



## Areas of clarification in the Council's consultation on Proposed Fees and Levy (18 February 2022)

12 May 2022

During the Council's recent [consultation](#) on proposed new fees and levy feedback indicated there were two areas in particular which seemed to cause some confusion. The purpose of this notice to clarify the Council's position in relation to both future adjustments to the fees and levy, and the calculation and impact of a historical CPI adjustment.

### Future adjustments

Proposal 9 in the [Consultation on Proposed Fees and Levy 18 February 2022](#) was to fix fees and the levy for a three-year period, with an allowance for expected inflation over the period.

It appears this may have been understood by some submitters as meaning an adjustment for inflation to the proposed fees and levy would occur *during* that three-year period. This is not correct. Once final decisions are made, the fees and levy set would apply to the entire proposed three-year fees and levy period. Changes could not occur until further consultation is completed for a future fees and levy period.

The inflation adjustment that has been applied to the Council's cost base for the proposed three-year period from 2022/23 to 2024/25 is 1.7 percent per annum. This is predominantly related to expected inflation impacts on salaries. We have been conservative in terms of the impact on the remaining cost base and added almost no inflation.

### Historical CPI adjustment

Some submitters provided feedback that our consultation document should have used a different methodology to assess the impact of inflation and the cumulative inflation figure derived from this.

Before we clarify this point, it is important to note that the historical inflation rate was not, and is not, applied to our model for estimating our actual and reasonable costs to be recovered through the proposed fees and levy. It was simply used to give an indication of what an inflation-adjusted fee would have looked like, to help with understanding the extent of the shortfall in income the Council faces today.

In the *Consultation on Proposed Fees and Levy 18 February 2022* as part of the context for the proposals, we provided an estimate of the impact of inflation on the 2010 fee of \$220.80. We used the Reserve Bank's online inflation calculator to estimate what the 2010 fee would have been if it had been increased solely to reflect the increased costs to deliver Council goods and services. Our estimate was \$292.78.

The purpose of this estimate was to better illustrate one of the four major drivers of cost increases.

In light of the feedback we received, we commissioned reports from two independent experts that separately estimated the impact of inflation on Teaching Council 2010 fees. We also considered a third estimate undertaken by an independent expert who had been engaged by the Post Primary Teachers Association (PPTA Te Wehengarua).

The three independent expert estimates of the impact of inflation were 19.2%, 20.7% and 24.75%. This contrasts with the figure of 33% used to estimate the figure of \$292.78 included in the consultation document.

Using these alternative estimates would mean that if the 2010 fee had increased solely to reflect the increased costs to deliver goods and services it would be \$263.19, \$266.51, or \$275.48 depending on which estimate of inflation was used.

The financial model that the Council used to estimate its future costs incorporates several anticipated cost savings and includes an estimate of future inflation at an average of 1.7 percent per annum over the three-year cost recovery period for the fees and levy.

While we recognise that the actual rate of future inflation may well be higher than this, it is hard to accurately predict. For this reason, we have adopted a very conservative estimate to ensure we minimise the risk of over-recovery of fees and levies from teachers.

At the end of the three-year cost recovery period a comprehensive review of recoveries will be undertaken, with any over or under recovery factored into future proposed increases to fees and the levy for the financial years 2025/26 to 2027/28. Any such proposed future changes would be the subject of further formal consultation.

The proposed fees and levy outlined in our consultation document are based on the Council's actual costs for the 2020/21 financial year and the Council approved 2021/22 budget.