

11 February 2022

Pre-consultation Stakeholder Group

Payments by instalments update

Purpose

1. To provide you with an update on the scope and findings of our investigation into the feasibility of the Council offering a payment by instalment option for fees and levies.

Background: affordability of higher fees and levies remains a key issue for some teachers

2. In the 2020 consultation on proposed fees, teachers most frequently provided feedback on the scale of increases proposed (which they considered were unreasonable and unfair) and the disproportionate impact of increases on groups of lower paid teachers.
3. After the June 2021 decision of the High Court resulted in practising certificates reverting to a 3-year period, and confirmed the Council had power to offer payment by instalment, the Council recognised the urgency of progressing work to determine the feasibility of payments by instalments and signalled its importance as a major business improvement initiative by agreeing to its inclusion in the 2021-2022 Business Plan. The recent changes to the Education and Training Act 2020 confirm the position and expressly enable the Council to prescribe payment by instalment.
4. During the period September 2021 to December 2021, feedback from key stakeholders during the pre-consultation on proposed fees and levies in early 2022 clearly told us that they consider there is a limit to the size of any increase in fees and levies that will be acceptable to teachers on the grounds of *affordability*.
5. The ability to offer the facility for teachers to pay fees by instalments, as opposed to a large lump sum every 3-years, is seen as one of the few practicable ways that the Council can address the affordability of proposed higher fees and levies for groups of lower paid teachers in particular.

The feasibility study process

6. In March 2021 the Council issued a Request for Quote (RFQ) to selected All-of-Government consultancy services suppliers for the purposes of undertaking a feasibility study on the Council's ability to offer teachers the facility to pay fees by instalments.
7. After extending the initial deadline for responses, no quotes were received, and a Request for Proposal (RFP) was issued to GETS on 27 May 2021.
8. On 17 August 2021 the Council accepted a proposal from Jarvis McDonald Group (JMG).
9. JMG have completed the work required and have provided the Council with a final report.



Scope of the work undertaken

10. The work undertaken was a study to determine the technical, economic and commercial feasibility of offering teachers the ability to pay fees by instalments, together with an estimate of the likely rate of adoption.

Summary of key findings


11. 53% of teachers surveyed indicated their interest in paying fees by instalments with a further 35% saying it 'would depend' or they were unsure.
12. In the context of the current proposals to increase total fees and levies payable by 114%, we should assume that potential uptake would be significant.
13. The largest preference for payment method is payroll deduction (31%), followed by automatic payment (20%). The majority (48%) of teachers surveyed indicated a preference for fortnightly payment frequency – presumably in line with fortnightly salary payments.
14. Council systems can be modified to accept payment by instalment.
15. There are third-party providers that have shown interest in supporting the Council with a payment by instalment option.
16. There are significant challenges making a payment by instalment option financially viable at little or no cost to the profession.
17. It could take up to an estimated 12-to-18-month period to procure and implement a solution including the provision of additional payment options within Hapori Matatū, integration with Council's financial systems, and integration with existing or new 3rd party applications.

Technology impact

18. The Council's systems will require changes to allow payment by instalment. This is primarily in relation to the payment gateway embedded in the application process in Hapori Matatū. Currently a teacher has two options when applying for, or renewing, a practising certificate. The two options are to pay by credit card or by bank transfer using POLi.
19. The time and cost of updating the systems to enable payments by instalments has not been scoped yet; however, it is not thought that it would be difficult to do or prohibitively expensive.
20. We believe that technology will not stop payment by instalment from being offered.

Financial sustainability impact

21. It is assumed that within available cash reserves and/or project funding that the Council would be able to fund the one-off costs (e.g. system changes) required to implement an instalment option.
22. However, the transition funding required to move from the current operating environment - where all teachers pay an upfront lump sum every 3-years - to a new operating environment where most teachers pay via **fortnightly instalments** - is very significant; estimated to be up to \$24 million¹
23. The estimated shortfall of \$24m is based on an uptake of around 85% of teachers and occurs because we would be shifting from the Council receiving 100% of the fee at the start of the three-year certification period to the Council receiving 1/3 by the end of the first year and 2/3 by the end of the second year.

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24. The Crown has stated that they are not prepared to provide further funding to the Council to support delivery of the Council's mandatory functions. Therefore, the Council's ability to offer an instalment option over three years would require third party funding.
 25. Third-party funding from a lending institution would add additional cost in terms of interest on the debt that would need to be built into the costing of fees and levies. Repayment of the transitional funding would also have to be built into the costing.

Other options

26. Working with one of the 'Buy Now Pay Later' (BNPL) providers such as After Pay would be the most likely option that could be implemented. However, BNPL providers generally require payments to be made within a much shorter period and they will charge a fee for the service that would need to be either paid by the teacher or absorbed within the fee structure.
27. Subject to further investigation, there may be an option where the Council can enable a teacher to enter into a loan arrangement with a third party. The third party would pay the fee to the Council upfront, and the teacher would repay the third-party over the agreed period including interest and fees.
28. The Council is also seeking feedback in the consultation on fees and levies on whether teachers would be interested in an ability to prepay the fees and levies for future renewals in regular low value instalments, which would then be offset against the fee and levy charged on their next renewal. This would remove the need for a teacher to have to pay a lump sum for renewing a practising certificate, in the future. If there is sufficient interest in such an option, the Council will investigate the feasibility further. The investigation will consider amongst other things how the money is held on behalf of the teacher, what happens if a teacher chooses not to renew their certificate, and how we link payments received to renewal applications.

Next Steps

29. The Council will develop a request for information to further test the market for viable payment by instalment options.