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Dear Clive,

This letter provides our advice in relation to the impact of inflation on the costs of the Teaching Council of Aotearoa New Zealand (the **Council**) since 2010.

Background

The Council is currently consulting the teaching profession on proposed fees and a levy. The fees paid by teachers were last set by the New Zealand Teachers Council in July 2010 and were re-gazetted by the Teaching Council (previously called the Education Council) on 25 June 2015.

In the consultation document (<https://teachingcouncil.nz/assets/Files/Fees/TC-Consultation-DocumentProposed-fees-and-levy.pdf> at page 11) the Council has made statements regarding the impact of inflation on the fees set in 2010 and not subsequently increased. The Post Primary Teachers Association (PPTA Te Wehengarua) has provided feedback to the Council concerning the methodology utilised by the Council in assessing the impact of inflation and the cumulative inflation figure derived.

You have therefore asked Deloitte to estimate the impact of 'inflation' since 2010 to provide you with an independent perspective.

Approach

To estimate the impact of inflation, we have:

- Selected a baseline, and established the period over which inflation has been incurred
- Selected appropriate inflation indices
- Performed the calculation

Baseline

We understand the current fee of \$192 (excluding GST) came into effect on 1 July 2010.

We reviewed the Annual Report for the year ended 30 June 2010 for the Council's antecedent organisation (New Zealand Teachers Council). This reported \$5.014 million total expenses, plus a further \$1.041 million special project – i.e. total costs of \$6.055 million. We note a similar amount was incurred on Special Projects in the year ended 30 June 2009.

The table over the page provides a breakdown of the 2010 costs.

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Cost information

Cost	Actual \$
(A) Employee Benefit Costs	2,720,103
(B) Depreciation and Amortisation Expense	169,167
(C) Other Operating Expenses	2,124,482
(D) Total Expenses	5,013,752
(E) Special Projects	1,041,090
(F) Total Costs	6,054,842

Source: New Zealand Teachers Council Annual Report for the year ended 30 June 2010

In order to assess the impact of inflation, we will use these costs as the baseline.

We do not know to what extent inflation expectations were taken into account at the time the fee was set in 2010. We assume the fee was reasonable as at 1 July 2010 – and therefore 46 quarters of inflation have been incurred since to 31 December 2021 (being 11 full years and 2 additional quarters).

Appropriate inflation indices

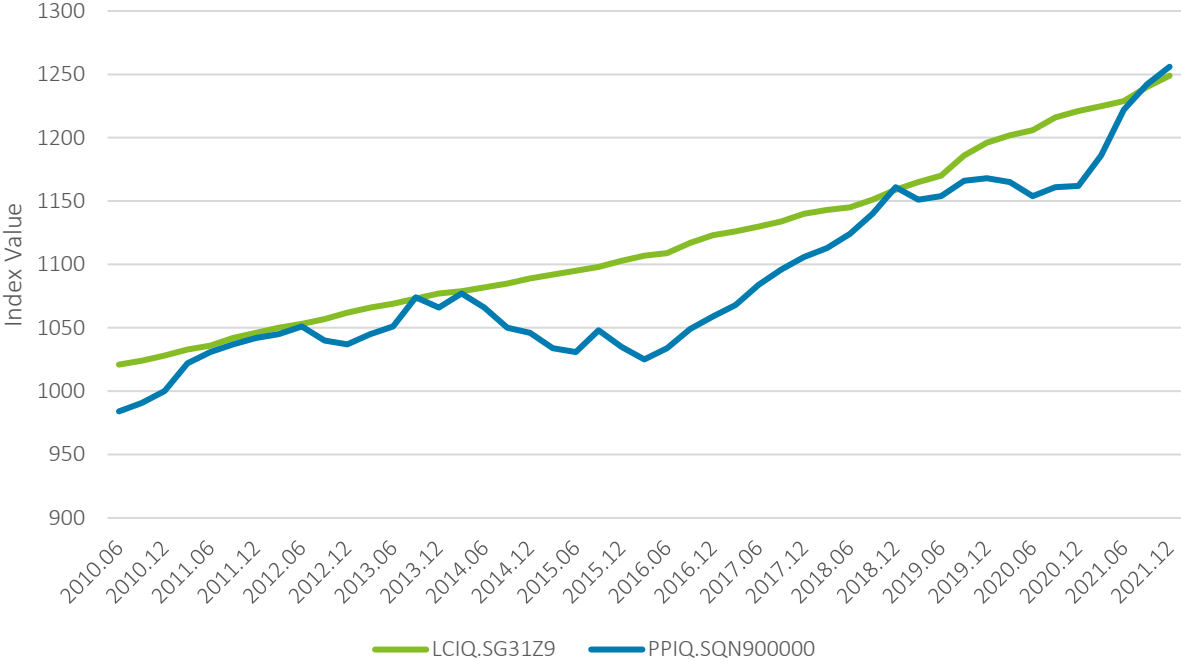
We believe it is appropriate to use separate indices for personnel costs and other costs. For the Council, we would recommend using the following:

- **LCIQ.SG31Z9** for personnel costs: This is the first level of breakdown within the overall Labour Cost Index (LCI) published by Statistics New Zealand, and represents the public sector overall. While there are more detailed public sector indices, the Council does not fit squarely within any one of these – but we consider it more “public-sector-like” than “private-sector-like”. Being based in Wellington, the Council competes in the same talent market as many other public sector entities (spanning local, regional and national government) and has some similar roles (e.g. Policy Analysts).
- **PPIQ.SQN900000** for all other costs: This is the overall, all industries, Producers Price Index (Inputs) published by Statistics New Zealand. While there are more detailed Producers Price Indices, we do not consider the Council is clearly in any one of those sub-categorisations, and would therefore use this overall index.

While it can certainly be argued that other indices could be used (e.g. more specifically central government Labour Cost or the Consumer Price Index, rather than a Producers Price Index) we do not think those would necessarily be more accurate, nor would we expect differences in results to be material. We believe a Producers Price Index is a better indicator of changes in input costs for organisations than a Consumer Price Index.

The chart below shows the movement of the above indices since 30 June 2010.

Movement of selected LCI and PPI over the last 46 quarters



Source: Statistics New Zealand

While changes in the LCI have been reasonably steady, changes in the PPI have fluctuated significantly. Over the course of the 46 quarters, the two indices show a similar overall rate of increase.

Calculation

We do not know the composition of the Special Projects costs in terms of personnel and other costs. We believe a reasonable assumption would be that this cost is split in the same proportion between personnel and other as the Council's other expenses from the Annual Report.

Therefore, we assume the following relative proportions between personnel and other costs:

Cost type	Percentage	Derivation from table above
Personnel Costs	54.3%	(A) / (D)
Non-Personnel Costs	45.7%	[(B) + (C)] / (D)
Total	100.0%	

We now apply the indices to estimate the impact on each cost type and overall:

Cost type	Personnel Costs	Non-Personnel Costs	Total
Starting Point (out of 100)	54.3	45.7	100
Index Value 30 June 2010	1021	984	
Index Value 31 December 2021	1249	1256	
Index Ratio	1.2233	1.2763	
End Point (adds to 124.753)	66.426	58.327	124.753

Therefore, we estimate the impact of inflation on the Council's costs has been 24.75%.

Conclusion and limitations

We do not believe this type of estimation is an exact science, and other approaches, using different indices or different details of costs, may yield different results. We note the New Zealand economy is currently experiencing higher inflation than has been the case for some time, and therefore the topic of inflation – including how it is accounted for in short- and medium- term forecasts – is likely to gain greater importance.

As noted in our report dated 2 February 2022, the relevant test as set out in section 479(1) of the Education and Training Act 2020 is whether the costs of the Teaching Council of Aoteroa New Zealand are "actual and reasonable" in respect of the roles and duties set out in legislation. A historic analysis of inflation since 2010 against the then role of an antecedent entity to the Council, under a different legislative framework, is of very limited relevance to the current legislative test.

Please note our estimate has been developed for the sole benefit and use of the Council. In developing this estimate, Deloitte has relied upon and assumed, without independent verification, the accuracy and completeness of all information provided to us by the Council and otherwise publicly available. Deloitte expresses no opinion on the accuracy, reliability and completeness of such information.

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Please let us know if you have any questions or would like to discuss our approach and results.

Yours sincerely



John Tan

Partner
for Deloitte Limited (as trustee for the Deloitte Trading Trust)



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