



Education Report: Consulting on fee regulation settings for 2022

To:	Hon Chris Hipkins, Minister of Education		
Date:	25 June 2021	Priority:	Medium
Security Level:	In Confidence	METIS No:	1258863
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Messaging seen by Communications team:	No	Round Robin:	No

Purpose of Report

This paper seeks your agreement to consult via Gazette notice on fee regulation settings for 2022, including an Annual Maximum Fee Movement (AMFM) rate of 1.7 percent, in line with forecast inflation for 2022.

Summary

As part of the annual fee regulation process, we are seeking your agreement to consult via Gazette notice on the AMFM rate for 2022. In November 2019 you agreed to treat the AMFM as a forecast change in line with inflation, rather than an annual Budget bid [METIS 1209987 refers]. The rate of forecast inflation for 2022 as at the Budget Economic and Fiscal Update 2021 is 1.7 percent. We therefore recommend consulting on an AMFM rate at 1.7 percent.

We also propose to clarify what costs are in scope of fee regulation. In early 2021, the Ministry engaged with tertiary education institutions (TEIs) to get more information on 'other' compulsory fees that providers have been charging students. This identified several administrative fees, additional to tuition fees and compulsory course costs. We recommend clarifying through the wording in the Gazette notice that the costs associated with enrolment, exams or reporting NZQA credits must be included in the compulsory course costs component of fees and should not be charged for separately. Based on reporting from TEIs, this would affect Massey University's enrolment fee, Te Pūkenga's (Sothorn Institute of Technology) enrolment fee for distance learners, and some compulsory exam fees and NZQA credit fees at Te Pūkenga. There could also be some PTEs charging these types of fees as well.

From 1 January 2021 a new fee capping mechanism for Student Achievement Component-funded micro-credentials was introduced, capping fees at \$60 per credit and with an exceptions process managed by the Tertiary Education Commission. As it has only been in place since the start of 2021, we are yet to see much impact on how well this approach is working, and how it balances fair fee costs for learners with providing flexibility and adequate funding to deliver some higher cost programmes. We will continue to monitor this and consider any potential changes in ongoing fee regulation work.

Recommended Actions

The Ministry of Education (the Ministry) recommends you:

Consult on an Annual Maximum Fee Movement in line with forecast inflation

- a. **note** that in November 2019 you agreed to treat the Annual Maximum Fee Movement as a forecast change by consulting on an Annual Maximum Fee Movement rate in line with forecast inflation [METIS 1209987 refers]
- b. **agree** to consult via Gazette notice on setting the Annual Maximum Fee Movement at 1.7 percent for the 2022 calendar year, which is in line with forecast inflation for 2022 as at the Budget Economic and Fiscal Update 2021

☒ **Agree** / ☐ **Disagree**

'Other' compulsory fees update

- c. **note** that the Ministry has identified several instances of additional unregulated fees that tertiary education providers are charging as compulsory fees to all students, including fees for enrolment, exams, reporting NZQA credits, field trips, and compulsory purchase of equipment or software
- d. **agree** to clarify in the Gazette notice that the costs associated with general enrolment, exams or reporting NZQA credits should be included within the compulsory course costs component of regulated fees, not as separate fees
- e. **note** that this proposal will have a small impact on Te Pūkenga for some programmes where additional exam fees and fees to report NZQA credits are currently charged, and where Southern Institute of Technology charges an enrolment fee for distance learners, but will have a more significant impact on Massey University, which may have generated up to approximately \$1.6 million in fee income in 2020 from its enrolment fee
- f. **note** that given most of the other fees charged at the programme or course level for field trips or the purchase of equipment are for level 3 to 7 non-degree provision, we intend to address these fees through the ongoing work to design a new fee regulation system for vocational education and training

☒ **Agree** / ☐ **Disagree**

Micro-credential fee cap update

- g. **note** the Ministry is continuing to monitor the impact of the fee cap for micro-credentials introduced at the start of 2021 and will consider this as part of the ongoing review of fee regulation settings for vocational education and training
- h. **agree** that the Ministry release this briefing once it has been considered by you, with references to future work on fee regulation in paragraphs 16 and 22 redacted under section 9(2)(iv) of the Official Information Act 1982, as this is still subject to decisions.

☒ **Agree** / ☐ **Disagree**



James Campbell
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25/06/2021



Hon Chris Hipkins
Minister of Education

15/7/2021

Background

1. Section 420(1)(b) of the Education and Training Act 2020 (the Act) requires you to consult on any proposed conditions on funding that limit the fees a tertiary education organisation (TEO) can charge to domestic students or employers. Consultation is triggered by way of a notice in the New Zealand Gazette and submissions are open for a minimum of 21 days following publication. Fee regulation settings are then implemented as a condition on funding in the Student Achievement Component level 3 and above (SAC L3+) funding determination.¹
2. In November 2019 you agreed to treat the Annual Maximum Fee Movement (AMFM) as a forecast change and to consult on an AMFM at the rate of forecast inflation [METIS 1209987 refers]. As a result, for the 2021 year you set the AMFM for 2021 at 1.1 percent in line with forecast inflation following consultation.² An AMFM in line with forecast inflation does not require additional funding through a Budget process. This is because the Student Loan Scheme already accounts for an annual increase in borrowing for fees by Consumer Price Index (CPI). Fee increases also impact Fees Free payments for first year Fees Free and the Targeted Training and Apprenticeship Fund (TTAF), however, these costs are met within the existing Fees Free payments baseline.³

Consulting on the AMFM for 2022

3. The rate of forecast inflation for 2022 as at the Budget Economic and Fiscal Update (BEFU) 2021 is 1.7 percent. We therefore recommend consulting on an AMFM rate for 2022 at 1.7 percent. This continues to strike a balance between:
 - a. **Protecting the affordability of tertiary education:** providing certainty for students and their families that fee increases are capped at inflation, at a time when domestic student participation is increasing following the economic impacts of COVID-19.⁴ This is alongside \$25 increases to maximum weekly student loan payments for living costs and student allowance payments from 2022.
 - b. **Allowing tertiary education providers to cover increasing costs:** giving some flexibility for TEOs to increase revenue through domestic fee increases to help cover increasing costs. This is in addition to a 1.2 percent increase to tuition subsidy rates from 2022 (through Budget 2021) and additional funding to manage increase in demand between 2021 and 2023 (through Budget 2020). Given the increasing enrolment trends in 2021, domestic tuition and fee income will be higher in 2021 and largely maintained in 2022.
 - c. **Managing fiscal cost to the Crown:** fee increases lead to increased costs to the Crown through student loans, Fees Free payments and TTAF. You would need to seek additional funding for an AMFM above forecast inflation for student loans.

¹ Note that compulsory student services fees are subject to separate requirements regarding how the fee is set and used and is not capped like tuition fees and compulsory course costs.

² Actual CPI for 2021 is currently tracking higher than the forecast as at BEFU in 2020 (currently it is forecast at 1.5 percent). This is one of the risks of relying on forecast CPI to set the AMFM, however, providers need certainty on how much fees can increase by approximately six months ahead of the academic year commencing to support their planning.

³ In re-costing Fees Free in 2018, annual fee increases of 2 percent were assumed. In re-costing Fees Free in 2021, we will use forecast inflation.

⁴ Note that the New Zealand Union of Students' Association's (NZUSA's) submission to the AMFM for 2021 said it considered setting the AMFM in line with forecast inflation was an acceptable rate for increasing tuition fees.

4. While many TEOs have seen a significant reduction in revenue following COVID-19, particularly due to the loss of international student fee revenue, most have benefitted from increases to domestic enrolments in 2021. Most tertiary education institutions (TEIs) been able to reduce costs and increase revenue in other areas to offset the decline in international students. We consider the proposed AMFM at forecast inflation is still an appropriate level to increase fees by, suitably balancing the affordability of tertiary education and allowing TEIs to cover cost pressures.

Further work on 'other' compulsory fees

5. Last year, we advised you that through the implementation of Fees Free, we had identified cases where TEOs were charging separate compulsory fees to students in provision funded through SAC L3+ [METIS 1229901 refers]. These are additional to tuition fees, course-related costs and compulsory student services fees, but separate from ad hoc user-pays fees, such as library fines or regalia hire. In early 2021, the Ministry engaged with tertiary education institutions (TEIs) to get more information on these 'other' compulsory fees that providers have been charging students.

Summary of TEI reporting

6. The fees reported can be broken down into several categories:
 - a. *Compulsory enrolment fees* – Massey University and Southern Institute of Technology (SIT) within Te Pūkenga are the only TEIs that reported charging enrolment fees. Massey University's fee is set at \$66.50 per academic year to all learners in 2021, while SIT's is \$50 per academic year for all distance learning students. Students are currently accessing student loans for these fees, but they are not covered by fees-free initiatives as they are not recognised as regulated compulsory fees.
 - b. *Compulsory fees associated with exams or reporting NZQA credits* – some subsidiaries within Te Pūkenga charge exam fees for certain programmes. In some cases, these are passing on third party exam fees such as City and Guilds (NorthTec). Some also charge fees associated with reporting credits to NZQA (Whitireia and Weltec). TEI reporting indicates that in most cases students are not accessing student loans or fees-free support to cover these fees.
 - c. *Field trip fees* – Te Pūkenga (Toi Ohomai and SIT) and University of Otago charge separate field trip fees for a variety of different programmes, which sometimes includes the costs of transport, accommodation, and food.
 - d. *Compulsory equipment fees* – some TEIs charge separate fees for compulsory equipment or software for courses or programmes. In some cases, the provider purchases this on the student's behalf.
 - e. *Other incidental administrative fees* – providers also reported a range of other incidental administrative charges such as student ID card fees, fees for issuing certificates, exam resit or relocation fees, withdrawal fees, refund fees, fees for recognition of prior learning, or fees for admission into selected entry programmes.
7. Some TEIs also reported fees for course-related costs, such as for textbooks and stationery purchased from third parties, which students can borrow up to \$1,000 per year through the Student Loan Scheme for. In some cases, these costs exceeded \$1,000 per annum, particularly where there are costs associated with accommodation

for a work placement in another region. These costs are not intended to be subject to fee regulation.

We propose to clarify what additional compulsory fees providers cannot charge

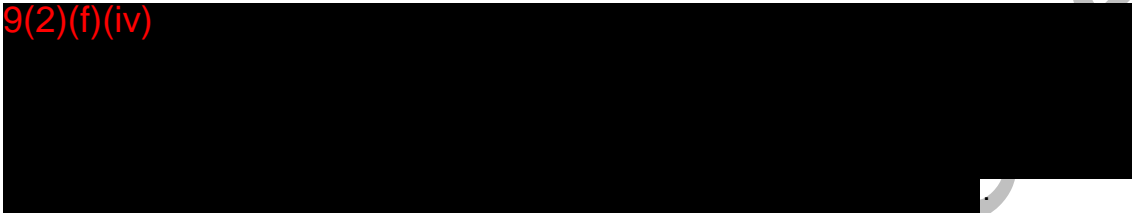
8. The costs associated with general enrolment, exams and reporting NZQA credits (the first two categories of fees listed above) are intended to be covered through regulated fees and tuition subsidies. Allowing these fees to be charged separately risks undermining the intent of fee regulation, which is to regulate all compulsory costs charged by tertiary education providers. This means that fee charges to learners may be unfair, particularly if they are not appropriately supported through student loans or fees-free initiatives to meet these additional costs.
9. While most TEIs are not currently charging these types of fee, some are, and if they continue to do so unchecked, there is a risk that other providers may start to charge them. This would increase costs to learners and may result in additional fee costs to government through student loans and fees-free support (if they are not excluded from these payments).
10. The definition of 'fees' in the Gazette notice from 2020 for 2021 fee regulation settings already specifies that 'examination fees' and 'charges associated with a programme of study' are subject to fee regulation. However, the wording is ambiguous and may suggest that these types of fees can be charged separately from tuition fees and compulsory course costs. This is not the intent, as the definition of compulsory course costs is meant to *include* these costs.
11. We recommend clarifying in the Gazette notice that costs associated with general enrolment, exams and the award of NZQA credits must be included within the compulsory course cost component of their fees. This will clarify that providers cannot charge additional fees for these administrative costs.
12. This proposal will have a small impact on Te Pūkenga and a more significant impact on Massey University. We estimate that Te Pūkenga could have generated approximately \$80,000 in 2020 from these administrative fees. Massey University's \$66.50 enrolment fee could have generated approximately \$1.6 million in 2020. Should you agree to the proposed wording in the Gazette notice, the Ministry will work with the Tertiary Education Commission (TEC) to contact those providers affected by the proposal to advise that this would mean they are no longer able to charge these fees in 2022.
13. We do not recommend granting exceptions to the AMFM to allow providers to move their enrolment or exam fees into the regulated course fees. This would essentially reward providers for what we consider are essentially breaches of existing fee regulation settings. This would be unfair on the majority of other TEIs that have not been charging these separate fees to learners.

Providers will still be able to charge 'incidental fees'

14. Providers will still be able to charge other incidental administrative fees for additional services that are payable as a result of the specific circumstances of a student, such as application fees for selected entry programmes or an exam resit or relocation fee. This is clarified through a short list of exclusions in the proposed Gazette notice. We consider that there are reasonable grounds for providers to charge these types of additional fees to recover costs. Students can also access student loans for course-related costs to meet the up-front payment of these types of fees, as they do with textbooks.

Future work to clarify coverage of fee regulation settings

15. In relation to the additional field trip fees and fees associated with equipment, these costs are also intended to be subject to fee regulation under existing settings. The definition of 'fees' in the most recent Gazette notice and current SAC L3+ funding determination includes 'material charges, cost of field trips and any compulsory purchase of equipment or books through the organisation'. It appears that in some cases, these fees are being charged at the programme level and in most cases at Te Pūkenga. It is not clear from the reporting the extent to which these fees are charged by the provider or other third parties.

16. 9(2)(f)(iv)
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Update on implementation of the fee cap for micro-credentials

17. From 1 January 2021, a new fee capping mechanism was introduced for micro-credentials funded through SAC L3+. ⁵ This caps the fees for micro-credentials at \$60 (GST inclusive) per credit. The TEC has discretion to grant exceptions to the cap if the provider can show evidence of higher actual and reasonable costs and strong industry need.
18. There are 13 SAC L3+ funded micro-credentials as at April Single Data Return (SDR) for 2021. 12 out of these 13 micro-credentials have fees below the \$60 cap. ⁶ It is worth noting that not all providers have set their fees at the cap, with only three setting their fees at \$60 per credit, and five less than \$40 per credit. This indicates that providers are conscious of setting their fees at a rate that is affordable to learners and that there is a more normal competitive market for these learning products. ⁷ As at 9 June 2021, the TEC had only received two applications for exceptions to the fee cap and these were being processed.

Initial sector feedback on the cap

19. We are aware of only one instance where a provider has decided to no longer seek SAC L3+ funding because of the fee cap. ⁸ Most micro-credentials have continued to seek SAC L3+ funding in 2021 in spite of the fee cap. 9 of the 13 SAC L3+ funded micro-

⁵ There are no fee regulation settings for provision funded through the Industry Training Fund (ITF), including micro-credentials, but there are provisions in place for TTAf to ensure any fee increases are reasonable.

⁶ Note that two micro-credentials which advertise their domestic fees below the cap had reported their international student fee instead of the domestic student fee. TEC is following up with these providers to correct the reported domestic fees. One provider appears to be continuing to deliver a micro-credential at fees above the \$60 cap without an exception. The TEC is following up with the provider on this.

⁷ There are also an additional four training schemes at Te Pūkenga (Otago Polytechnic) that have been reported to TEC as micro-credentials. Three of these are in Information Technology and have been approved by TEC for TTAf eligibility, and the fees for these are all set at the \$60 per credit cap.

⁸ This was a beauty therapy related micro-credentials offered by Equilibrium (by Elite Limited). In this case, the provider had sought SAC L3+ funding in part so their students could get access to student loans and Fees Free support, however, students cannot currently access student loans for micro-credentials. There were also concerns regarding the fees that were being charged for this micro-credential (\$8,995 for 40 credits, or \$225 per credit) and that the fees included specialised proprietary materials that students could use as part of their business set-up.

credentials offered and funded in 2020 have continued to report delivery for funding in 2021 (some may yet report delivery in future SDRs for 2021).

20. Feedback from universities that are considering investing more in developing micro-credentials indicated that at the \$60 per credit price point, it is unlikely they would opt to seek SAC L3+ funding. Instead they would likely opt to charge the full cost of the micro-credentials to students through fees. This is particularly the case for lab-based or technology-intensive micro-credentials. However, providers could seek exceptions for higher cost micro-credentials.
21. The TEC is continuing to raise awareness of the exceptions process when considering approval for SAC L3+ funding for micro-credentials. Furthermore, while fees are capped at one rate, providers are likely to receive a higher funding rate for lab-based or technology-intensive micro-credentials, depending on the field of study.

9(2)(f)(iv)



Next steps

23. Subject to your agreement, the notice (attached in Appendix 1) will be published in the New Zealand Gazette as soon as possible to start the consultation. We will also publish a link to the notice on the Ministry of Education and TEC websites with further information on the proposed changes and contact key stakeholder groups. Note that this Gazette notice is subject to a final legal review before publication.
24. If the Gazette notice is published in early July, consultation would finish in late July (21 days following publication). We will provide advice on submissions in early August, so that you can consider and confirm the fee regulation settings for 2022. Following this, we will communicate your decisions to the sector and include these conditions in the SAC L3+ funding determination for 2022.