



Cabinet

Minute of Decision

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Education Council of Aotearoa New Zealand: One-off Increase in Crown Funding

Portfolio **Education**

On 17 October 2016, following reference from the Cabinet Committee on State Sector Reform and Expenditure Control, Cabinet:

- 1 **noted** that:
 - 1.1 the establishment of the Education Council of Aotearoa New Zealand (the Council) in 2015 is a central pillar to the Minister of Education's (the Minister) Education Work Programme;
 - 1.2 in preparation for the transition from the Teachers Council to the Council, Ernst Young was commissioned to do an Independent Quality Assurance of the readiness for transition, and accounting firm Grant Thornton prepared a three year financial forecast for the Education Council;
 - 1.3 in taking stock of its revenue and systems, the Council has identified shortfalls in annual revenue for the 2016/17, 2017/18 and 2018/19 financial years;
 - 1.4 the Council requires an additional \$21.34 million over the 2016/17, 2017/18 and 2018/19 financial years to deliver its new functions under the Education Amendment Act 2015 and to demonstrate its value-add to the profession while it develops a long term sustainable business plan;

- 2 **noted** that the Council and the Ministry of Education have explored the following options for raising the funding needed:
 - 2.1 increased fees to the profession, through either an increase in the practising certificate fee, or a new service fee;
 - 2.2 a grant from government;

- 3 **noted** that:
 - 3.1 the government is currently paying teachers' practising certificate fees, as agreed in the recent teachers' and principals' collective agreement settlements,
 - 3.2 increasing the teachers' practising certificate fees now would require a Budget bid;

- 3.3 developing a new service fee would require full consultation with teachers (with consultation beginning in October), and this fee would need to be raised from 1 January 2017 in order to meet the Council’s operating shortfall;
- 3.4 giving the Council time and resources to develop its new professional leadership role and the trust and confidence of its stakeholders and the profession will put it in a stronger position to consult with the sector about a required fee increase from the expiry dates of the current collective agreements, being between May 2018 and June 2019;

4 **noted** that in April 2016, Cabinet agreed that all between-Budget spending proposals should include a cost benefit analysis (CBA) using the CBAX model where appropriate [CAB-16-MIN-0307], but that due to the nature of this proposal, little additional value would be obtained from completing a CBA;

5 **approved** the following changes to appropriations for a short term increase in Crown funding for the Education Council with a corresponding impact on the operating balance:

Vote Education Minister of Education	\$ million – increase/(decrease)				
	2016/17	2017/18	2018/19	2019/20	2020/21 & Outyears
Non-Departmental Output Expense: Contribution to the Education Council of Aotearoa New Zealand	4.934	6.946	9.458	-	-

- 6 **agreed** that the change in appropriations for 2016/17 in paragraph 5 above be included in the 2016/17 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
- 7 **agreed** that the change to appropriations for 2016/17 in paragraph 5 above be charged against the between-Budget contingency for Budget 2016;
- 8 **noted** that the Minister has confirmed to the Council that the funding in paragraph 5 above is a one-off funding injection, subject to financial work and the development of a financial sustainability pathway from 2019;
- 9 **authorised** the Ministry of Education to enter into a conditional funding agreement with the Education Council, with the following conditions:
 - 9.1 development and implementation of a proposal for increased and/or new fees under section 383(1)(a-g) of the Education Act 1989 by 1 July 2018;
 - 9.2 development and implementation of a proposal for increased fees under section 364 and 372 of the Education Act 1989 by 1 July 2019;
 - 9.3 that the Council publicly announce its intention and timeline to raise fees in two parts as set out in 9.1 and 9.2;
- 10 **noted** that the Minister will request additional information from the Education Council throughout the year, to ensure it is on a sustainable long term financial footing;

- 11 **noted** that the information requested by the Minister in paragraph 10 above will include quarterly updates on the Education Council's:
- 11.1 financial position, including updated forecasts and risk reporting;
 - 11.2 timeline for increasing its revenue to the required level by no later than 1 July 2019;
 - 11.3 steps to put in place improved financial capability as part of its management structure and systems;
- 12 **noted** that the requirement to provide the information in paragraphs 10 and 11 above will be set out in a Funding Agreement between Ministry of Education and the Council.
- 13 **noted** that the Secretary of Education may seek independent assurance on the information outlined in paragraph 10 and will engage with the Council where necessary;
- 14 **noted** that the Ministry of Education will commission an independent review of the Education Council's financial situation, to be completed by 31 October 2017, which would report on:
- 14.1 the strengths and weaknesses of the Education Council's current and forecast financial position;
 - 14.2 how well the Education Council directs, plans and controls financial resources to drive efficient and effective output delivery;
 - 14.3 how well the Education Council identifies and manages its and the Crown's risk;
 - 14.4 the options available to the Education Council to address any areas of risk arising from any weaknesses;
 - 14.5 the Education Council's plan to become financially sustainable and self-sufficient over the medium term.
- 15 **noted** that the Minister is currently considering appointments to the Council, and intends to appoint a person with business and commercial expertise.

Michael Webster
Secretary of the Cabinet

Hard-copy distribution:

Prime Minister
Minister of Finance
Associate Minister of Finance (Hon Steven Joyce)
Minister of State Services
Minister of Education