Purpose of report

This paper provides our assessment of the Quarter 3 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 3 2017/18 (1 January to 31 March 2018) and developments up to the date of this report. This report sits alongside NZQA’s own quarterly report which you should receive at the same time as our report.

Our assessment finds that NZQA’s balance sheet remains stable at present. Planned expenditure on NCEA online has depleted NZQA’s reserves and its ability to absorb further cost pressures.

We also find that NZQA continues to develop its capability to perform inflight monitoring of Tertiary Education Organisations.
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 3 2017/18

b. sign and send the attached draft letter to Sue Suckling, Chair of the NZQA Board

c. release this Education Report as part of proactive release

Emily Fabling
Deputy Secretary
Strategy, Planning and Governance

Hon Chris Hipkins
Minister of Education

3/5/18

Annexes

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

Key points

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- NZQA continues to mature its in-flight monitoring capability for Tertiary Education Organisations
- The Digital Assessment Transformation programme is on-track to deliver to the requirements from the funding injection it received for NCEA Online
- Insights NZQA gained from nation-wide mathematics teachers engagement will be incorporated into the curriculum

Priority areas for Quarter 4

- Digital Assessment Transformation programme
- Financial sustainability
- Interdependency management
- Internal assessment process

Upcoming reports

- Apr-18: Draft SPE and monitoring advice
- Jun-18: Finalise LOE
- Oct-18: Annual Report and monitoring advice
- Apr-18: Q3 report and monitoring advice (NZQA does not generally provide a Q4 report)

Financial performance

Financial performance summary

<table>
<thead>
<tr>
<th>$'000</th>
<th>YTD FY18</th>
<th>YTD Budget</th>
<th>YTD FY17</th>
<th>FY18E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>58700.100</td>
<td>59072.914</td>
<td>69245.029</td>
<td></td>
</tr>
<tr>
<td>Expenditure</td>
<td>(61484)</td>
<td>(72240)</td>
<td>(70495)</td>
<td></td>
</tr>
<tr>
<td>Net surplus/(deficit)</td>
<td>(1,076)</td>
<td>(1,167)</td>
<td>(2,228)</td>
<td></td>
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</tbody>
</table>

Financial position summary

<table>
<thead>
<tr>
<th>$'000</th>
<th>As at 31</th>
<th>As at 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and investments</td>
<td>12,901</td>
<td>12,734</td>
</tr>
<tr>
<td>Equity</td>
<td>15,586</td>
<td>18,281</td>
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<tr>
<td>Working capital ratio</td>
<td>1.48</td>
<td>1.85</td>
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</table>

Non-financial performance

- There are no concerns around NZQA's non-financial performance.

Output measures

- 40 of NZQA's 56 Output measures are on track.
- Five are tracking below target, however these are not a concern at this time.

Impact measures

- NZQA has made progress against several impact measures

Board appointments

We are at the candidate selection stage of the process and preparing for candidate interviews. Overall we received 223 applications for appointments across three Boards.

Candidate sourcing: Jan - Feb
Candidate analysis: March - April
Candidate selection: May - June
Candidate confirmation: July - Oct
B. Monitoring focus areas

1. Background

Areas of focus for Ministry monitoring activity are informed by NZQA’s Letter of Expectations and its environmental context. Our monitoring has a strategic and operational focus.

2. Strategic areas of focus

**Digital Assessment Transformation (DAT)**

The DAT programme is on track to deliver to the requirements from the $2.9 million funding injection it received for NCEA Online, to:
- draft a Detailed Business Case and an Implementation Business Case to support future funding options
- design the future operating model for delivering digital external examinations
- design the digital assessment solution with vendors
- undertake Trials and Pilots in 2018.

The next phase of work will depend on whether additional funding is provided to further progress the DAT programme.

Assessment

*Level 1 Mathematics and Statistics examination*

We have continued to engage with NZQA on their internal and external assessment processes.

NZQA have an established engagement model for seeking and incorporating input from the sector, if extends this model when issues arise. Recently NZQA has been meeting with mathematics teachers around the country over concerns expressed in the Open Letter on the Level 1 Mathematics and Statistics examination [CR16988 refers]. The in-depth engagement has been successful, and has provided insights that will be incorporated into future examinations.

*NCEA Review*

The outcome of the NCEA Review will have a flow on effect into the NZQA environment, where interdependencies will need to be closely managed. NZQA does not have the ability to fund any new programmes of work at this stage.

Recommendations resulting from the public consultation of the NCEA Review will be published following cabinet consideration in February 2019.

NZQA continues to be closely involved in the NCEA Review.
C. Snapshot: Monitoring non-university TEOs

1. Background

NZQA has a significant role to play in monitoring tertiary education organisations (TEOs) and ensuring their compliance. This includes interventions targeting the:

- entity entry stage, i.e. accreditation and approval to become an endorsed TEO or to teach a particular course or programme
- exit stage, i.e. compliance interventions
- delivery of services, i.e. inflight monitoring.

2. Inflight monitoring

NZQA increased its capability to perform inflight monitoring when it centralised its monitoring team in FY17 [METIS 1076760 refers].

The team performs monitoring activity on non-university tertiary education organisations (TEOs) that meet risk criteria such as:

- diversification (if only one type of course was offered previously, or if diversifying into a vastly different area)
- large numbers of students, particularly international students
- low fees
- identified as being at risk by the audit programmes of other entities.

A key aspect of inflight assessment consists of validating the decisions of assessors. This provides the team with useful insight into the quality of the course being provided and by proxy the quality of the provider. It is a detailed and resource-intensive activity. Undertaking a deeper type of monitoring on high risk institutions by looking at student assessment practices has resulted in a more systemic understanding of quality problems across some programme types.

NZQA’s recent increase in quality assurance fees (effective from 1 July 2018) will keep in line with existing cost pressures.

3. TEO compliance

NZQA notes that some TEO non-compliance is due to a lack of knowledge or understanding. As a result, NZQA has increased its focus on relationship management, which complements NZQA’s interventions to educate the sector and improve provider compliance. This includes working with TEOs to ensure that they better understand their responsibilities and are more confident about their abilities to be compliant.

In addition, NZQA works collaboratively to ensure TEO compliance through

- sharing information about TEOs and about risk assessments with other entities
- resolving issues with domestic providers and to release joint letters to the sector with the Tertiary Education Commission developing policy settings, sector strategies and engagement approaches with the Ministry and other stakeholders.

4. The future of TEO quality assurance

In the long term, NZQA is working towards a TEO quality assurance system based, where possible, on high trust and provider autonomy through improved cross agency intelligence and collaboration.
D. Financial performance

1. Background

We noted in our last two quarterly reports that the financial year ending 30 June 2018 (FY18) is the last planned year of financial deficits for NZQA, after funding deficits from reserves for the last few years. From FY19, NZQA will have limited ability to fund deficits and capital expenditure outside of depreciation amounts.

2. Quarterly financial performance

NZQA's net surplus was higher than Budget in the quarter ended 31 December 2017 (YTD) with a net surplus of $1.076m compared to the Budget deficit of ($1.167m). An element of this is due to timing.

NZQA has now received 80% of forecast revenue and incurred 77% of forecast expenditure for the year. This is due to the examination period, during which NZQA receives and incurs a significant portion of its forecast revenue and expenditure.

While there has been underspend in personnel expenditure compared to Budget, this has been offset by increased other operating expenditure, which partially reflects the use of contractors to fill positions.

Total expenditure in the YTD was lower mainly due to timing differences of other operating expenses.

There has been some movement in Output Class performance compared to Budget, with Output Classes 1, 2 and 4 performing better than Budget and Output Class 3 underperforming compared to Budget. There is no one driver of these differences.
E. Non-financial performance

1. Output classes

NZQA’s 2017/18 SPE outlines its non-financial measures and performance standards for the current financial year against four output classes. We report on these every quarter.

Progress to date

NZQA continued to make good progress in Quarter 3, with 40 of its 56 measures on track (see Figure 3). This includes 12 demand driven measures that have an estimated performance target.

Of the remaining measures, six are demand driven and have no estimated target. Five have not been reported because they are either measured annually in Quarter 4 or relate to activities that have not yet been required this year. Five measures are below target. We do not consider these results an issue, for reasons described below.

Three measures from Output class 1.1 – Community consultation and communication are below target for the second quarter [METIS 1119131 refers]. This is the first year that these measures are in use. We support NZQA adopting stretch targets.

The demand driven measure 2.3(1) – The number of newly registered signatories to the Code of Pastoral Care is behind for the second quarter. Results have doubled to eight, towards an estimated target of 30. As an indicator of volume, last year NZQA processed more than three times the number of applications than the number of signatories that were approved. NZQA is working to improve sector capability to meet requirements under the 2016 Code.

The ~1% drop below target in the result for measure 3.2(4) – The percentage of standard applications evaluated within 35 working days (exclusive of any verification delays) this quarter is due to business improvement work, that NZQA expects to result in process efficiencies.

Figure 3: Performance at Quarter 3 2017/18

2. Impact areas

NZQA sets out measures related to success indicators for its three impact areas in its Statement of Intent (SOI) 2016/17 – 2019/20. In Quarter 3, we see that NZQA has put considerable effort towards achieving its impact measures and its three Goals for 2020. Four impact measures are showing improvement since the last quarter, and two measures with multiple success indicators are showing a partial improvement. We will report on progress against impact areas in more detail in quarter four.

We will work with NZQA as it continues to enhance its measurement across 2018/19 in the lead up to its 2019/20 – 2023/24 Statement of Intent (SOI) and 2019/20 SPE.
F. Future focus: Monitoring work

1. Background

There are three areas related to the monitoring function that we will provide you with advice on, as set out below.

2. NZQA Board appointments

We received 223 applications for positions across the three Crown entity Boards. 149 were for the upcoming vacancies on the NZQA Board, including 22 for the Chair position. Five positions will need to be filled to meet requirement s256B of the Education Act 1989 to have between eight and ten members.

Analysis and short listing has been completed and it is at the stage where we are seeking your input. As part of this advice we have incorporated the Chair’s preference.

3. Statement of Performance Expectations (SPE)

NZQA submitted its draft 2018/19 SPE to you on 30 April 2018. We submitted our advice on the draft SPE alongside [METIS 1119131 refers]. You must respond to NZQA’s draft within 15 working days to comply with statutory requirements.

4. 2018/19 Letter of Expectations (LOE)

The LOE will inform NZQA’s strategy and business operations for the coming year.

The Ministry has been engaging with NZQA to develop a draft LOE that reflects your priorities and NZQA’s strategic and operating environment.