
To: Hon Chris Hipkins, Minister of Education
Date: 2 May 2019
Priority: Medium
Security Level: In Confidence
METIS No: 1181847

Drafter: s 9(2)(a)
DDI: s 9(2)(a)

Key Contact: Fiona O’Leary
DDI: 

Messaging seen by Communications team: No
Round Robin: No

Purpose of report

This paper provides our advice on the Education New Zealand (ENZ) draft Statement of Intent (SOI) 2019-2023 and draft Statement of Performance Expectations (SPE) 2019-2020.

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

Summary

- Our report sits alongside ENZ’s draft SOI and SPE which your office received on 30 April 2019.
- The draft SOI and SPE meet statutory requirements for timing and content.
- The draft SOI 2019-2023 is a refresh of the current SOI 2018-2022. It has been updated to better align with the goals of the International Education Strategy 2018-2030 (the IES), which was in draft form when the current SOI was prepared.
- The documents are pitched at a high level, and the level of detail is slightly reduced from previous SOIs and SPEs in some key areas. We will be working with ENZ to gain visibility over its internal business information in these areas as part of our monitoring relationship.
- As ENZ's impact, performance and activity measures have changed year-on-year, the level of analysis of performance trends we are able to provide is lower than for other entities.
Recommended actions

The Ministry of Education recommends that you:

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

   Noted

b. **note** our assessment that ENZ’s draft SOI and SPE meet requirements in the Act for timing and content

   Noted

c. **note** that you are required to provide any comments to ENZ on its draft 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

   Noted

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

   Agree / Disagree

e. **release** this Education Report as part of a proactive release once ENZ has published its final SOI and SPE

   Release / Not release

Emily Fabling  
Deputy Secretary  
Strategy, Planning and Governance

Hon Chris Hipkins  
Minister of Education

02/05/2019  
14/15/19

Proactive release

It is intended that this Education Report is proactively released once ENZ 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.

Annexes

Annex 1: 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 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 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 (MBIE) as joint monitor of ENZ.

Requirements for timing

4. Crown entities must prepare a Statement of Intent (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).

5. ENZ has produced a new SOI each year since 2012. It is currently operating under its 2018-2022 SOI which aligns to the International Education Strategy 2018-2030, which was in draft form when the SOI was written.

6. You confirmed that you wanted ENZ, the Tertiary Education Commission (TEC) and the New Zealand Qualifications Authority (NZQA) 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.

7. ENZ’s draft SOI and SPE were provided to you on 30 April, meeting the first statutory deadlines\(^1\). We expect ENZ to meet the remaining statutory deadlines for its SOI and SPE\(^2\).

Requirements for content

8. We consider ENZ’s draft SOI and SPE meet statutory requirements in respect of content.

9. 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.

\(^1\) 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 ENZ within 15 working days of ENZ submitting the draft SOI and SPE. That is, by 21 May 2019. We have provided a draft letter from you for this purpose.

11. ENZ must consider your comments. It will then provide the final SOI and SPE to you no later than start of the financial year. After providing the final documents, the Crown entity must publish them on its website as soon as practicable.

12. The SOI and SPE must be tabled by the responsible Minister. This can be done before the Annual Report for the previous year is presented or at the same time (Section 149 and 149L, Crown Entities Act 2004).
Comment on SOI and SPE

Timing for feedback on and publishing of SOIs and SPEs

- The draft SOI 2019-2023 is a refresh of the current SOI 2018-2022. It has been updated to better align with the goals of the International Education Strategy 2018-2030 (the IES), which was in draft form when the current SOI was prepared.
- The documents are pitched at a high level, and the level of detail is slightly reduced from previous SOIs and SPEs.
- We will be working with ENZ to gain visibility over its internal business information in key areas as part of our monitoring relationship.
- As ENZ’s impact, performance and activity measures have changed year-on-year, the level of analysis of performance trends we are able to provide is lower than for other entities.

Financial performance

Financial performance summary

<table>
<thead>
<tr>
<th>$’000</th>
<th>FY2022</th>
<th>FY2019</th>
<th>FY2018</th>
<th>FY2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>36,621</td>
<td>35,904</td>
<td>33,918</td>
<td>35,770</td>
</tr>
<tr>
<td>Expenditure</td>
<td>(36,621)</td>
<td>(36,904)</td>
<td>(35,982)</td>
<td>(36,743)</td>
</tr>
<tr>
<td>Net surplus/(deficit)</td>
<td>0</td>
<td>0</td>
<td>(64)</td>
<td>(973)</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 (Forecast)</th>
<th>As at 30 June 2018</th>
<th>As at 30 June 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>5,774</td>
<td>6,105</td>
<td>7,997</td>
<td>5,686</td>
</tr>
<tr>
<td>Equity</td>
<td>2,394</td>
<td>2,394</td>
<td>2,394</td>
<td>2,458</td>
</tr>
<tr>
<td>Working capital ratio</td>
<td>1</td>
<td>1.53</td>
<td>1.31</td>
<td>1.49</td>
</tr>
</tbody>
</table>

Monitoring areas of focus

In conjunction with monitoring against your Letter of Expectations, the Ministry and MBIE plan to focus monitoring engagement in 2019/20 on how ENZ is:

- working with NZQA and the Ministry on international student wellbeing programmes
- supporting providers and international markets through change in the New Zealand education system
- supporting the sector and international markets following the Christchurch terrorist attacks
- using market segmentation and digital marketing
- driving regional diversification
- providing intelligence, data and insight to the sector, including from offshore
- supporting providers to build capability
- supporting offshore education relationships.
Comment on SOI and SPE

Overview of SOI and SPE

ENZ’s draft SOI and draft SPE are both well written, high quality and professional documents, which are audience appropriate. We consider ENZ has identified suitable strategic priorities and impacts, which will allow the organisation to work with the sector to shift focus from quantity to quality and from high volume to high value, as well as driving diversification.

We understand the board has indicated a wish to simplify ENZ’s corporate documents and the leadership team wish to reduce the number of performance measures. This is a positive move, which means the documents will be easily understood by the range of stakeholders ENZ has. However, it means the level of detail is reduced in some key areas, such as regional diversification. We will be working with ENZ to gain visibility over its internal business information in these areas as part of our monitoring relationship.

We consider ENZ’s role in sharing intelligence and insights, particularly from offshore staff, should be emphasised in both the draft SOI and draft SPE. We provided this feedback to ENZ and the narrative around its role in informing and influencing government agencies has been strengthened in the draft SOI.

We note that the board has made a decision not to include in the draft SOI and SPE activity which is not fully funded within their current operating baseline.

ENZ has developed its draft SOI and SPE in the context of the NCEA review and Reform of Vocational Education (RoVE). ENZ will have the opportunity to adjust the documents, as necessary, once the outcomes of these reviews are known.

Detailed commentary on SOI

The draft SOI 2019-2023 is a refresh of the current SOI 2018-2022. It has been updated to better align with the goals of the International Education Strategy 2018-2030 (the IES), which was in draft form when the current SOI was prepared.

The current SOI 2018-2022 set out a shift from an exclusively economic focus prior to 2018, to a focus on economic, social and cultural benefits. This has been maintained in the draft SOI, and some realignment of impact measures has given more weight to international student experience.

We consider future SOIs should continue to increase the focus on ENZ’s role in promoting high quality education, student wellbeing and the delivery of good outcomes for international students.

It is good to see that ENZ’s role in supporting student wellbeing is incorporated into the draft SOI.

Outcomes framework

ENZ’s outcomes framework sets out its medium term strategy, which is based around four strategic priorities and six impact measures.

The strategic priorities in the current SOI were already well aligned with the goals of the IES, and this has been strengthened through changing one priority. Promote New Zealand’s quality education has become Promote an excellent education and student experience. This reflects an increased focus on student experience and satisfaction, and better aligns with ENZ’s work and the IES.

The alignment of the impact measures has been improved in the draft document, with a measure for international students’ perceptions of education quality, and reconfiguration of the outcomes framework.
### Comment on SOI and SPE

Diagram to make it clear which impacts sit under each goal/strategic priority, as shown below.

|-----------------------|-------------------------------------------------------------|---------------------------------|------------------------------|

#### EnZ's Strategic Priorities

- Promote an excellent education and student experience
- Grow sustainable international education
- Develop global citizens

#### Impacts in current SOI 2018-2022

<table>
<thead>
<tr>
<th>The economic value from the international education industry is increased</th>
<th>The number of international students in the regions is increased</th>
<th>The economic value per international student is increased</th>
<th>International students have a positive experience</th>
<th>New Zealanders value the social and cultural benefits that international education brings</th>
</tr>
</thead>
</table>

#### Impacts in draft SOI 2019-2023

<table>
<thead>
<tr>
<th>International students perceptions of education quality are increased</th>
<th>The economic value from international education is increased</th>
<th>New Zealanders value the social and cultural benefits that international education brings</th>
</tr>
</thead>
<tbody>
<tr>
<td>International students have a positive experience</td>
<td>The percentage of international students in the regions is increased</td>
<td>The percentage of the sector's economic value from the top two markets is decreased</td>
</tr>
</tbody>
</table>

### Changes from the previous SOI

There are six impact measures in both the current and draft SOIs. However, only one measure is completely unchanged in the draft:
- Awareness of the contribution of international education to New Zealand.

Three impacts have minor revisions, such as revised targets, or changes to the way the impact is measured.

There are two new impact measures:
- International student perception of education quality
- The percentage of the total international education sector’s economic value coming from New Zealand’s top two markets.

The first measure is also reported in the IES. Continuing research on market perception of quality and how New Zealand’s education is perceived internationally is a key action for EnZ as part of the IES.

The second measure supports EnZ’s strategic priority of growing sustainable international education, which aligns with goal 2 of the IES.

While the changes are appropriate, and improve alignment with the IES, some stabilisation of measures in future SOIs would allow better analysis of trends over time.

Impact measures have changed in every SOI from 2016, as shown below.

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3 The target for 2020 for the economic value from New Zealand’s international education sector is ‘maintain’ in the draft SOI and ‘increase’ in the current SOI. A new baseline is to be established in 2019 for the proportion of international students who were satisfied or very satisfied with their overall experience.

4 The measure for students enrolled to study outside Auckland is now percentage (as it was prior to 2018) rather than number (as it is in the 2016-2022 SOI) to reflect the wording used in the IES.

5 Measures also changed significantly prior to 2016, but we have not carried out detailed analysis.
Comment on SOI and SPE

![Pie charts showing SOI and SPE activity by year]

SOI targets

ENZ has set targets of year-on-year increases (or decreases – for the percentage of the sector’s economic value from the top two markets) across all but one of its impact measures. This does not allow for fluctuation from year to year while the overall trend is maintained.

We recommend the SOI target for the following measure focuses on an increase over four years, as increasing year on year could be challenging:

- The percentage of international students who were satisfied or very satisfied with their overall experience.

IES measures

Five IES measures are incorporated into the SOI impact measures:

- international student satisfaction
- international student perceptions of education quality
- the economic value of the industry
- international students studying in the regions
- the sector’s economic value coming from New Zealand’s top two markets.

We would like to see all ENZ lead IES targets included in future SOIs. That would include measures for international alumni outcomes and international students undertaking pathways to higher levels of study.

We note that the board has made a decision not to include in the draft SOI and SPE activity which is not fully funded within their current operating baseline. We consider that for the IES and ENZ’s corporate documents to work seamlessly together, all IES key actions and targets that ENZ is responsible for should be reflected in future SOIs and SPEs.

Performance against all IES key actions and measures will also be monitored by the IES Ministers’ Group as part of the ongoing cross-agency work programme.

Organisational development

The draft SOI does not have any organisational performance measures, which means we cannot analyse trends over time. ENZ has internal organisational performance measures, which we will be seeking visibility over through quarterly reporting.

We will also be seeking further information about two parts of the organisational development section through our monitoring engagement.

Te Rautaki Māori

The draft SOI outlines Te Rautaki Māori, a strategy to:

- develop and foster the use of te reo me ōna tikanga by all ENZ staff
- work towards identifying a Māori name for ENZ that encompasses its role, vision, Ngā Mātāponi and Ways of Working
- weave te reo me ōna tikanga Māori into ENZ’s purpose.

This strategy will be finalised in 2019. In implementing the strategy it will be important that ENZ has considered how they will engage with offshore staff and ensure consistency across the organisation.
Comment on SOI and SPE

Risk management strategy

The risk management strategy in the draft SOI does not include consideration of any risks in relation to ENZ’s organisational development.

Detailed commentary on SPE non-financial performance

Performance and activity measures

Changes from the previous SPE


All but one of the activity measures have been removed. Two of the seven performance measures are new:
- Number of registrations to ENZ’s student membership programme through the studyinnewzealand website
- Number of registrations to NauMai NZ.

The diagram below shows how ENZ’s performance and activity measures have changed over time.

The changes are driven by the desire to simplify the measures, and ensure they have immediate utility as the business changes. This is appropriate, but the number and frequency of the changes makes it difficult to analyse performance over time. We will need supplementary information through quarterly reporting to provide confidence that ENZ is performing its core functions, such as marketing, and supporting providers.

In our 2017/18 end of year assessment of ENZ’s performance we advised you that two customer facing performance measures had not been met:
- percentage of users that agree ENZ’s services and support have added value
- percentage of users that are satisfied with the quality of ENZ’s services and support.

The first measure has been revised in the draft SPE and now looks at facilitated customers, rather than users. Facilitated customers are large education providers, peak bodies and regional partners that ENZ business development managers work actively with to provide growth-focused services and targeted support.

The results for this group is over 83%, which reflects ENZ’s approach to target services and support on this segment as they generate the most value.

The second measure was removed in the SPE in 2018/19.

Two further measures were not met in 2017/18, and have also been removed in the draft SPE:
- usage of the Brand Lab
- number of new and existing Prime Minister’s Scholarships for Asia funded.

We are not concerned by the removal of these targets, which have not been a useful indication of ENZ’s performance.
Comment on budgeted financial performance

Summary

ENZ is budgeting for no surplus in the 2019/2020 financial year (FY20). This is the same position as 2018/2019 (FY19).

Its balance sheet is budgeted to remain in the same overall position as the FY19 forecast position, which is stable for an organisation of its size.

ENZ has limited capacity to fund any initiatives outside of its business as usual activities, which could in future years impact on its ability to deliver on all its International Education Strategy objectives. We understand that ENZ will be meeting with you shortly to discuss this.

Financial performance

ENZ has budgeted for no surplus in FY20.

All revenue streams are anticipated to be at similar levels to FY19, as both years take account of the reprioritised funding released back to the centre by ENZ.

There has been a change in the expenditure mix, with personnel expenditure increasing and other operating expenditure decreasing. The increased personnel expenditure is driven by a restructuring of Tiers 2, 3 and 4, which has resulted in new roles being created.

As a result of the increased personnel costs, ENZ has had reduce its other operating expenditure and undertake a prioritisation exercise. It will bring some 3rd party vendor work in-house and end the regional partnership co-funding programme which ENZ had extended to FY19 after funding for the programme ended in FY17. Marketing initiatives, such as branding work will remain at planned levels.

Scholarship expenditure, which has been reduced slightly in FY20, is anticipated to match revenue as the scholarships are expected to be fully subscribed.
Comment on budgeted financial performance

Financial sustainability

ENZ has a stable balance sheet as a result of forecast and budgeted nil surpluses in FY19 and FY20.

While ENZ’s balance is stable it has limited ability to fund cost overruns or additional projects or initiatives that have no associated funding. This is particularly evident when noting that $0.9m of the working capital and equity balance relates to an accumulated scholarship surplus due to student driven factors.

The above also applies to investing in new assets, whether they are property, plant & equipment or intangible assets.

We will continue to engage with ENZ over the coming months to understand how its discussions with you on future initiatives are developing and what the resulting impact on its financial sustainability may be.
Dear Steve,

I have received ENZ’s draft Statement of Intent (SOI) 2019-2023 and draft Statement of Performance Expectations (SPE) 2019-2020, alongside the Ministry of Education and Ministry of Business, Innovation and Employment’s assessment. Thank you for providing me with this information.

ENZ has identified appropriate strategic priorities which will allow the organisation to work with the sector to shift focus from quantity to quality and from high volume to high value, as well as driving diversification. The alignment with the International Education Strategy is clear. I am also glad to see you have increased your focus on student wellbeing in the draft SOI, compared to the 2018-2022 SOI.

I look forward to receiving further information throughout the year, including internal business information that shows how ENZ is performing its core functions.

Yours sincerely,

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
17 MAY 2019

Stevé Maharey
Chair
Education New Zealand
PO Box 12041
WELLINGTON 6141

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