

ANNUAL REPORT 2016



skills.

Contents

Chairman/CEO report	3
Skills International	5
Shift	6
Vodafone	8
Māori and Pasifika	11
Women in trades	12
An Industry Overview	13
Financial Report and Statements	14

Chairman/CEO report

Growing and supporting our industries is at the heart of what we do. This focus has allowed us to enjoy a record year in several areas, while providing the highest levels of support to our members to date.

The numbers say it all. Our revenue in 2016 was up 14%. Income from our commercial activities was up 47%. Growing our commercial arms allows us to further support and develop industry groups, and we've been able to re-invest these strong returns directly into our industries.

We saw apprentice numbers increased by 14% to around 8,000. Our overall trainee numbers increased by 4% to more than 23,000.

Growth in our staff levels has largely been driven by rising trainee numbers. Much of this increase has been in the field, which has allowed us to increase the level of service and support we provide to our industries.

In 2016 we did business in more countries than before, formed new partnerships, and created new income opportunities.

Skills International has led this by entering new markets and securing key new clients to report a 22% increase in profit. This is very positive as diversifying income has always been a core part of our long-term plan.

We added new capability to Skills by creating Shift and purchasing Etec. Shift provides our partners and us with access to leading-edge learning technology. Etec allows us to protect training provision for several of our smaller industries, and the capability to teach.

We continued our focus on growing Māori and Pasifika participation through a key partnership with Waikato Tainui. By creating a Careers Centre for its 67,000 members, we played a key role in helping many of them start their careers through enrolment in a training agreement.

We still strongly value our relationship with our funder, the Tertiary Education Commission (TEC). We worked with them on several innovative projects in relation to Job & Skills Hubs, and school-to-work transitions in Northland and South Auckland.

In 2017 we will focus on further helping firms to address the trades skills shortage, further lifting the performance of Māori and Pasifika trainees, getting more firms training, and improving the transition from school to work.

We'd like to take this opportunity to thank the Board and our funders, staff, industry partners, and training providers for their contributions this year. We believe we've built on a strong foundation in 2016.



Brian Nowell
Chair
Skills



Garry Fissenden
Chief Executive
Skills



Expanding the global reach of Skills.

For Skills International, 2016 has been about entering new markets, launching new products, and growing a broader client base.

Skills International launched its first product this year – an online training course for prospective migrants entering the New Zealand real estate industry. This gives candidates the opportunity to complete a portion of their training in their home country before coming to New Zealand to get licensed. This allows them to start earning income sooner.

Skills International became the first service-based company to receive a FernMark License and the right to use the logo to market its online real estate programme. Skills International was also included in the exclusive NZTE (New Zealand Trade and Enterprise) Focus 700 list. This is a list of New Zealand companies NZTE works closely with in global markets.

As part of our growing client base, Skills International is working closely with the CAA (Civil Aviation Authority of New Zealand) on its staff behavioural competency framework. This relationship continues to go from strength to strength, with further opportunities identified for 2017.

Entering new markets remains a key strategic goal for Skills International. Work is already being done in Fiji, there is good progress in the rest of the Pacific, and eyes are now on South East Asia in 2017.



Providing Skills with innovative learning capability.

Today's competitive education sector means we need to be increasingly tech-savvy. The creation of Shift in 2016 helps make sure we're ahead of the game.

Shift specialises in using technology to help learners in all aspects of their study, including coursework, assessments, and helping businesses manage their training programs.

We had a big year. Now with 20 staff, the company worked on 50 projects for over 20 customers and billed 19,000 hours of work in 2016.

Shift also purchased Etec, a specialist niche technical training provider, to add specialist training capability to its skill set. This supports Shift's vision of the future, which is about blending technology with traditional learning. It also means we can secure training provision for some of our smaller industries.

With strong results in 2016, Shift will continue to ensure Skills stays on top of a rapidly changing learning environment.





Corporate partnership exceeds all performance targets.

Skills enjoys a long and successful partnership with Vodafone. In 2016 we saw a large increase in the number of qualifications awarded, thanks to an innovative way Skills and Vodafone are partnering with government.

Through Skills, Vodafone can directly access training funds from the Tertiary Education Commission (TEC). Launched in 2015, this is a new approach to ITOs working closer with commercial partners through what is known as a Direct Funding Scheme.

A total of 1,070 Vodafone trainees took part in training in 2016 – around three times the number in 2015. The DFS programme awarded 439 qualifications in 2016, compared to around 120 in the previous year.

The Vodafone partnership surpassed its TEC funding targets in 2016. It also exceeded all education performance targets set by the TEC for 2016.

The partnership between Skills and Vodafone is the first of its kind in New Zealand, and its growth over its two years shows the extent of its success. It's a great example of how Skills plays its role as a neutral broker between government, industry, and businesses.





Māori and Pasifika

We're rowing our waka in the right direction.

Engaging Māori and Pasifika youth, and creating employment pathways for them, is a key objective at Skills. Our strengths in helping this group continued to increase in 2016.

Partnering with communities is at the core of what we do. Our partnerships with Waikato Tainui and other ITOs helps us provide services to 67,000 iwi members. We created a Careers Centre within Waikato Tainui in 2016, providing members with employment pathways into more than 20 industries.

Our partnership with MPTT (Māori & Pasifika Trades Training) is also producing great results. In 2016, we saw 23 MPTT pre-trades trainees graduate directly into an apprenticeship. This is up from the 5 graduates the previous year.

To help us better understand the needs of our Māori and Pasifika trainees, we're participating in an ongoing research project with Ako Aotearoa and other ITOs. The results of this research will tell us what learning styles are best suited to this group, among others.

Women in trades

Tackling skills shortages through diversity.

Increasing female participation in the trades is high on Skills' agenda. We stepped this up in 2016 via our strong partnerships in the trades sector.

One of the initiatives we started was informal get-togethers for female tradies. Our research showed that female tradies value getting to know and talk to other women in the trades, and we listened. We arranged regular catch-ups that brought together women from different industries, providing a forum where they could share their experiences and hear each other out.

In 2016 we continued our work engaging with senior girls at high schools around the country. Once again we had our female ambassadors talk directly with these girls, while also using newly developed resources to inform them about careers in the trades.



An Industry Overview

These numbers are based on firms, trainees, apprentices and learners who engaged in national qualifications training arrangements with Skills during 2016.



We had
23,603
people training with us



16%
Maori participation overall



We registered
641,943
credits



This year we had participation
rates for females sitting at
22%



Employer numbers reached
4479

Financial Report and Statements

- Independent Auditor's Report to the Members of The Skills Organisation Incorporated
- The Skills Organisation Incorporated Summary Consolidated Financial Statements



Chartered Accountants

Independent Auditor's Report to the Members of The Skills Organisation Incorporated Report on the Summary Financial Statements

Opinion

The summary financial statements on pages 16-19, which comprise the summary consolidated statement of financial position as at 31 December 2016, the summary consolidated statement of comprehensive revenue and expense, summary consolidated statement of changes in equity and summary statement of cash flows for the year then ended, and related notes, are derived from the audited financial statements of The Skills Organisation Incorporated ("Skills") and its subsidiary (the "Group") for the year ended 31 December 2016.

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with FRS-43: Summary Financial Statements issued by the New Zealand Accounting Standards Board.

Summary Financial Statements

The summary financial statements do not contain all the disclosures required by Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon. The summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.

The Audited Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated 18 May 2017.

Those Charged with Governance Responsibilities for the Summary Financial Statements

Those charged with governance are responsible on behalf of the entity for the preparation of the summary financial statements in accordance with PBE FRS-43: Summary Financial Statements.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (New Zealand) (ISA (NZ)) 810 (Revised), Engagements to Report on Summary Financial Statements.

Other than in our capacity as auditor we have no relationship with, or interests in, Skills or the Group. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group.

Auckland
15 June 2017

**SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE
FOR THE YEAR ENDED 31 DECEMBER 2016**

	2016 \$'000	2015 \$'000
Revenue		
Revenue from Exchange Transactions		
TEC Training Subsidies	30,817	28,231
Moderation Income	902	803
Industry Contribution	8,883	7,613
Subsidiary Income	7,199	4,923
Other Income	638	989
Interest Income	378	446
Revenue from Non-Exchange Transactions		
PGDR ITO Industry Funds	434	-
Total Revenue	49,251	43,005
Industry Training Expenses		
Training Subsidies & Support	33,302	27,931
Qualification Development & Quality Assurance	2,736	2,644
Research & Stakeholder Relations	1,456	2,115
Total Industry Training Expenses	37,494	32,690
Other Expenses	9,015	7,511
Total Expenses	46,509	40,201
Surplus For The Year	2,742	2,804
Other Comprehensive Revenue and Expense		
Net Fair Value Gains On Available For Sale Financial Assets	40	26
Total Other Comprehensive Revenue and Expense	40	26
Total Comprehensive Revenue and Expense for the Year	2,782	2,830

**SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	2016 \$'000	2015 \$'000
Opening Equity	9,077	6,247
Surplus for the Year	2,742	2,804
Other Comprehensive Revenue and Expense	40	26
Total Comprehensive Revenue and Expense for the Year	2,782	2,830
Closing Equity	11,859	9,077
Represented By:		
Retained Earnings	11,787	9,045
Available For Sale Reserve	72	32
Closing Equity	11,859	9,077

**SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016**

	2016 \$'000	2015 \$'000
ASSETS		
Current Assets		
Cash & Cash Equivalents	4,100	5,269
Term Deposits	5,552	6,352
Receivables	4,197	2,071
Total Current Assets	13,849	13,692
Non Current Assets	7,335	3,725
Total Assets	21,184	17,417
LIABILITIES		
Current Liabilities		
Payables	7,366	6,114
Income in Advance	890	831
Employee Entitlements	612	881
Deferred Income	56	56
Total Current Liabilities	8,924	7,882
Non Current Liabilities		
Deferred Income	401	458
Total Liabilities	9,325	8,340
Net Assets	11,859	9,077
Equity		
Retained Earnings	11,787	9,045
Available for Sale Reserve	72	32
Total Equity	11,859	9,077

For and on behalf of the Board who authorise the issue of these summary financial statements
on 15 June 2017


Chairman


Chief Executive

**SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016**

	2016	2015
	\$'000	\$'000
Net Inflow From Operating Activities	2,225	5,083
Net Outflow From Investing Activities	(3,394)	(5,391)
Net (Decrease) / Increase In Cash Held	(1,169)	(308)
Cash & Cash Equivalents at beginning of the Year	5,269	5,577
Cash & Cash Equivalents at end of the Year	4,100	5,269

**NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

CORPORATE INFORMATION

The summary financial statements of The Skills Organisation Incorporated (Skills) and its subsidiaries (collectively "the group") were authorised for issue by the Board on 15 June 2017.

MEASUREMENT BASIS

The functional currency is New Zealand dollars and the financial statements are presented in New Zealand dollars. The summary financial statements have been prepared on a historical cost basis.

Basis of Preparation

The summary financial statements have been prepared in accordance with PBE FRS 43 – Summary Financial Statements and have been extracted from the audited full financial statements. The full financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Charities Act 2005. The full financial statements comply with PBE Standards. The full financial statements have made an explicit and unreserved statement of compliance with PBE Standards.

Effect of first-time adoption of PBE standards on accounting policies and disclosures

"This is the first set of financial statements of the Group that are presented in accordance with PBE IPSAS standards. The Group has previously reported in accordance with NZ IFRS (PBE). The accounting policies adopted in these financial statements are consistent with those of the previous financial year, except for instances when the accounting or reporting requirements of a PBE IPSAS standard are different to requirements under NZ IFRS (PBE). These include:

- classification of Revenue between Exchange Transactions and Non-Exchange Transactions
- disclosure of Key Management Personnel by class of personnel rather than type of remuneration"

The full financial statements were authorised for issue by the Board on 15 June 2017. The financial statements have been audited and an unqualified opinion has been issued.

These summary financial statements do not include all disclosures provided in the full financial statements and can not be expected to provide as complete an understanding as provided by the full Financial Statements. Full financial statements are available on request from The Skills Organisation.

RESTRICTION ON USE OF CASH

The contract governing the business combination with the Plumbing, Gasfitting, Drainlaying and Roofing Industry Training Organisation (PGDRITO), dated 1 October 2012, included a provision for Skills to receive a distribution of any net surplus which arose following the liquidation of PGDRITO.

The surplus received comprised cash of \$1,075,000 and trade receivables of \$227,000. Funds received were to be held in trust by Skills for a period of four years solely for the benefit of the Plumbing, Gasfitting, Drainlaying and Roofing industries. Of the original funds received, \$434,000 remained at 31 December 2016 (2015: \$689,000) and were transferred to Revenue from Non-Exchange Transactions in accordance with the contract. This money must still be spent on PGDR training initiatives, but as of balance date no commitment had been made. Therefore the balance has been recorded as revenue.

**NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

ENTITY COMBINATIONS

On 1 August 2016 Shift Innovation Centre Limited purchased certain assets and liabilities from Electro-technical Education Centre (eTec). Shift acquired eTec for the purpose of protecting the provision of several niche industry training programmes and income generating capacity from user pays training.

Assets acquired and liabilities assumed

The fair values of the acquired assets and liabilities of eTec as of the date of acquisition were:

	Fair value at acquisition date
	\$'000
Assets	
Intangible Assets - Intellectual Property	1,490
Fixed Assets	42
	1,532
Liabilities	
Holiday Pay	(32)
	(32)
Total identifiable net assets at fair value	1,500
Purchase consideration transferred	1,500

Purchase Consideration

The purchase consideration of \$1,500,000 was made up of cash of \$1,050,000 and contingent consideration of \$450,000.

From the date of acquisition, eTec has contributed \$302,000 of revenue and a deficit of \$223,000 to the surplus of the Group. If the combination had taken place at the beginning of the year, total revenue for the Group would have been \$906,000 higher and the surplus would have been \$550,000 lower.



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Grow by growing others