**Education Report:** Confirming tertiary fee regulation settings for 2022

| To: | Hon Chris Hipkins, Minister of Education |
| Date: | 26 August 2021 |
| Priority: | High |
| Security Level: | In Confidence |
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| Messaging seen by Communications team: | No |
| Round Robin: | No |

**Purpose of Report**

This paper summarises submissions received during consultation on proposed tertiary fee regulation settings for 2022 and seeks your agreement to confirm these settings. This includes:

- setting the Annual Maximum Fee Movement for 2022 at 1.7%; and
- clarifying that costs associated with enrolment, exams or reporting NZQA credits must be included within the compulsory course costs component of regulated fees.

**Recommended Actions**

The Ministry of Education recommends you:

a. **note** the six submissions received on the proposed tertiary fee regulation settings for 2022 (attached in Appendix 1)

*Setting the Annual Maximum Fee Movement for 2022*

b. **agree** to set the Annual Maximum Fee Movement at 1.7% for the 2022 calendar year, in line with forecast inflation for 2022 as at the Budget Economic and Fiscal Update 2021

![Agree/Disagree]

(c. **note** that setting the Annual Maximum Fee Movement higher than 1.7% for 2022 would likely require a Cabinet decision to increase appropriations for forecast student loan expenditure and likely delay fee regulation settings from taking effect on 1 January 2022

*Clarifying ‘other’ compulsory fees*

d. **agree** that costs associated with general enrolment, exams or reporting NZQA credits must be included within the compulsory course costs component of regulated fees, not as separate fees

![Agree/Disagree]
e. **agree** to proactively release this Education Report, with any redactions in line with the Official Information Act 1982.

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James Campbell  
Senior Policy Manager  
Tertiary Education  
Ministry of Education  
26/08/2021

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Hon Chris Hipkins  
Minister of Education  
31/8/2021

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Background

1. On 15 July, you agreed to consult on proposed tertiary fee regulation settings for 2022 via Gazette notice [METIS 1258863 refers]. This included:
   - a proposed Annual Maximum Fee Movement (AMFM) rate of 1.7% for 2022, in line with forecast inflation for 2022\(^1\), and
   - clarifying that costs associated with general enrolment, exams or reporting NZQA credits must be included within the compulsory course costs component of regulated fees, not as separate fees.

2. Six submissions were received in response to the Gazette notice:
   - Universities New Zealand (UNZ)
   - two universities: University of Otago and Massey University
   - Te Pūkenga
   - a Group Training Scheme: the Electrical Training Company (ETCO), and
   - a Unitec staff member.

Submissions on the proposed Annual Maximum Fee Movement rate

3. Five of the six submissions commented on the AMFM rate, with only Te Pūkenga expressing support for the proposed rate of 1.7%. The submission from a Unitec staff member focussed on the clarification on compulsory course costs and did not mention the AMFM increase.

4. There were two main themes in the submissions on the proposed AMFM rate:
   - **Consumer Price Index (CPI) rate** – that the AMFM increase does not reflect the most recent rate of CPI
   - **Providers will struggle to meet cost increases in 2022** – particularly given the impacts of COVID-19.

5. UNZ and the University of Otago suggested that the AMFM match the CPI rate of 3.3% from the June 2020 quarter to the June 2021 quarter reported by Statistics New Zealand, while the Electrical Training Company suggested an increase of between 3-4%. Massey University did not give a specific figure but proposed that AMFM be set closer to the CPI rate of 3.3%.

6. In 2021, fee increases were capped at 1.1%, consistent with the inflation forecast at BEFU 2020. Inflation to date in 2021 has tracked higher than forecast, in part due to the impacts of COVID-19. Providers argued that the 1.1% increase in fees for 2021 (and 1.6% increase in tuition subsidies) has not been sufficient to keep up with inflation, and that there is a likelihood of the same thing happening in 2022.

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\(^1\) Micro-credentials are not included in the AMFM increase and will remain subject to a $60 per credit cap with exceptions criteria
7. UNZ cited several factors that are impacting on universities’ revenue: the continued lack of international students, inadequate SAC funding increases, and costs continuing to rise. The University of Otago also stated that raising the AMFM to 3.3% would help to offset the below-CPI SAC rate increase provided for next year. Otago noted that usual measures to reduce costs, such as reducing spending on infrastructure and workforce costs, are problematic because domestic student enrolments have risen.

8. Te Pūkenga expressed support for the AMFM increase, stating that they believe the AMFM increase and the proposal to clarify the scope of compulsory course costs are reasonable. Massey University stated that it recognised the need to balance affordability of tertiary education for students.

Ministry of Education Comment

9. We acknowledge providers’ concerns regarding the proposed AMFM increase not being in line with inflation over the past twelve months. We note that the current inflation rate is primarily driven by a spike in inflation in the second quarter of 2021 and that it is unclear what the rate will be over the remainder of the year. The proposed rate of 1.7% is the current official estimate of inflation for 2022, although an increase to AMFM above this rate could be used to offset funding pressures created by inflation and the financial impacts of COVID-19.

10. We recommend that the AMFM increase remains at 1.7%, in line with the Treasury forecast inflation rate. We do not consider that a higher increase to domestic student fees is an appropriate or best way to manage the financial impacts of COVID-19 and increases in costs. This is primarily because it adversely impacts on the affordability of tertiary education and training for learners.

11. The current increase in domestic demand will partially offset increases to costs. TEOs have been allocated additional funding for 2021 to manage the anticipated increase in domestic demand, with $334 million for an additional estimated 44,000 equivalent full-time students (EFTS) for provision at level 3 and above between 2021 and 2023.

12. Furthermore, setting an AMFM higher than the proposed 1.7% would require Cabinet approval to increase forecast student loan expenditure above the levels appropriated at Budget 2021. The Treasury has confirmed that an increase above 1.7% would also require a Budget bid, although this bid could be withdrawn if the HYEFU inflation forecast ends up at or above the proposed AMFM rate. This process would be difficult to progress given competing priorities ahead of the finalisation of the SAC3+ funding determination in late September.

13. Should you wish to consider options to support providers to manage the unexpected increase in inflation, we recommend that this should be considered as part of Budget 2022, for example by increasing tuition and training subsidy rates at or above the projected rate of inflation for 2023. Any increase would need to be weighed against competing Budget priorities and would come into effect from 2023 onwards.

Submissions on clarifying other compulsory fees

14. The Gazette notice clarified that costs associated with enrolment, exams or reporting NZQA credits must be included within the compulsory course costs component of regulated fees, not as separate fees.
15. Three of the six submissions stated that they disagreed with tying these costs, and other compulsory course costs (such as field trips or purchase of equipment), to the AMFM. The reasoning was that these costs are often outside the control of the tertiary provider because these costs are set by third parties. The submission from Te Pūkenga stated that it considers this change to be reasonable.

16. It is important to note that the proposed clarification only relates to costs associated with general enrolment, exams fees or reporting NZQA credits. These are ‘core business’ costs, similar to the many other costs that TEOs can incur, and we expect tertiary providers to manage these costs within their resources. From the reporting undertaken in early 2021 on ‘other fees’ that tertiary education institutions were charging, most were not charging additional fees for these costs.

17. Compulsory course costs also do not relate to items that a provider purchases on a student’s behalf at a discounted rate that are available from other suppliers, such as equipment including lab coats or software. We will work with the Tertiary Education Commission (TEC) to improve guidance so that providers are clear on what costs should be included within their regulated compulsory course costs.

Other issues raised

18. Te Pūkenga stated in its submission that it will be undertaking a process to align tuition (and other) fee structures across its network for the 2023 academic year.

19. We did not receive any submissions from student associations this year. We contacted New Zealand Union of Students’ Associations (NZUSA) and its members, Te Mana Ākonga, Tauira Pasifika, the National Disabled Students’ Association and the NZ International Students’ Association. NZUSA’s submission last year supported the approach to tie AMFM increase to forecast inflation.

Next steps

20. Subject to your agreement to the proposed fee regulation settings for 2022, the Ministry and the TEC will publish information online to communicate your decisions. This gives TEOs time to consider fee changes and to make other decisions for 2022.

21. The updated SAC L3+ funding determination in September 2021 will include the conditions from the Gazette notice on fee regulation settings for 2022. For the 2022 fee regulation settings to take effect from 1 January 2022, the resulting variation to SAC L3+ funding determinations needs to take effect on or before 30 September 2021. This is to comply with the three-month stand-down on variations under section 423 of the Act.

Appendices

- Appendix 1: Submissions on tertiary fee regulation settings for 2022
Hon. Chris Hipkins  
Minister of Education  
c/o tertiary.strategy@education.govt.nz

9 August 2021

Kei te rangatira, tēnā koe

Te Pūkenga Submission on the Fee Regulation Settings for Tertiary Education Providers

On behalf of Te Pūkenga and its subsidiaries, thank you for the opportunity to provide feedback on the proposed fee regulation settings for 2022. We believe the proposed Annual Maximum Fee Movement of 1.7% and all other proposed changes are reasonable.

We note cost inflation is running between 1.5 and 3% with Treasury indicating an average inflation of around 1.7% and that student allowances are increasing by between 8 and 14%. In this context and with SAC funding increasing by 1.2%, we are facing cost pressures over and above funding rate increases.

As identified in our Ākonga at the Centre research, financial pressures are a key barrier to success for our learners. We wish to limit the financial stress our learners may experience, maintain financial viability across the network and provide quality services to our learners. On balance, therefore, we need to at least match fee increases with cost inflation.

We wish to advise Te Pūkenga will be undertaking a process to align tuition (and other) fee structures across the network for the 2023 academic year. In the context of current Fee Regulation Settings, this may require an exception to some settings. We have signalled this to TEC, and plan for further discussion to occur over the next 6 months.

We appreciate your consideration of our feedback.

Ngā manaakitanga, nā

Angela Beaton  
Deputy Chief Executive Delivery and Academic
Re: Submission - fee regulation

Kia ora
Thank you for offering an opportunity to send a submission for the proposal for the fee regulation settings for tertiary education providers.
There are a number of factors influencing our response, which we detail below.
The current border closure due to the global Covid-19 pandemic is restraining the ability of firms to hire. Any further tightening in the Labour market is more likely to be wage growth rather than lower employment. The average hourly wage rose 4% to $34.76ph compared with a 3.3% rise in inflation. According to Statistics NZ the Labour cost index rose 2.1% in the year to June 2021, but trails household living costs inflation has risen 2.5% over the period. Based on the all the figures, inflation pressures are rising and looking persistent. Energy costs are likely to impose rising costs on household and businesses for years to come.
The unemployment rate has fallen and is creating pressure for significant pay increases, and spare capacity in the labour market is dwindling which will potentially result in tighter labour market conditions and lead to more upwards pressure on wage rates. Unless there is a rise in productivity (and there isn’t, particularly in the trades) it will be another key driver for pushing up costs as employers try to recoup the added costs of the wage bill. Funding for the payment of fees by TEC is planned to exhaust itself by the end of the 2022 academic year.
Our submission to increase fees is to set a rate closer to 3%–4% as it reflects the current indicators mentioned above – unlike the proposed 1.7% inflation forecast which is linked more to a retrospective time period of pre and post Covid19 up to March 2021.

Ngā mihi

Nadia Tu’itahi
Academic Manager Operations

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The Electrical Training Company Limited / 24A Allright Place, Mt Wellington, Auckland
Submission from the University of Otago on
The Tertiary Education 2022 Annual Maximum Fee Movement Notice of 2021

Introduction
This submission from the University of Otago is in response to the Minister of Education’s proposed 1.7% limit on the annual increases that tertiary education organisations may make to fees and course costs charged to domestic students in 2022.

Recommendations
1. We recommend the maximum fee increase permissible be raised from the proposed 1.7% to 3.3%. An increase of this level is consistent with the recent actual movement of the consumer price index (CPI) which has risen to 3.3% as at June 2021.

An increase of 3.3% would go some way to enabling the University of Otago to cover the increased costs and revenue pressures it faces in 2022, the latter stemming in part from a below-CPI SAC rate increase provided by Government for next year.

2. We further recommend that the proposal to include fieldwork fees and compulsory equipment and book costs in the AMFM regime be abandoned. This is because cost pressures in these areas are something that a university has little or no control over.

Further Context
Prior to Covid-19, all New Zealand universities were to varying extents using increasing international enrolments to help offset the dual impacts of a flat-to-low growth domestic enrolment environment and the legacy effects of several years over which permitted fee increases and SAC-rate increases had failed to keep pace with inflation or rising costs.

Otago, though the least exposed to international enrolments of all New Zealand universities, was still reliant on them to help maintain a viable financial position. This viability, as defined by TEC guidelines, involved generating a minimum 3% surplus, which in any case was required to maintain and enhance our capital assets. These capital requirements have been particularly intensive for Otago due to our uniquely high concentration of activity in capital-intensive academic disciplines (sciences and health sciences), our residential accommodation portfolio, and our high proportion of older buildings requiring upgrades to meet increasingly stringent fire and seismic standards.

The Covid-19 situation has caused full-fee international enrolments to plummet since 2019. For 2022 we are forecasting full-fee international enrolments to reach 936 EFTS, down by 47% from 1,752 EFTS in 2019.

The domestic enrolment growth achieved by Otago this year and forecast growth next year will more than compensate for the international decline in EFTS terms. However, the combination of the 1.2% SAC rate increase for 2022 and the proposed 1.7% AMFM will result in 2022 being another year in which we have to absorb a reduction in per-student revenue in real terms.
To illustrate this point, based on the above increases, we forecast that Otago’s per-student revenue (SAC plus domestic and international fees) for 2022 will be just one percent higher than in 2019. Over the same period, the cumulative CPI movement will have been well in excess of five percent.

While a lift in the AMFM to 3.3% would be well short of what is required to fully close the gap between funding increases and inflation, it would provide some assistance not only for 2022, but also in laying the platform for stronger domestic fee revenue in the years beyond 2022; this is an important consideration for a number of reasons including the following:

- The international ‘recovery’ is likely to be a slow one (and will require a significant short-term investment to secure) in the context of a wider world that is positioning for a faster return to international student mobility than New Zealand;
- Otago, like all universities, is facing increased costs, including those arising from greater regulation in respect of student pastoral care, and a need for ongoing investments in scholarships and additional student support to meet rising expectations in regard to Māori and Pacific student participation and achievement.

It should also be recognised that two of the key options that organisations typically pursue in response to significantly constrained finances are particularly challenging in the current environment: staff reductions are not as readily achievable at times when total enrolments are rising and, in any case, risk an adverse impact on international rankings; delaying crucial capital projects risks missing the chance to secure future opportunities, and is also fraught with risk given the likelihood that building costs will continue to increase at a greater rate than either per-student revenue or inflation.

For these reasons, we recommend consideration of a 3.3% AMFM limit for 2022, on the basis that it strikes a balance between what is required to support a high-performing university such as Otago at this time, and maintaining affordability from a student perspective.

Our rationale for recommending fieldwork fees and compulsory equipment and book costs not be included in the AMFM is that costs in these areas are something that a university has little or no control over: changes to the cost of books and equipment are driven almost entirely by suppliers, and reflect such things as pandemic-induced shortages and supply chain disruption and exchange rate movements; major elements of fieldwork costs are transport, accommodation and food, which similarly rise (or fall) due to factors that a university has little of no control over.

*For further information on this submission, please contact:*

David Thomson  
Director of Strategy, Analytics and Reporting  
Office of the Vice-Chancellor  
University of Otago  

Email: david.thomson@otago.ac.nz  
Tel: 03 479 8279
Re: NZQA unit standards fees at Unitec

Tēnā koutou

It would be difficult to support the regulated course compulsory costs as being included in assessment of fees (tuition + CCC) aligned with the AMFM policy. Students are more than happy for the provider to report the outcomes on behalf of them, particularly when it impacts the display of their results on to their record of achievement. Employers are requesting the ROA from students to gain employment.

A more pragmatic approach is to align the tuition fee component percentage increase with the AMFM policy and separate out the course compulsory cost component fee and enable this to be variable from one year to another year dependant on i) the NZQA review of costs, or ii) the CCCOSTS can vary depend on the currency of the material(i.e. technology changes), so an exemption should be placed for this courses in the max exempt field in the SDR.

The collection of the tuition fees component is critical in the ongoing viability of TEOs. Administrative and student management costs need to be factored in. An amnesty should be considered and provisioned to all providers to enable alignment to intent and the approval of it is due to the lack of guidance in my opinion centrally.

The definition below, is a barrier for learners and TEO’s. There is no active encouragement for TEOs to actively engage and negotiate substantial discounted rates between suppliers, industry partners and suppliers and the TEO, using the student numbers as a leveraging angle to negotiate heavily discounted rates. This point should be reviewed and allow TEO to either bulk buy Course Compulsory Costs (CCC) but the restrictions of the tuition fee + course compulsory costs and the allowable % increase between years is too restrictive and outdated. Inflation does not in some cases accommodate the true cost.
Barriers for learners are in play as they have to purchase Course Compulsory Costs or related course costs directly from suppliers at retail prices. There are delays in costs associated with courses as the students have to go through a process of applying for course related costs through studylink, which impacts their ability to fully engage with learning from day one.

Currency of equipment is correlated with currency of delivery, flexibility in costs is required to be enable to content to be current for educators and learners and ultimately employers as they would like to a graduate to be fit for purpose.

These costs are a burden to both the learners and tax payers, not all students in our sector are equipped to go through this process of applying, it is a another hurdle that they the student experiences and in particular priority group learners.

Kind Regards
Rakesh
Submission from Massey University in relation to
Consultation on fee regulation settings for 2022

Thank you for the opportunity to provide submissions on fee regulation settings for tertiary education providers in 2022. Massey University offers the follow feedback on the proposal:

(a) In relation to the proposed Annual Maximum Fee Movement (AMFM) of 1.7 percent, Massey University recognises the need to balance affordability of tertiary education for students and their whanau but highlights that inflationary pressures on costs to delivery tertiary education are increasing and these sit generally above CPI levels. Tertiary education sector wage inflation, for instance, has been increasing at rates more than 3.0 per cent per annum for several years. Massey proposes that the AMFM should be closer to consumer price index, which has risen to 3.3 per cent as at June 2021 (https://www.stats.govt.nz/information-releases/consumers-price-index-june-2021-quarter).

(b) In relation to the proposal to update the regulated compulsory course costs, prohibiting providers from charging any additional fees to domestic student fees for these costs from 1 January 2022, Massey University notes that the proposed change has been sent out for consultation in late July, with a likely announcement on the decision by late August/early September. It gives providers like Massey very little time to make system changes before the enrolment period for the 2022 academic year opens on 1 October 2021. Massey notes that, where proposal changes with wider implications (i.e. system changes) are made, that sufficient time is given to providers to implement these changes.
The Tertiary Education 2022 Annual Maximum Fee Movement Notice of 2021

Introduction
This submission is in response to the Minister of Education’s proposed 1.7% limit on the annual increases tertiary education organisations may make to fees and course costs charged to domestic students in 2022. This submission is made by Universities New Zealand – Te Pōkai Tara (Universities NZ) on behalf of the eight universities.

This submission supplements those submitted by individual universities.

For further information, please contact Dr Bronwen Kelly, Universities New Zealand—Te Pōkai Tara (bronwen.kelly@universitiesnz.ac.nz).

Submission
Online submission
tertiary.strategy@education.govt.nz
Due 9th Aug 2021

Recommendations
To ensure universities can, to a small extent, cover actual cost increases and manage the impact of the COVID-19 pandemic, we recommend the maximum fee increase should be 3.3% in line with the annual consumer price index (CPI), which has risen to 3.3% as at June 2021.2

The combined effect of long-term underfunding and the ongoing impact of COVID-19 on universities’ finances
In our submission last year to the proposed AMFM limit, we outlined the financial stress faced by universities because of the COVID-19 pandemic. With the Government continuing to maintain tight border controls, the pandemic has had, and continues to have, a significantly adverse impact on universities’ revenue. If universities are to maintain the

1 Universities NZ is the operating name of the New Zealand Vice-Chancellors’ Committee, a body established under Part 19 of the Education Act 1989. It has statutory responsibilities for university quality assurance, the approval and accreditation of university academic programmes, entrance to universities, and scholarships. It also represents the interests of the universities on a wide range of other matters, such as education and research policies.
quality of learning opportunities and support for domestic students, in an environment that continues to limit international student recruitment, they must increase their revenue from other sources in the very short term. One such revenue source is domestic student fees.

International student EFTS across the universities dropped 12.5% between 2019 and 2020,\(^3\) which manifested as a 6.5% decrease in international student revenue. Overall, universities’ income decreased approximately 3%. These decreases are significantly greater for 2021 given New Zealand borders were largely closed during 2021 and are not expected to re-open until at least Semester 2 of 2022.

At the same time, costs, especially asset-related costs, have increased and continue to do so.

It is important for the universities to have sufficient funds to continue to be key contributors to New Zealand’s economic recovery through:

- retraining and upskilling the workforce rather than contributing to unemployment
- delivering relevant high-value research
- accelerating the educational progress for equity groups
- slowing the downwards slide in international rankings, which would, in turn, enable universities to attract and retain high-quality researchers and non-government investment.

A reduction in real funding per student over the past 20 years means universities will struggle to meet the costs of continuing to deliver high-quality relevant teaching and research without the cross-subsidy provided by international student fees. Cost pressures have been compounded by years of inadequate student achievement component (SAC) funding adjustments characterised by minimal general increases or only subject-specific annual increases.

In the absence of an adequate SAC funding increase for 2022, universities need to be allowed to increase their student fees beyond the proposed 1.7% limit to compensate for the SAC shortfall and the COVID-19 financial impact.

Universities are making significant efficiencies in response to these fiscal pressures, but these efficiencies alone are not enough to ensure universities can continue to address all the Government’s priorities. These broad-ranging priorities include, but are not limited to, improving access and success for students from priority groups, providing New Zealand and New Zealanders with access to world-class education and research, and ensuring its ongoing relevance for our future.

In late April 2020, Universities New Zealand wrote to the Government\(^4\) describing the forecast impact of COVID-19, including the slowing of commercial revenue and income

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\(^3\) Comparison between universities’ 2019 and 2020 annual reports.

\(^4\) Letter dated 23 April 2020, addressed to Minister Hipkins.
associated with research. The cumulative results for the sector in 2020 were slightly better than the initial forecasts, but the impact on cash flow will be the most important factor influencing the universities’ ability to respond in the short term.

The challenging situation has continued into 2021 and will be exacerbated in 2022 through a combination of pipeline international impacts and a further year in which the border and visa situation prevents new international students from commencing on-campus study in New Zealand; the alternative, commencing online with a New Zealand university, is increasingly less attractive as other countries such as Canada, the UK and US welcome back on-campus international students ahead of us.

This will inevitably create a much slower recovery path for international enrolments in New Zealand with consequential impacts on universities’ financial positions.

Short-term mitigation strategies for the universities include focusing on reducing discretionary operating expenditure and delaying non-essential capital expenditure. As approximately 60% of university annual costs are in personnel, an obvious way to recover from a deficit situation will be to reduce the workforce. These personnel processes, which are under way at many of the universities, do not generally pay back financially in the very short term. Universities are also constrained in what can be achieved through staff reduction, given unprecedented levels of student demand and the need to ensure educational quality in the long term.

Expenditure maintaining infrastructure may need to be temporarily halted or massively scaled back for the next 12-24 months—exacerbating an already large deferred maintenance challenge for the sector.

All avenues of cost cutting are fraught with undesirable consequences; therefore, it is critical universities can increase their revenue from other sources such as students’ fees. An increase of 3.3% will balance the fiscal pressures faced by both the university sector and the 2020-2022 student cohort.

Finally, fieldwork fees and compulsory equipment and/books are also included in the proposed AMFM. This is a change to past practice we ask not to be pursued: there are many aspects to these costs over which universities have no control and which should be passed on to students. These include the costs of accommodation and food for field trips and the impact of exchange rate changes and pandemic-induced supply chain disruption on the cost of books and equipment.

-END-