



Education Report: Education New Zealand's draft Statement of Intent 2018-2022, and Draft Statement of Performance Expectations 2018/19

To:	Minister of Education		
Date:	1 May 2018	Priority:	Medium
Security Level:	In Confidence	METIS No:	1118701
Drafter:	Ros Coote	DDI:	s 9(2)(a)
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Messaging seen by Communications team:	No	Round Robin:	No

Purpose of report

This paper provides our advice on the following documents from Education New Zealand (ENZ):

- draft Statement of Intent (SOI) 2018-2022
- draft Statement of Performance Expectations (SPE) 2018/19.

You are required by statute to give your feedback to ENZ within fifteen days of receiving the documents from them.

Summary

Our report sits alongside ENZ's draft SOI and SPE which your office will receive at the same time as our report. The Ministry of Education and Ministry of Business Innovation and Employment (MBIE) provide a joint assessment of the strategic documents for ENZ.

Both documents meet statutory requirements for content and are expected to meet the statutory requirements for timing.

ENZ did not have to submit a revised SOI this year but has chosen to do so. We are comfortable there is clear alignment to the draft New Zealand International Education Strategy and Government priorities for education in the SOI. Measures for social and cultural benefits of international education would be challenging to develop but are desirable for future SOIs.

The financial forecasts in the draft SPE reflect that ENZ is in a stable financial position and only minor capital spending is planned in the coming year.

Proactive release

We recommend this report is proactively released, once ENZ has published its final SOI and SPE. This recommendation is in line with your response to our report on how the principles of proactive release apply to Crown entity monitoring [METIS 1111386 refers].

Any information which may need to be withheld will be done so in line with the provisions of the Official Information Act 1982.

Recommended Actions

The Ministry of Education recommends that you:

- a. **note** that you are being provided with two documents by Education New Zealand (ENZ) for your consideration and feedback as required by the Crown Entities Act 2004, (the Act), s146 **Noted**

- b. **note** our assessment that ENZ's draft SPE and SOI meet reporting requirements in the Act, s141 and s149E **Noted**

- c. **forward** any comments to ENZ on their draft SOI and SPE within fifteen working days of receiving them, to meet the requirement in the Act, s149I(b) **Noted**

- d. **release** this Education Report as part of proactive release, once ENZ has published its final SOI for 2018-2022 and SPE 2018/19

Release/ Not release


Emily Fabling
Deputy Secretary
Strategy, Planning and Governance

01/05/2018


Hon Chris Hipkins
Minister of Education

12/5/18

Annexes

- Annex 1: ENZ budgeted financial performance
Annex 2: Draft letter to the ENZ Board Chair

Background and statutory requirements

1. The Crown Entities Act 2004 (the Act) sets out the statutory requirements that a Crown entity must comply with when preparing and publishing its SOI and SPE.
2. ENZ sent the draft SPE and SOI to you on 28 April 2017. Under the Act, you have 15 working days from this date to provide your comments to ENZ. A draft letter is provided for this purpose.
3. This report has been written in consultation with the Ministry of Business, Innovation and Employment as joint monitor of ENZ.

Requirements for timing

4. Crown entities must prepare an annual SPE which relates to the forthcoming financial year (s149).
5. Crown entities have to prepare an SOI at least once in every 3-year period (s139), for the forthcoming financial year and at least the following three financial years. Even though ENZ's current SOI was published in June 2017, it has decided to prepare a new SOI for 2018-2022 as well as an SPE.
6. ENZ are providing their draft SOI and SPE to you at the same time as this report, meeting the first statutory deadline.¹ We expect that ENZ will meet the remaining deadlines for its SOI and SPE.²

Requirements for content

7. ENZ decided to prepare an SOI this year, in light of the development of a new draft New Zealand International Education Strategy (the Strategy) and recently approved Education Work Programme.
8. We note the draft SOI and SPE will meet the statutory content requirements set out in the Act, when they are submitted in final form. In summary:
 - An SOI must set out the strategic objectives that the entity intends to achieve or contribute to (strategic intentions); the nature and scope of its functions and intended operations; how it intends to manage these to meet its strategic intentions; and how it proposes to manage its organisational health and capability (s.141)
 - An SPE must identify each reportable class of outputs, explaining what the class of output is intended to achieve, the expected revenue and expenses and how performance will be assessed. It must also contain forecast financial

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1. Draft SOI and SPEs must be provided to the responsible Minister no later than two months before the start of the financial year to which they relate. The responsible Minister must provide comments on the drafts within 15 working days of receipt.
 2. The entity must consider the comments (if any) on the draft and provide the final SOI and SPE to its responsible Minister as soon as practicable after receiving the comments but before the start of the financial year. It must also publish the documents online.

statements, prepared in accordance with generally accepted accounting practice (s.149E)

Comment on the draft SOI 2018-2022

9. The draft ENZ SOI has shifted from having an almost exclusively economic focus to having an economic and education focus.
10. Alignment with the Government's work programme is incorporated on page 12 of the draft SOI. In particular, ENZ states that international education supports a fair and inclusive education system and helps students gain 21st century skills. We agree these goals are the appropriate points of alignment with international education.
11. The SOI clearly states how ENZ's activities align with the goals of the draft NZ International Education Strategy (the Strategy). We consider that the Strategy goals and sub-goals will provide a sharper focus for how ENZ will add value in the next four years (see the diagram on p. 13 of the draft SOI).
12. ENZ has re-oriented its outcome framework and operating intentions (p. 12-18) but retains the priority 'leading international thinking' in its performance framework. This refers to ENZ's roles in system collaboration and providing market intelligence. The roles are necessary to deliver the Strategy's goals.
13. The draft SOI is fit for purpose in terms of the direction it is setting. We will focus our future engagement with ENZ on:
 - reporting on international education's social and cultural benefits
 - understanding how ENZ strategic business priorities might incorporate the Education Work Programme.

Outcome measurement in the SOI

14. As part of future development, there is a need complement the current set of economic benefit measures with indicators of social and cultural benefits of international education for New Zealand. This will be challenging.
15. As part of developing the Strategy the Ministry is working with ENZ to establish measures across a range of activities.
16. ENZ's contribution to the Strategy's priorities and goals will vary depending on the role it plays; what it owns and what it contributes to. Understanding this will be important for them. We will continue to provide monitoring advice on this across the year.

Need for realistic SOI targets

17. The SOI has aspirational year-on-year increases across four of the six impact measures in the SOI. We think this is an ambitious approach for two measures:
 - the number of international students enrolled to study outside Auckland (p.19)
 - awareness of the contribution of international education to New Zealand (p. 21).
18. We strongly recommend that SOI targets for the above measures focus on an increase across the four year span of the SOI, rather than year-on-year increases. This reflects the fluctuation expected across years while the overall trend is an increase.

19. ENZ will still be able to report each year how the sector is progressing towards the 2022 targets and high value, high quality growth. This feedback has been provided and ENZ are considering it.

Changes from the previous SOI

20. There are now six impact measures instead of seven. The 'value of offshore delivery' is merged into the measure about the overall 'economic value of international education sector'. The figures are gathered separately but reported as one figure.
21. ENZ has simplified how it reports on 'proportion of international students satisfied with their overall experience'. The target is to meet an average of 85% or higher satisfaction across international students based in five types of educational institution. We consider this is realistic based on the data from past years and may be able to be set slightly higher. This feedback has been provided and ENZ are considering it.

Organisational Development

22. The measures in the Organisational Development section (p. 22-24) are the same as the previous SOI. We agree this is a useful approach as it enables trend analysis over time.

Letter of Expectations and future SOIs

23. The Letter of Expectations (LOE) for ENZ is currently being developed. The LOE will more fully reflect your priorities and will be a key document informing ENZ's priority areas of work and future accountability documents.
24. We recognise that within the format of the SOI it is not straightforward for ENZ to reflect the many stakeholder and customer relationships they have or plan to develop. For this reason, when developing the LOE we will focus on how ENZ plans to maintain and enhance its stakeholder engagement to increase the wide-ranging opportunities to connect.
25. ENZ is improving its marketing and intelligence tools to better support students as they apply to study in New Zealand. This capability directly supports the strategic priorities in ENZ's performance framework and the goals in the Strategy. We consider that it would be useful for ENZ to cover this area in depth in its next SOI.

Comment on draft SPE 2018/19

26. There are some changes to ENZ's performance measures for 2018/19, reflecting its improvement programme. We have been provided a monitoring perspective for this programme across the year.

Comment on forecast financial performance

27. The draft SPE shows ENZ is budgeting for a nil surplus in 2018/19. Key assumptions include:
- Export Education Levy (EEL) funding continuing at the same level
 - A plan is still to be developed for the accumulated scholarship surplus
 - sustainability is based on ENZ's flexibility in its marketing budget
 - The sector is carrying the future investment risk for international education.

28. Our detailed comments on ENZ's budgeted financial performance are attached in Annex 1.

Comment on forecast non-financial performance

29. Fifteen measures in last year's SPE have been rationalised into ten measures of performance and six activity measures. Separating performance and activity measures is viewed as good practice and we commend this change.

Measures removed

30. Two milestone measures and a satisfaction measure have been removed as planned.
- The target for delivery of the Strategy is no longer required and the 'delivery of education services offshore' is now part of the Strategy development focus on diversification of markets and products.
 - ENZ has removed the measure 'Percentage of users that are satisfied with the quality of ENZ's services and support'. This was based on evaluations of ENZ events only. The replacement measure ('Percentage of users that agree ENZ's services and support have added value') was phased in from 2015/16 onwards.
31. We welcome the more realistic targets for some measures, even though this means some activity targets are lower than before. (Our advice on last year's SPE raised this as an issue to address [METIS 1057081 refers]).
32. We have asked ENZ whether a richer performance picture could be provided for the scholarships that are granted each year. We are pleased to see a new measure about the number of academic and professional connections that the students report they have made during their time on scholarship (p. 9). When the number of scholarships granted each year (around 400-450) is seen in terms of the number of new connections, this shows in a measurable way how global citizenship is forged.

Next steps

33. Under the Act, your comments need to be forwarded to ENZ within 15 working days of ENZ submitting the draft SOI and SPE. We have provided a draft letter from you, as Minister of Education, for this purpose.
34. ENZ must consider your comments. It then provides the final SOI and SPE to you as the responsible Minister no later than start of the financial year. After providing the final document, the Crown entity must publish the SOI and SPE on its website as soon as practicable.
35. The SOI and SPE must be tabled in the House by the responsible Minister. This can be done before the Annual Report for the previous year is presented or at the same time (s.149L). This will mean that it is not possible to align the SOI and SPE release with that of the final NZ International Education Strategy which is currently planned for August 2018.

Annex 1: ENZ budgeted financial performance

1. Summary

The draft SPE (p. 6) shows that ENZ is budgeting for a nil surplus in the 2018/2019 financial year (FY19).

This is consistent with the planned budget for FY18 which ENZ is on track to exceed due to a small forecast scholarships surplus of \$0.2m (Table 1).

Given the nature of ENZ's business, it is able to its flex marketing activity to remain within budget, if required. While ENZ does have sufficient reserves to absorb a small operating deficit, it cannot fund any significant unplanned activity within its balance sheet.

2. Budgeted financial performance

ENZ's budgeted revenue will fall in FY19 due to the conclusion of a Ministry of Foreign Affairs and Trade (MFAT) funded programme (\$2m) and reprioritisation savings of \$0.2m. These revenue decreases are offset by equivalent expenditure savings (Table 1).

As discussed in previous quarterly reports ENZ has historically found it difficult to allocate all scholarship funding, resulting in an accumulated scholarship surplus. A significant portion of the scholarship surplus was due to timing differences between when scholarship revenue is received and scholarship funding is drawn down by recipients. This is forecast to continue in FY18 (Table 1).

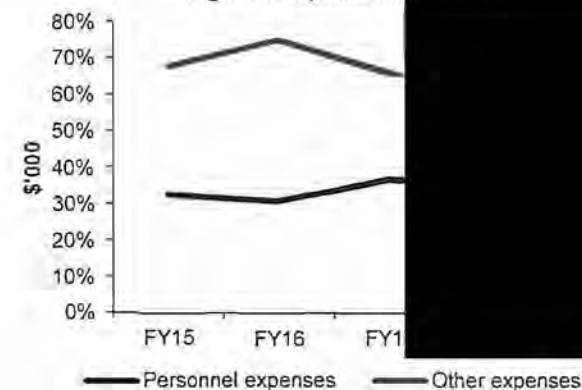
ENZ are budgeting for a slight shift between the proportion of revenue spent on personal and other operating expenditure. In FY18 it is forecast that personnel expenditure will be 34% of total revenue and in FY19 this is budgeted to rise to 38%. Conversely there is a fall in other operating expenditure from 65% to 61% (Figure 1). While there is a small increase in personnel expenses, the main driver of this is the \$2m MFAT contract, the revenue of which was passed directly through to third party suppliers.

Table 1. Financial performance

\$'000	FY15	FY16	FY17
Operating			
Revenue			
Crown - operating	28,855	27,857	25,674
Crown - EEL	2,267	3,781	4,145
Other	1,983	2,452	1,851
	<u>33,105</u>	<u>34,090</u>	<u>31,670</u>
Expenditure			
Personnel expenses	(10,746)	(10,473)	(11,688)
Other operating expenses	(22,449)	(25,589)	(20,925)
Depreciation & amortisation	(391)	(458)	(420)
	<u>(33,586)</u>	<u>(36,520)</u>	<u>(33,033)</u>
Net surplus/(deficit)	<u>(481)</u>	<u>(2,430)</u>	<u>(1,363)</u>
Scholarships			
Revenue	800	800	4,100
Expenditure	(690)	(505)	(3,710)
Net surplus/(deficit)	<u>110</u>	<u>295</u>	<u>390</u>
Overall			
Net surplus/(deficit)	<u>(371)</u>	<u>(2,135)</u>	<u>(973)</u>

s 9(2)(f)(iv) OIA,
s 9(2)(g)(i) OIA

Figure 1. Expense management





3. Financial sustainability



ENZ's balance sheet is budgeted to remain stable.



s 9(2)(f)(iv) OIA, s 9(2)(g)(i) OIA



Proactive



MP for Rimutaka

Minister of Education

Minister of State Services

Leader of the House

Minister Responsible for Ministerial Services

15 MAY 2018

Charles Finny
Chair
Education New Zealand
PO Box 12041
WELLINGTON 6141

Dear Charles

I have received Education New Zealand's draft Statement of Intent 2018-2022 and draft Statement of Performance Expectations 2018/19.

I consider the documents to be fit for purpose in setting out your strategic intentions and performance expectations for the coming year. The SOI is aligned with the development of the New Zealand International Education Strategy, driving towards sustainable growth based on the quality of education.

In addition, I would like to see measures in the next ENZ SOI that will demonstrate that New Zealanders are gaining social and cultural benefits from international education, as well as measures that show the industry is growing and thriving. All of these things demonstrate the desired outcomes of international education.

I look forward to the finalisation of a new International Education Strategy later in 2018.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'CH', written over a large, faint watermark that reads 'Proactively released'.

Chris Hipkins
Minister of Education

cc Grant McPherson, Chief Executive, Education New Zealand
cc Emily Fabling, Deputy Secretary, Strategy, Planning and Governance, Ministry of Education