

Ministry of Education

Crown Entities Monitoring Unit

**FRAMEWORK FOR THE MONITORING OF
THE CENTRAL EDUCATION CROWN ENTITIES**

21 November 2007

Contents

1. The Ministry of Education's Crown Entity Monitoring Team	3
2. Crown entities	3
3. Overview of Roles: Ministers, Entity, Central Agencies and the Monitoring Department	4
4. What do ministers want from Crown entities?	5
5. What do ministers want from the monitoring department?	5
6. Requirements of successful monitoring	6
7. The Ministry's approach to monitoring.....	7
8. What monitoring isn't.....	9
9. Relationship Management & Communication.....	9
APPENDIX ONE.....	12
APPENDIX TWO	14
APPENDIX THREE	16
APPENDIX FOUR	18
APPENDIX FIVE.....	19

1. The Ministry of Education's Crown Entity Monitoring Team

The Ministry of Education's Crown Entity Monitoring Team was established on 1 September 2006. It is responsible for managing the Government's ownership interest in the four central education Crown entities.

The Crown Entity Monitoring Team works with, and is linked to, the Tertiary Sector Performance Analysis and Reporting Division of the Strategy and System Performance Grouping.

2. Crown entities

The Crown Entities Act 2004¹ provides the framework for the establishment, governance, and operation of Crown entities.

Crown entities are government agencies that are legally separate from the Crown and governed by a board. Ministers rely on government departments to support their interactions with Crown entities.

Appendix One has more information about the status and structure of Crown entities.

The Act lays out an expectation that there will be annual and long-term engagement between entities and ministers about strategic direction, provision of services and entity performance. The focus is on a holistic view of performance, looking at a broad and balanced set of information about intended and actual performance.

Two of the four central education Crown entities work across the compulsory and tertiary sectors, one works solely in tertiary education, while the fourth works between the early childhood and compulsory sectors:

Name	Type of entity	Ownership minister	Other ministers with an interest
Tertiary Education Commission	Crown Agent	Minister for Tertiary Education	Associate Minister of Education – Maori Education
NZ Qualifications Authority	Crown Agent	Minister of Education	Minister for Tertiary Education Associate Minister of Education – Maori Education
Career Services Rapuara	Crown Agent	Minister of Education	Minister for Tertiary Education Associate Minister of Education – Maori Education
The Teachers Council	Autonomous Crown Entity	Minister of Education	Associate Minister of Education – Maori Education

¹ This document makes frequent reference to the Education Act 1989, the Crown Entities Act 2004 and the Public Finance Act 1989. These statutes can be found at <http://www.legislation.co.nz>. See also Annex B to this document.

Linkages to other education agencies

Each of the four central education Crown entities is part of the network of six² central government education agencies. Ministers expect that all six will work together to build an education system that works for the benefit of New Zealand and New Zealanders and that contributes to New Zealand's social, cultural and economic development. The four central education Crown entities are expected to ensure their strategies complement the plans of the other agencies and that their operations reflect this 'joined-up' approach to management of the government's interests in education.

3. Overview of Roles: Ministers, Entity, Central Agencies and the Monitoring Department

Ministers

The role of the responsible Minister is to oversee and manage the Crown's interests in, and relationship with, a statutory entity and to exercise any statutory responsibilities given to the Minister.

The relationship between a Minister and a Crown entity is typically more at arm's length than between a Minister and a department. The accountability to the Minister is through the board – the board are the governors of the entity and it is the board that is responsible for the performance of the entity.

Boards

The board governs the Crown entity, exercises its powers and carries out its functions as specified by the entity's enabling legislation, determines its strategy and operating policies within the Minister's expectations and determinations, ensures that risks are managed, oversees its operations and appoints its chief executive. The board's actions must be consistent with the Crown entity's objectives, functions, Statement of Intent (SOI) and output agreement (if there is one).

The board is responsible for:

- setting the direction of the Crown entity;
- achieving the desired results;
- managing any risks to the Crown.

The board must maintain open communication with the Minister and the monitoring team, and engage constructively with them.

Central Agencies

The State Services Commission, the Department of the Prime Minister and Cabinet and the Treasury are responsible for providing leadership, coordination and monitoring across the entire public sector. The monitoring team will seek the support of the central agencies when appropriate.

²In addition to the four central education Crown entities, there are two government agencies with a primary focus on education: the Ministry of Education and the Education Review Office.

The Monitoring Team

The monitoring team works on a minister's behalf with the Crown entity to:

- monitor performance against expected results and outputs;
- make sure the Crown entity has identified the intended results for New Zealanders along with the Crown's output and fiscal results;
- promote coordination of Crown entities within the Minister's portfolio;
- advise the Minister on the Crown entity's capability to achieve its results (e.g. by giving advice on major business cases);
- advise the Minister on the merit of Crown entity budget initiatives;
- monitor and assess risks and keep the Minister informed of these risks.

4. What do ministers want from Crown entities?

The minister wants to be assured that the entity is serving its purpose – working towards the goals that it was set up to pursue – and minimising the risk of policy failure.

Consequently ministers want assurance the entity is:

- producing the outputs sought by government and doing so in a sustainable and cost-effective way, and thereby achieving the results intended;
- serving the government's broader strategy for the sector - working in alignment with departments and entities within its area;
- well led and managed, building its capability to maintain an effective medium- and long-run focus and direction;
- managing its risks and avoiding surprises for the government.

Ownership and purchase

Ministers want assurance on both *ownership* and *purchase* perspectives. These perspectives are complementary.

From an ownership perspective, the Crown seeks assurance regarding long term organisational sustainability. This has both a *financial* dimension (financial viability) as well as *capability* and *capacity* dimensions. Capability and capacity, in turn, have relevance in terms of human capital (staff), physical capital (assets), other resources, as well as systems and processes. Maintaining organisational capability and achieving financial sustainability are prerequisites to being able to deliver on the Government's purchase interests in the medium and longer term.

The purchase perspective focuses on the outputs provided by the Crown entities and the contribution that these make to Government's desired outcomes. The Crown has an interest in the relative contribution of outputs to desired outcomes and, hence, has a particular interest in the level and mix of outputs delivered by the Crown entities. The Crown is also vitally interested in the cost effectiveness of output delivery.

5. What do ministers want from the monitoring department?

In order to get assurance that the entity is working well towards the expected results, the minister needs independent advice – independent of the entity but attuned to the broader sector issues facing the entity. Providing that independent advice is the primary role of a monitoring department. The monitoring department acts as the

minister's agent in looking at key aspects of the entity's performance, and to be especially alert to:

- the alignment of the entity's plans with government directions;
- the maintenance and enhancement of the entity's longer term capability;
- risks to the Entity's delivery of its agreed outputs, and to the desired outcomes.

The Ministry of Education has been given this task as it is best placed to view the performance of the four education Crown entities in the context of the government's education strategies. The Crown entity team has direct knowledge of much of the information that enables it to see the four entities' work in that context. And it has the ability to access the range of analysts and information that enable it to provide a view of the performance of the four Crown entities across all of the ownership dimensions above. The team is charged with taking a broad, holistic, 'joined-up' view of entity performance that puts the assessment of performance in the context of the government's strategic goals for education.

This means the minister requires the team to reflect his/her perspective in dialogue with the entity, to act as a go-between between the minister and the entity to undertake analyses and make performance assessments that are linked to the minister's ownership interests in the entity.

Monitoring is therefore *successful* if ministers are given timely and considered advice on whether the entity is on track to deliver on its statement of intent and its output agreement and that the entity is operating in a sustainable way.

6. Requirements of successful monitoring

Among the conditions necessary for the *success of monitoring* are:

- the monitoring team has access to all relevant information about the entity: eg plans, output delivery, output and outcome measures, financial data, key projects data, risk assessments, capability information, key systems and processes, etc;
- the leadership of the Crown entity and the monitoring team both accept and support good faith principles in operating of monitoring, including:
 - acting honestly and in good faith
 - communicating openly and in a timely manner
 - working in a co-operative and constructive manner;
- the team establishes good working relations with entities, at multiple levels;
- there is well-developed and sustainable capability in the monitoring team, a strategy and methodology suitable to the monitoring task, staff with the skills and experience and judgement for the task and a knowledge base to allow longitudinal tracking;
- the entity managers responsible for the monitoring relationship have the expertise and the capability to assist the monitoring team;
- the team has adequate staff time and resources for quality work.

The monitoring will not be successful if, for instance,

- the scope of the monitoring is too narrow;
- the information available to the monitoring analyst is incomplete or incorrect;

- neither the monitoring analyst nor the entity perceive an emerging issue – so that neither thinks to explore or report it;
- the contextual knowledge – either in the monitoring team or in the entity – is inadequate - eg of the government's and the education sector's intentions as they relate to the work of the entities;
- the quality of the entity's reporting is poor or the monitoring team's analysis is weak and does not identify critical issues or implications;
- critical issues are identified but not reported, either to the monitoring team or by the monitoring team in the interests of preserving relationships with the entities, or from lack of incontrovertible evidence.

7. The Ministry's approach to monitoring

Where do we focus?

Monitoring is linked to the accountability documents prepared by the entity – the statement of intent, output agreement, quarterly reports and annual report. As monitor, the Ministry seeks to engage with the Crown entities as part of their strategic planning and business planning processes. Engagement at those points helps the Crown entities to interpret the Government's high level strategic objectives for the education sector. In turn, this assists the Crown entities with their task of assessing what these objectives imply for their own strategic direction and priorities.

While monitoring is broadly tied to the accountability documents, there may be instances where it becomes apparent during a financial year that the measures and indicators in place do not provide sufficient information for the monitoring department to provide the Minister with assurance that the entity is achieving its purpose, contributing to outcomes, delivering its contracted outputs, attaining reasonable value for the money or sustaining itself for future performance. In these cases, the monitoring team will work with the entity to determine the additional information required, and develop a joint approach as to how best to inform the minister on the issue.

The ownership perspective is linked less to specific performance documents than to assurance of the entity's overall capability as an instrument of government. A number of aspects of capability must be monitored in tandem in order to gain a balanced view of that capability, as outlined in the dimensions of monitoring below.

The Ministry attempts to maintain its focus on the overall contribution made by the activities of the Crown entities – and on its sustainability – rather than, for example, whether or not the Crown entity has delivered the number of ministerial responses it indicated it would. Monitoring is not an audit and compliance check against service level requirements, or an ex-post verification of information. Monitoring aims to be open ended, continuous and up-to-date – geared to the minister's need for timely advice.

Dimensions of monitoring

The Ministry's monitoring focuses on four key performance dimensions:

- Strategy: the alignment of entity strategy with governmental and sector goals;
- Capability: organisational leadership, policies and systems, together with other key means of achieving entity strategy and long-term viability;
- Financial stewardship: the appropriate use and effective utilisation of Crown funds for the production of outputs and for maintaining long-term viability;

- Organisational outputs: the products and services delivered per specifications, and the impact of those on the desired outcomes.

These are described in Appendix 3; and a model for capability monitoring is outlined in Appendix 4.

How do we monitor?

While some aspects of aspects of performance are readily understood through a set of indicators, the dimensions of strategic contribution and organisational capability, are best monitored through a process of assessing evidence to show certain things are in place (or not). For example, the capability of the entities to effectively manage organisational development initiatives will be best shown through evidence of processes and practices for effective strategic management, risk management and change management. Similarly, capability in the areas of information and knowledge management will be evidenced by strategic plans, processes and systems.

Stakeholder consultation

One important aspect of monitoring is triangulating information from entities' reports with stakeholder information. Some of the entities routinely collect stakeholder information already. This may be supplemented by information collected by the monitoring team on certain aspects of entity performance from key informants.

Monitoring won't be the same in each entity

The four entities monitored by the Ministry of Education all have their distinctive characters and features. The monitoring team expects to develop with each entity a monitoring relationship that works – both for the board and the way the board governs the entity and also for the team and its client, the responsible minister. We expect to engage in dialogue with the entity about where the focus will be and how we will approach monitoring in each.

Linking to government's broader sector goals

As noted above, because the Crown entity monitoring team is located within the ministry responsible for education, and is able therefore to access key performance information developed in the ministry that give a view of the performance of the Crown entity that triangulates the entities' own reporting. They can access analysts and others who are responsible for working with the entities and who can also give an informed view of the entities' performance. The monitoring team is also in a position to access information that enables them to view the performance of each entity in relation to the network of six central government education agencies.

Examples of this linkage include:

- The Ministry is responsible for management of Vote Education, managing the budget processes and also the allocation of Crown funds to the Crown entities.
- The Ministry has been directed by cabinet to monitor the progress of the sector in achieving the goals of the TES. This has led to the creation of a set of indicators that give a perspective on the performance of the TEC as well as the tertiary work of the NZQA and Career Services.
- The Teachers Council is obliged to work closely with the Ministry of Education team responsible for advising ministers on education workforce policy. That unit has important insights into the core work of the council.

The Crown entity team is thus in a position to take a whole of education perspective – particularly important in relation to the first and second linkages listed above.

8. What monitoring isn't

Monitoring isn't a substitute for governance on the one hand or for audit on the other.

The role of the board of the entity is to govern the entity – develop its strategy within the brief given to the entity by government, make sure its risks are well managed, make sure that the organisation has the management it needs to achieve its strategy and make sure it is well managed financially. Obviously, these concerns are central to the minister's interests and therefore, they overlap with the focus of the monitoring department. The difference is that the board is responsible for making sure that those things occur. The role of the monitoring department is to advise the minister on how successful the board is in achieving its role in governance.

Since the monitoring team is acting as the responsible minister's agent, it follows that its formal relationship is with the board. While in practice, there will be dialogue on a day to day basis with executives of the entity, those relationships must not cut across the primary accountability of the board to the minister for the performance of the entity. This means that the relationship between the monitor and the entity's executives is circumscribed by the facts that the entity's chief executive to the board is accountable to the board and the minister's relationship is with the board. Consequently the monitoring team needs to also maintain a strong relationship with the board.

The monitoring team must avoid getting in the way of the board's exercise of its governance role. In particular, the monitoring team's advice to executives of the entity is offered in the hope that it is helpful and it is to be taken as indicative. There is no obligation on the entity executives to take such advice – their accountability is to the chief executive and thence to the board.

During annual audits, the auditors appointed by the Auditor-General to audit each of the Crown Entities will review the entities' service performance – the extent to which they have achieved the targets in their output agreements – as well as its financial performance. These audits are both conducted under the terms of the Public Finance Act and within prescribed boundaries – they report in an objective and factual way on the state of the finances at year end and in the service performance audit, they focus largely on the match between the intent and the achievement, paying less attention to broader aspects of fit with government's sector strategy etc. These audits differ from monitoring in that they tend to be *ex post* verifications, whereas the monitoring team is expected to offer advice and to be prepared to lend critique to work in preparation. Monitoring is open-ended, continuous and focussed on the breadth of strategy. The departmental monitoring will also advise on whether the reports are meaningful, not simply whether they are accurate. Monitoring departments are concerned with whether an entity is doing the right thing, not simply with whether it is doing what it does well.

9. Relationship Management & Communication

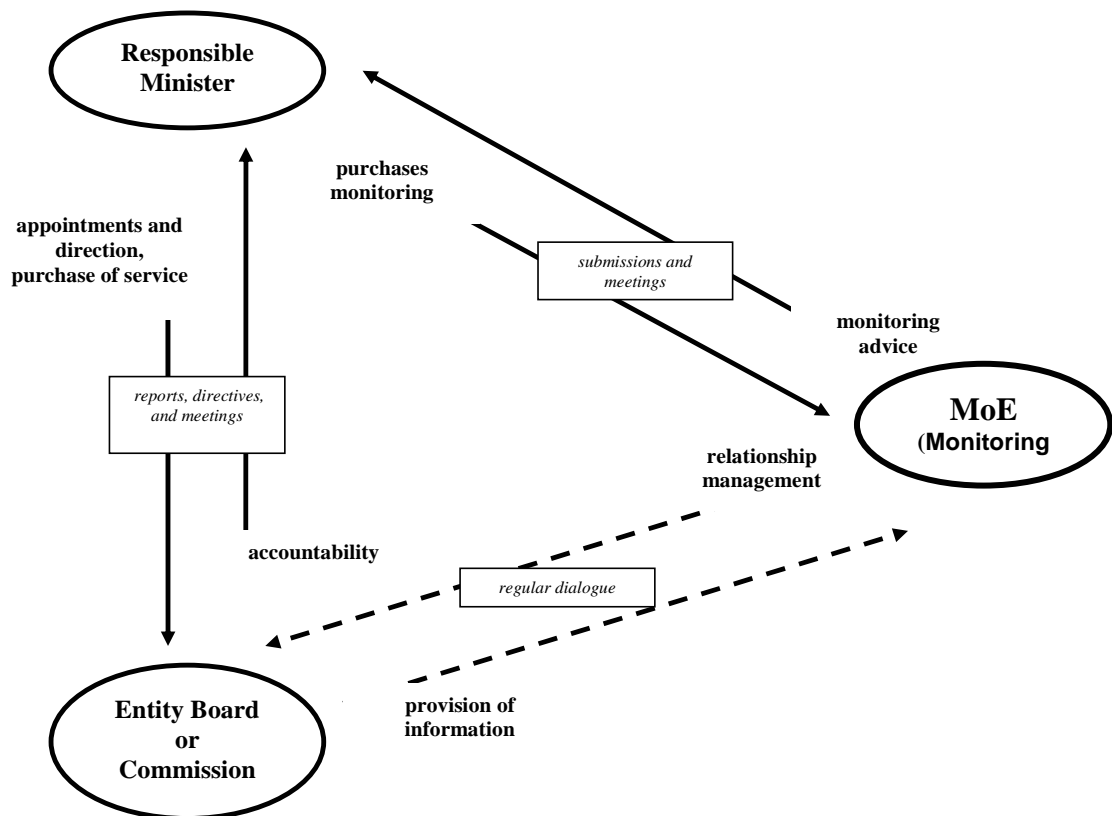
At the core of the monitoring relationship is the desire by entities that are in an arm's-length relationship to jointly work toward outcomes, the achievement of which depends critically on shared understanding of objectives and goals. The framework

is geared toward promoting alignment of strategy and actions with shared goals and objectives. The characteristics of the relationship are summarised below.

<ul style="list-style-type: none"> • Strategic responsibility maintained “at the top” (i.e. Board and CEO levels) • Multi-level links between the organisations (governance, senior management and operational levels) • Regular, goal-oriented interactions based around common objectives • Intensive communication (both parties need deep understanding of the roles and activities of the other) • Regular performance reviews which capture all dimensions of performance 	<ul style="list-style-type: none"> • The relationship is managed as a strategic asset (because of the value it adds and reflecting the mutual dependency) • The relationship is managed to create and sustain a basis for long-term growth • The relationship is observed in terms of its intent as well as its terms • Expectations are managed on a “no-surprises” basis • Both parties define the scorecard in advance
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It is important for there to be multi-level links between the ministry (as monitor) and the Crown entities it monitors. Communications between the ministry and the Crown entities needs to be interactive and be both formal and informal. The formal communications revolve around the quarterly performance reporting. The informal communications, however, can be just as important for communicating the concerns of the Crown entity and the Ministry and for resolving emerging relationship problems.

Monitoring works best when there are well-developed relationships between Ministers, Crown entities, and the monitoring department and where these relationships are built on a clear understanding of and respect for the roles, responsibilities and interactions of the three players. The relationship involving the Minister, the monitoring team and each Crown entity conforms to the following model.



Relationship Model

The code of monitoring conduct

The monitoring team has adopted the following principles to underpin its relationships with the organisations it is responsible for monitoring:

- act honestly and in good faith;
- communicate openly and in a timely manner;
- work in a co-operative and constructive manner;
- recognise the organisation's responsibilities to its clients and stakeholders;
- support the organisation's obligations.

We also:

- provide each entity with opportunity to comment on, and have input into, all of our reports to the Minister relating to them;
- engage in constructive dialogue to resolve (to the greatest extent possible) instances where the entity management or board and the monitoring team have differing opinions on an issue.

If there are differences in opinions, interpretation or understanding that can't be resolved by the people primarily responsible for the relationship on both sides, then there are opportunities to escalate the issue to higher levels in the entity and/or the Ministry to achieve a resolution.

If it transpires a problem is unresolved, it is open for the entity to include its dissenting view in the Ministry's analysis.

Monitoring relationships

The monitoring team has a lead-analyst assigned to each entity who is primarily responsible for monitoring and governance activities for that entity, including board appointments. Additionally, each entity has a secondary shadowing analyst to allow coverage for absences, and for robust discussion of issues in regard to each entity within the team.

In turn, each crown entity is expected to nominate one senior manager as a senior relationship manager, as well as identifying the day to day liaison points within their organisation.

While some interactions between the Monitoring team and the entities will be informal and 'ad hoc', it is also important to provide for formal meetings to ensure that both organisations have opportunity to talk about any issues/concerns arising about the monitoring relationship and monitoring and reporting practices, rather than issues relating to the monitoring and reporting itself.

Relationships with the board

Given that the board is responsible for the operation and performance of the entity, it is important that there is a good communication channel maintained between the board (particularly the Chair) and the monitoring team. To this end, the monitoring analyst and the manager of the monitoring team will meet with the Chair and the chief executive of the entity formally two times a year.

APPENDIX ONE

About Crown Entities

Crown entities are government agencies that are legally separate from the Crown and governed by a board. Their situation is unlike government departments where the chief executive has a direct accountability to the minister; in the case of Crown entities, the accountability of the chief executive is to the board. Government's expectations and interests in a Crown entity are reflected in the relationship which Ministers have with entities' boards.

There are five types of crown entities:

1. *Statutory entities* – These are bodies corporate that are established by or under an Act. There are three different types:
 - Crown Agents - these must give effect to government policy when directed by the responsible Minister;
 - Autonomous Crown entities – these must have regard to government policy when directed by the responsible Minister;
 - Independent Crown entities – these are generally independent of government policy.
2. *Crown Entity Companies* - These are companies incorporated under the Companies Act 1993 that are wholly owned by the Crown
3. *Crown entity subsidiaries* - These are companies incorporated under the Companies Act 1993 that are controlled by Crown entities
4. *School Boards of trustees* - These are boards that are bodies corporate constituted under the Education Act (including correspondence schools)
5. *Tertiary education institutions* - tertiary institutions (for example, polytechnics, universities, or wananga) that are bodies corporate established under the Education Act 1989.

The four central education Crown entities were established under the Education Act 1989, and are Statutory entities.

Why are there Crown entities?

Governments establish each Crown entity for a specific purpose – to achieve some policy goal, which, in the judgement of the government, would be best achieved by an agency operating at arm's length from the minister responsible for that policy area.

The type of Crown Entity, its relationship with the government and its structure will depend on the purpose of the entity, the reason for keeping the function at arm's length and the nature of the functions it is expected to carry out.

The responsible minister

When it sets up a Crown entity, the government makes one minister the ownership minister for that entity – it assigns that minister a role analogous to that played by a shareholder in a company and it gives that minister responsibility for making sure all

these dimensions of ownership are managed. Other ministers may have a substantial policy interest in the work of the Crown entity, but the ownership minister's interest differs, being focused more widely on the entity and its operation, rather than simply on what the Crown entity is 'producing'.

This material is set out in more detail in the Treasury and SSC publication *Guidance to Departments in Relation to Crown Entities* available at:

www.crownentities.ssc.govt.nz

APPENDIX TWO

The monitoring process

The planning and reporting cycle

For Crown Entities, the point that starts the planning cycle is the minister's *letter of expectations* – a letter to the board identifying the minister's key priorities for that entity, within its overall purpose, in the coming year. This letter will include particular points of emphasis for the entity where the minister judges where the policy needs to be strengthened. It may also include the minister's responses to particular issues of concern that arose in the current or a past year, highlighted in previous monitoring. The Crown Entity team will work with the minister's office, certain stakeholders, the entity, the other government education agencies and the central agencies to develop the draft of that letter for the minister. The final draft is the monitoring team's advice to the responsible minister; the final decision on the focus and the content of the letter rests with the minister.

Once the letter of expectations is given to the board, the entity develops a *statement of intent* – setting out the strategies to be pursued by the entity over the next three years – and the associated *output agreement* – the schedule of outputs the entity expects to deliver and by when. While the board is responsible for developing these documents, they represent agreements with the responsible ownership minister on behalf of the Crown. The monitoring team works with the entity to advise on whether and the extent to which these documents are well aligned to the minister's expectations, to offer suggestions on how drafts may be strengthened and on how the drafts align to other entities' plans. Once the *statement of intent* is approved by the board, the monitoring team advise the minister on the statements, including drawing to the minister's attention any possible matters of concern.

The Statement of Intent and output agreement form the basis for quarterly and annual reporting by the board of the entity to the minister. The role of the monitoring team is to work with the entity to advise whether these are robust and appropriate reports and then to advise the minister on the progress of the entity as represented in the reports.

Reporting and analysis

The monitoring team is responsible for providing 'first opinion' and 'second opinion' advice:

- First opinion advice is advice on the entity's strategic direction, its policies and purchase advice. (An example of first opinion is the monitoring teams analysis of the quarterly and annual reports).
- Second opinion advice involves commenting on proposals, budget bids and advice presented to the Minister by the Crown entity and advice on legislation, regulations and processes leading to legislation and regulations.

As most Crown entities interact regularly with the ministry on both policy and operational issues, confusion between the roles of the monitoring team and the wider Ministry is possible. Often it will be necessary for the entity to secure both a Ministry educational perspective on an issue, and a separate ownership perspective from the monitoring team. There is potential for the entity to perceive that mixed messages

are being sent from the Ministry, when, in fact, the perspectives being brought to bear by policy and the monitoring team staff may legitimately be very different.

Appointments

The monitoring team is responsible for advising the minister on appointments to Crown entity boards. This means being aware of when vacancies occur and working with the board chair and the minister's office to find suitable replacements. This involves also taking advice from other agencies and from people in the ministry.

Support for planning

Given the critical role of the Crown Entity team in advising on the planning and reporting cycle, the team has an opportunity to help the planning staff of the entity in their work by adding an informed and independent perspective.

Budget processes

The ministry is responsible for the management of Vote Education, meaning that all of the budget bids of the entities are channelled through the ministry's budget management process, under which advice is developed for the minister on priorities. This role includes advising on budget bids made by the entity. One role for the Crown entity team is to liaise between the entity and the budget management on bids and in particular, to advise the Ministry's budget team on each of the bids. A second role is to give specific ownership-focused advice where a budget bid has a capability dimension

Support for the entities

In addition to the support given to entities noted above, the Crown Entity team can be used by the entity as a resource to support its work more generally. In particular:

- governance support – a certain sum has been allocated for governance training and for the induction of new board appointees;
- advice to the entity on the minister's priorities;
- advice to the minister on the entity's priorities;
- facilitating relationships between the entity and other government agencies – such as the central agencies;
- contributing, at the invitation of the entity, to the entity's own internal review activity, particularly where that activity has an ownership or capability aspect.

APPENDIX THREE

The four dimensions of the ministry's approach to monitoring

The four dimensions are:

1) *Strategy*

Each state sector organisation has been established by the government to advance particular public policy objectives. The monitoring team aims to provide the minister with advice on:

- the extent of alignment with the purpose of the organisation;
- the contribution of the organisation to the government's education strategy and goals;
- progress towards achievement of the organisation's own strategic goals.

The objectives of this aspect of monitoring can be defined at several levels but, in general terms, these relate to the government's strategic objectives for the education sector as well as the strategic objectives of each of the Crown entities (which should derive from, and align with, the government's objectives).

2) *Capability*

Each state sector organisation needs to have or to be able to access, the appropriate resources, systems and structures needed to deliver on the organisation's outputs and goals. In our monitoring, we aim to advise the minister on such matters as the organisation's:

- Leadership;
- approach to planning and strategy;
- human resources capability and its culture;
- systems, processes and technology;
- risk management approach;
- relationships and collaboration.

The monitoring team aims to focus monitoring in particular on emerging issues that pose capability risks, while also taking a cyclic focus on the key dimensions of capability.

3) *Financial stewardship*

This considers the financial performance of the Crown entities and their accountability for the use and application of Crown moneys, including the sustainability of the organisation into the future. It also considers the approach by the Crown entities to ensuring value-for-money, efficiency and effectiveness. The monitoring team will monitor progress on key financial measures appropriate to each of the four entities to ensure:

- Budgets are sustainable (e.g. full costs are met by revenue, or the Minister has agreed to specific costs not in the budget). This includes reviews of Statements of Financial Performance, and managing emerging risks to sustainability.
- Balance sheets are sustainable. This includes reviewing Statements of Financial Position, and ensuring assets are maintained and can be

replaced.

- Operating cash flows are sufficient to deliver outputs, and maintain capabilities.

4) *Organisational outputs*

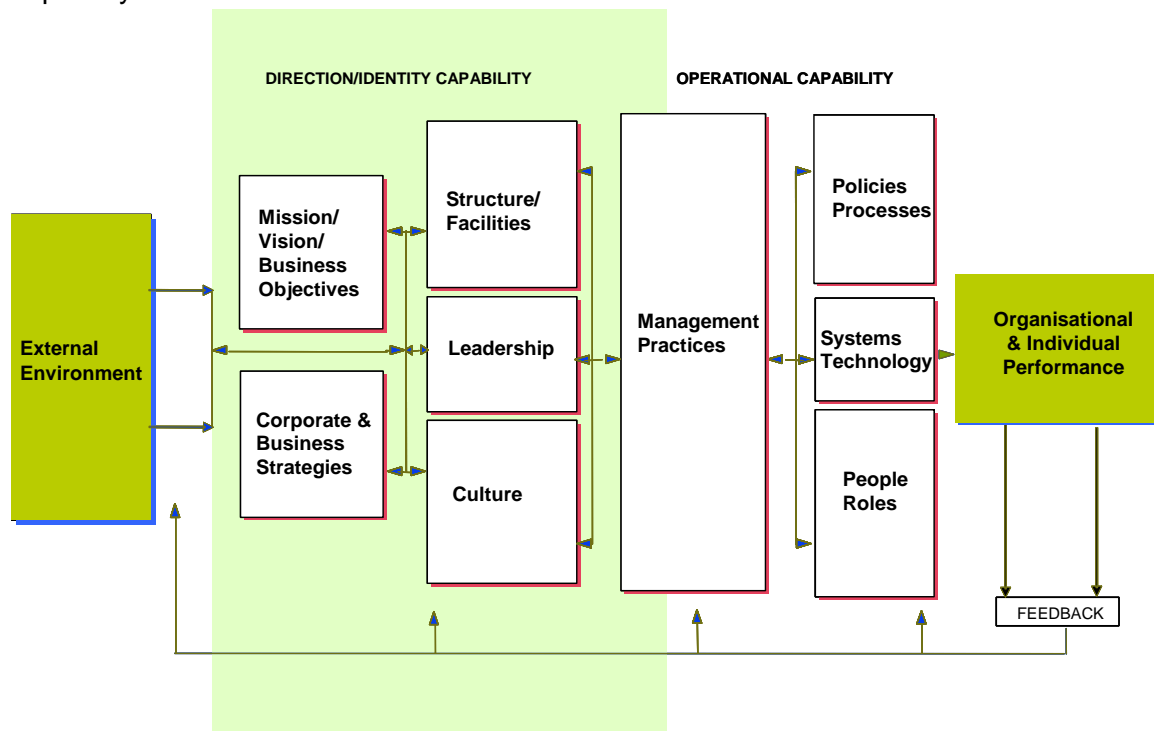
The team will give the minister advice on the extent to which the organisation is delivering products and services (outputs) that achieve the intended results (outcomes). This includes achievement of targets in the output agreement – although in reporting on this dimension, the monitoring team will often take an exceptions-based approach.

APPENDIX FOUR

A model of organisational capability

Any approach to monitoring is underpinned by a view of organisational capability, structure and behaviour.

The diagram below provides a schema of key dimensions of organisational capability.



Understanding organisational performance is underpinned by an understanding of organisational capability.

Monitoring all aspects of performance and capability in each and every quarter is neither realistic nor appropriate and is unlikely to be the most effective use of monitoring resource. Therefore, the team will determine with each of the four entities a monitoring cycle, which will span up to three years and which assesses aspects of organisation capability and capacity on a rolling basis. Such an approach allows for more focused and in-depth consideration of factors affecting organisational performance and avoids the risk of adopting a “once over lightly” approach. Some elements of organisational capability may be assessed and reported against more frequently than others.

APPENDIX FIVE

Outline of key documents used in monitoring

The monitoring process takes its start from accountability documents and monitoring is broadly tied to the accountability documents.

Letter of Expectations

The Letter of Expectations (LoE) is the means by which the responsible Minister sets out his/her direction for the Crown entity for the coming year. The LoE includes the key government strategies, priorities and goals the entities are expected to address in their strategic planning, as well as key organisational specific issues identified by the Minister.

Statement of Intent

The legislative requirements for Statements of Intent (SOI) are contained in the Crown Entities Act (§138-149).

The purpose of a statement of intent is to promote the public accountability of a Crown entity by :

- enabling the Crown to participate in the process of setting the Crown entity's medium-term intentions and undertakings;
- setting out for the House of Representatives the entity's intentions and undertakings at or before the start of each financial year for that financial year and at least the two following financial years;
- providing a base against which the Crown entity's actual performance can later be assessed.

A SOI is a mechanism for aligning the actions of a Crown entity with the outcomes desired by government. SOIs also provide a mechanism for defining an appropriate boundary between autonomy and accountability. They:

- establish a transparent basis for the accountability of the entity to the Government, as owner;
- serve as a key point of reference for the reporting and monitoring of each entity; in effect, a statement by the entity and government as to the basis upon which the entity will be measured and assessed;
- provide a mechanism through which government's expectations can be made transparent;
- define the framework within which the government manages risk;
- provide a strategic context for the entity and the government's interest in the entity;
- shape the framework for discussion between the governing Board of the entity and the responsible Minister.

Output Agreements

Output Agreements describe the outputs the Crown entity intends to provide and the measures by which delivery may be assessed.

Annual Reports

The legislative requirements for Annual Reports are contained in the Crown Entities Act (§ 150-157).

The Act requires that a Crown Entity prepare a report on its affairs at the end of each financial year, and provide the report to its responsible Minister after receiving its audit report. The Minister must present the entity's annual report to the House of Representatives. A Crown entity must publish its annual report after it has been presented to the House.

Quarterly Reports

The Output Agreement for each education Crown entity contains the requirement for quarterly reports and the dates by which they are to be with the Minister.

Approach to reporting

The Crown Entities Act introduced a new reporting regime for Crown entities, intended to provide for an annual process of strategic engagement between Crown entities and Ministers (and their departments) about intended operations and performance.

Several principles guide what is reported.

- Reporting measures should be consistent with the underlying and agreed performance monitoring framework.
- The measures should promote alignment of behaviours with objectives and desired outcomes.
- From an external monitor's perspective, performance measures should be limited to the vital few. The measures should provide an overall picture of achievement and a prompt for digging deeper as required.
- The measures should be driven by: direction; outcome; strategies; and risk.

Performance measures must link to objectives and should be SMART:

Specific	➤ Relate to a particular attribute of performance
Measurable	➤ If it can't be measured, it can't be managed
Achievable	➤ Realistic but provide an appropriate degree of "stretch"
Relevant	➤ Directly linked to objectives and strategies
Timely	➤ Effective for the period measured

Our monitoring plan

This document should be read in conjunction with the team's monitoring plan