

Governing Council

20 Hanuere 2022

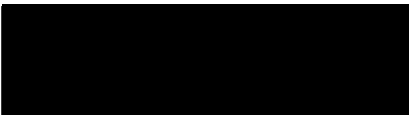
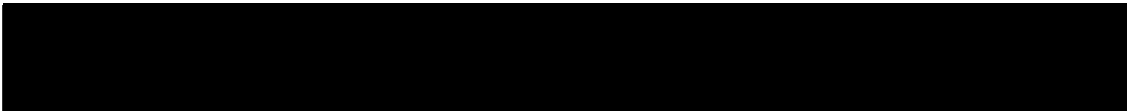


20 Hanuere 2022 – Zoom

9:00am - 11am

Topic: Fees, Costs and Levies Jan 20th

Time: Jan 20, 2022 09:00 AM Auckland, Wellington



SUBJECT: Fees and levies consultation - recap of December decisions

TO: Governing Council

FROM: Clive Jones, Deputy Chief Executive - Operational Services

FOR: Approval Discussion Information

It is recommended that the Governing Council:


1. **Notes** the summary of decisions made by the governing Council in December 2021 regarding options for inclusion in the consultation on proposed fees and levies.

Purpose

1. To provide a brief summary of the decisions made at the governing Council hui of 17 December 2021 in regard to options for inclusion in the 2022 consultation on proposed fees and levies.

Summary of December 2021 decisions

2. The Council **will** use the whole structure and narrative which will be integrated into the consultation document and form the basis of communications to teachers and stakeholders.
3. The outline of the consultation document **will** include the following elements:
 - a. Background
 - b. What we've done so far
 - c. Value proposition: value of a profession / purpose of the Council / what Council must do (mandatory functions)
 - d. What we are recommending as the level for fees and levies
 - e. Questions - have we missed anything
 - f. Impact of increasing fees and levies
 - g. Questions - are there other ways of doing this?
 - h. Summary / next steps
4. Consultation on fees and levies **will** commence on Wednesday 16 February and close on Friday 01 April 2022.
5. Stakeholders **will** be given a summary of the decisions the governing Council has made on the design proposals for consultation and rationale for these ahead of formal consultation commencing.
6. Registered teachers and LAT holders **will** be provided with a summary of the decisions the governing Council has made on the design proposals for consultation and rationale for these ahead of formal consultation commencing.
7. All Registered teachers and LAT holders **will** be sent a copy of the full consultation document.
8. All stakeholders **will** be sent a copy of the full consultation document.
9. The consultation document **will** include detailed information about Council's actual and reasonable costs and the level of fees and levies required to undertake the mandatory functions.
10. The estimated costs for Council to deliver its mandatory functions over the next three financial years **will** include inflation.
11. Consultation **will** include an option for paying by instalment along with an indication of when this might be available in the future.
12. Consultation **will not** include an option for a lower level of registration / certification service for practising certificates and LATs.
13. Consultation **will not** seek feedback on whether the current level of fees should be retained.
14. Consultation **will not** include an option of requiring a full user pays model for costs associated with disciplinary functions.
15. Consultation **will not** include an option on seeking further government funding to meet the costs associated with the disciplinary function.

- 
16. Consultation **will not** include an option of requiring a full user pays model for the costs associated with the ITE function.
 17. Consultation **will not** include an option an option of adopting differing timeframes for different practising certificate types.
 18. **More information required:** [REDACTED]
 19. **More information required:** Further analysis on options for a retired teacher practising certificate.
 20. **More information required:** Number and trends in teachers paying Late Fees.
 21. **More information required:** draft wording with respect to Council's recent request for ongoing government operating funding of up to \$3.0 million.

Background

22. The Council engaged in a series of pre-consultation hui with stakeholders in September, October and November 2021 to seek their feedback on the design of the consultation process for fees and levies.
23. The information gathered from this engagement was provided to the Governing Council as a general summary at the meeting held 25 November 2021.
24. A further paper summarising the feedback into key themes, and sub-themes, with an overview of the views shared within each theme was provided at the Governing Council meeting of 3 December 2021.
25. A analysis of those stakeholder proposals which had policy/legislative and/or system implications was undertaken and provided to the Governing Council at the meeting of 17 December 2021 together with a set of recommendations and rationale for inclusion in the planned consultation on fees and levies in early 2022.
26. The Treasury guidelines on setting charges in the public sector were used to frame the analysis with further detail provided in the draft Cost Recovery Impact Statement.

Consultation decisions from 17 December 2021

27. Consultation on fees and levies will take place between Wednesday 16 February 2022 and Friday 01 April 2022.

Rationale – Feedback from stakeholders supported a consultation period outside of the summer holidays and that avoids the beginning of the school year. This period is two weeks longer than the 2020 consultation which commenced on 28 January 2020. This timeframe provides a longer period for feedback while also allowing analysis and decision-making to be undertaken in a timely manner, to meet a mid-year implementation goal. It reflects the **consultation** principle in the Treasury guidelines. It is possible that, as a result of feedback, the Governing Council may wish to reconult on some aspects of the proposals. This timeframe does not include a contingency for this, and the overall implementation goal may need to be amended should it be necessary to reconult.

Outcome: Agreed

28. Consultation on fees and levies will use the same structure and narrative which will be integrated into the consultation document and form the basis of communications to teachers and stakeholders.

Rationale - This responds to the principles of **authority, transparency and accountability** outlined in the Treasury guidelines. It will assist in aligning the proposals in the consultation document with the Council's legislated functions and organisational values.

Outcome: Agreed

29. Stakeholders will be given a summary of the decisions that the Governing Council has made on the design proposals for consultation and the rationale for each of these, after careful consideration of the pre-consultation feedback, ahead of the formal consultation commencing.

Rationale - This ensures the Council is adhering to the principles of **consultation and accountability** outlined in the Treasury guidelines. It aligns to the commitments made to stakeholders at the beginning of the pre-consultation work to seek their views and to clearly communicate decisions made because of these contributions.

Outcome: Agreed

30. Registered teachers and holders of a Limited Authority to Teach (LAT) will be provided with a summary of the decisions that the Governing Council has made on the design proposals for consultation and the rationale for each of these, after careful consideration of the pre-consultation feedback, ahead of the formal consultation commencing.

Rationale - This ensures the Council is adhering to the principles of **transparency, consultation and accountability** outlined in the Treasury guidelines. It aligns to the commitments made to teachers, LAT holders and stakeholders to undertake an open and transparent process.

Outcome: Agreed

31. All Registered teachers and holders of a LAT will be sent a copy of the full consultation document.

Rationale - This ensures full information is available to all teachers and holders of a LAT so that they can provide informed feedback. This aligns to the **transparency** principle in the Treasury guidelines.

Outcome: Agreed *noting the need for an appropriate short form version of the full consultation document to support engagement in the consultation process.*

32. All stakeholders will be sent a copy of the full consultation document.

Rationale - This ensures full information is available to all stakeholders, so that they can provide informed feedback. This aligns to the **transparency** principle in the Treasury guidelines.

Outcome: Agreed

33. The Teaching Council will disclose the outcome of the request made to the Minister of Education to provide up to \$3.0 million per annum in operating funding as a partial contribution to Council's mandatory functions to allow any increases in fees and levies for teachers to be introduced more moderately in 2022.

Rationale - This ensures full information is available to all teachers, so that they can provide informed feedback. This aligns to the **transparency, and accountability** principles in the Treasury guidelines.

Outcome: Amend *draft wording required before a decision is made*

34. Consultation on fees and levies will include detailed information about actual and reasonable costs and the level of fees and levies required to undertake all the Council's mandated functions.

This will include break-down of costs according to functions and modelling of options where appropriate.

Rationale - This ensures full information is available to all teachers and stakeholders, so that they can provide informed feedback. This aligns to the **transparency** principle in the Treasury guidelines.

Outcome: Agreed

35. Subject to Deloitte providing confirmation that a cost recovery period of 3 years is reasonable, the estimate of the actual cost of resources required for the Teaching Council to deliver its mandatory functions in the period FY2022/23 through FY2025/26 should include an estimate of the impact of inflation.

Rationale - This ensures full information is available to all teachers, so that they can provide informed feedback. This aligns to the **transparency, and consultation** principles in the Treasury guidelines.

Outcome: Agreed

36. Consultation on fees and levies will include an option for paying by instalment along with an indication of when this might be available in the future.

Rationale - This acknowledges the financial impact an increase in fees and levies has on individual teachers and provides a solution to enable the amount to be spread over a longer time period, while having less impact on Council budgets and systems.

Outcome: Agreed

37. Consultation on fees and levies will include an option for a lower level of registration/certification service for teachers and relevant information in relation to quality and cost of the options available.

Rationale - Because this part of fees, costs and levies is an individual fee for each teacher, this provides an option for teachers to indicate their preference for the level of service to be provided, while having minimal impact on Council operations and finances. It aligns to the **simplicity, effectiveness, and equity** principles within the Treasury guidelines.

Outcome: Disagreed *It was noted that the significant level of investment in technology and automation over the last four years had resulted in service level that were now appropriate for a digital services organisation and that while stakeholder feedback was mixed, there was a strong challenge not to relinquish registration service improvements that were valued by the profession. It was also noted that the estimated potential savings from a lower registration service level standard for teachers were small given the underlying application cycle within each calendar year and the need to maintain sufficient skills and experience to ensure service performance can be maintained during peak months.*

38. Consultation on fees and levies will include an option for a lower level of service for applications for a LAT and relevant information in relation to quality and cost of the options available.

Rationale - Because this part of fees, costs and levies is an individual fee for each applicant, this provides an option for applicants to indicate their preference for the level of service to be provided, while having minimal impact on Council operations and finances. It aligns to the **simplicity, effectiveness, and equity** principles within the Treasury guidelines.

Outcome: Disagreed *It was noted that the significant level of investment in technology and automation over the last four years had resulted in service level that were now appropriate for a digital services organisation and that while stakeholder feedback was mixed, there was a strong challenge not to relinquish registration service improvements that were valued by the profession. It was also noted that the estimated potential savings from a lower registration service level*

standard for teachers were small given the underlying application cycle within each calendar year and the need to maintain sufficient skills and experience to ensure service performance can be maintained during peak months.

39. Consultation on fees and levies will **NOT** seek feedback on whether the Council should retain the current level of fees and levies charged to teachers and holders of LATs.

Rationale - Financial modelling has determined the actual and reasonable costs for undertaking all the Council's mandated functions, which indicates that an increase is required to enable this work to continue and to maintain the current quality of service to teachers.

This option was considered under the **effectiveness, efficiency consultation** and **equity** principles of the Treasury guidelines.

Outcome: **Agreed** It was further noted that the Council had developed a proposal for ongoing government funding and sought feedback from the Minister of Education who had advised that no further ongoing funding for the Council's mandatory functions would be provided.

40. Consultation on fees and levies will **NOT** seek feedback on the desirability of a tiered approach to fees and levies based on teacher income.

Rationale - Whilst this option may address concerns about the ability to pay for some teachers, technical [REDACTED] The ability for Council's online application system to support the implementation of a tiered approach to fees and levies is currently unknown, and [REDACTED]

[REDACTED] Should substantial system changes be required to support such an approach, it will likely take 6-12 months to implement such changes.

Rationale - Financial impacts would be likely to be considerable, with a significant deficit building over a short time period. This would impact on the Council's ability to undertake its functions and consequently to provide necessary services to teachers. A delay in implementing new fees and levies while any system changes were made would require the Council to use reserves to continue to fund the current operating deficit at an estimated rate of \$0.75 million per month. \$4.5 million to \$9.0 million.

This option was considered under **equity** and **transparency** principles of the Treasury guidelines.

Outcome: **Amend** It was noted [REDACTED]

41. Consultation on fees and levies will **NOT** seek feedback on requiring a full user pays model for costs associated with disciplinary functions.

Rationale - A full user pays model does not recognise the interest all teachers have in there being a robust system for ensuring a high standard of teacher conduct. Instead, it places costs onto individual teachers who may also face employment consequences because of DT decisions.

Rationale - Where decisions are in favour of the teacher, costs would fall to the complainant or would need to be met by the Council, leaving an unknown additional financial impact on the Council's budgets.

This option was considered under the **equity** principle within the Treasury guidelines.

Outcome: **Agreed**

42. Consultation on fees and levies will **NOT** seek feedback on proposals to seek further Government funding to meet the costs associated with the disciplinary function.

Rationale - The Government has clearly stated that its expectation is the Council is financially independent (other than leadership functions requiring government funding).

This option was considered under the **authority** principle within the Treasury guidelines.

Outcome: **Agreed** *It was further noted that the Council had developed a proposal for ongoing government funding and sought feedback from the Minister of Education who had advised that no further ongoing funding for the Council's mandatory functions would be provided.*

43. Consultation on fees and levies will **NOT** seek feedback on requiring a full user pays model for costs associated with the ITE function.

Rationale - The Act allows the Council to include in a levy on teachers some or all of the costs of approving ITE programmes. However, all teachers have a vested interest in the quality of the provision of Initial Teacher Education programmes. Shifting full costs to ITE providers means that ultimately student teachers (and therefore the future cohort of registered teachers) would bear these costs.

This option was considered under the **equity** principle within the Treasury guidelines.

Outcome: **Agreed**

44. Consultation on fees and levies will **NOT** seek feedback on adopting different timeframes for different practising certificate types.

Rationale - This option would result in limited cost savings per application, other than a small amount of administration costs, because costs for registration/certification are the actual amount to undertake this service.

Rationale - The option would be costly at a system level -it would require significant re-building of Hapori Matatū.

This option was considered under the **simplicity**, and **effectiveness** principles within the Treasury guidelines.

Outcome: **Agreed**

45. Consultation on fees and levies will seek feedback on increasing the Late Fee from \$50 to \$100 including GST.

Rationale - This option would result in limited cost savings per application, other than a small amount of administration costs, because costs for registration/certification are the actual amount to undertake this service.

Rationale - The option would be costly at a system level -it would require significant re-building of Hapori Matatū.

This option was considered under the **simplicity**, and **effectiveness** principles within the Treasury guidelines.

Outcome: **Amend** *Further supporting information required to determine whether increasing the Late Fee would likely achieve the objective of incentivising more teachers to meet their legal requirements under the Education and Training Act 2020.*

46. Consultation on fees and levies will seek feedback on a retired teacher practising certificate that would enable ongoing contribution to the profession at a lower cost.

Rationale - This option acknowledges the financial impact an increase in fees and levies has on teachers nearing or in retirement and seeks a solution to allow their ongoing contribution to the teaching profession.

Outcome: **Amend** *Further information was requested on how this could be implemented within the current requirements of the Act and Registration Policy before a decision can be made.*

SUBJECT: Fees & Levies consultation - Late Fees

TO: Governing Council

FROM: Clive Jones, Deputy Chief Executive - Operational Services

FOR: Approval Discussion Information

It is recommended that the Governing Council:

1. **Notes** the additional information provided in respect of the volume of Late Fees incurred since FY2015/16.
2. **Agrees** that an increase to the current Late Fee of \$50 inc GST will **not** be part of the consultation on fees and levies.

Purpose

1. To provide additional information in respect of Late Fees to help the Governing Council reach a decision on whether to propose an increase to Late Fees as part of the consultation on fees and levies.

Background

2. Since 2015 the Council has charged a Late Fee to teachers who lodge their renewal applications after the expiry date of their current practising certificate (this applies to any teacher who is currently employed in a teaching position where they do not hold a current certificate of the kind required to legally undertake that role and applies for registration or certification).
3. The Late Fee was designed to incentivise teachers to ensure they renewed their practising certificate in a timely manner in order to comply with the requirements of [S662 the Education and Training Act 2020](#) to hold a current practising certificate or LAT while employed as a teacher.
4. Prior to February 2021 the Late Fee was \$50 including GST, which was subsequently increased to \$100 including GST on 01 February 2021. The Late Fee was reduced to \$50 inc GST from 12 July 2021.

Effectiveness of the Late Fee

5. The table below shows the number of teachers who have paid the Late Fee by financial year:

Financial Year	Volume
2015/16	2,866
2016/17	2,746
2017/18	2,159
2018/19	1,931
2019/20	1,532
2020/21	3,506
2021/22 YTD as at 30 November 2021	1,584

6. It is difficult to draw any definitive conclusions about the effectiveness of a Late Fee in incentivising teachers to apply to renew their PC or LAT prior to the expiry of the current one, given that there has never not been a Late Fee to compare against.
7. However, even though it was only for a period of 5 months, it would appear that the increase in Late Fee to \$100 did not have any noticeable impact on reducing the volume of teachers required to pay the Late Fee.

Recommendation

8. Given the effectiveness of an increased Late Fee to incentivise teachers to apply to renew their current practising certificate or LAT prior to the expiry of the current one appears questionable, I recommend that a proposed increase is not included in the forthcoming consultation on fees and levies.

SUBJECT: Fees & Levies consultation - Retiring teachers

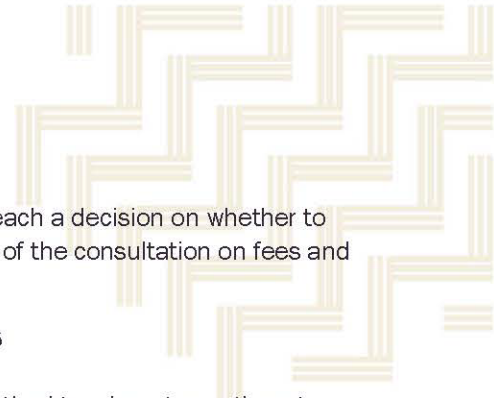
TO: Governing Council

FROM: Michael Thorn, Policy & Implementation Manager

FOR: Approval Discussion Information

It is recommended that the Governing Council:

1. **Notes** the additional information provided in respect of retiring teachers.
2. **Agrees** that consultation on fees and levies will NOT include an option of introducing a retired teacher practising certificate.
3. **Agrees** that consultation on fees and levies will NOT include an option of providing a refund to teachers who retire before their practising certificate expires.



Purpose

1. To provide additional information to help the Governing Council reach a decision on whether to propose two options aimed at supporting retired teachers as part of the consultation on fees and levies.

A new practising certificate for retired teachers

2. The rationale for considering this proposal is that it would allow retired teachers to continue to contribute to the teaching profession. However, on reviewing the evidence it appears that such an option would not be consistent [REDACTED] and would not help to achieve the desired goal.

[REDACTED]

[REDACTED]

Effectiveness

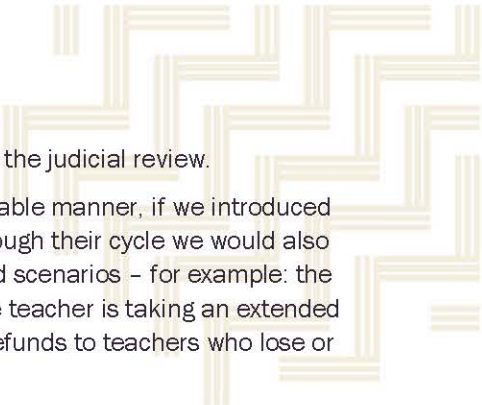
4. If a teacher chooses to let their practising certificate expire, they remain a registered teacher. This already provides the Council with mechanisms to ensure that they remain connected to the profession – for example, it allows us to send them Council newsletters and other communications, allows retired teachers to participate in and be nominated for elections, and for this group to participate in advisory groups.
5. Given that these facilities already exist under current arrangements, it appears unlikely that a new type of practising certificate would be any more effective at achieving the goal of remaining connected to the profession than remaining registered.
6. As an alternative to introducing a new type of practising certificate, Council may instead consider asking staff to explore how to take better advantage of current arrangements as part of their planning for the 2022/23 financial year.

Providing refunds to some retiring teachers

7. The Governing Council requested additional analysis on the viability of offering refund options to retiring teachers who retire from the profession before their practising certificate has expired.
8. The rationale for considering the viability of this proposal is that it acknowledges the financial impact an increase in fees and levies has on teachers nearing or in retirement. However, on reviewing the evidence it appears that such an option would have significant policy and cost implications for the Council and for teachers.

Policy implications

9. Current Council policy does allow the provision of refunds in certain limited circumstances. These circumstances include:
 - Where the teacher has made a mistake in their application
 - Refunding late fees where the teacher has incorrectly stated that they are teaching when they are not
 - Where the teacher does not meet requirements. In this situation we might also retain an admin fee depending on what work the registration team has done.

- 
10. We also recently provided some one-off refunds recently related to the judicial review.
 11. To ensure that the Council was applying a refund policy in an equitable manner, if we introduced the option of providing refunds to teachers who retire part-way through their cycle we would also likely need to make this option available for a range of other refund scenarios – for example: the teacher is leaving the teaching profession; moving overseas; or the teacher is taking an extended break from their teaching career. We may also be asked to offer refunds to teachers who lose or return their practising certificate as a result of a conduct issue.

Cost implications

12. The proposed option could have significant cost implications for the Council and for teachers. Assuming that Council were to refund a portion of the proposed levy only (circa \$344 inc GST of the \$472 inc GST combined fee), this would mean an average refund of about \$100 inc GST per year remaining on a teacher's certificate. At the moment there are around 4000 teachers per year who do not renew their practising certificate, including those teachers who are retiring.
13. 4,000 teachers receiving a \$100 - \$200 refund could result in reduced revenue of between \$400,000 to \$800,000 per annum. There would also be additional administration costs associated with this, as on average it would require the Council to process an average of 80 refund applications per week. We anticipate that this would require the employment of an additional FTE staff member. The reduction in revenue due to refunds would need to be recovered from other teachers remaining in the profession, resulting in higher charges of up to \$20 per application.

Recommendation

14. For the reasons outlined above, I recommend that options relating to a retired teacher practising certificates and refunds for retiring teachers not be included in the fees and levies consultation for 2022.

Council Paper

Item 6
Council Meeting
27/01/2022

SUBJECT:	Finance Refresh
TO:	Governing Council
FROM:	Ian McEwan, Chief Financial Officer
FOR:	<input type="checkbox"/> Approval <input type="checkbox"/> Discussion <input checked="" type="checkbox"/> Information

It is recommended that the Governing Council:

- i. **Notes** the outline of what has changed in the assessment of the cost to deliver Council's mandatory functions since the 2020 consultation on fees and levies together with the key assumptions and drivers for those changes.
- ii. **Notes** that while the paper is primary concerned with what has changed in the assessment of costs since the last consultation, forecast revenue and annual surplus / deficit has also been included as all three elements (costs, revenue, and surplus/deficit) are important in determining whether the proposed fees and levies will help the Teaching Council achieve financial sustainability over the medium to long term.
- iii. **Notes** that the approach that has been taken to estimate and allocate costs, following the Treasury guidelines for setting charges in the public sector.
- iv. **Notes** the steps that have been taken to seek external validation of the reasonable of those estimated costs, and when this work is expected to be completed.

Purpose

1. To outline what has changed in the assessment of the cost to deliver Council's mandatory functions since the 2020 consultation on fees and levies together with the key assumptions and drivers for those changes.
2. To outline what approach has been taken to estimate and allocate costs, following the Treasury guidelines for setting charges in the public sector.
3. To outline the steps that have been taken to seek external validation of the reasonableness of those estimated costs.

What has changed in the assessment of costs

4. We are proposing a different approach in 2022 to that used in 2020. The proposal is to set fees and levies for a three-year period and then consider the impacts of inflation and changes in the operating model and whether that will require a fee change for the next three-year period. To do this we have estimated the costs over the next three-year period factoring in estimated inflationary pressures and efficiency savings. We have not applied inflationary pressures to the whole cost base – further detail is provided in 11.
5. A three-year period has been selected as an appropriate timeframe for cost recovery because within the 3-year cycle of changes in registration/certification applications, peak years have around 15% more applications by volume than non-peak years. This has important implications for output costs when measured on an annual basis.
6. To ensure that fees and levies are set in a fair and equitable manner we believe that a 3-year period for cost recovery should be adopted, to smooth the annual fluctuation in output costs and to ensure that every teacher pays the same amount regardless of where they fall within the 3-year cycle.
7. The following table shows the forecast revenue, expenditure, and surplus/deficit for the three-year period FY2022/23 to FY2024/25 included in the February 2020 and February 2022 financial modelling.

	February 2020 forecast	February 2022 forecast	Difference
Revenue			
FY2022/23	\$18.136m	\$17.927m	↓\$0.209m
FY2023/24	\$20.655m	\$20.239m	↓\$0.416m
FY2024/25	\$19.098m	\$18.390m	↓\$0.708m
Total Revenue	\$57.889m	\$56.556m	↓\$1.333m
Expenditure			
FY2022/23	\$19.026m	\$18.639m	↓\$0.387m
FY2023/24	\$19.496m	\$18.804m	↓\$0.692m
FY2024/25	\$19.982m	\$19.059m	↓\$0.923m

Total Expenditure	\$58.504m	\$56.502m	↓\$2.002m	
Surplus / (Deficit)				
FY2022/23	(\$0.890m)	(\$0.712m)	↑\$0.178m	Forecast deficit reduces by \$178K
FY2023/24	\$1.159m	\$1.435m	↑\$0.276m	Forecast surplus increases by \$276K
FY2024/25	(\$0.884m)	(\$0.669m)	↑\$0.215m	Forecast deficit reduces by \$215K
Total Surplus	(\$0.615m)	\$0.054m	↑\$0.669m	Forecast surplus over the three years moves from a deficit of \$615K to a surplus of \$54K

Drivers for change

8. The two key drivers for changes in the proposed fees and levies that result from projected costs to deliver Council's mandatory functions over the period FY2022/23 to FY2024/25 are related firstly to volume and secondly inflation.

Volume

9. In 2020 the financial model assumed 104,000 teachers holding practising certificates (or LATs) and a total of 119,000 applications for registration/certification over the three-year period. The 2022 model assumes 106,000 teachers holding practising certificates (or LATs) and 121,000 applications for registration/certification over a three-year period.

Inflation, key assumptions, and the period for cost recovery

10. Financial modelling in 2020 assumed a one-year period for cost recovery with annual changes to fees required to reflect changes to costs (including inflation). The 2020 modelling assumed that a first CPI adjustment to fees would be in July 2022, increasing the fee to renew a practising certificate from \$470.00 to \$491.87. This would be followed by annual CPI adjustments of 2.3% in July 2023 (\$503.19), and July 2024 (\$514.76).
11. Modelling in 2022 is forecasting a reduction in total expenditure over the period FY2022/23 to FY2024/25 compared with that modelled in 2020. Over the three-year period July 2022 to June 2025, total projected costs are forecast to decrease by \$2.002m from \$58.504m to \$56.502m. The following assumptions underpin these changes:
- Full time equivalent employee numbers remain constant at 102
 - In 2020, we assumed that initial costs would increase by an inflationary adjustment of 2.3% per annum with no other changes to the cost base i.e., no efficiency savings would be modelled but could be incorporated through an annual review of fees.
 - In 2022, we have taken a different approach in line with the Treasury guidelines for setting charges in the public sector which include that the analysis should identify a logical period over which the volume and costs should be based, and that consideration should be given to both fixed and variable costs and the impact of inflation.
 - A cost recovery period of three years has been adopted because within the 3-year cycle of changes in registration/certification applications peak years have around 15% more applications by volume than non-peak years. This has important implications for output costs when measured on an annual basis. To ensure that fees and levies are set in a fair and equitable manner a 3-year period for cost recovery has been adopted in order to

smooth the annual fluctuation in output costs and to ensure that every teacher pays the same amount regardless of where they fall within the 3-year cycle.

- e. Annual costs also vary due to the impact of inflation, and the 2022 financial model incorporates forecast inflation (wages and general (CPI)) over the period FY2022/23 to FY2024/25.
 - f. There is considerable uncertainty in how the global and domestic economies will perform in the context of COVID-19. The November 2021 Reserve Bank monetary policy statement forecasts inflation in the year to November 2022 to be around 3.5%, reducing to 2.5% by November 2023 and tracking to 2.1% beyond this. BERL's outlook is as follows:
 - i. Inflation is expected to peak at near six percent in 2022
 - ii. In the short-term, it looks unlikely that many of the main contributing factors to the recent surges in prices will ease. With both global and domestic prices driving inflationary pressure, the RBNZ is projecting CPI inflation to peak at 5.7 percent in March 2022.
 - iii. But, looking further ahead, the RBNZ projects CPI inflation to return to around the two percent mark in late 2023.
 - iv. It is believed that supply-chain disruptions may begin to ease late 2022, which will improve the ability for supply to meet high demand, and allow global prices to decrease. Meanwhile, with the domestic economy continuing to open up, New Zealand will become more accustomed to living with COVID-19 and domestic pressures should ease long-term, decreasing local prices.
 - g. In our 2022 financial model, Inflation has been applied to salary costs at the same rate used in 2020 (2.5%). Other than salary costs, inflation has only been added to software licencing costs (2%), legal (1%), and building costs (rent, utilities, and repairs) (5% in FY2024/25).
 - h. We have assumed that changes to the legislation relating to mandatory reporting will reduce external legal fees by \$0.250m and \$0.050m in tribunal costs per annum by July 2024.
 - i. We have assumed that reinvestment in Hapori Matatū will be capped at \$0.200m per annum. A reduction of \$0.150m per annum
12. We have estimated that our average operating costs during the period FY2022/23 to FY2024/25 will be \$18.834m. This includes \$0.360m that will be funded by the Crown for leadership activities and a further \$1.369m that will be funded from sources other than fees and levies.
13. The table below shows the key changes between the 2020 and 2022 inputs.

	2020 financial model	2022 financial model	Difference
Total projected expenditure required to delivery Council's mandatory functions FY2022/23 - FY2024/25	\$58.504m	\$56.502m	↓\$2.002m

Proposed charge to renew a practising certificate – FY2022/23	\$491.87 inc GST	\$472.75 ¹ inc GST	↓\$19.12
Proposed charge to renew a practising certificate – FY2023/24	\$503.19 inc GST	\$472.75 inc GST	↓\$30.44
Proposed charge to renew a practising certificate – FY2024/25	\$514.76 inc GST	\$472.75 inc GST	↓\$42.01
Number of teachers holding a practising certificate or LAT	104,000	106,000	↑2,000
Number of applications for registration/certification over the period FY2022/23 to FY2024/25	119,000	121,000	↑2,000

Cost recovery principles and objectives

14. The Teaching Council has decided to adopt the key considerations from the Treasury guidelines² for setting charges in the public sector and the Office of the Auditor General's (OAG) Good Practice Guide³ for the setting and administration of fees and levies in the design of the Cost Recovery Impact Statement (CRIS).

Treasury principles for cost recovery

15. The Treasury guidelines are designed to be used where there is statutory authority to charge third parties to cover the costs of an activity undertaken by government and the government is a monopoly supplier of the activity. Services delivered to fulfil the Council's functions under section 479(1) of the Education and Training Act 2020 (Act) are such an activity and section 480 of the Act provides statutory authority for the Council to charge for them.
16. The guidelines provide a number of key considerations / principles that should inform the design of cost recovery regimes, but also recognise that sometimes these principles may be in conflict – for example, what is most efficient or equitable might not necessarily be the simplest approach. The key considerations are set out in full below:
- **Authority:** does the public entity have legal authority to charge a fee for the goods and services provided?
 - **Effectiveness:** Are resources allocated in a way that contributes to the outcomes being sought by the activity? Is the level of funding fit for purpose? Does it enable the cost recovered activity to be delivered to a level of quality that is appropriate for the circumstances (e.g., it should not be 'gold-plated' or conversely at a poor level of performance that impedes the ability of organisations to do business)?

¹ Registration fee of \$128.28 plus levies of \$344.47

² The Treasury. (2017, April). *Guidelines for Setting Charges in the Public Sector*. Retrieved from <https://www.treasury.govt.nz/sites/default/files/2017-04/settingcharges-apr17.pdf>

³ Office of the Auditor General. (2021, August). *Setting and administering fees and levies for cost recovery: Good practice guide*. Retrieved from <https://oag.parliament.nz/2021/fees-and-levies/docs/fees-and-levies.pdf>

- **Efficiency:** are decisions on volume and standards of services, and costs to recover and when to recover, consistent with the efficient allocation of resources? What efforts have been made to ensure that there are reasonable constraints on charging, in order to demonstrate efficiency, particularly in the context of variable or hourly fees? Have options for pricing been considered in terms of what would be most efficient?
- **Transparency:** is information about the activity and its costs available in an accessible way to all stakeholders? Has the cost recovery analysis been approached in an 'open book' manner? Is detailed information about the cost drivers and the components that make up the charges available to stakeholders?
- **Consultation:** Has the entity engaged in meaningful consultation with stakeholders, and is there opportunity for stakeholders to contribute to the policy and design of the cost recovery activity?
- **Equity:** have the impacts of the proposed or existing cost recovery regime been identified? Will stakeholders be treated equitably? Have impacts over time been identified?
- **Simplicity:** is the cost recovery regime straightforward and understandable to relevant stakeholders? Have the costs of participation been kept low and evasion opportunities mitigated to acceptable levels?
- **Accountability:** public entities are accountable to Parliament and to the public. In practical terms, this can be demonstrated by consultation with stakeholders about change, through recording any surpluses and deficits generated by cost recovery regimes, through reporting on performance, and through reviews of the use of powers to set fees under regulation.

OAG principles for setting and administering fees and levies

17. The OAG Good Practice Guide sets out expectations, principles and administrative matters that should be considered by public organisations when setting and administering fees and levies charged for goods and services they are required to provide. They are summarised below:
- **Equity:** Ensuring that public organisations administer and manage fees and levies in a way that is administratively fair and considering equity matters so that the recovery of costs from fee and levy payers is fair. This means not seeking to recover costs from one group that could benefit a previous or future group. Equity can also be relevant in determining when and who to charge.
 - **Efficiency:** Producing as many goods, or providing as many services, to the desired level of quality as possible from a given quantity of resources to achieve value for money.
 - Fees and levies should be structured in a way that closely reflects the costs needed to produce the goods or provide the services to an individual or organisation and delivering those goods and services as efficiently as possible and not incurring any unnecessary costs.
 - Public organisations should consider how much effort they will put into determining the costs of services. Sometimes, accurately costing individual consumption might take more effort and generate more costs than the cost of the goods and services that need to be recovered.
 - **Justifiability:** Costs that public organisations recover through fees or levies should reasonably relate to the goods or services they are charging the fees or levies for – this means eliminating cross-subsidisation where possible.
 - To justify fees or levies, public organisations need to have an accurate understanding of both the direct and indirect costs of the goods or services. When charging for a service, there needs to be clarity around what the service is and the standard to which it is delivered to, so that the costs reflect the service quality the recipient receives.

- Reliably establishing the costs of delivery is essential to managing costs and identifying potential inefficiencies. This is important regardless of how costs are recovered. It is important to recover only those costs that can reasonably be attributed to producing the goods or providing the services that the charges apply to.
- This includes a reasonable portion of costs that can be attributed to multiple services (for example, overhead costs). Services will draw on other indirect costs, such as an organisation's management layer.
- It is justifiable to recover a portion of the direct and indirect overheads associated with the goods or services through an overhead component in the charge.
- **Transparency:** Public organisations are accountable to Parliament and the public. To be accountable for their charging practices, they need transparent processes for setting and managing fees or levies.
 - Fee and levy payers need to have enough information to understand and assess whether the:
 - basis or method for setting the fee or levy is appropriate;
 - fees or levies are fairly costed; and
 - revenue generated is correctly accounted for and used appropriately.
 - Transparent fees, levies, and charging practices are the main way that public organisations are held to account for their charging decisions. Public organisations can achieve transparency and accountability in a variety of ways, including:
 - building relationships by engaging with fee and levy payers;
 - recording surpluses and deficits associated with the fees and levies; and
 - regularly reporting the status of memorandum accounts, changes in forecast revenues and costs, changes in service mix, performance, and cost allocations to fee and levy payers.

Objectives of the cost recovery proposal

18. The objective of the cost recovery approach is to ensure that a charging regime of fees and levies so that the Teaching Council can deliver its mandatory functions in a financially sustainable way that is simple, effective, equitable, and transparent.
19. A further objective of the cost recovery approach is to ensure that user charges will allow the Council to undertake its mandatory functions at an appropriate level of quality and service performance to ensure the safety of the regime.

Other considerations

20. The Council is required under Section 479 (1) (l) – (o) of the Act to perform the functions related to conduct and competence. This is a significant aspect of the Council's operations accounting for approximately 43% of the total costs. The Council recovers only 2% of the costs associated with this function from some teachers where a disciplinary outcome has been imposed by the Disciplinary Tribunal and the remaining costs are borne by the profession.
21. The level of costs that can be recovered are determined by the independent tribunal. If a higher proportion of the costs were to be charged to the teacher, it is very unlikely that they would be paid. The hallmark of a profession is that members of that profession have a strong reputation for expertise, integrity, and a high ethical compass. Therefore, it is common amongst professional bodies that all members fund the disciplinary functions required to maintain that reputation.
22. The Council has previously not distinguished teachers by the hours that they work or the sector that they work in. Teachers regardless of these factors have paid the same fees. This is because the

effort to deliver the Council's functions are the same irrespective of these factors. The converse view would be that teachers in lower paid sectors of the profession or teachers that work less hours should pay a lower fee in a similar way that unions often have a tiered fee schedule. There are challenges with using a tiered fee schedule. Firstly, the Council does not have access to comprehensive data for the whole profession to know what teachers are earning, and secondly charging a lower fee to some members of the profession will mean that others will have to pay more than they would if all members were to pay the same fees and levies.

Costing approach

23. The Council has developed a detailed cost model of its estimated actual costs for the period FY2022/23 to FY2024/25 which is being independently reviewed by Deloitte to determine the reasonableness of those costs.
24. The full cost model can be found [here](#). Within the model:
 - All direct expenditure is directly attributed to Council's mandatory functions
 - Direct expenditure includes Professional Responsibility, Registration, Communications and Advice (Contact Centre), Teacher Capability and Collaboration, and Policy and Implementation teams
 - Where appropriate support function expenditure is directly attributed to Council mandatory functions e.g., software licences, depreciation & amortisation
 - Remaining expenditure (indirect expenditure) is pro-rated to Council functions using direct expenditure as a driver
 - Costs recovered are directly attributed to Council functions to offset total expenditure
 - Total costs less costs recovered is the net costs of delivering Council's mandatory functions

Demonstrating efficiency – actual and reasonable costs

25. The Education and Training (Teaching Council Fees, Levies, and Costs) Amendment Act 2021 requires that the fees fixed and levies imposed under subsection (1) and any fees charged under subsection (3B) must recover only the actual and reasonable costs incurred by the Teaching Council in performing its functions set out in section 479(1).
26. The Treasury guidelines require agencies to demonstrate that their service offering is efficient and represents value for money and to ensure that they have mechanisms in place to ensure that they are not:
 - gold plating services or investments by building in unnecessary costs or delivering services at a higher standard than is necessary, or
 - using cost recovery charges to 'hide' inefficiencies in operations, by passing costs onto users who are unable to exert effective pressure to reduce costs.
27. Treasury suggest that other ways of ensuring efficiencies include:
 - Using benchmarks for activity costs and processes against similar government activities and/or organisations in New Zealand or overseas. Benchmarking can be against either the whole activity, or where there is no directly comparable activity against part of the activity (eg. business processes). Benchmarking against the private sector may be possible but it should be noted that government entities have a range of accountabilities and that some cost recovered activities have unique cost drivers.
28. For this purpose, the Council has commissioned an independent review by Deloitte of the efficiency, and reasonableness (justifiability) of current and forecast costs. The Deloitte review has been

underway for some time and we expect them to present their draft findings to the Governing Council at the meeting on 27 January 2022.

29. In line with the Treasury guidelines, Council has completed a draft Cost Recovery Impact Statement (CRIS) to ensure that:
- Our proposed cost recovery regime is based on sound analysis, underpinned by transparent information and a good understanding of the impact of the cost recovery regime.
 - There is a documented approach to our charging system that makes clear the legal authority for charging, the scope of and rationale for charges, and any other sources of revenue
 - We have a clear understanding of the objectives sought and the trade-offs that have been made
 - There is a sound cost-allocation process, with clear assumptions
 - for each charge-setting process, a clear audit trail showing the assessment of costs incurred (where applicable), expected to be incurred and forecast demand, and the way in which the charges have been determined
 - that the Council has a performance framework against which their cost recovery activities are measured
 - lines of accountability for the activity being cost recovered and the related charges, and
 - a plan for implementation, monitoring and review.
30. Our draft CRIS is currently being peer reviewed by an independent expert and will be represented to the governing Council once this process has been completed and further changes made (where required).