Education Report: New Zealand Qualifications Authority end of year performance assessment

To: Minister of Education

Date: 24 September 2018
Priority: Medium

Security Level: In Confidence
METIS No: 1137358

Drafter: Jennifer Heersping
Key Contact: Fiona O'Leary

Messaging seen by Communications team: No
Round Robin: Yes

Purpose of Report

This paper provides our assessment of the 2017/18 performance of the New Zealand Qualifications Authority (NZQA), and asks you to sign and send the letter to the Board Chair of NZQA relating to the entity’s performance.

Recommended Actions

The Ministry of Education recommends you:

a. note that in order to satisfy section 150(3) of the Crown Entities Act 2004, the responsible Minister must present NZQA’s Annual Report to the House of Representatives within five working days of receiving the report, or if Parliament is not in session, as soon as possible after the commencement of the next session of Parliament

Noted

b. note that NZQA will publish the Annual Report within 10 days of submitting the report to you in order to satisfy section 150(4) of the Crown Entities Act 2004

Noted

c. note our assessment of NZQA’s performance for the 2017/18 year

Noted

d. note that you have the opportunity to provide an early indication of changes you would like to see in NZQA’s performance measurement through this report

Noted
e. **sign and send** the attached letter to the NZQA Board Chair

f. **proactively release** this Education Report as part of the next publication

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Emily Fabling  
**Deputy Secretary**  
Strategy, Planning and Governance  
24/09/2018

Hon Chris Hipkins  
**Minister of Education**  
2/10/18
Background

1. NZQA received its final audit report on 30 August 2018. Crown agents must produce and provide you with an Annual Report no later than 15 working days after receiving the final audit report. The entity must then publish the Annual Report no later than 10 working days after you receive it.

2. You are required to table NZQA’s Annual Report within five working days after you receive the report to satisfy section 150(3) of the Crown Entities Act 2004. If Parliament is not in session, you must table the report as soon as possible after commencement of the next session.

3. The Tertiary Education Commission (TEC) and Education New Zealand final Annual Reports will be provided in late October and November respectively.

4. Crown agents can choose to provide you with a draft annual report for your input but it is not required. While NZQA has not provided you with a draft they have involved the Ministry of Education throughout the drafting process so that feedback could be provided and considered.

5. The Ministry in its monitoring function provides advice over the Crown agent Annual Report by reviewing and analysing the financial and non-financial data.

6. The analysis performed is to provide assurance and advice to you on:
   a. the form and content of NZQA’s Annual Report
   b. financial and non-financial performance, and
   c. areas where you may wish to consider enhancements, or seek further information through monitoring or entity advice.

7. NZQA will be developing a Statement of Intent (SOI) and Statement of Performance Expectations (SPE) (19/20) next year. Planning for these documents is underway and your feedback on the Annual Report and the Letter of Expectations will be useful in giving early indications on expectations or changes you want to have considered in these documents.

8. Your feedback on the NZQA Annual Report can also be used to inform the progress against its performance measures that you would like to see from the organisation as set out in the SOI, SPE and the improvement work that NZQA is undertaking.

Annual Report overview

Statutory requirements for content

9. The Ministry’s view is that NZQA’s Annual Report for 2017/18 meets statutory requirements for content. The requirements for the content of an annual report are set out in sections 150-156 of the Crown Entities Act 2004 and include having compliant information about the entity’s:
   a. final audit
   b. responsibility and Board
   c. organisational capability, and
   d. annual financial statements.

10. NZQA has met requirements outlined by the State Services Commission for application of whole of government directions.
11. Detailed financial and non-financial performance analysis is provided in Annexes.

Report highlights

12. The Annual Report signals positive movements in how NZQA:
   a. engages with customers and stakeholders,
   b. moves towards customer and sector focused service delivery, designed to lift capability of the sector and understanding and engagement by students, parents and whānau,
   c. seeks and incorporates the customer voice and stakeholder feedback through pilots and evaluation, and
   d. shifts towards becoming a bilingual organisation.

13. NZQA is putting in place strategies, initiatives and pilots which will continue these positive movements. To meet the high expectations on the organisation for the way that it engages with customers and stakeholders, NZQA will need to work seamlessly across government and the sector. NZQA, alongside other government departments, will need to continue to meet ambitious timelines given the scale and complexity of changes required under the education portfolio work programme.

14. It will be important for NZQA to increase the role of stakeholder and customers in the design of services and products. This will draw from a deeper understanding of the diverse needs of these groups and of the role that NZQA plays in their lives, and will influence how NZQA delivers its core services. It is good to see that NZQA is aware of this need and has initiated further work in this area.

15. Through digital work streams and micro-credentials, NZQA is looking at how services respond to fast paced economic, social, technological change through a number of pilots. Long-term changes in the nature of its work will require strategic change management, capability build and effective communication with customers, the sector, and within the organisation. The impact of the digital work streams on the sector and any associated costs will need to be considered as part of NZQA’s project planning. Where there are impacts that require capability shifts in the sector it will be important to work alongside the Ministry, and potentially other organisations such as the Education Council, to support this.

16. To gauge the degree of NZQA’s alignment to the wider education portfolio work programme, our monitoring engagement has been focused on interdependency management. We have seen improvements in the way that NZQA is working with the Ministry to align deliverables, however there is still opportunity for improvement. We will continue to monitor this through our engagement.

Pilots and initiatives

17. The Annual Report highlighted that NZQA has been running several digital pilots. Areas highlighted in the report included continued work on the new electronic New Zealand Record of Achievement and the digital Literacy and Numeracy Assessment Pilot. NZQA will assess future options for implementation of findings, some of which may require additional financial support. How these pilots link to the changing operating model for NZQA and the schooling system as well as the broader technology and education work streams will be important part of our upcoming monitoring engagement.

18. It is good to see that NZQA is carrying out evaluations alongside pilots, as it is critical in understanding impact, readiness and ability to scale up.
Monitoring tertiary education organisations

19. NZQA has made good progress in building capability and capacity for monitoring non-university tertiary education organisations (TEOs). The number of audits has increased and risk analysis of the sector is more closely connected with that of the Tertiary Education Commission. As part of its work to boost sector capability, NZQA has increased the frequency of communications on expectations that are provided to the sector. It has also increased the value of these communications through tailoring responses to the target audience.

21. One of NZQA’s monitoring responsibilities for the international education sector is to ensure students receive ethical and responsible care from providers through the administration of the Education (Pastoral Care of International Students) Code of Practice 2016. Adherence to the Code is important in ensuring positive wellbeing in students. It is good to see NZQA building capability of pastoral care staff through tailored professional development including Code induction workshops and practice guidelines. Moving forward, it will be important to understand how NZQA:
   a. is sharing information (as relevant) across the education system as well as with other government agencies such as Immigration New Zealand to support positive agent behaviour,
   b. is exploring and sharing learnings and feedback about what good pastoral care looks like (particularly for younger students who require extra support), and
   c. can work with other agencies to further enhance capability in the sector.

Non-financial performance measurement

22. NZQA has a continuous improvement approach to measuring impact on the sector and organisational performance which has been reflected in its annual report and 2018/19 SPE. In particular, we have seen shifts from volume to quality measurement and improved customer facing measures (detailed analysis is found in Annex 1).

23. We are pleased to see the positive impact NZQA is having in increasing understanding of NCEA for Māori and Pacific peoples through the workshops it runs. In particular the number of participants who reported the NCEA and the Whānau workshops made them more confident to engage with the school rose by 47% to 78%. This is a substantial improvement. These workshops could also be an effective channel for engagement on changes that result from the NCEA review or other parts of the Education Portfolio Work Programme.

24. For 2017/18, NZQA has met 100% of its impact (SOI) measures and 92% of its output (SPE) measures. This is an improvement on 2016/17, where 80% of the SOI measures and 91% of the SPE measures were met. We would support NZQA adopting more ambitious targets for some of these measures.

25. NZQA also reported on 15 demand driven output measures. Seven of these have been removed from the 2018/19 SPE as they only provide contextual information and do not demonstrate organisational performance. NZQA intends to continue tracking this

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1 Excludes multi-year measures, or those that don’t have an annual result to compare to an annual target, such as demand driven measures
information internally to provide context when interpreting performance results for SPE measures.

Financial performance

28. NZQA performed better than anticipated for the financial year, with a net deficit of $1.192m against a budget deficit of $1.988m.

Recommendations for 2019/20

28. Given changes in Government priorities, when setting its 2019/20 – 2022/23 SOI and its 2019/20 SPE NZQA will need to signal how it will work with other agencies and the sector to deliver on your priorities in a seamless, integrated manner that continues to build capability and enables change. The increasing role of stakeholders and customers in NZQA’s and delivery of services will be important in demonstrating this changed engagement model.

29. In addition, given the Government’s focus on strengthening secondary and tertiary education, NZQA will need to ensure it continues to strengthen its core services and offerings – such as programme approval and moderation – particularly where key education reviews progress may result in sector and practice change.

30. Findings from evaluations and sector engagement could be more strongly reflected in the next Annual Report, so that the benefits or impacts of its initiatives are more visible and can be recognised and addressed.

31. NZQA will also benefit from continuing to show a stronger wellbeing focus in its SOI, SPE and next year’s Annual Report.

32. To provide you with assurance on all of NZQA deliverables and responsibilities, we will be exploring the following through our monitoring engagement in 2018/19:
   a. the degree of focus NZQA has on customers
   b. the level of cross-government collaboration occurring with partner agencies and sector stakeholders
   c. the level of alignment with the Education Portfolio Work Programme
   d. how NZQA segments customer groups to better understand how customer satisfaction and service varies between and within these groups, and
   e. how NZQA will support and assess the impact it has on wellbeing.

SOI/SPE updates

33. Over the coming year, NZQA intends to develop a new SPE for 2019/20 and a SOI for 2019/20 – 2022/23. There is an opportunity for you to provide early direction on the impacts and outcomes you expect to see in these documents through feedback on this report and through the NZQA 2017/18 Letter of Expectations [METIS 1055725 refers].
34. We expect to see that these documents fully align to Government priorities and, depending on timing, either signal or incorporate changes that will arise as a result of key initiatives, reviews and updates. In particular this will include the:
   a. Tertiary Education Strategy,
   b. NCEA review,
   c. NZQF review,
   d. Curriculum, Progress and Achievement work, and
   e. those that support equitable outcomes and achievement in Māori, Pacific and disabled peoples.

35. Cross-sector engagement will be critical and NZQA will need to consider how it will appropriately manage interdependencies.

Proactive Release

36. It is intended that this Education Report is proactively released as per your expectation that information be released as soon as possible. Any information which may need to be withheld will be done so in line with the provisions of the Official Information Act 1982.

Annexes

Annex 1: Annual Report and monitoring overview
Annex 2: Non-financial performance
Annex 3: Financial performance
Annex 4: Letter to Board Chair
Annex 1 – Annual Report and monitoring overview

Highlights

- NZQA’s annual report refers to numerous digital type initiatives (pilots) and innovations (micro-credentials) being completed, underway or planned. These require strong change management capability and plans to support them.
- Changing customer and stakeholder engagement has been highlighted through new measures and as part of the success stories. Channel management and changing customer engagement approaches all need to continue being strengthened and developed.
- NZQA has made good progress in building capability and capacity for monitoring non-university TEOs. The number of audits has increased and risk analysis of the sector is more closely connected with TEC. This function is critical in ensuring programme and provider risk is appropriately managed.

Focus for SPE and SOI development for 2019/20

- Continuing to increase focus and build capability in understanding customers.
- Continuing to reduce reliance on demand driven measures.
- Expanding and reshaping outcome statements in the SOI.
- Developing further impact measures and understanding changing behaviours NZQA is seeing through its assessment and assurance functions.

Change initiatives

- In 2017/18 NZQA had a number of pilots and initiatives underway to explore modernising its services and future proofing the education system.
- While NZQA has had positive results, some initiatives will require additional funding to progress further.
- We expect to see NZQA taking a whole-of-system approach to information and data and that the development of new tools and services complements products TEC and MOE have, or are in the process of developing.
- It is important for NZQA to understand how these pilots connect with each other and align to changes occurring across the education system.
- NZQA also needs to explore implications on the sector and on NZQA’s operating model.
- Cross-government dependencies and work could be storyboarded in terms of understanding linkages, success and dependences.

Shifts in customers and services

- A large proportion of NZQA’s work is focused on building capability in the sector. Based on the results in NZQA’s customer service measures NZQA has the opportunity to improve performance by exploring the effectiveness of its channels. By segmenting customer groups NZQA can better understand which communication and interaction types provide the most benefits. This will also help NZQA to unpick areas it needs to improve and adjust its channels strategy accordingly.
- We also see opportunity for NZQA to strengthen its channels strategy by creating a more active feedback model. For example, NZQA provides has a number of workshops which is an opportunity to engage directly with customers on improvements they would like to see both in the workshops and in its wider service offering.
- As wellbeing is a priority for this Government, we will be further exploring the contribution and role of NZQA in this. In particular NZQA has a key role in supporting wellbeing of international students through its monitoring function. Moving forward, it will be important to understand how NZQA is sharing intelligence across the education system to support positive education agent behaviour, is exploring and sharing learnings and feedback about what good pastoral care looks like (particularly for younger students who require extra support), and how NZQA can work with other agencies to further enhance capability in the sector.

Monitoring topics across 2017/18

- We have had good engagement with NZQA on monitoring topics across 2017/18. In particular, we have seen increased access to NZQA’s senior leadership and transparency and openness on monitoring topics.
Background on non-financial performance monitoring

A Crown entity assesses its performance against intentions and measures set out in its current accountability documents.

- Strategic intentions, impact measures and organisational capability measures are set out in its Statement of Intent (SOI).
- Output measures are set out in its Statement of Performance Expectations (SPE).

Letters of Expectations (LOEs) are generally issued by Ministers to drive the entity’s priorities across the year. Where timing allows, accountability documents are shaped by the current LOE.

As a monitoring department, the Ministry tracks the entity’s progress against the intentions and measures in the accountability documents and the LOE, and engages regularly with the entity on its implementation of key areas of work.

The Ministry provides independent advice to the Minister on the entity’s performance and annual reporting.

NZQA’s non-financial performance is reflected in the Annual Report against impact measures, initiatives underway that support its wider achievement aims, the three multi-year goals for its Future State Programme (the ‘2020 Goals’), organisational capability targets, and output classes and measures.

Summary of non-financial results

For 2017/18 NZQA has met 100% of its impact (SOI) measures and 98% of its output (SPE) measures.²

Table 1. Measures met in 2016/2017 and 2017/18

<table>
<thead>
<tr>
<th>Year</th>
<th>Impact</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016/17</td>
<td>80%</td>
<td>91%</td>
</tr>
<tr>
<td>2017/18</td>
<td>100%</td>
<td>92%</td>
</tr>
</tbody>
</table>

Instances where annual targets are not available to compare to annual results include:

- multi-year impact measures
- output measures that have no result because the corresponding business process was not required this year
- ‘demand driven’ output measures which do not have targets.

In 2017/18, nine of NZQA’s 56 output measures were demand driven (29%). This proportion is the same as 2016/17. In its 2018/19 SPE NZQA reduced the proportion of demand driven output measures to 16% as they only provide contextual information and do not demonstrate organisational performance. NZQA intend to continue tracking this information internally to provide context when interpreting performance results for SPE measures.

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² Excludes multi-year measures, or those that don’t have an annual result to compare to an annual target, such as demand driven measures.
NZQA continuously meets a vast majority (close to 100%) of its output measures. Over time the number of measures has not changed significantly but NZQA is moving towards capturing a more qualitative view of performance. We would support NZQA adopting more ambitious targets for some of these measures. ‘Other’ measures include those that are demand driven so the results do not provide a complete picture of NZQA’s performance.

**Achievement aims**

NZQA’s performance framework can be summarised under three ‘achievement aims’. Its impact areas, output classes, and organisational measures map to these achievement aims, either directly to one aim or across all three aims as enablers.

NZQA performed well against all achievement aims in 2017/18, where there was an annual result to compare to an annual target. It also achieved more targets this year than it did in 2016/17.

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4 ‘Other’ refers to measures that did not have an annual result to compare to an annual target, because they were either multi-year measures, have no result because the corresponding business process was not required this year, or because they are ‘demand driven’ measures that do not have targets.

5 ‘Met’ means that NZQA’s result for this measure either achieved or exceeded the annual target. Includes measures that have an annual result to compare to an annual target.
Annex 2 – Non-financial performance (continued)  

NZQA performance 2017/18

Customer service measures

NZQA has four explicit customer facing measures, three are output measures and one is an organisational health measure. All have stretch targets. The targets for these measures were not achieved this year, as they are all new measures for 18/19 and this is not currently a concern.

Figure 3. Customer service measure performance

![Customer service measure performance chart]

Output measures

The three output measures that were not met all sit in the subclass ‘Output 1.1: Community consultation and communication’, and relate to response time, usefulness of information provided, and ease of website use. These measures were new for 2017/18, and we support NZQA’s efforts to adopt stronger customer facing measures and plans to use the results to drive service improvements.

The percentage of satisfaction against each measure may vary within stakeholder and customer segments. NZQA recognises that while aggregation provides a useful benchmark, a deeper understanding will require further analytics. We support this as enhancing understanding of customer segmentation can then be used to drive improvement in the services NZQA offers. This is an area all the education Crown agents have an opportunity to improve.

NZQA will be developing a fuller suite of customer service output measures for the 2019/20 SPE which may further supplement these measures.

Organisational health measures

The organisational health measure not met relates to the customer service experience. The target is that ‘more than 85% of surveyed customers consider the quality of their experiences with NZQA to be the same as, or better than, their experiences with other public-sector organisations’. For 2017/18 the result was 84.1%. This is a small drop from the two previous years, which were 85.9% in 2016/17 and 87% in 2015/19.

Improving customer focus

NZQA is working to improve customer satisfaction in the face of changing customer expectations. This includes:

- creating a new team to focus on customer requirements and the way NZQA works with them
- strengthening the Call Centre into a Contact Centre able to solve customer requirements at first point of contact
- developing a Customer and Channel Strategy
- improving customer and stakeholder engagement.

Other customer-related measures

NZQA also reports against customer-related impact measures, where behavioural change and knowledge of NCEA from workshops held with whanau and Pasifika are being monitored. NZQA met 100% of its annual targets for its impact measures this year.
Financial performance and sustainability summary

NZQA performed better than anticipated for the financial year, with a net deficit of $1.192m against a budget deficit of $1.988m.

Revenue and expenditure were $0.958m and $0.162m higher than budget respectively. The main differences between actual and budgeted performance were as follows:

1. Additional revenue of $2.9m was received for the NCEA Online project. This was offset by $2.7m in expenditure.
2. An additional $0.7m was received from the Export Education Levy to reimburse costs incurred in relation to the closure of tertiary providers.
3. The costs of Tertiary Monitoring and Assessment were $2.7m over budget.
4. Lower credit reporting volumes and reduced revenue from Qualifications Recognition Services resulted in $3m lower revenue. This was offset by reduced expenditure in this service line.
5. Depreciation and amortisation was $0.7m under budget, which is largely a result of timing differences in the capitalisation of projects compared to budget.

The deficit in the financial year was planned and is funded via accumulated reserves. It has no impact on NZQA’s medium term financial sustainability.

The performance of Output Classes 1 and 2 were broadly similar in FY18 compared to FY17. Output Class 4 performed significantly better than FY17 due to all NCEA Online activity being funded, which is different to previous years. Output Class 2 had a higher deficit than FY17 due to the aforementioned increase in tertiary monitoring and assessment.

Looking forward

NZQA has forecasted for a balanced budget in FY18. While the budget did not account for the subsequently announced $8m in additional funding for NCEA Online, this should be fully spent and will therefore have no impact on the budget.

Table 3. Statement of financial performance

<table>
<thead>
<tr>
<th></th>
<th>FY18 Actual</th>
<th>FY18B</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crown</td>
<td>44,516</td>
<td>41,351</td>
<td>41,580</td>
</tr>
<tr>
<td>Other</td>
<td>41,565</td>
<td>43,772</td>
<td>44,359</td>
</tr>
<tr>
<td></td>
<td>86,081</td>
<td>85,123</td>
<td>85,939</td>
</tr>
<tr>
<td>Expenditure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>(57,326)</td>
<td>(55,711)</td>
<td>(55,367)</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(27,096)</td>
<td>(27,894)</td>
<td>(30,630)</td>
</tr>
<tr>
<td>Depreciation &amp; amortisation</td>
<td>(2,851)</td>
<td>(3,506)</td>
<td>(2,810)</td>
</tr>
<tr>
<td></td>
<td>(87,273)</td>
<td>(87,111)</td>
<td>(88,815)</td>
</tr>
<tr>
<td>Net surplus/(deficit)</td>
<td>(1,192)</td>
<td>(1,988)</td>
<td>(2,876)</td>
</tr>
</tbody>
</table>

Figure 4. Output class performance
Annex 3 – Financial performance and sustainability (continued)

Financial position summary
NZQA’s equity position at the end of FY18 was better than budget due to the lower than anticipated operating deficit.

NZQA had a slightly higher asset base and fewer liabilities than budgeted at the end of the financial year.

Equity has fallen compared to FY17, which was anticipated given the budgeted net loss.

Cash and working capital
Cash remained at a similar level compared to the end of FY17, however working capital (current assets less current liabilities) fell.

The main movement in working capital was a fall in receivables from $4.3m to $3.4m. This is likely to be due to the timing of when invoices have been issued and payment received. The fall in receivables released cash to fund the operating deficit.

Both cash and working capital remain at a suitable level for an organisation the size of NZQA.

Looking forward
As referred to on the previous page, NZQA has forecasted for a balanced budget from FY19. This would result in no changes to equity and minimal changes to working capital.

While working capital remains at a suitable level, if NZQA was to incur a sizeable loss in FY19, it could have a material impact on its medium term sustainability.

NZQA will therefore need to ensure it continues to manage its finances effectively and consider budget bids where the cost of delivery outweighs funding received.

Table 4. Statement of financial position

<table>
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<th>FY18 Actual</th>
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<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>17,578</td>
<td>17,623</td>
<td>18,740</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>9,375</td>
<td>6,805</td>
<td>9,930</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>26,953</td>
<td>26,428</td>
<td>28,670</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>12,146</td>
<td>12,529</td>
<td>12,639</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>614</td>
<td>502</td>
<td>646</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>12,760</td>
<td>13,031</td>
<td>13,285</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td>14,193</td>
<td>13,397</td>
<td>16,385</td>
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Figure 5. Financial position

While working capital remains at a suitable level, if NZQA was to incur a sizeable loss in FY19, it could have a material impact on its medium term sustainability.

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Sue Suckling OBE
Chair
New Zealand Qualifications Authority (NZQA)
PO Box 160
Wellington 6140

Dear Sue

I have received NZQA’s Annual Report for 2017/18, alongside the Ministry of Education’s assessment. Thank you for sharing this information.

I am pleased to note that NZQA has performed well against the measures set out in its 2017/18 Statement of Performance Expectations (SPE) and 2016/17 – 2019/20 Statement of Intent (SOI). In particular, I am pleased to see the progress made towards the impact measures.

I look forward to seeing how NZQA’s next SOI and SPE have reflected the changes required to customer engagement as well as government and sector collaboration. These factors will be critical in ensuring positive social and economic wellbeing for New Zealand’s learners.

I appreciate your hard work, and would like to pass on my thanks to your staff for their efforts.

Yours sincerely,

Chris Hipkins
Minister of Education

cc  Dr Karen Poutasi, Chief Executive, NZQA
cc  Emily Fabling, Deputy Secretary, Strategy, Planning and Governance, Ministry of Education