



## Briefing Note: Options for mitigating the Teaching Council's proposed fee increase

<b>To:</b>	Hon Chris Hipkins, Minister of Education		
<b>Date:</b>	26 February 2020	<b>Priority:</b>	High
<b>Security Level:</b>	In Confidence	<b>METIS No:</b>	1221157
<b>Drafter:</b>	Sandra Park	<b>DDI:</b>	463 8975
<b>Key contact and number:</b>	Ben O'Meara	<b>DDI:</b>	463 8704 9(2)(a)
<b>Messaging seen by Communications team:</b>	No	<b>Round robin:</b>	No

### Purpose of paper

This paper provides advice on options for reducing and/or smoothing the transition to the fee increase currently being considered by the Teaching Council, for discussion at your agency meeting on Monday 2<sup>nd</sup> March.

### Summary

We have identified the following options to reduce the size and financial impact on teachers of the Council's proposed fee increase. Note that there are many possible variations of these options, and they could also be adopted in different combinations to form a package:

Description	Estimated cost	Estimated fee required by the Council
<b>Option 1</b>  To phase the fee increase through an initial 50% increase, followed by a further 50% increase 3 years later.	\$12.6m over four years, with no ongoing expenditure.	\$350 for the first three years  \$470 plus inflationary adjustment thereafter
<b>Option 2</b>  Ongoing funding of the Council's professional leadership function	\$20m over four years; approximately \$5m per annum ongoing	\$325

<b>Option 3</b>  Ongoing funding for the Leadership Centre, combined with the staggered fee increase as per Option 1	\$16m over four years, with \$1m per annum ongoing	\$449 with baseline funding only  \$325 for the first three years, and \$440 plus inflationary adjustment thereafter, if combined with the staggered fee increase per option 1
<b>Option 4</b>  4(a) – moving to an annual practicing certificate and fee  4(b) – Council enables fortnightly direct debits – this would require transitional funding  4(c) – Ministry supports direct payroll payment of Council fees for teachers on the education payroll (meaning only school teachers would be covered) – this would require transitional funding	\$16.5m over four years, no ongoing funding (\$11m in the first year, and \$5.5m in the second year).  We are not able to estimate the cost of option 4(b).  We are not able to estimate the cost of this option 4(c).	Annual fee of \$157  Triennial fee of \$470, deducted fortnightly – approximately \$6 per fortnight.  As above.

### Proactive Release Recommendation

**Agree** that this Briefing Note is not released at this time, because it contains Budget sensitive information.

**Agree / Disagree**

Dr Andrea Schöllmann  
**Deputy Secretary**  
**Education System Policy**

Hon Chris Hipkins  
**Minister of Education**

26/02/2020

\_\_\_/\_\_\_/\_\_\_

## Background

---

1. The Teaching Council (the Council) of Aotearoa New Zealand is consulting on a proposal to increase its triennial fee of \$220.80 to either:
  - a. \$470 for both beginning and currently registered teachers; or
  - b. \$500 for registered teachers, with a reduced fee of \$300 for beginning teachers.
2. The current fees only cover around 40% of the operational costs of the Council. In recent years, the gap in the Council's revenue has been covered by a funding agreement between the Ministry and the Council.
3. The current funding agreement expires on 30 June 2020. The agreement requires the Council to identify additional sources of income to enable the Council to be financially sustainable by the time the agreement expires.
4. You have asked for advice on options to mitigate the size and impact on teachers of the Council's proposed fee increase.

## Options

---

5. We have considered several options to both reduce the level of the fee increase required, and to phase in the increase to reduce the impact on teachers. In addition, we've considered some possible changes to the method and frequency with which teachers pay their fees, which could help to reduce the impact of the fee increase. There are many possible variations of these options, and they could also be adopted in different combinations to form a package.
6. We have not consulted the Council on this advice, and we will need to test with them the feasibility of any options you wish to progress. The figures used in this report are our initial, high level estimates of the required fee and associated funding required. To obtain a more accurate estimate the Ministry would need to engage with the Council and run the scenarios through its financial model, which includes a detailed breakdown to all revenue line items and all costs associated with running the organisation. We will do this once you've indicated which options you'd like to progress.
7. The estimated fee levels referred to assume the Council sets a flat rate for all teacher registrations, which is Option 1 in the Council's consultation document.
8. All of the options discussed below assume there is no change to the Council's operating model, and no change in the level of services it provides; we've also assumed that the number of registered teachers remains consistent with the Council projection of 104,000.

### **Options for reducing and phasing in the fee increase**

**Option 1: To phase the fee increase through an initial 50% increase, followed by a further 50% increase, 3 years later.**

9. The first option would be for the Council to stagger its fee increase. For example, it could implement an initial step of 50% of the total proposed increase, setting its registration fee at \$350, for a transitional period of three years from 1 July 2020. This would result in a funding gap for the Council of approximately \$4.2m per annum.

10. At the end of the three year period, the Council would need to increase the triennial fee up to the amount it is currently consulting on - \$470 (adjusted for inflation).
11. The Government could support the Council to stagger its fee increase in this way by providing funding to cover the three-year income gap – approximately \$4.2m per annum for three years. If this approach were adopted, we would seek advice on whether it would be possible for the Council to formally Gazette both sets of fees immediately, with one to take effect from 1 July 2023 – to provide certainty that more transitional funding will not be needed.

**Option 2: Government commits to ongoing funding of the Council's functions related to leadership of the teaching profession, in baseline.**

12. The forecast costs for the Council to deliver its statutory functions in 2020/21 are as follows:
  - a. Professional Responsibility – \$8.4 m;
  - b. Professional Leadership and Teacher Capability – \$5.0 m;
  - c. Registration and Contact Centre – \$4.9 m<sup>1</sup>.
13. The second category, Professional Leadership and Teacher Capability, includes the Council's functions in relation to leadership of the teaching profession. This category accounts for approximately 27% of the Council's overall expenditure.
14. The government could cover the costs of the Council's functions related to leadership of the teaching profession and teacher capability. This would require \$5 million per annum of ongoing funding, and would result in the Council needing to set the teacher registration fee at about \$325, ongoing.

**Option 3: Combination of baseline increase of \$1m per annum, with the staggered fee increase as per option 1**

15. Rather than supporting the costs of all the Council's activities related to professional leadership and teacher capability, Government could fund the costs of the new Leadership Centre to be established by the Council, as part of the decisions on the review of Tomorrow's schools.
16. The Ministry estimates the cost of the Leadership Centre would be approximately \$800,000 per annum. We recommend rounding this up to \$1m per annum to allow for some overhead costs.
17. This increase in government funding would not be sufficient to enable a material reduction in the Council's proposed fees (it would enable a reduction of approximately \$30 in the triennial fee). We therefore suggest combining this option with the provision of one-off funding to support a phased fee increase as per option one. We estimate this would result in a triennial fee of \$325 for the first three years, and \$440 plus inflationary adjustment thereafter.
18. This option would require approximately \$4m per annum for the three year transitional period, in addition to the ongoing funding of \$1m per annum.

---

<sup>1</sup> Figures taken from the Teaching Council's fees consultation document, p.24.

#### **Option 4: adjusting the frequency and method by which teachers pay their certification fees**

19. In addition to the options above, changes could be made to the method and frequency by which fees are paid, to alleviate the financial burden on teachers.
20. However, all of these options would involve a transitional period, during which the Council would face a significant reduction in its annual revenue. The Government would need to provide transitional funding to support the Council through this period.
21. The Education Act provides that the Teaching Council may refuse to register a person as a teacher until the appropriate fee has been paid. Some of these options (4 b and c below) would require the Council's agreement not to require "full" payment for a practising certificate, but to accept regular instalments instead.

##### *Option 4A: Moving from triennial to annual fee payments*

22. The Council currently receives a triennial fee from teachers and roughly one third of teachers pay this fee every year.
23. Shifting the triennial fee to an annual one would effectively cut the Council's revenue to a third for the first year, and to two thirds in the second, with no impact on revenue in the third year. This would lead to significant cash flow issues for the Council.
24. Therefore, the Government would need to provide funding to help absorb the difference in fee payments for the first two years. We estimate the funding required to be \$11m in the first year, and \$5.5m in the second year. These numbers are based on the annual fee being \$157 a year, one third of the triennial \$470 fee being consulted on. There would probably be additional costs for the Council to manage annual certificate renewals, which are not included in these numbers.

##### *Option 4B: Council could adopt direct debit of teachers' fees*

25. This option would not change the triennial structure of the registration fee.
26. The process would involve the Council setting up a direct debit facility – teachers' fees could then be paid to the Council on a fortnightly basis from their bank account, reducing the financial impact on the teacher.
27. This option would cover all teachers, not just those paid through the Education Payroll. Although there would be some additional cost for the Council, this option would avoid much of the additional cost and administration of direct payroll payment (set out below).
28. However, similar to the annual fee option, there would be a transition period causing a cash-flow issue for the Council for the first few years, unless the Government provides additional funding to help absorb the initial drop in income.
29. Furthermore, there would be implications where teachers are not working on a regular basis (eg relievers), are on leave without pay, or leave the service. As the Council currently receives a triennial fee, whether or not those teachers cease working with one or two years still go on their practising certificate.

##### *Option 4C: Direct payroll payment*

30. As with option 4b, this option would not change the triennial structure of the registration fee.

31. At a high level, the creation of a direct payroll payment to the Council for teachers on the Education Payroll is doable, based on existing practice for union fees. However, we would need to obtain EPL's agreement to take on the additional work, as this is not a standard payroll function.
32. There would also be administrative implications for the Council – for example, it would need to provide EPL with a file on a fortnightly basis for EPL to make the deductions. As with option 4b there are also implications regarding teachers not working on regular basis, on leave or those who leave earlier than the triennial period.
33. We would also need to work through issues of coverage – for example, beginning teachers who are not set up on the payroll; teachers in early childhood settings or private schools would not be able to access this service (although it's possible their employers could make direct payroll payments to the Council on their behalf).
34. The need to support the Council through the transitional period would still arise.

### Other options we have considered

---

#### **Granting concurrence for employers/ schools to pay the registration fee**

35. The Council has asked us to consider whether the Secretary of Education could grant concurrence for employers/ schools to pay the registration fee. It is not currently our policy to grant concurrence for teacher registration/ certification fees.
36. The Ministry is of the view that this would not be a good option:
  - a. It would not cover ECE teachers;
  - b. it would be necessary for Government to provide additional funding to enable schools to meet the additional cost;
  - c. it would shift to Government almost the full cost of the Council's fees, with limited ability to influence the level those fees are set at.

#### **Reducing administrative costs of the Teaching Council's disciplinary function**

37. The Council has suggested the Education Act be amended to change the threshold by which serious misconduct cases are referred to the Disciplinary Tribunal, so that the number of cases referred can be reduced. We have analysed the legal analysis provided by the Council, and agree that there appears to be scope for better defining how misconduct and serious misconduct are considered through the Council's complaints and reporting processes.
38. The Ministry will therefore work with the Council to explore ways to reduce the administrative costs of disciplinary functions. However, we understand that the extra staff currently employed by the Council to manage disciplinary matters are the result of the backlog the Council is currently clearing. Therefore, we consider that changes to the criteria regarding serious misconduct are unlikely to make a material difference to the Council's budget in the shorter term.

## **Possibility for the Council to borrow funds through a bank**

39. The Council may have the ability to borrow funds from a bank if it is required to do so to meet a one off cost, for example to fund significant enhancements to its online services application. If this is the case, the Council would be able to use reserves now to reduce the level of fee increase for the next three years. However, if borrowing is required, in order to fund interest and capital repayments the Council would need to increase fees to a higher level than currently consulted on.

## **Potential Inclusion in Budget 2020**

---

40. Your office has also requested advice on what would be required to include an initiative providing funding to the Council in Budget 2020, should you wish to do so.

## **Process**

41. This would require the late submission of a new spending initiative. To do this, you would need to send a submission letter to the Minister of Finance, and obtain his permission for it to be included in the Budget process.
42. Because the process for development of the five priority theme budget packages has nearly concluded, it is unlikely that a late initiative could be given consideration for inclusion in any of them. We therefore recommend that any proposal be submitted as a non-priority-aligned initiative that would be considered directly by the Minister of Finance.

## **Funding**

43. The Minister of Finance has asked that you fit your education package within a 9(2) operating allocation. The package that we have been refining with your Office is very close to this cost, and several initiatives you have indicated are a high priority currently sit below the line. We are working on ways to fit these into the package, through a combination of scaling and phasing the package.
44. Including an additional initiative would impact on this work. It would require further reductions in initiatives that are currently funded, and/or absorb freed-up funding that could otherwise be used to move unfunded priority initiatives into the package.

## **Financial implications**

---

45. The following table summarises the estimated costs of each option over the four year period. Note that all of these estimates are subject to inflation and the Ministry will need to consult with the Council to obtain more accurate numbers.

	Financial Year 2020/21	Financial Year 2021/22	Financial Year 2022/23	Financial Year 2023/24	Total	Comments
<b>Option 1</b>	\$4.2m	\$4.2m	\$4.2m	-	\$12.6m	
<b>Option 2</b>	\$5m	\$5m	\$5m	\$5m	\$20m, and ongoing \$5m per year.	
<b>Option 3</b>	\$5m	\$5m	\$5m	\$1m	\$16m, and ongoing funding of \$1m per annum.	
<b>Option 4A</b>	\$11m	\$5.5m	-	-	\$16.5m	These numbers are based on the annual fee being \$157 a year, one third of the \$470 fee being consulted on. There would likely be additional costs for the Council to manage annual registration renewals, the costs of which is not included in these numbers.
<b>Option 4B</b>	n/a	n/a	n/a	n/a	n/a	We are not able to calculate the cost of this, it would depend on the uptake of direct payroll payment
<b>Option 4C</b>	n/a	n/a	n/a	n/a	n/a	We are not able to calculate the cost of this, it would depend on the uptake of direct debit