3,474</u>
<u>9,972</u>	Total Assets		<u>9,967</u>	<u>8,985</u>	<u>9,422</u>
Liabilities					
<i>Current Liabilities</i>					
1,874	Creditors and Other Payables	8	2,101	1,845	1,815
208	Provisions	9	127	43	42
480	Repayment of Surplus to the Crown		282	283	235
2,230	Employee Entitlements	10	2,268	1,648	2,131
<u>4,792</u>	<i>Total Current Liabilities</i>		<u>4,778</u>	<u>3,819</u>	<u>4,223</u>
<i>Non-Current Liabilities</i>					
682	Provisions	9	663	747	704
752	Employee Entitlements	10	780	673	749
<u>1,434</u>	<i>Total Non-Current Liabilities</i>		<u>1,443</u>	<u>1,420</u>	<u>1,453</u>
<u>6,226</u>	Total Liabilities		<u>6,221</u>	<u>5,239</u>	<u>5,676</u>
Taxpayers' Funds					
3,746	Taxpayers' Funds		3,746	3,746	3,746
<u>3,746</u>	Total Taxpayers' Funds		<u>3,746</u>	<u>3,746</u>	<u>3,746</u>
<u>9,972</u>	Total Liabilities and Taxpayers' Funds		<u>9,967</u>	<u>8,985</u>	<u>9,422</u>

Explanations of major variances against budget are provided in the Notes to the Financial Statements.

* These are the estimated actuals presented in the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2014, as amended by the Supplementary Estimates. The individual output statements disclosed with the Statements of Service Performance reflect the appropriations for the 2013/14 Supplementary Estimates.

Statement of Cash Flows

for the year ended 30 June 2014

30 June 2013 Actual		Note	30 June 2014 Actual	30 June 2014 Main Estimates	30 June 2014 Supp.* Forecasts
\$000			\$000	\$000	\$000
Cash Flows from Operating Activities					
<i>Cash provided from:</i>					
27,397	Crown		27,415	27,415	27,415
451	Departments		731	425	1,326
267	Other		69	61	52
<i>Cash applied to:</i>					
(19,708)	Personnel		(19,934)	(20,327)	(21,229)
(6,474)	Operating		(6,692)	(6,363)	(6,593)
(300)	Capital Charge		(300)	(300)	(300)
16	Goods and Services Tax (net)		3	-	-
1,649	Net Cash Inflow from Operating Activities	11	1,292	911	671
Cash Flows from Investing Activities					
<i>Cash provided from:</i>					
363	Sale of Property, Plant and Equipment		168	128	262
<i>Cash applied to:</i>					
(1,285)	Purchase of Property, Plant and Equipment		(351)	(1,297)	(1,186)
(234)	Purchase of Intangible Assets		(53)	(10)	(121)
(1,156)	Net Cash Outflow from Investing Activities		(236)	(1,179)	(1,045)
Cash Flows from Financing Activities					
<i>Cash applied to:</i>					
(125)	Repayment of Surplus to the Crown		(480)	(463)	(480)
(125)	Net Cash Outflow from Financing Activities		(480)	(463)	(480)
368	Net Increase/(Decrease) in Cash		576	(731)	(854)
6,244	Cash at Start of the Year		6,612	5,730	6,612
6,612	Cash at the End of the Year		7,188	4,999	5,758

* These are the estimated actuals presented in the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2014, as amended by the Supplementary Estimates. The individual output statements disclosed with the Statements of Service Performance reflect the appropriations for the 2013/14 Supplementary Estimates.

Explanations of major variances against budget are provided in the Notes to the Financial Statements.

The GST (net) component of operating activities reflects the net GST paid and received with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

Statement of Contingent Liabilities and Contingent Assets

as at 30 June 2014

There are no quantifiable contingent liabilities and assets as at 30 June 2014 (30 June 2013: nil).

Statement of Unappropriated Expenditure and Capital Expenses

for the year ended 30 June 2014

ERO has not incurred expenses in excess of or without appropriation by Parliament (30 June 2013: nil).

Statement of Departmental Expenses and Capital Expenditure against Appropriations

for the year ended 30 June 2014

30 June 2013 Expenditure after Remeasurements Actual \$000		30 June 2014 Expenditure before Remeasurements Actual \$000	30 June 2014 Remeasurements Actual \$000	30 June 2014 Expenditure after Remeasurements Actual \$000	30 June 2014 Appropriation \$000
	Vote Education Review Office				
	Departmental Output Expenses				
	Multi-class Output Expense Appropriation				
	Accountability Reviews				
9,606	Early Childhood Education Services	9,481	4	9,485	9,927
14,811	Schools and Other Education Service Providers	14,858	8	14,866	15,110
24,417	Total Accountability Reviews	24,339	12	24,351	25,037
3,030	Quality of Education Reports and Services	3,597	1	3,598	3,962
27,447	Total Departmental Output Expenses	27,936	13	27,949	28,999
	Permanent Legislative Authority (PLA)				
1,519	Capital Expenditure – PLA	404	-	404	1,307

The appropriation figures are those presented in the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2014, as amended by the Supplementary Estimates.

The Capital Expenditure-Permanent Legislative Authority appropriation is limited to the purchase or development of assets by and for the use of ERO, as authorised by section 24(1) of the Public Finance Act 1989. No amount is appropriated for Capital Expenditure-Permanent Legislative Authority.

Statement of Commitments

as at 30 June 2014

ERO has entered into a capital commitment by placing an order for fifteen motor vehicles that has not been paid for nor recognised as a liability.

ERO leases all of its office premises in New Zealand. The annual lease rental payments are subject to regular reviews. The amounts disclosed below as future commitments are based on the current rental rates.

30 June 2013 Actual \$000		30 June 2014 Actual \$000
	Capital Commitments	
210	Property, Plant and Equipment	340
<u>210</u>	Total Capital Commitments	<u>340</u>
	Non-Cancellable Operating Lease Commitments	
1,350	Less than one year	1,359
1,227	One to two years	1,114
2,387	Two to five years	2,121
1,165	More than five years	534
<u>6,129</u>	Total Non-Cancellable Operating Commitments	<u>5,128</u>
<u><u>6,339</u></u>	Total Commitments	<u><u>5,468</u></u>

Statement of Accounting Policies

for the year ended 30 June 2014

Reporting Entity

The Education Review Office (ERO) is a government department as defined by section 2 of the Public Finance Act 1989 and is domiciled in New Zealand. The primary objective of ERO is to provide goods or services for the community or social benefit rather than making a financial return. Accordingly, ERO has designated itself as a public benefit entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements of ERO are for the year ended 30 June 2014 and were authorised for issue by the Chief Executive on 30 September 2014.

Basis of Preparation

These financial statements include all the activities of ERO, are reported as required by the Public Finance Act 1989, and comply with generally accepted accounting practice (and therefore comply with NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

The measurement base applied is historical cost unless otherwise stated. The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of ERO is New Zealand dollars.

Changes in Accounting Policies

There have been no changes in accounting policies, including cost allocation policies, and all policies have been applied on a basis consistent with those adopted in the last audited financial statements.

Standards, amendments, and interpretations issued that are not yet effective and have not been early adopted

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, ERO is classified as a Tier 2 reporting entity and it will be required to apply Public Benefit Entity Accounting Standards (PAS) with reduced disclosure requirements.

These standards are being developed by the XRB based on current International Public Sector Accounting Standards. The effective date for the new standards for public sector entities is expected to be for reporting periods beginning on or after 1 July 2014. This means ERO expects to transition to the new standards in preparing its 30 June 2015 financial statements.

Due to the change in the Accounting Standards Framework for public benefit entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore, the XRB has effectively frozen the financial reporting requirements for public benefit entities up until the new Accounting Standard Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

ERO anticipates that these standards will have no material impact on the financial statements in the period of initial application. It is likely that the changes arising from this framework will affect the disclosures required in the financial statements. However, it is not practicable to provide a reasonable estimate until a detailed review has been completed.

Accounting Policies

The following are the accounting policies, which may have a material effect on the measurement of the financial position of ERO and the results of its operations.

Revenue

ERO derives revenue from the provision of outputs to the Crown, the provision of services to third parties and rent recoveries.

ERO recognises Revenue Crown at fair value when earned and it is reported in the financial period to which it relates. Other Revenue is recognised at fair value at the time of completion of the service or in accordance with the terms of specific contracts and is reported in the financial period to which it relates.

Superannuation Schemes – Defined Contribution Schemes

Obligations for contributions to the State Sector Retirement Savings Scheme, KiwiSaver and the Government Superannuation Fund are accounted for as defined contribution schemes and are recognised as an expense in the Statement of Comprehensive Income as incurred.

Financial Instruments

ERO is party to financial instruments entered into in the course of its normal operations. These include cash, debtors and creditors. All financial instruments are measured at fair value and are recognised in the Statement of Financial Position. All associated revenue and expenses are credited to or charged against the Statement of Comprehensive Income.

Cash

Cash includes cash on hand and funds on deposit with banks.

Debtors and Other Receivables

Debtors and other receivables are recognised and carried at fair value less any allowance for any uncollectible amounts. Impairment of debtors and other receivables are reviewed monthly.

Impairment of a receivable is established when there is objective evidence that ERO will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership or liquidation, and default in payments are considered indicators that the 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 provision for impairment account, and the amount of the loss is recognised in the surplus or deficit. Overdue receivables that are renegotiated are reclassified as current (that is, not past due).

Operating leases

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

Property, Plant and Equipment

Property, plant, and equipment consists of leasehold improvements, furniture and office equipment, computer hardware and motor vehicles.

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

The initial cost of property, plant and equipment includes the purchase consideration and those costs that are directly attributable to bringing the asset into the location and condition necessary for its intended purpose. Subsequent expenditure that extends or expands the asset's service potential and that can be measured reliably is capitalised.

Capitalisation thresholds applied for individual assets or group of assets are set out as follows:

	Capitalisation Threshold (\$)
Computer Hardware	1,000
Motor Vehicles	500
Office Equipment	1,000
Furniture and Fittings	1,500
Leasehold Improvements	1,500

Additions

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

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

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus or deficit. When a revalued asset is sold, the amount included in the property revaluation reserve in respect of the disposed asset is transferred to taxpayers' funds.

Depreciation

Depreciation is charged on property, plant and equipment on a straight-line basis over their estimated useful lives, which will write off the cost of the assets to their estimated residual value.

The estimated useful life, residual values and associated depreciation rates applied to each class of property, plant and equipment are as follows:

	Estimated Useful Life (Years)	Depreciation Rates (%)	Residual Values (%)
Computer Hardware	4	25	-
Motor Vehicles	4-5	20-25	25
Office Equipment	5	20	-
Furniture and Fittings	10	10	-
Leasehold Improvements	Up to 10	Up to 10	-

Depreciation is not charged on capital work in progress.

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

Intangible Assets

Intangible assets with finite lives are stated at cost less amortisation and any impairment losses.

Acquired intangible assets are initially recorded at cost. The cost of an internally generated intangible asset represents expenditure incurred in the development phase of the asset only. The development phase occurs after the following can be demonstrated: technical feasibility; ability to complete the asset; intention and ability to sell or use; and when the development expenditure can be reliably measured.

Where an intangible asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Capitalisation thresholds applied for individual assets or group of intangible assets are set out as follows:

	Capitalisation Threshold (\$)
Computer Software	1,000
Review Procedures	20,000

Amortisation

Amortisation is charged on intangible assets on a straight-line basis over their estimated useful lives. The estimated useful lives and associated amortisation rates applied to these assets are as follows:

	Estimated Useful Life (Years)	Amortisation Rates (%)
Review Procedures	5	20
Computer Software	4	25

Impairment of Non-Financial Assets

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

Creditors and Other Payables

Creditors and other payables are recognised and carried at fair value.

Employee Entitlements

Provision is made in respect of ERO's liability for accrued salary, annual leave, special leave, sick leave, retirement leave and long service leave. All associated expenses are charged against the Statement of Comprehensive Income.

Short-term Employee Entitlements

Accrued salary, annual leave, special leave and sick leave are recognised on an entitlement (nominal) basis.

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

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

Long-term Employee Entitlements

Retirement leave and long service leave are recognised on a present value (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 cash flows. Discounts rates of 3.70 percent for 1 year, 4.04 percent for 2 years and 5.5 percent for over 3 years were used. The discount rates are based on the figures published by the Treasury. Also a salary inflation factor of 3.5 percent was used. The inflation factor published by the Treasury is based on the expected long-term increase in remuneration for employees.

Commitments

Future expenses and liabilities to be incurred, on contracts that have been entered into as at balance date, are disclosed as commitments to the extent that there are equally unperformed obligations.

Contingent Liabilities

Contingent liabilities are disclosed at the point at which the contingency is evident.

Goods and Services Tax (GST)

The Statement of Financial Position is exclusive of GST, except for Creditors and Payables and Debtors and Receivables, which are GST inclusive. All other statements are GST exclusive. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The amount of GST owing to or from the Inland Revenue Department at balance date, being the difference between Output GST and Input GST, is included in Creditors or Debtors.

Provisions

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

Provisions are measured at the present value of the expenditures expected to settle the obligations.

Equity

Equity is the Crown's investment in ERO and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified as taxpayers' funds, memorandum accounts and property revaluation reserves.

Taxation

ERO, as a government department, is exempt from the payment of income tax in terms of the Income Tax Act 2007. Accordingly, no charge for income tax has been provided.

Budget Figures

The budget figures are the latest set of supplementary forecasts (Supp. Forecasts), Estimated Actual forecast and those presented in the *Estimates of Appropriations 2013/14* (Main Estimates).

Cost Allocation

Direct costs are costs incurred by output delivery management units.

Direct costs are attributed to the three classes of outputs based on time spent on each class from ERO's time recording system. For the year ended 30 June 2014, 77 percent of total output costs were direct costs (30 June 2013: 77 percent).

Indirect costs are the costs of corporate management and support services which cannot be identified with a specific output in an economically feasible manner. Indirect costs are allocated to output-delivery management units (excluding 3.2 Policy Services and 3.3 Ministerial Services) through the most appropriate cost driver as a proxy for consumption. Indirect costs amounted to 23 percent of total output costs for the year ended 30 June 2014 (30 June 2013: 23 percent).

The cost of 3.1 Education Evaluation Reports includes a transfer of time from institutional reporting activities. This transfer represents time spent by review officers in institutions collecting overview information.

The costs of 3.2 Policy Services and 3.3 Ministerial Services are based on the estimated hours at the average charge-out rate.

Critical Accounting Estimates and Assumptions

In preparing these financial statements ERO has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements 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 provision for reinstatement, retirement leave and long service leave.

Notes 9 and 10 provide an analysis of the exposure in relation to estimates and uncertainties surrounding reinstatement obligations of leased premises, retirement leave and long service leave liabilities.

Notes to the Financial Statements

for the year ended 30 June 2014

30 June 2013 Actual \$000	30 June 2014 Actual \$000
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1. Other Revenue

69	Rent Recoveries	63
224	Other	17
293	Total Other Revenue	80

2. Personnel Costs

18,993	Salaries and wages	19,114
566	Employer contribution to superannuation schemes	595
(136)	(Decrease)/Increase in employee entitlements	(15)
223	Other	299
19,646	Total Personnel Costs	19,993

3. Debtors and Other Receivables

37	Sundry Debtors	12
37	Total Debtors and Other Receivables	12

The carrying value of debtors and other receivables approximate their fair value as they are normally issued with duration of not more than three months. All debtors were less than 30 days old.

4. Operating Costs

30 June 2013 Actual \$000	30 June 2014 Actual \$000	30 June 2014 Main Estimates \$000	30 June 2014 Supp. Forecasts \$000
1,803	Leasing and Rental Costs	1,815	1,733
52	Fees paid to Auditors for Financial Statements Audit	56	56
300	Consultancy	526	423
4	Net Loss on Sale of Property, Plant and Equipment	14	-
1,813	Domestic Travel	1,812	1,918
99	International Travel	127	75
2,565	Other	2,475	2,195
6,636	Total Operating Costs	6,825	6,400

5. Capital Charge

ERO pays a Capital Charge to the Crown based on its Taxpayers' Funds as at 30 June and 31 December each year. The Capital Charge rate for the year ended 30 June 2014 was 8 percent (30 June 2013: 8 percent).

Notes to the Financial Statements

for the year ended 30 June 2014 (continued)

6. Property, Plant and Equipment

	Computer Hardware	Motor Vehicles	Office Equipment	Furniture and Fittings	Leasehold Improvements	Total Property, Plant and Equipment
	\$000	\$000	\$000	\$000	\$000	\$000
1 July 2012						
Cost	1,163	1,840	415	92	3,124	6,634
Accumulated Depreciation	(820)	(1,018)	(306)	(58)	(1,989)	(4,191)
Carrying amount at 1 July 2012	343	822	109	34	1,135	2,443
Year ended 30 June 2013						
Carrying amount at 1 July 2012	343	822	109	34	1,135	2,443
Additions	37	1,024	2	-	222	1,285
Disposals	(383)	(933)	(4)	(28)	-	(1,348)
Depreciation	217	377	(37)	15	(297)	275
Carrying amount at 30 June 2013	214	1,290	70	21	1,060	2,655
30 June 2013						
Cost	817	1,931	413	64	3,346	6,571
Accumulated Depreciation	(603)	(641)	(343)	(43)	(2,286)	(3,916)
Carrying amount at 30 June 2013	214	1,290	70	21	1,060	2,655
Year ended 30 June 2014						
Carrying amount at 1 July 2013	214	1,290	70	21	1,060	2,655
Additions	17	320	14	-	-	351
Disposals – Cost	(97)	(406)	(52)	(2)	(312)	(869)
Disposals – Accumulated Depreciated	95	255	52	2	311	715
Depreciation	(109)	(246)	(35)	(6)	(217)	(613)
Carrying amount at 30 June 2014	120	1,213	49	15	842	2,239
30 June 2014						
Cost	737	1,845	375	62	3,034	6,053
Accumulated Depreciation	(617)	(632)	(326)	(47)	(2,192)	(3,814)
Carrying amount at 30 June 2014	120	1,213	49	15	842	2,239

Notes to the Financial Statements

for the year ended 30 June 2014 (continued)

7. Intangibles

	Computer Software	Review Procedures	Total Intangible Assets
	\$000	\$000	\$000
1 July 2012			
Cost	1,204	373	1,577
Accumulated Amortisation	(1,007)	(56)	(1,063)
Carrying amount at 1 July 2012	197	317	514
Year ended 30 June 2013			
Carrying amount at 1 July 2012	197	317	514
Additions	-	234	234
Amortisation	(117)	(54)	(171)
Carrying amount at 30 June 2013	80	497	577
30 June 2013			
Cost	1,204	607	1,811
Accumulated Amortisation	(1,124)	(110)	(1,234)
Carrying amount at 30 June 2013	80	497	577
Year ended 30 June 2014			
Carrying amount at 1 July 2013	80	497	577
Additions	53	-	53
Amortisation	(83)	(122)	(205)
Carrying amount at 30 June 2014	50	375	425
30 June 2014			
Cost	1,257	607	1,864
Accumulated Amortisation	(1,207)	(232)	(1,439)
Carrying amount at 30 June 2014	50	375	425

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

Notes to the Financial Statements

for the year ended 30 June 2014 (continued)

30 June 2013 Actual \$000		30 June 2014 Actual \$000
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8. Creditors and Other Payables

451	Trade Creditors	526
540	Accrued Expenses	566
477	Revenue in Advance	790
406	Tax Payables – GST, FBT and PAYE	219
1,874	Total Creditors and Other Payables	2,101

The carrying value of creditors and other payables approximate their fair value as they are normally settled within three months.

9. Provisions

Leasing Incentives

Lease incentives received as an inducement to enter into an operating lease are recognised evenly over the term of the lease as a reduction in the rental expense.

Reinstatement Provision

ERO has entered into leases on its premises in Auckland, Hamilton, Napier, Whanganui, Wellington and Dunedin. As part of the lease agreements, ERO has some reinstatement obligations at the termination of the leases.

Onerous Contracts

The provision for an onerous contract arises from an accommodation in Hamilton that will have one and a half months remaining on the lease when ERO moves into a new premise in August 2014.

	Current Portion	
45	Leasing Incentives	43
25	Onerous Contracts	16
138	Reinstatement	68
208	Total Current Portion at End of Year	127
	Non-Current Portion	
257	Leasing Incentives	214
425	Reinstatement	449
682	Total Non-Current Portion at End of Year	663
890	Total Provisions	790
	Leasing Incentives	
347	Balancing at Start of Year	302
(45)	Provision used during the Year	(45)
302	Total Leasing Incentives Provision at the End of Year	257

Notes to the Financial Statements

for the year ended 30 June 2014 (continued)

30 June 2013 Actual \$000		30 June 2014 Actual \$000
	Onerous Contract	
18	Balance at Start of Year	25
25	Additional Provision during the Year	16
(18)	Provision used during the Year	(25)
25	Total Onerous Contract Provision at End of Year	16
	Reinstatement	
500	Balance at Start of Year	563
87	Additional Provision during the Year	24
(24)	Unused Provision reversed during the Year	(45)
-	Provision used during the Year	(25)
563	Total Reinstatement Provision at End of Year	517
890	Total Provisions at End of Year	790

10. Employee Entitlements

	Current Liabilities	
1,138	Annual Leave, Special Leave and Sick Leave	1,164
544	Retirement Leave and Long Service Leave	475
548	Accrued Salaries	629
2,230	Total Current Portion	2,268
	Non-Current Liabilities	
752	Retirement Leave and Long Service Leave	780
752	Total Non-Current Portion	780
2,982	Total Employee Entitlements	3,048

The present value of retirement leave and long service leave obligations depend on factors that are determined on an actuarial basis using several assumptions. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability.

In determining the appropriate discount rate, ERO considered the interest rates on New Zealand government bonds, which have terms to maturity that match as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns and advice from the Treasury.

If the risk-free discount rates were to differ by 1 percent from ERO's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$51,377 higher/lower.

If the salary inflation factor were to differ by 1 percent from ERO's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$51,976 higher/lower.

Notes to the Financial Statements

for the year ended 30 June 2014 (continued)

11. Reconciliation of Net Surplus to Net Cash Flows from Operating Activities

30 June 2013 Actual \$000	30 June 2014 Actual \$000	30 June 2014 Main Estimates \$000	30 June 2014 Supp. Forecasts \$000
480 Net Surplus/(Deficit)	282	283	235
<i>Add/(deduct) Non-Cash Items from Statement of Financial Performance</i>			
877 Depreciation and Amortisation	818	981	832
<i>Add/(deduct) Movements in Working Capital Items</i>			
<i>(Increase)/Decrease in Debtors and Other</i>			
176 Receivables	(3)	-	(97)
(13) (Increase)/Decrease in Prepayments	(12)	(4)	6
<i>Increase/(Decrease) in Creditors and Other</i>			
218 Payables	227	-	(59)
25 Increase/(Decrease) in Provisions	(100)	(83)	(144)
(118) (Decrease)/Increase in Employee Entitlements	66	(266)	(102)
288	178	(353)	(396)
<i>Items Classified as Investing Activities</i>			
4 Net Loss/(Gain) on Disposal of Fixed Assets	14	-	-
1,649 Net Cash Flows from Operating Activities	1,292	911	671

12. Related Parties

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

ERO is a wholly owned entity of the Crown. The Government significantly influences the roles of ERO as well as being its major source of revenue.

Significant transactions with government-related entities

ERO has received funding from the Crown of \$27.415 million (2013: \$27.397 million) to provide services to the public for the year ended 30 June 2014.

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

In conducting its activities, ERO is required to pay various taxes and levies (such as GST, FBT, PAYE, and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. ERO is exempt from paying income tax.

Notes to the Financial Statements

for the year ended 30 June 2014 (continued)

ERO also purchases good and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2014 totalled \$1.86 million (30 June 2013: \$0.94 million). These purchases included the procurement of electricity from Genesis, legal services from Crown Law Office, information technology services from the Department of Internal Affairs, secondment of staff and library services from Ministry of Education and air travel from Air New Zealand. As at 30 June 2014, ERO had \$1,024,000 (30 June 2013: \$239,000) in trade payables for entities related to the Crown.

ERO also receives revenue from government-related entities. Revenue from these government-related entities totalled \$786,000 (30 June 2013: \$318,000). These revenue streams included rent recoveries from Careers New Zealand and from various contractual services for the Ministry of Education conducted on a fee-for-service basis. As at 30 June 2014, ERO had no trade receivables from entities related to the Crown (30 June 2013: \$8,000).

Key management personnel compensation

30 June 2013 Actual \$000		30 June 2014 Actual \$000
1,594	Salaries and Other Short-Term Employee Benefits	1,519
144	Post-Employment Benefits	152
1,738	Total Key Management Personnel Compensation	1,671

Key management personnel include the Chief Executive and six members of the Senior Management Team.

13. Financial Instruments

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

ERO has minimal exposure to foreign currency risk arising from transactions denominated in foreign currency. ERO has no forward foreign exchange contracts at balance date (30 June 2013: nil).

Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate or, the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

ERO has no short or long-term debt and does not use financial instruments to manage interest rate risk. Therefore ERO does not have any interest rate risk exposure.

Credit Risk

Credit risk is the risk that a third party will default on its obligations to ERO, causing ERO to incur a loss.

In the normal course of its business, ERO incurs credit risk from debtors, and transactions with Westpac Banking Corporation and the New Zealand Debt Management Office (NZDMO).

ERO does not require any collateral or security to support financial instruments with financial institutions that ERO deals with, or with the NZDMO, as these entities have high credit ratings. For its other financial instruments, ERO does not have significant concentrations of credit risk.

ERO's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash, debtors and other receivables (Note 3).

Notes to the Financial Statements

for the year ended 30 June 2014 (continued)

Liquidity Risk

Liquidity risk is the risk that there will be insufficient liquid assets to meet liabilities due. As all but an insignificant amount of funds come from the New Zealand Government and cash is drawn down on a monthly basis, ERO does not have significant liquidity risk.

ERO's financial liabilities comprising of creditors and other payables will be settled within three months based on the remaining period at the balance sheet date to the due dates of creditors and other payables.

Categories of Financial Instruments

The carrying amounts of financial assets and financial liabilities in each of the NZ IAS 39 *Financial Instruments: Recognition and Measurement* categories are as follows:

30 June 2013 Actual \$000		30 June 2014 Actual \$000
	Loans and Receivables	
6,612	Cash	7,188
37	Debtors and Other Receivables (note 3)	12
6,649	Total Loans and Receivables	7,200
	Financial Liabilities measured at Amortised Cost	
1,874	Creditors and Other Payables (note 8)	2,101

14. Capital Management

ERO's capital is its equity (or taxpayers' funds), which is represented by its net assets.

ERO manages its revenues, expenses, assets, liabilities and general financial dealings prudently. ERO's equity is largely managed as a by-product of managing revenues, expenses, assets, liabilities and compliance with the Government Budget processes and with the Treasury Instructions.

The objective of managing ERO's equity is to ensure ERO effectively achieves its goals and objectives for which it has been established, whilst remaining a going concern.

Notes to the Financial Statements

for the year ended 30 June 2014 (continued)

15. Major Variances from Budget in the Main Estimates

	30 June 2014 Actual \$000	30 June 2014 Main Estimates \$000	30 June 2014 Variance \$000
Statement of Comprehensive Income			
Revenue Departments	723	425	298
Depreciation and Amortisation	818	981	(163)
Statement of Financial Position			
Cash	7,188	4,999	2,189
Property, Plant and Equipment	2,239	3,300	(1,061)
Employee Entitlements – Current	2,268	1,648	620
Employee Entitlements – Non-Current	780	673	107

Revenue Departments was \$298,000 above budget due to higher levels of contractual services than anticipated.

Depreciation and amortisation was \$163,000 below budget due to timing of capital expenditure.

Cash was \$2,189,000 over budget due to a combination of no expenditure incurred for reviews of schools that are non-compliant with National Standards, higher levels of contractual services than anticipated and timing of capital expenditure.

Property, Plant and Equipment was \$1,061,000 below budget due to timing of capital expenditure.

The variances in employee entitlements were mainly due to lower levels of retirement than anticipated. Also for the current portion of employee entitlements there was a lower level of annual leave taken than forecast in ERO's Main Estimates.

16. Post Balance Date Events

There are no significant post balance date events.

Performance Indicators

30 June 2013 Actual		Unit	30 June 2014 Actual	30 June 2014 Main Estimates	30 June 2014 Supp. Forecasts
Working Capital^a					
1,948	Net Current Assets ^b	\$000	2,525	1,444	1,725
1.41	Current Ratio ^c		1.53	1.38	1.41
19.0	Average Creditors Outstanding ^d	Days	24.6	-	-
Resource Utilisation					
Fixed Assets:					
3,232	Total Non-Current Assets at Year End	\$000	2,664	3,722	3,474
15.1	Value per Employee	\$000	12.8	17.7	16.5
47.0	Additions as % of Non-Current Assets	%	15.2	35.1	37.6
Taxpayers' Funds:					
3,746	Level at Year End	\$000	3,746	3,746	3,746
17.5	Level per Employee	\$000	18.0	17.8	17.8
Human Resources					
4.78	Staff Turnover ^e	%	8.43	-	-
9.30	Average Length of Service ^f	Years	9.92	-	-
213.89	Total Staff ^g	FTEs	208.02	210.00	210.00

a The indicator for average debtors outstanding is not meaningful for ERO given the low level of external debtors with third party revenue at less than five percent of the Vote. ERO's policy is a collection rate of less than 30 days.

b Current assets minus current liabilities.

c Current assets as a proportion of current liabilities.

d Average days to pay invoices.

e Staff turnover is not reported in the Main and Supplementary Estimates.

f Average length of service is not reported in the Main and Supplementary Estimates.

g FTEs comprise of permanent full-time and part-time staff. Temporary staff on fixed-term contracts and casual staff are excluded. ERO's establishment numbers have been capped at 216 FTEs.

PART 7: FORECAST FINANCIAL STATEMENTS

Statement of Forecast Comprehensive Revenue and Expense

for the year ending 30 June 2015

	30 June 2015 Budget Unaudited \$000
Revenue	
Crown	27,299
Departments	541
Other	50
Total Revenue	27,890
Expenses	
Personnel	20,339
Operating	6,147
Depreciation and Amortisation	985
Capital Charge	300
Total Revenue	27,771
Net Surplus	119
Other comprehensive revenue and expense	-
Total Comprehensive Revenue	119

Forecast Statement of Changes in Taxpayers' Funds

for the year ending 30 June 2015

	30 June 2015 Budget Unaudited \$000
Total Comprehensive Revenue	119
Repayment of Surplus to the Crown	(119)
Movements in Taxpayers' Funds for the Period	-
Taxpayers' Funds at the Start of the Year	3,746
Taxpayers' Funds at the End of the Year	3,746

Forecast Statement of Financial Position

as at 30 June 2015

	30 June 2015 Budget Unaudited \$000
Assets	
<i>Current Assets</i>	
Cash	5,668
Debtors and Other Receivables	55
Prepayments	89
<i>Total Current Assets</i>	5,812
<i>Non-Current Assets</i>	
Property, Plant and Equipment	2,703
Intangibles	727
<i>Total Non-Current Assets</i>	3,430
Total Assets	9,242
Liabilities	
<i>Current Liabilities</i>	
Creditors and Other Payables	1,815
Provisions	226
Repayment of Surplus to the Crown	119
Employee Entitlements	2,140
<i>Total Current Liabilities</i>	4,300
<i>Non-Current Liabilities</i>	
Provisions	451
Employee Entitlements	745
<i>Total Non-Current Liabilities</i>	1,196
Total Liabilities	5,496
Net Assets	
Taxpayers' Funds	
Taxpayers' Funds	3,746
Total Taxpayers' Funds	3,746

Forecast Statement of Cash Flows

for the year ending 30 June 2015

Note	30 June 2015 Budget Unaudited \$000
Cash Flows from Operating Activities	
<i>Receipts</i>	
Crown	27,299
Departments	591
Other	50
<i>Payments</i>	
Personnel	(20,334)
Operating	(6,220)
Capital Charge	(300)
Goods and Services Tax (net)	-
Net Cash Inflow from Operating Activities	1,086
Cash Flows from Investing Activities	
<i>Receipts from:</i>	
Sale of Property, Plant and Equipment	27
<i>Payments to:</i>	
Purchase of Property, Plant and Equipment	(468)
Purchase of Intangible Assets	(500)
Net Cash Outflow from Investing Activities	(941)
Cash Flows from Financing Activities	
<i>Cash applied to:</i>	
Repayment of Surplus to the Crown	(235)
Net Cash Outflow from Financing Activities	(235)
Net Increase/(Decrease) in Cash and Cash Equivalents	(90)
Cash and Cash Equivalents at Start of Year	5,758
Cash and Cash Equivalents at End of Year	5,668

Statement of Significant Assumptions

These forecast financial statements have been compiled on the basis of existing government policies and Ministerial expectations at the time the statements were finalised.

The main assumptions are as follows:

- ERO's activities will remain substantially the same as for the previous year.
- Personnel costs are based on 210 full time equivalents.
- Operating costs are based on historical experience adjusted for any known expected increase in expenditure items.
- Estimated year end information for 2013/14 is used as the opening position for the 2014/15 forecasts.

These assumptions are adopted as at 26 March 2014.

Factors that could lead to material differences between the forecast financial statements include changes to the baseline budget through new initiatives, or technical adjustments.

Statement of Specific Accounting Policies

ERO has applied the same accounting policies set out in Statement of Accounting Policies included in Part 6 of this document.

The forecast financial information presented in Part 7 is unaudited.

Authorisation Statement

These forecast financial statements were authorised for issue by the Chief Executive on 26 March 2014.

The Chief Executive is responsible for the forecast financial statements presented, including the appropriateness of the assumptions underlying the forecast financial statements and all other required disclosure.

The forecast financials presented are those in the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2015. The forecast is 2014 Budget Economic and Fiscal Update out-year one figures.



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