Purpose of report

This paper provides our assessment of the Quarter 1 performance of the New Zealand Qualifications Authority (NZQA), and asks you to sign and send the letter to the Chair of NZQA relating to its quarterly report.

Summary

The Ministry’s assessment of NZQA’s performance covers Quarter 1 2018/19 (1 July to 30 September 2018) and developments up to the date of this report. This report sits alongside NZQA’s own quarterly report which you received on 8 November.

In this quarter, NZQA reported successes in stakeholder engagement. Sector stakeholders interviewed during the Digital Assessment Transformation (DAT) programme Gateway Review reported favourably on the programme’s approach to working and communicating with stakeholders. This work is currently funded until the end of the financial year. NZQA has no ability to fund it out of baseline funding beyond the current financial year.
Proactive release

We recommend this report is proactively released. 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 you:

a. **note** our assessment of NZQA’s performance in Quarter 1 2018/19

   - Noted

b. **sign and send** the attached draft letter to the Chair of the NZQA Board

   - Agree / Disagree

c. **release** this Education Report as part of proactive release

   - Release / Not release

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Emily Fabling  
Deputy Secretary  
Strategy, Planning and Governance

19/11/2018

Hon Chris Hipkins  
Minister of Education

11/12/15

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Annexes

Annex 1:  Draft letter to the NZQA Board Chair
A. The Ministry’s report at a glance

**Key points**

- The Digital Assessment Transformation Programme received a positive amber/green Gateway Review rating. 
- NZQA is increasing its customer insight capability and its engagement with learners, customers, and stakeholders.

**Priority areas for next quarters**

- Digital Assessment Transformation programme
- Financial sustainability
- Internal assessment process, including moderation
- Equity
- Customer insight
- Data and information

**Upcoming reports**

- Apr-19: Draft SCI and SPE and monitoring advice
- May-19: Letter of Expectations finalised
- Sep-19: Annual Report and E0Y monitoring advice
- Jan-20: Q2 report and monitoring advice
- May-19: Q3 report and monitoring advice
- Nov-19: Q4 report and monitoring advice

**Financial performance**

<table>
<thead>
<tr>
<th></th>
<th>YTD FY19</th>
<th>YTD Budget</th>
<th>YTD FY18</th>
<th>FY19B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>18,966</td>
<td>19,034</td>
<td>17,908</td>
<td>84,922</td>
</tr>
<tr>
<td>Expenditure</td>
<td>(17,846)</td>
<td>(18,296)</td>
<td>(18,686)</td>
<td>(84,922)</td>
</tr>
<tr>
<td>Net surplus/(deficit)</td>
<td>1,120</td>
<td>748</td>
<td>(761)</td>
<td>6</td>
</tr>
</tbody>
</table>

**Financial position summary**

<table>
<thead>
<tr>
<th></th>
<th>As at 30</th>
<th>As at 30</th>
<th>June 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sept 2018</td>
<td>Sept 2017</td>
<td>(Budget)</td>
</tr>
<tr>
<td>Cash and Investments</td>
<td>24,870</td>
<td>24,772</td>
<td>12,018</td>
</tr>
<tr>
<td>Equity</td>
<td>15,261</td>
<td>14,626</td>
<td>13,397</td>
</tr>
<tr>
<td>Working capital ratio</td>
<td>1.31</td>
<td>1.22</td>
<td>1.48</td>
</tr>
</tbody>
</table>

**Non-financial performance**

There are no concerns around non-financial performance. NZQA is performing well against its output measures. All that have interim results reported against targets in this quarter are on track.

NZQA is doing the groundwork for its 2019/20 – 2022/23 Statement of Intent and 2019/20 Statement of Performance expectations.

**Board appointments**

Appointments for 2018/19 have been confirmed.

Planning has begun for the four Board appointments that expire in 2019/20 (one in June, two in September, and one in November).
B. Monitoring focus areas

1. Background

Areas of focus for Ministry monitoring activity are informed by NZQA’s 2018/19 Letter of Expectations [METIS 1153128 refers] and its environmental context.

2. Strategic areas of focus

**NCEA Online / Digital Assessment Transformation (DAT)**

*Progress of the programme*

The DAT programme experienced recent successes that demonstrate NZQA’s increased focus on stakeholder engagement and understanding the needs of its customers. These include:

- the strong sector support and favourable rating the programme received during its recent Gateway Review, and
- the significantly reduced number of contacts from schools seeking assistance when participating in the first round of Digital Trials this year, despite the number of participating student numbers having doubled.

NZQA has engaged organisations such as the New Zealand Council for Educational Research to conduct research about how modified or redefined examination options could work in the coming years. Translating this understanding into actionable improvements to assessment design, delivery and moderation systems – particularly in the context of the NCEA and Tomorrow’s Schools reviews – will be an important focus for NZQA in the near term.

*Programme funding*

The DAT programme is dependent on external funding as future work on the programme cannot be delivered out of NZQA’s operating baseline. Contracts with vendors are being structured to allow flexibility in the event of future funding not being made available. NZQA’s ability to attract and retain specialist programme staff will continue to be affected by this uncertainty.

NZQA continues to work through the implications of not receiving DAT funding. This includes incurring some increased maintenance and support costs relating to legacy systems over the medium term, but is unlikely to affect NZQA’s ability to continue its ICT modernisation work in the short term.

Our monitoring focus for the remainder of this year will include how the DAT programme will support equity, the shift to digital assessment design, the alignment to the Education Portfolio Work Programme (EPWP), s 9(2)(l)(iv), s 9(2)(g)(i)

*Level 1 English Examination server outage*

NZQA has briefed your office on the short server outage that occurred on 12 November, just over two hours into the digital Pilot for the Level 1 English examination.

We received assurance that NZQA undertook immediate actions to remedy the situation that it will incorporate lessons learnt into the NCEA Online work programme.

We will monitor how this incident is factored into future planning and activity to ensure both the integrity of the digital Pilots for next year and the continued prioritisation of student wellbeing.
Customers understanding and insight

NZQA is working to improving services by improving its staff's understanding of customer needs across the business. This has included:
- staging a customer experience gallery to share insights from its student ambassadors into the experiences of Pasifika students, as well as other customer insights, and
- adopting a 3-4 month awareness and delivery cycles where staff actively consider how ‘themes’ such as customer responsiveness and equity relate to the work that they do.

NZQA continues to develop its customer insight capability. Work is underway to understand and build maturity and to implement quick wins. An example is NZQA’s plans to modernise its contact centre telephony to allow this channel to feed into the development of customer insights. NZQA is also developing a customer experience strategy as part of its work to inform the refresh to its Statement of Intent.

We will engage with NZQA regarding the processes and systems it has in place to support information privacy, confidentiality, and management as it implements changes to its service offerings and channels.

Internal assessment

We have had initial conversations with NZQA on internal assessment. This will be a priority area for monitoring next quarter and until the impacts of the reviews such as the NCEA Review become clear. This will include transparency over NZQA’s moderation process.

3. Operational areas of focus

Performance measurement improvements

NZQA has adopted a strategic approach to refreshing its performance framework. If successful this will increase the cohesiveness of its suite of performance measures, ensure line of sight from its strategic objectives to performance measures, and allow NZQA to easily understand and communicate its contribution.

NZQA will need to ensure its new performance measures demonstrate how NZQA is continuing to deliver its core business as service delivery models change.

This work will inform NZQA’s 2019/20 – 2022/23 Statement of Intent (SOI) and 2019/20 Statement of Performance Expectations (SPE).

4. The 2018/19 Letter of expectations (LOE)

We are working with NZQA to finalise our monitoring engagement plan based on the 2018/19 LOE. Table 1 outlines some of the key areas that we see as being high priority. These will be regularly reviewed.

Table 1. LOE based monitoring topics

<table>
<thead>
<tr>
<th>LOE priorities</th>
<th>Monitoring topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity of access and outcomes</td>
<td>Special assessment conditions, understanding and meeting diverse learner needs</td>
</tr>
<tr>
<td>Being flexible and future focussed</td>
<td>System impacts, micro-credentials, NCEA Online, NZQF Review</td>
</tr>
<tr>
<td>Working collaboratively with learners and the sector</td>
<td>Assessment, Quality assurance, TEO monitoring, NCEA Review support and implementation, managing interdependencies</td>
</tr>
<tr>
<td>Sustainable business practices and responsive systems</td>
<td>Meeting customer needs, approach to information and data, financial sustainability</td>
</tr>
<tr>
<td>Supporting system outcomes</td>
<td>Outcomes based performance measurement, understanding contribution to sector and learners</td>
</tr>
</tbody>
</table>
D. Financial performance

4. Background

We have previously advised that following several years of planned deficits, NZQA's cash reserves have been largely exhausted. NZQA is now in a position where it has limited ability to absorb any additional costs outside its core operating funding structure. On this basis, NZQA has returned its annual budget to a breakeven position for 2018/19.

5. Quarterly financial performance

NZQA’s net surplus was marginally higher than budget in the quarter ended 30 September 2018 (YTD) with a net surplus of $1.058m compared to the budget of $0.748m. There was no one line item which resulted in the improved result.

While NZQA has now consolidated its Output Classes into one Multi Category Appropriation, it continues to report on Output Class performance. There was no major variance in Output Class performance compared to Budget.

Table 3. Statement of financial performance

<table>
<thead>
<tr>
<th>$'000</th>
<th>YTD FY19</th>
<th>YTD Budget</th>
<th>YTD FY18</th>
<th>FY18B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government grants</td>
<td>10,999</td>
<td>10,999</td>
<td>10,129</td>
<td>41,351</td>
</tr>
<tr>
<td>Other</td>
<td>7,907</td>
<td>8,035</td>
<td>7,779</td>
<td>43,571</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>18,906</td>
<td>19,034</td>
<td>17,908</td>
<td>84,922</td>
</tr>
<tr>
<td><strong>Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>(11,272)</td>
<td>(11,444)</td>
<td>(56,701)</td>
<td></td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(6,321)</td>
<td>(6,489)</td>
<td>(25,082)</td>
<td></td>
</tr>
<tr>
<td>Depreciation &amp; amortisation</td>
<td>(892)</td>
<td>(735)</td>
<td>(3,139)</td>
<td></td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td>(18,848)</td>
<td>(18,668)</td>
<td>(84,322)</td>
<td></td>
</tr>
<tr>
<td><strong>Net surplus/(deficit)</strong></td>
<td>1,058</td>
<td>748</td>
<td>(761)</td>
<td>0</td>
</tr>
</tbody>
</table>

Figure 1. Financial performance

After four years of deficits, NZQA is expecting to have balanced budget in FY19.
6. Financial sustainability

NZQA’s financial position at the end of Quarter 1 was stable with equity of $15.251m.

Its current assets and liabilities were significantly higher than the budgeted year end position, due to the receipt of fees for NCEA exams, which will be delivered on in Quarter 2.

<table>
<thead>
<tr>
<th></th>
<th>As at 30</th>
<th>As at 30</th>
<th>As at 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sept 2018</td>
<td>Sept 2017</td>
<td>June 2019</td>
</tr>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td>(Budget)</td>
</tr>
<tr>
<td>Current assets</td>
<td>29,807</td>
<td>29,651</td>
<td>17,077</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>9,127</td>
<td>10,305</td>
<td>8,587</td>
</tr>
<tr>
<td></td>
<td>38,934</td>
<td>39,956</td>
<td>25,674</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>22,727</td>
<td>24,271</td>
<td>11,552</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>956</td>
<td>1,059</td>
<td>725</td>
</tr>
<tr>
<td></td>
<td>23,683</td>
<td>25,330</td>
<td>12,277</td>
</tr>
<tr>
<td>Equity</td>
<td>15,251</td>
<td>14,626</td>
<td>13,397</td>
</tr>
</tbody>
</table>

Figure 2. Financial position

![Financial position chart]

<table>
<thead>
<tr>
<th>Year</th>
<th>Working capital</th>
<th>Cash</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY16</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>FY17</td>
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<td>FY18</td>
<td></td>
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</tr>
<tr>
<td>FY19B</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
E. Non-financial performance

1. Background

NZQA’s 2018/19 SPE outlines its non-financial measures and performance standards for the current financial year against four output classes which we report on quarterly. Its 2016/17 – 2019/20 SOI describes the measures related to success indicators in its three impact areas. This is potentially the last year that NZQA will be reporting against this SOI.

2. Output classes

This is the first quarter that NZQA is reporting against its 2018/19 SPE. Changes from 2017/18 include reducing the number of measures to 42 from 56, and adjusting the targets for nine measures. In all instances these changes were made to better reflect NZQA’s actual performance results, to provide NZQA with a stretch target, or to allow for more meaningful measures rather than to accommodate reduced performance.

NZQA is performing well against its output measures. The 22 measures that had interim results reported for this quarter were all on track to meet or exceed their annual targets. This level of performance is consistent with NZQA’s Quarter 1 results in 2017/18.

Of the four measures that NZQA reported as not being met in its 2017/18 Annual Report, one was reported against in this quarter, two are not due to be reported against until Quarter 2, and one is no longer a measure.

3. Impact areas

In 2017/18, NZQA achieved more of its impact measures than in 2016/17. The following measure from Impact area 1: Qualifications - We see increases in the usefulness and value of qualifications listed on the NZQF by learners and employers, is not due to be measured until 2020.

Figure 3. Performance of measures in SOI impact areas over time

4. Continuous improvement

We will work with NZQA as it continues to enhance its measurement framework across 2018/19 in the lead up to its 2019/20 – 2022/23 SOI and 2019/20 SPE. This is likely to include a fuller suite of customer service and satisfaction output measures.

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1 The remaining 20 measures are either demand driven and don’t have set annual targets, or were not reported against in this quarter.

2 Measure 1.1(1) - The proportion of survey respondents who agree or strongly agree that NZQA’s response time met their expectations. NZQA intends to replace this measure with a full suite of customer measures which are yet to be developed [CR1726 refer].
12 DEC 2018

Murray Strong
Chair
New Zealand Qualifications Authority (NZQA)
PO Box 160
WELLINGTON 6140

Dear Murray,

I have received NZQA’s Quarter 1 Report for 2018/19, alongside the Ministry of Education’s assessment. Thank you for sharing this information.

I appreciate the work that NZQA is doing to improve how it understands the needs of learners and stakeholders. It is important that equity is a strong focus in any redesign or project. Implications and timing of relevant parts of the Education Portfolio Work Programme will also need to be considered.

I look forward to updates on how this work progresses across the year.

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