

Education Review Office

Line-by-Line Expenditure Review

Purpose

1. On 17 December 2008 I received a copy of the letter from the Minister of Finance to you advising that Cabinet required all departmental chief executives to carry out a line-by-line expenditure review and to report to their responsible Minister by Thursday 5 February 2009 to identify:
 - savings that can be freed up for Budget 2009;
 - programmes that are inconsistent with this government's priorities and should be discontinued;
 - programmes that may be inconsistent with this government's priorities and should be looked into;
 - programmes and expenditure that are not efficient or effective;
 - areas where performance information is insufficient to make a judgement about efficiency or effectiveness;
 - actions agencies should take to make improvements by the next review period; and
 - initiatives of the previous government that are not funded.

2. Subsequently I received advice from the Treasury of the detailed requirements for undertaking this review. The line-by-line expenditure review required chief executives to use their best judgement to assess the above points, rather than undertake a detailed financial analysis.

Background

3. The Education Review Office (ERO) is the agency that provides assurance to the Government with respect to its investment in education, operating under Part 28 of the Education Act 1989.

Funding

4. During this financial year, ERO will receive \$28.675 million from the Crown to carry out the following programmes below:

Programmes	2008/09 Budget \$000
Education Reviews of Schools and Other Education Service Providers and Early Childhood Services	21,215
National Evaluation Reports (include Policy Services)	684
Foreign Fee Paying Students	258
Quality Assurance in Adult Community Education	137
Homeschooling Reviews	283
Post Review Assistance to Schools	207
Post Review Assistance to Early Childhood Services	119
Corporate Management and Support Services	5,772
Total Expenditure funded by Crown Revenue	28,675

5. ERO is not a capital intensive department. The net book value of ERO's fixed assets was \$3.784 million at 30 June 2008. The major areas of capital investment in ERO are office accommodation, motor vehicles and computer equipment.

Core programmes - Education Reviews and National Evaluation Reports

6. ERO provides assurance to the Government with respect to its investment in education by reviewing and reporting on the quality of education provided in schools and early childhood services on a three-year cycle. High quality education in early childhood and in schools contributes to, and provides a foundation for, ongoing skills development. These reviews also provide the information base on which ERO reports on significant education issues through its national evaluations of education sector performance and educational good practice.
7. School boards of trustees, early childhood service managers, and education professional staff use ERO reviews to improve the quality of education being provided for young people and to maintain good practice. Review reports also inform parents and communities about the quality of education that their young people are receiving. Review reports on schools and services and national education evaluation reports provide information that assists the Ministry of Education (MOE) and other agencies in monitoring the implementation of policy and the development of policies.
8. ERO's core programmes assist the Government to assess the progress and impact of its new education policy. ERO is able to provide information to individual schools and to the Government on meeting national standards in literacy and numeracy, targeted funding, assessment, and special education.
9. I have already commenced an initiative that will change the way ERO carries out its core programmes of reviews and national evaluation reports to be more responsive to current education trends. This is a project to build capacity in evaluation aiming to increase schools' ability to develop and use their own self-review to improve the quality of education delivered. I intend to integrate this project into further initiatives that I have discussed with you as best meeting your requirements for the work of this Office.
10. The first of these is a differentiated approach to reviews. This initiative captures two aspects of the Government's education policy. The first relates to minimising the oversight placed on schools by extending the review cycle to every four to five years, especially schools where there is a proven record of good performance; the second, to review more frequently the schools not performing consistently well. Work is underway to develop a robust evaluative criteria for this differentiated approach, balancing the desire for a high-trust environment with the need to ensure appropriate accountabilities at the beginning of 2009/10. This may include a system for maintaining links with schools that are in an extended review cycle.

11. Then acknowledging the focus of lifting standards on literacy and numeracy, I am including a report on literacy in ERO's programme of national evaluation reports for 2009/10. Because ERO has regular access to schools and early childhood services through its review processes, it is in a strong position to evaluate and report on items of national importance.
12. It is my view that ERO's core programmes of education reviews and national evaluation reports are essential to supporting the Government's priorities in education.

Other programmes

13. As part of ERO's regular education reviews, there are four programmes that ERO undertakes each year. They are:
 - Foreign Fee Paying Students - Code of Practice for the Pastoral Care of International Students
 - Adult and Community Education (ACE)
 - Homeschooling Reviews
 - Post Review Assistance to Schools
 - Post Review Assistance to Early Childhood Services.

Foreign Fee Paying Students - Code of Practice for the Pastoral Care of International Students

14. Schools that enrol international students are required to be signatories to and comply with the Code of Practice for the Pastoral Care of International Students. As part of ERO's regular education reviews, ERO assesses the extent that schools with international students comply with the Code relating to welfare, accommodation and grievance procedures as well as schools' provision for English Speakers of Other Languages. In 2007/08 ERO completed 216 such reviews. Crown funding for this work is \$258,000.
15. Provision of education to international students is now an established contributor to the New Zealand economy. ERO reviews of schools with foreign fee paying students contribute to this export market by confirming or otherwise that schools are delivering high quality education and following the Code. Reviews by ERO as an external agency provide a measure of independent assurance.
16. It is my view therefore that this programme is consistent with the Government's priorities.

Adult and Community Education (ACE)

17. ERO evaluates the extent to which ACE quality assurance arrangements were being met in schools that receive ACE funding and provide ACE programmes. In 2007/08 ERO completed 45 such reviews. Crown funding for this work is \$137,000.

18. ACE has been successful within this limited focus, but it is downstream from ERO's core review function. The Tertiary Education Commission has initiated more broadly based programmes aimed at increasing quality assurance arrangements with ACE providers. Furthermore ERO has included reference to this in its Board Assurance Statement as part of its review process and will continue to monitor it.
19. I believe that ERO could therefore now cease carrying out ACE reviews.

Homeschooling Reviews

20. Homeschooling Reviews are reviews of programmes for students granted exemption from attendance from schools. Following each homeschooling review ERO produces a written report to provide assurance for the Secretary for Education that the exempted student is being "*at least as regularly and well as in a registered school*" (Section 21, Education Act 1989). Crown funding for this work is \$283,000.
21. This programme is considered to be low risk to the education priorities of the Government. In 2007/08 ERO completed 644 homeschooling reviews from a total of 6,169 homeschooled students. ERO could not provide assurance that the terms of exemption were being met in only 35 of the 644 reviews. This has been the pattern over many years.
22. Each year ERO carries out up to 35 reviews at the request of Ministry of Education (MOE) where the Ministry is concerned that the students' education might be at risk. ERO carries out between 600 to 640 homeschooling reviews every year. This range would reduce to between 25 to 35 reviews (estimated) if only those requested by the MOE are carried out.
23. If ERO were to reduce the number of homeschooling reviews to those requested by MOE, the entire balance of \$283,000 could be released.

Post Review Assistance to Schools

24. Post review assistance workshops are offered to schools to help boards of trustees to develop a plan of action to address serious issues identified during an education review where ERO intends to return to carry out a "follow-up" review within 12 months. Crown funding for this work is \$207,000.
25. As a result of the work currently being performed on the differentiated approach to school reviews, this assistance will be incorporated in the new approach that ERO is intending with its reviews of schools.
26. For this reason, I believe that ERO could cease post review assistance to schools from 2009/10.

Post Review Assistance to Early Childhood Services

27. Post review assistance workshops are offered to early childhood services to help managing bodies develop a plan of action to address serious issues identified during an education review where ERO intends to return to carry out a “follow-up” review within 12 months. Crown funding for this work is \$119,000.
28. ERO’s current review process will be maintained for early childhood services. Due to the nature of early childhood services, a differentiated approach for this sector would not apply.
29. It is my view therefore that this programme is consistent with the Government’s priorities.

Baseline pressures

30. As part of this exercise, I have examined the baseline pressures that significantly impact on ERO in 2009/10 and that ERO is having to fund from within its existing baseline. They are:

Personnel

31. The education sector forms the main employment market where ERO must compete. ERO recruits middle and senior managers from schools, because the knowledge, skills, and management experience of people at this level are crucial to maintaining ERO’s credibility in schools and early childhood services. Rates in this sector have increased with the teachers’ pay settlements in 2007 (4% from 30 November 2007, 4% from 2 July 2008 and a further 4% from 1 July 2009), resulting in ERO salaries being below the rest of the market. To maintain its capability, ERO must continue to be able to offer salaries that are competitive with rates being paid in the education sector.
32. ERO is close to finalising its new Collective Employment Agreement and the financial impact is estimated to be in the order of \$444,000 for 2009/10. This is a moderate increase and ERO review officer salaries will still be approximately 5% behind the teachers’ pay increases accumulated over the last three years.
33. ERO also faces the ongoing cost of Common Leave Provisions (a standard set of leave provisions such as annual, sick, long service and bereavement leave types) incorporated into employment agreements for all public service employees in 2007/08. The financial impact of this is estimated to be \$50,000 per year over the next five years.
34. Work is currently being undertaken to review ERO’s organisational structure as to whether a different structure would support further improvement in terms of impact and service delivery.

Other costs

35. ERO is absorbing other rising costs such as review travel and office accommodation. Review travel and office accommodation have increased by 5.4% (\$121,000) and 22.4% (\$361,000) respectively over the last three financial years. Also 2009/10 will be the first year that ERO contributes to the funding of the Identity Verification Service (\$89,000 operating expenditure and \$26,000 capital). Other departments similar face costs associated with the Identity Verification Service.

Conclusions

36. ERO does not have a diverse portfolio of programmes from which to reprioritise.
37. ERO's core programmes that support the education priorities of the Government are its education reviews of early childhood education services and schools and of other education service providers, and national education evaluation reports.
38. As discussed above, I believe:
- That a total saving of \$627,000 can be freed up for Budget 2009 from ceasing Adult and Community Education Reviews (\$137,000) and Post Review Assistance to Schools (\$207,000), and by reducing the number of Homeschooling Reviews to an estimated range of 25 to 35 reviews from 600 to 640 (\$283,000). In addition ERO will be contributing \$115,000 towards the Identity Verification Service in 2009/10.
 - ERO has no programmes that are inconsistent with the Government's priorities that should be discontinued.
 - Similarly, ERO has no programmes that may be inconsistent with the Government's priorities and should be looked into.
 - The following programmes and expenditure by ERO that are not efficient or effective are Adult and Community Education (paragraphs 17 to 19) and Homeschooling Reviews (paragraphs 20 to 23) and discussed above.
 - There are no areas where performance information is insufficient to make a judgement about efficiency or effectiveness.
 - The main action that ERO will be taking to make improvements by the next review period is to develop a robust evaluative criteria framework for a differentiated approach to reviews of schools. As a result of this work, ERO will cease Post Review Assistance to Schools from 2009/10 (paragraphs 24 to 26).

- ERO does not have any initiatives of the previous government that are not funded.

A handwritten signature in black ink, appearing to read 'G. Stoop', with a long, sweeping flourish extending to the right.

Graham Stoop
Chief Review Officer
3 February 2009

