
To: Hon Chris Hipkins, Minister of Education
Date: 2 May 2019
Priority: Medium
Security Level: In Confidence
METIS No: 11E1E45
Drafter: s 9(2)(a)
DDI: s 9(2)(a)
Key Contact: Fiona O'Leary
DDI: s 9(2)(a)
Messaging seen by Communications team: No
Round Robin: No

Purpose of report

This paper provides our advice on the New Zealand Qualifications Authority (NZQA) draft Statement of Intent (SOI) 2019/20-22/23 and draft Statement of Performance Expectations (SPE) 2019/20.

You are required by the Crown Entities Act 2004 to give your feedback to NZQA within fifteen working days of receipt of the documents.

Summary

- Our report sits alongside NZQA’s draft SOI and SPE which your office received on 30 April 2019.
- NZQA’s draft SOI and SPE are based on its new strategic performance framework, which focuses on equity of access and qualifications enabling life-long learning, and aims to better reflect the voice of its customers.
- Through its strategic performance framework, NZQA has recognised students with learning support needs at a strategic level. This is a significant shift from its current documents.
- NZQA strengthened its draft SOI to more fully reflect NZQA’s role in the quality assurance and monitoring of providers’ programmes and international student wellbeing, between 29 and 30 April 2019 following Ministry feedback. Considering the limited time we have had to fully review this latest draft you may feel that this needs further strengthening.
- The enclosed draft letter to the Board Chair may support you in providing comment on NZQA’s final SOI.
Recommended actions

The Ministry of Education recommends that you:

a. note that you are being provided with NZQA’s draft SOI and SPE for your consideration and feedback, as required by the Crown Entities Act 2004

b. note NZQA’s draft SOI and SPE are based on its new strategic performance framework. The framework clearly focuses on equity of access and qualifications enabling life-long learning, and aims to better reflect the voice of its customers

c. note that you are required to provide any comments to NZQA on its draft SOI and SPE within fifteen working days of receiving it to meet the requirement in the Crown Entities Act 2004 and that we have provided a draft letter for this purpose

d. sign and send the attached draft letter to the NZQA Board Chair by Tuesday 21 May 2019

Agree / Disagree

e. note that, we believe NZQA’s final SOI and SPE will meet requirements in the Act for timing and content

Noted

f. release this Education Report as part of proactive release once NZQA has published its final SOI and SPE.

Release / Not release

Emily Fabling
Deputy Secretary
Strategy, Planning and Governance

Hon Chris Hipkins
Minister of Education

Proactive release

It is intended that this Education Report is proactively released once NZQA has published its final SOI and SPE. This is 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.
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. NZQA sent its draft SOI and SPE to you on 30 April 2019. Under the Act, you have 15 working days from this date to provide your comments to NZQA. A draft letter is provided for this purpose.

Requirements for timing

3. Crown entities must prepare an SOI at least once in every three-year period that relates to the following four years (s139). Crown entities must prepare an annual SPE which relates to the forthcoming financial year (s149C).

4. NZQA is in the last year of reporting against its current SOI and so must produce an SOI for 2019/20-22/23.

5. You confirmed that you wanted NZQA, Tertiary Education Commission (TEC) and Education New Zealand (ENZ) to each produce a new SOI for 2019 [METIS 1161856 refers]. This was communicated to Board Chairs through your letter to them following Quarter 1 reporting.

6. NZQA's draft SOI and SPE are provided to you alongside this report, meeting the first statutory deadlines¹. We expect NZQA to meet the remaining statutory deadlines for the timing of its final SOI and SPE².

Requirements for content

7. Requirements for content are set out in s141 (SOI) and s149E (SPE) of the Act. 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.

   • 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 statements, prepared in accordance with generally accepted accounting practice.

8. Noting that NZQA has taken our feedback on board, we expect NZQA to meet the remaining statutory deadlines for the content of its final SOI and SPE.

9. Our advice on the content of NZQA's draft SOI and SPE is provided in the next section.

¹ Draft SOIs 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 drafts and provide the final SOI and SPE to the 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.
Next steps

10. Under the Act, your comments need to be forwarded to NZQA within 15 working days of NZQA submitting the draft SOI and SPE.

11. We have provided a draft letter from you, as Minister of Education to send to the Chair, for this purpose.

12. NZQA 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 documents, NZQA must publish them on its website as soon as practicable.

13. The final SOI and SPE must be tabled by you as the responsible Minister. This can be done before the Annual Report for the previous year is presented or at the same time (s149 and 149L of the Act).

14. We will work with NZQA to monitor the implementation of its final SOI and SPE through the 2019/20 year, and beyond. In particular, we will continue to seek assurance over the delivery of its core functions as well as its focus on equity and wellbeing.
Overview

**SOI and SPE timeline**

- Minister provides comments within 15 working days
- NZQA provides draft SOI and SPE to Minister
- NZQA must publish SOI and SPE as soon as practicable
- SOI and SPE must be tabled by the Minister before the Annual Report or at the same time

<table>
<thead>
<tr>
<th>30 April 2019</th>
<th>NZQA provides draft SOI and SPE to Minister</th>
</tr>
</thead>
<tbody>
<tr>
<td>21 May 2019</td>
<td>Minster provides comments to NZQA</td>
</tr>
</tbody>
</table>

**Financial performance**

**Financial performance summary**

<table>
<thead>
<tr>
<th>$’000</th>
<th>FY20B</th>
<th>FY19F</th>
<th>FY18</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>84,243</td>
<td>90,809</td>
<td>86,081</td>
<td>85,939</td>
</tr>
<tr>
<td>Expenditure</td>
<td>(84,223)</td>
<td>(80,009)</td>
<td>(97,273)</td>
<td>(88,815)</td>
</tr>
<tr>
<td>Net surplus/deficit</td>
<td>20</td>
<td>0</td>
<td>(1,192)</td>
<td>(2,876)</td>
</tr>
</tbody>
</table>

**Financial position summary**

<table>
<thead>
<tr>
<th>$’000</th>
<th>As at 30 June 2020 (Budget)</th>
<th>As at 30 June 2019 (Budget)</th>
<th>As at 30 June 2018</th>
<th>As at 30 June 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and investments</td>
<td>13,466</td>
<td>12,018</td>
<td>13,408</td>
<td>13,416</td>
</tr>
<tr>
<td>Equity</td>
<td>14,213</td>
<td>13,397</td>
<td>14,193</td>
<td>15,385</td>
</tr>
<tr>
<td>Working capital ratio</td>
<td>1.64</td>
<td>1.48</td>
<td>1.45</td>
<td>1.48</td>
</tr>
</tbody>
</table>

**Assurance we will be seeking through our monitoring**

We will use the final SOI and SPE documents and redeveloped strategic performance framework to inform our monitoring work plan with NZQA. We will continue to monitor NZQA’s delivery of its regulatory functions, as well as seeking engagement on the following areas:

- equity work programme (including Special Assessment Conditions)
- work programme to support international student wellbeing, alongside its key partners such as Education New Zealand and the Ministry of Education
- performance approach.

These will complement our existing focus areas to provide better understanding of and monitoring assurance over NZQA.

NZQA draft SOI and SPE advice
Comment on draft SOI and SPE

Introduction

NZQA’s draft SOI and SPE are focused around its strategic performance framework. While NZQA’s strategic vision, ‘qualify for the future world’, remains the same, the framework which supports it has been redeveloped to further align NZQA with the voice of its customers.

NZQA has used bilingual headings in both the draft SOI and SPE, and translated its performance framework into te reo Māori. This is a positive step showing NZQA’s commitment to promoting equity through consistent use of te reo Māori.

NZQA has developed its draft SOI and SPE in the context of the Review of Vocational Education (RoVE), the Tomorrow’s Schools Review and the Review of NCEA. These reforms may have the potential to affect NZQA. NZQA will have the opportunity to adjust its SOI and SPE documents, as necessary, once the outcomes of these reviews are known.

Overview of the draft SOI

NZQA has shifted from three impact areas in its current SOI (2016/17-2019/20), to two key focus areas/outcomes in its draft.

<table>
<thead>
<tr>
<th>Qualifications</th>
<th>Equity of access to qualifications supports intergenerational wellbeing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality assurance</td>
<td>New Zealand qualifications enable life-long learning</td>
</tr>
</tbody>
</table>

Underneath these outcomes, NZQA has identified five impact areas with a 5-10 year horizon and twelve intermediate outcomes with a 3-5 year horizon. Its 42 annual (SPE) performance measures sit within this framework, against the intermediate outcomes.

Within its draft SOI, NZQA has identified six impact measures across its five impact areas (reduced from 15 impact measures in its current SOI). It has not continued its approach to identify high level goals for the SOI period; its current SOI has three 2020 goals which it can measure against.

We consider NZQA’s new performance framework to represent a significant change at a strategic level that will support NZQA to deliver against its Letter of Expectations, Government priorities and the Education Portfolio Work Programme. The inclusion of equity, wellbeing and lifelong learning in the framework at the highest level is a positive development which will provide a strategic focus for NZQA through a time of change within the education sector. The new framework also has a strong emphasis on innovation.

While NZQA’s key regulatory functions are listed earlier in its draft SOI document and further reflected in the performance framework commentary. This follows feedback from the Ministry that NZQA needed to strengthen these areas.

Detailed commentary on the draft SOI

NZQA’s draft SOI is organised to reflect its two strategic outcomes. It also contains a section on organisational health.

Outcome 1: Equity of access to qualifications supports intergenerational wellbeing

Through its draft SOI, NZQA has recognised the importance of its role in supporting equity within the education system. The impacts in this area support this focus and provide clear visibility of Māori and Pasifika as priority learners, as well as learners with disabilities, learning support needs and socio-economic disadvantage.

Impact 1.1 - NZQA services are designed for equity, reflects a strategic commitment to a shift in approach which puts learners at the...
Comment on draft SOI and SPE

centre. In order to achieve against this impact, NZQA recognises it needs to include the experiences of all learners, including Māori, Pasifika and learners with support needs.

The direction coming from the NCEA review is to increase accessibility. To support this direction, it will be necessary for NZQA to consider how designing for equity can be implemented within its business as usual and continuous improvement activities as well as its priority work programmes. As mentioned on page 6, we will seek further monitoring insight into this area, as part of our quarterly engagement.

NZQA has identified four success indicators which relate to Outcome 1. In the draft SOI, NZQA has allowed itself some flexibility in how these are measured. We understand this will allow it to more fully implement the changes to its customer engagement and feedback mechanisms in order to understand and measure success. We look forward to engaging with NZQA to understand how it uses customer engagement and insight to understand and improve equity.

The performance framework demonstrates NZQA’s commitment to te reo Māori as a vehicle to support its equity work programme by building cultural competency within the organisation.

Outcome 2: New Zealand qualifications enable life-long learning

NZQA’s second strategic focus area is designed to capture its quality assurance function as well its functions relating to the qualifications framework, qualification recognition and assessment practices (including digital assessment). It has been framed around life-long learning and recognises the strong role life-long learning can play in helping people prepare for and respond to the changing world.

The framework under Impact 2.2: Qualifications are accepted as credible and robust nationally and internationally is where NZQA’s intentions relating to the delivery of most of its statutory regulatory functions can be found.

Measures about monitoring the pastoral care of international students are featured in the SPE and therefore this area is only referred to briefly in the draft SOI under Impact 2.2.

NZQA has strengthened this area following our feedback. There may however still be an opportunity for NZQA to be clearer within its draft SOI on the nature and scope of its functions, including those around international student wellbeing, and how it intends to manage these to meet its strategic intentions.

The draft SOI would also benefit from a success indicator which captures quality from a national perspective, rather than relying on qualification recognition as a proxy of quality.

Impact 2.1: Assessment and credentialing support innovation in teaching and preparation for a changing world of work is the part of the framework that considers assessment and is framed in terms of innovation and connections across learning. This provides a space in the framework in which NZQA’s programmes relating to digital assessment and micro-credentials fit comfortably. NZQA has previously recognised the importance of balancing innovation with risk management through its assessment and quality assurance roles. This will continue to be an area of focus for us.

Organisational health

NZQA has identified two strategic focus areas and four skill sets that guide the development of its people. In doing this, it aims to build the resilient and responsive workforce it needs to operate effectively through the current context of change and ambiguity.
Comment on draft SOI and SPE

Overview of SPE – non financial performance

NZQA’s draft SPE has been developed to align to its new strategic performance framework. In reorganising its non-financial performance measures in this way, NZQA has sought to identify how performance against its key business activities contributes to its new strategic focus areas. Removing the references to output classes in the draft SPE also reflects the changes to NZQA’s funding through the Multi-Class Appropriation (MCA), introduced in 2017/18. We therefore welcome these updates.

While significant changes have been made to NZQA’s draft SPE for 2019/20, NZQA is taking an iterative, continuous improvement approach to its non-financial performance measures. This will enable NZQA to enhance its performance story as it implements its strategic framework and responds to changes resulting from the Education Portfolio Work Programme. Ensuring its SPE measures, and the activities which sit underneath them, are well aligned to its strategic goals will be necessary for NZQA to achieve the 5-10 year outcomes it has identified in its performance framework.

Detailed commentary on the SPE

NZQA’s 42 measures have been organised by their contribution to an intermediate outcome, associated 5-10 year impact and high level outcome within the framework. Two measures are not attributed to the strategic performance framework. These relate to Ministerial satisfaction and Ministerial deadlines.

Of the remaining 40 measures, 33% relate to Outcome 1 and 62% relate to Outcome 2.

We note that, of 14 measures for Outcome 1: Equity of access to qualifications supports intergenerational wellbeing, 11 are new including:

- the single measure under Impact 1.3: Learners with disabilities and learning support needs, and/or socio-economic disadvantage have access to qualifications that meet their needs and aspirations
- all six measures under Impact 1.2: Innovative partnerships support equitable access for Māori and Pasifika learners.

The majority of the measures (26 of 42) relate to Outcome 2: New Zealand qualifications enable life-long learning, including 25 measures supporting Impact 2.2: Qualifications are accepted as credible and robust nationally and internationally. This is where the most of the legacy measures can be found. While the SOI could better reflect NZQA’s quality assurance function in its performance framework, the SPE has adequate detail outlining NZQA’s quality assurance function.

The number of new and legacy measures, by impact area is shown in Figure 1.

Figure 1: 2019/20 SPE measures against impact

<table>
<thead>
<tr>
<th>Impact 2.2: Qualifications are credible and robust</th>
</tr>
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<tbody>
<tr>
<td>Impact 2.1: Assessment and credentialing</td>
</tr>
<tr>
<td>Impact 1.3: Learners with disabilities and learning support needs</td>
</tr>
<tr>
<td>Impact 1.2 Māori and Pasifika learners</td>
</tr>
<tr>
<td>Impact 1.1 Services designed for equity</td>
</tr>
</tbody>
</table>

0 5 10 15 20 25 30

- Legacy measures
- New measures (with baseline)
- New measures (no baseline)
Comment on draft SOI and SPE

In developing its new measures, NZQA has taken on previous advice from Treasury, Audit and the Ministry and sought to apply good performance practice. It has moved from volume measures and demand-driven metrics to more relevant indicators of performance with a customer focus. This is an area of improvement from NZQA’s current SPE (2018/19).

The legacy measures under Impact 2.2 continue to provide volume based, demand driven information, or are indicators of service health. While this represents important management information, consolidating and/or revising these measures within future versions of the SPE will allow NZQA to enhance its performance story.

For the measures NZQA is consistently achieving year-on-year, NZQA has the opportunity to introduce a greater element of ‘stretch’ in its standard setting. For example, for 2.2: The percentage of formal complaints alleging Code breaches that are concluded within 65 working days. This standard has been met each year since it was introduced in 2016/17. In future SPEs, NZQA could enhance the service level standard, for example by reducing the number of days.

NZQA has advised us that it is still working through how it will effectively measure performance against Impact 1.3: Learners with disabilities and learning support needs, and/or socio-economic disadvantage have access to qualifications that meet their needs and aspirations and Impact 2.1: Assessment and credentialing support innovation in teaching and preparation for a changing world of work. Each impact area currently only has one measure. Further work in these areas will support NZQA to measure how its work programmes and activities are contributing to its strategic intent and will strengthen future iterations of NZQA’s SPE.

We support NZQA’s work to update its non-financial performance measures.

We will work closely with NZQA to understand its performance data, and the activities and work programmes which support its measures,
Comment on budgeted financial performance

<table>
<thead>
<tr>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>NZQA is budgeting for a small surplus in the 2019/2020 financial year (FY20). This is a similar position to 2018/2019 (FY19), which is forecast to be a nil surplus year. Its balance sheet is budgeted to remain in a similar position to the budget FY10 position, which is stable for an organisation of its size.</td>
</tr>
</tbody>
</table>

$ 9(2)(f)(iv)$

In addition, reviews underway as part of the Education Portfolio Work Programme could have an impact on the financial performance and position of NZQA in FY20. NZQA continues to be in a position where it has limited ability to fund additional work or initiatives.

We will maintain monitoring engagement with NZQA in the coming months, to understand any material financial changes to the information contained in the SPE.

<table>
<thead>
<tr>
<th>Financial performance</th>
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<tbody>
<tr>
<td>As advised, NZQA has budgeted for a small surplus in FY20.</td>
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</tbody>
</table>

$ 9(2)(f)(iv)$

Other revenue, which is largely driven by external demands outside of NZQA’s control, is budgeted to be higher in FY20 than the FY10 forecast despite demand being forecast to remain static. NZQA has advised this is due to an increase in its professional fee rates and some new miscellaneous products.

<table>
<thead>
<tr>
<th>Table 1: Statement of financial performance</th>
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<tbody>
<tr>
<td>$'000</td>
</tr>
<tr>
<td>Revenue</td>
</tr>
<tr>
<td>Government grants</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Expenditure</td>
</tr>
<tr>
<td>Personnel expenses</td>
</tr>
<tr>
<td>Other operating expenses</td>
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<tr>
<td>Depreciation &amp; amortisation</td>
</tr>
<tr>
<td>Total expenses</td>
</tr>
<tr>
<td>Net surplus/(deficit)</td>
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</table>

Note for Table 1: Personnel expenses includes NZQA’s specialist workforce expenses.

<table>
<thead>
<tr>
<th>Figure 2. Financial Performance</th>
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<tbody>
<tr>
<td>$'000</td>
</tr>
<tr>
<td>FY15</td>
</tr>
<tr>
<td>Actual</td>
</tr>
<tr>
<td>Budget/Forecast</td>
</tr>
</tbody>
</table>

NZQA draft SOI and SPE advice
Comment on budgeted financial performance

Financial sustainability

NZQA’s balance sheet is budgeted to remain stable in FY20 as a result of the small budgeted surplus.

There is a small budgeted decline in non-current assets to reflect the impairment of intangible assets related to the NCEA Online programme. If this programme receives further funding, the associated assets may not be required to be impaired, which will increase the level of non-current assets.

The decrease in non-current assets is offset by an increase in current assets, namely cash and investments.

NZQA continues to have sufficient assets to meet its budgeted liabilities. It additionally has the ability to fund limited unplanned liabilities, if there are cost overruns in business areas. It does not however have available funds to cover any significant initiatives that are not budgeted or have no funding attached to them.

<table>
<thead>
<tr>
<th>Table 2: Statement of financial position</th>
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<tbody>
<tr>
<td></td>
</tr>
<tr>
<td><strong>$’000</strong></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
</tr>
<tr>
<td>Current assets</td>
</tr>
<tr>
<td>Non-current assets</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
</tr>
<tr>
<td>Current liabilities</td>
</tr>
<tr>
<td>Non-current liabilities</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
</tr>
<tr>
<td><strong>Equity</strong></td>
</tr>
</tbody>
</table>

Figure 3. Financial position

- Net current assets
- Cash
- Equity

NZQA draft SOI and SPE advice
21 MAY 2019

Murray Strong, Chair
New Zealand Qualifications Authority
PO Box 160
WELLINGTON 6140

Dear Murray

I have received NZQA’s draft Statement of Intent 2019/20-22/23 (SOI) and Statement of Performance Expectations 2019/20 (SPE), alongside the Ministry of Education’s assessment. Thank you for providing me with this information.

I am pleased to see the commitment NZQA has made to equity of access and wellbeing within the new strategic performance framework. Including these areas within its strategic focus will support NZQA to deliver against my Letter of Expectations, Government priorities and the Education Portfolio Work Programme. I also welcome the use of bilingual headings in the draft documents, and the te reo Māori translation of the framework.

NZQA is confident that the draft SOI reflects NZQA’s role in the quality assurance and monitoring of providers’ programmes, and international student wellbeing. Future iterations of NZQA’s SOI will benefit from these functions being even more strongly featured.

I note the progress NZQA has made within its draft SPE to include more relevant indicators of performance with a customer focus. I also note it intends to take a continuous improvement approach to developing its non-financial performance measures in future iterations of its SOI and SPE.

I look forward to receiving quarterly updates from NZQA on its performance data, and the activities and work programmes which support its strategic intentions, as its new performance framework is implemented.

Yours sincerely

Chris Hipkins
Minister of Education

cc  Karen Poutasi, Chief Executive, New Zealand Qualifications Authority
cc  Emily Fabling, Deputy Secretary, Strategy, Planning and Governance, Ministry of Education