Education Report: Education Boards fees reviews for the Minister of Education

<table>
<thead>
<tr>
<th>To:</th>
<th>Hon Chris Hipkins</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date:</td>
<td>1 March 2018</td>
</tr>
<tr>
<td>Priority:</td>
<td>High</td>
</tr>
<tr>
<td>Security Level:</td>
<td>In confidence</td>
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<tr>
<td>METIS No:</td>
<td>1101938</td>
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<tr>
<td>Drafter:</td>
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<tr>
<td>Key Contact:</td>
<td>Fiona O'Leary</td>
</tr>
<tr>
<td>Messaging seen by Communications team:</td>
<td>No</td>
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<tr>
<td>Round Robin:</td>
<td>No</td>
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Purpose of report

This report seeks your agreement to increase board fees for the Tertiary Education Commission (TEC) and Education New Zealand (ENZ).

Summary

One of your responsibilities for TEC and ENZ is to make Board appointments. The Ministry manages the Ministerial appointments process on your behalf. As you know, we are currently advertising for positions on the TEC and ENZ boards [METIS 1094883 refers].

As part of our role, the Ministry also provides advice to you, as a fee setting authority and after consulting the State Services Commission, on the levels of Board fees.

This paper outlines the results of fees reviews we have recently conducted on TEC and ENZ.

It seeks your agreement to increase Board fees for these entities.

Increasing fees requires consultation with the Minister of Finance. Normally this consultation would occur with the Minister for State Services. However, this role was recently delegated to the Minister of Finance to avoid a conflict of interest as you are Minister of State Services and Minister of Education. This paper also therefore provides a letter for you to send to the Minister for Finance requesting his support for the proposed fees increases.
Recommended actions

The Ministry of Education recommends you:

a. note we have reviewed the board fees of TEC and ENZ in accordance with Cabinet Fees Framework
   Noted

b. agree to increase TEC’s annual Board fees by 10% to $49,896 for the Chair and $24,640 for members
   Agree/Disagree

c. agree to increase ENZ’s daily Board fees by 10% to $35,200 for the Chair and $17,600 for members
   Agree/Disagree

d. note fee changes require consultation with the Minister of Finance
   Noted

e. sign and send the attached letter to the Minister of Finance seeking his agreement for the proposed fee increases, if you agree with our recommendations to increase fees
   Agree/Disagree

f. agree that this Education Report is not proactively released at this time to protect the privacy of natural persons and to proactively release this paper and the Cabinet Appointments and Honours Committee (APH) paper once fees have been confirmed and members informed of the increase.
   Agree/Disagree

Emily Fabling
Deputy Secretary
Strategy, Planning and Governance
01/03/2018

Hon Chris Hipkins
Minister of Education
15/3/18
Background

1. One of your responsibilities for the Tertiary Education Commission (TEC) and Education New Zealand (ENZ) is to make Board appointments. The Ministry manages the Ministerial appointments process on your behalf. As you know, we are currently advertising for positions on the TEC and ENZ boards [METIS 1094883 refers].

2. As part of our role, the Ministry also provides advice to you, as a fee setting authority and after consulting the State Services Commission, on the levels of Board fees.

3. The fee ranges for the education boards, and the process for reviewing fees, are set out in the Cabinet Fees Framework [Cabinet Office Circular (12) 6 refers]. This states that fee setting authorities are required to review fees at "regular and reasonable intervals" (Cabinet Fees Framework, 114). This is to avoid long intervals between reviews and large increases in fees.

Principles underlying approach to conducting fees reviews

4. Our approach to reviewing board fees is based on two key principles.

5. First, there should be a consistent and transparent approach to assessing board fees. To ensure there is a consistent and transparent approach we use standardised criteria to determine whether to undertake a fees review. Fees reviews are well documented and Board chairs are kept informed about the reviews.

6. The criteria we use, based on Cabinet Fees Framework guidance, to determine whether a fees review should be undertaken is as follows:
   
   - significant recruitment issues in the last appointments round
   - fee levels do not adequately reflect current levels of responsibility due to material changes in complexity of entity functions, potential risk to reputation or the degree to which the role is in the public eye
   - the last fees review was more than three years ago.

7. Second, the process for fees reviews should be as effective and efficient as possible. Fees reviews should be scheduled regularly to avoid large one-off increases in fees. This should make it more affordable for entities in implementing fee increases. To ensure that fee reviews occur regularly, we compare all board fees annually to the criteria for reviewing fees to see if fees reviews should be undertaken. Fee reviews should be planned alongside regular appointments processes. To make it more efficient for you, we aim to time fee review briefings and Cabinet papers to coincide with appointment papers.

The process for reviewing fees

Cabinet Fees Framework process for conducting fees reviews

8. Under the Cabinet Fees Framework, the Ministry must use the following process for conducting a fees review:

   - Determine whether it is appropriate to review fees using the criteria outlined above
   - Classify each board using the Cabinet Fees Framework. TEC and ENZ are Group 3a organisations. The levels for Group 3a organisations are determined by a scoring
model based on the organisation size (determined by Budget/turnover or assets) and business complexity/functionality.

- For the applicable ranges for the Chair and members determine:
  i. What fees would be appropriate given the criteria for reviewing fees? This criteria informs our thinking in determining the appropriate scale of any fee increase. The significance of the criteria is also taken into account, such as the scale of material changes in complexity of entity functions.
  ii. What is both affordable and conservative?
  iii. How do fees reflect the public service aspects and intangible benefits to the member?

9. Note that a fees review takes no account of Board fees paid to other entities as this is not part of the Cabinet Fees Framework criteria.

10. The State Services Commission is then consulted on proposals to increase fees to ensure the framework has been correctly applied by the fee setting authority.

11. If you agree with proposed fee increases, you are then usually required to consult with the Minister for State Services. In this case, however, the responsibility for fee increases has been delegated to the Minister of Finance to avoid the conflict of interest between your roles as Minister for State Services and Minister of Education. After considering proposals for fee increases, the Minister for Finance will advise whether he supports these proposals and whether referral to the Cabinet Appointments and Honours Committee (APH) is required. Fee increases up to 5% may be agreed between the Responsible Minister and the Minister for Finance without referral to APH. All fee increases above 5% must be referred to APH.

Education Boards fees reviews

Application of criteria for determining fees reviews

12. As Table 1 shows, when we applied the criteria for reviewing fees to the entities you are responsible for has resulted in two entities qualifying for a fees review.

Table 1: Application of criteria for determining fees reviews

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Recruitment issues</th>
<th>Material changes in role</th>
<th>Three or more years since last review</th>
<th>Review due</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tertiary Education Commission</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>New Zealand Qualifications Authority</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Education New Zealand</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Education Council</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Te Kura</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

13. We are not conducting fees reviews for the New Zealand Qualifications Authority (NZQA), Education Council and Te Kura, for the following reasons.

14. During the last appointment round for NZQA, the Education Council and Te Kura there were no issues in finding appropriately qualified candidates for the Board vacancies.

15. It has not been three years or more since fees were last reviewed/set for NZQA, the Education Council and Te Kura. The last fee increase for NZQA was approved by APH on 5 April 2016 and confirmed by Cabinet on 8 April 2016. Te Kura’s last fee increase did not
require APH approval or Cabinet confirmation. It was approved by the Minister for State Services on 26 March 2015. The Education Council is a relatively new entity that was only setup in July 2015.

16. Since the last fee reviews for NZQA, the Education Council and Te Kura, there have been no material changes in complexity of these organisation’s functions. There have also been no significant increase to reputational risks or the degree to which the roles of members or the Chair are in the public eye.

17. All of these organisations are potentially facing material changes to functions in the future. For example, the Education Council’s governance arrangements are currently under review and changes from the digital assessment transformation could materially impact on NZQA’s functions in the future. We will conduct another review fees for these organisations when the changes materially impact on existing functions and current levels of Board responsibility.

Results for fees reviews for TEC and ENZ

18. The results of the fee reviews are 10% fee increases for TEC and ENZ. The increases proposed are relatively modest and conservative. We have proposed increases due to significant changes in the business model (TEC) or multiple reasons for the increase (ENZ). To provide some context for the proposed fee increases, we have provided information on current fees, midpoints and fee bands for all education entities in Annex 2.

19. We have consulted the State Services Commission on these proposed increases. The State Services Commission’s feedback is that we have provided evidence for suitable reasons for these increases.

TEC recommendation

20. We recommend increasing the fees of the TEC Chair and members by 10%. The fees for the TEC Chair would increase from $45,360 to $49,896. This would put the Chair’s fees 10.1% above the midpoint in the fee range. The fees of TEC members would increase from $22,400 to $24,640, putting members’ fees 8.8% above the midpoint.

21. The reason for this increase is that the incorporation of Careers New Zealand into TEC significantly increased TEC’s size, scope, responsibility and risks. For example, TEC’s operating budget increased from $44.6 million in FY17 to $66.5 million in FY18 (a 36.7% increase in operating revenue) due to this change.

ENZ Recommendation

22. We recommend increasing the fees of the ENZ Chair and members by 10%. The ENZ Chair fee would increase from $32,000 to $35,200, placing this 22.2% above the midpoint in the fee range. The fees of ENZ members would increase from $16,000 to $17,600, putting members’ fees 21.5% above the midpoint. These increases would require Cabinet approval as the proposed fees would be above the applicable fee ranges (see Annex 2 for further information).

23. There are multiple reasons for this increase. First, during the 2016 recruitment round for the ENZ Board there were significant issues in attracting qualified candidates for the role due to the level of fees. There were six candidates that were originally shortlisted who would only continue with their applications if fees were increased. Second, the outcome of ENZ’s 2015 PIF review has driven development of a more complex strategy and business model. For example, ENZ are now aiming to play a strategic thought leadership role for
international education. This requires different skill sets for the Board members. Third, ENZ's fees have not changed since ENZ was established in 2011.

**Risks**

24. If you decide not to proceed with these fees increases this would create risks over the level and affordability of future fee increases.

25. The preliminary results of the fee reviews result in relatively modest fee increases. If these fee increases do not occur this may lead to much higher increases in the future. We are trying to avoid this problem by comparing all board fees annually to the criteria for reviewing fees to see if a fees reviews should be undertaken and proposing smaller, more incremental increases than previously. This is more affordable for entities than implementing large one-off increases every 5 to 10 years.

26. The increases proposed are affordable. There are no fiscal implications for the proposed increases. Board fees are funded from existing entity baselines. We have confirmed the affordability of funding these increases from existing baselines with the key finance contacts for TEC and ENZ. Increasing fees by the amounts we propose would only add additional annual operating expenses of $12,800 for ENZ and $17,976 for TEC.

**Proactive Release**

27. The Ministry now proactively releases Education Reports once considered and approved by the Minister.

28. We recommend that this Education Report is not proactively released at this time to protect the privacy of natural persons. Instead, we recommend that this paper and the Cabinet Appointments and Honours Committee (APH) paper is released once fees have been confirmed and members informed of the increase.

**Next steps**

29. If you agree with our recommendations to increase fees for TEC and ENZ, please sign the attached letter and send it to the Minister of Finance requesting his support for the proposed fees increases.

30. The fee increases for TEC and ENZ will require referral to APH. Once the Minister of Finance has considered the fee proposals and advised his position, the Ministry will prepare papers for APH consideration. This can be incorporated in the appointments process papers.

**Annexes**

Annex 1: Background on last fee increases

Annex 2: Summary of existing fees for all education Boards

Annex 3: Letter to Minister of Finance
Annex 1: Background on last fee increases

Tertiary Education Commission (TEC)

In 2015, the annual fee for TEC's Chair was increased 8% from $42,000 to $45,360, while members' fees were increased 12% from $20,000 to $22,400. These increases reflected the time since fees were last increased (2011 for the Chair and 2009 for members) and also to help attract and retain members with sufficient commercial skills to deliver the current core functions and implement TEC's future investment funding approach.

Education New Zealand (ENZ)

Board fees for ENZ's Chair and members have not changed since ENZ was established in 2011. At the time of establishment, ENZ board fees were placed near the top of the range. The current fee for ENZ's Chair is $32,000 compared to the range high of $33,600, while members' fees are $16,000 compared to the range high of $16,960.

New Zealand Qualifications Authority (NZQA)

In 2016, the annual fee for NZQA's Chair and members increased 8%. The Chair's fee increased from $40,000 to $43,200. Members' fees increased from $20,000 to $21,600. This fee increase was to recognise the change in the risk and complexity of NZQA's operations, the demands of the strategic change programme that the Board is leading and the length of time since the last fee increase (2007).

Te Kura

In 2015, the annual fee for Te Kura's Chair and members' fees increased 5%. Members fees increased from $14,840 to $15,582, while the Chair's fee $28,620 to $30,051. This was due to a change in business model (conducting all teaching, learning and support activities online) and fees not increasing since 2008.
Annex 2: Summary of existing fees for all education Boards

Table 1: Group 3a Boards

<table>
<thead>
<tr>
<th>Entity</th>
<th>Fee type</th>
<th>Chair</th>
<th>Fee</th>
<th>Fee range</th>
<th>Midpoint</th>
<th>Fee of midpoint</th>
<th>Member</th>
<th>Fee</th>
<th>Fee range</th>
<th>Midpoint</th>
<th>Fee of midpoint</th>
</tr>
</thead>
<tbody>
<tr>
<td>TEC</td>
<td>Group 3a, Level 2</td>
<td>$45,360</td>
<td>$29,000-$61,600</td>
<td>$45,300</td>
<td>+0.1%</td>
<td>$22,400</td>
<td>$14,500-$30,800</td>
<td>$22,650</td>
<td>-1.1%</td>
<td></td>
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<tr>
<td>NZQA</td>
<td>Group 3a, Level 3</td>
<td>$43,200</td>
<td>$26,000-$45,000</td>
<td>$35,500</td>
<td>+21.7%</td>
<td>$21,600</td>
<td>$15,000-$22,470</td>
<td>$17,735</td>
<td>+21.8%</td>
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<tr>
<td>ENZ</td>
<td>Group 3a, Level 4</td>
<td>$32,000</td>
<td>$24,000-$33,600</td>
<td>$28,800</td>
<td>+11.1%</td>
<td>$16,000</td>
<td>$12,000-$16,960</td>
<td>$14,480</td>
<td>+10.5%</td>
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<tr>
<td>Te Kura</td>
<td>Group 3a, Level 4</td>
<td>$30,051</td>
<td>$24,000-$33,600</td>
<td>$28,800</td>
<td>+4.3%</td>
<td>$15,582</td>
<td>$12,000-$16,960</td>
<td>$14,480</td>
<td>+7.6%</td>
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<tr>
<td>The</td>
<td>Commission</td>
<td>$17,500</td>
<td>$12,000-$25,200</td>
<td>$18,600</td>
<td>-5.9%</td>
<td>$8,700</td>
<td>$6,000-$13,080</td>
<td>$9,540</td>
<td>-8.8%</td>
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<tr>
<td>NZCER*</td>
<td>Group 3a, Level 5</td>
<td>$460D</td>
<td>$12,000-$25,200</td>
<td>$18,600</td>
<td>+23.7%</td>
<td>$333D</td>
<td>$6,000-$13,080</td>
<td>$9,540</td>
<td>+4.9%</td>
<td></td>
<td></td>
</tr>
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</table>

Notes:
D=daily fee. Group 3a organisations are paid annual Board fees based on an assumed workload of 30 days per year for members and 50 days per year for Chairs. NZCER's Group classification shows the level before the current fee review. NZCER was granted an exception to the CFF so it could pay a daily fee instead of an annual fee. The reason for this is that the workload for the NZCER Chair (16.5 days) and members (12 days) is much less than the workload for other Group 3a organisations. The fee compared to the midpoint is an estimate based on NZCER's position in its fee range if it paid an annual fee.

Table 2: Group 4 Boards

<table>
<thead>
<tr>
<th>Entity</th>
<th>Fee type</th>
<th>Chair</th>
<th>Fee</th>
<th>Fee range</th>
<th>Midpoint</th>
<th>Fee of midpoint</th>
<th>Member</th>
<th>Fee</th>
<th>Fee range</th>
<th>Midpoint</th>
<th>Fee of midpoint</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>Group 4, Level 1</td>
<td>$900</td>
<td>$500-$1,062</td>
<td>$781</td>
<td>+15.2%</td>
<td>$700</td>
<td>$375-$600</td>
<td>$587.50</td>
<td>+19.1%</td>
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<tr>
<td>Council</td>
<td>Partnership</td>
<td>$818</td>
<td>$360-$818</td>
<td>$589</td>
<td>+38.8%</td>
<td>$505.60</td>
<td>$270-$518</td>
<td>$394</td>
<td>+28.3%</td>
<td></td>
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<tr>
<td>Schools</td>
<td>Group 4, Level 2</td>
<td>$396</td>
<td>$260-$350</td>
<td>$395</td>
<td>+0.3%</td>
<td>$228</td>
<td>$190-$364</td>
<td>$277</td>
<td>-17.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PEF</td>
<td>Group 4, Level 3</td>
<td>N/A*</td>
<td>$230-$336</td>
<td>N/A*</td>
<td>N/A*</td>
<td>$250</td>
<td>$175-$252</td>
<td>$213.50</td>
<td>+17.1%</td>
<td></td>
<td></td>
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<tr>
<td>Ngārimu</td>
<td>Group 4, Level 4</td>
<td>N/A*</td>
<td>$230-$336</td>
<td>N/A*</td>
<td>N/A*</td>
<td>$250</td>
<td>$175-$252</td>
<td>$213.50</td>
<td>+17.1%</td>
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</table>

Notes:
Ngārimu's Chair is the Associate Minister of Education (Hon Davis). Group 4 organisations are paid daily Board fees.
Dear Grant

I am writing to seek your support to increase the fees of the Tertiary Education Commission (TEC) and Education New Zealand (ENZ).

The reason I am asking for your support in this matter is to avoid any conflict of interest between my roles as Minister of Education and Minister of State Services. The Minister of State Services would normally be responsible for supporting fee increases for organisations covered by the Cabinet Fees Framework, but this power has been delegated to you for my portfolios.

The Ministry of Education is responsible for board appointments to TEC and ENZ. As part of this role, the Ministry also provides advice on the levels of Board fees.

The Ministry recently completed a review of board fees for these entities. The result of these fees reviews is a recommendation for modest fee increases for these entities. I, therefore, seek your support to increase TEC and ENZ Chair and member annual fees 10%.

The table below outlines current fees for these entities and the proposed level of fees increases.

<table>
<thead>
<tr>
<th>Entity</th>
<th>Fee type</th>
<th>Current Fee</th>
<th>Proposed Fee</th>
<th>Increase ($)</th>
<th>Annual fiscal impact ($)</th>
<th>Fee range</th>
<th>Midpoint</th>
<th>Proposed fee of midpoint</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chair</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TEC</td>
<td>Group 3a, Level 2</td>
<td>$45,360</td>
<td>$49,896</td>
<td>$4,536</td>
<td>$4,536</td>
<td>$29,000 - $61,600</td>
<td>$45,300</td>
<td>10.1%</td>
</tr>
<tr>
<td>ENZ</td>
<td>Group 3a, Level 4</td>
<td>$32,000</td>
<td>$35,200</td>
<td>$3,200</td>
<td>$3,200</td>
<td>$24,000 - $33,600</td>
<td>$28,800</td>
<td>22.2%</td>
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<tr>
<td>Member</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>TEC</td>
<td>Group 3a, Level 2</td>
<td>$22,400</td>
<td>$24,640</td>
<td>$2,240</td>
<td>$13,440</td>
<td>$14,500 - $30,800</td>
<td>$22,650</td>
<td>8.8%</td>
</tr>
<tr>
<td>ENZ</td>
<td>Group 3a, Level 4</td>
<td>$16,000</td>
<td>$17,600</td>
<td>$1,600</td>
<td>$9,600</td>
<td>$12,000 - $16,960</td>
<td>$14,480</td>
<td>21.5%</td>
</tr>
</tbody>
</table>

Notes:
Group 3a organisations are paid annual Board fees based on an assumed workload of 30 days per year for members and 50 days per year for Chairs.
TEC’s 10% increase in fees is to reflect material changes to TEC’s business model. The incorporation of Careers New Zealand into TEC significantly increased TEC’s size, scope, responsibility and risks. For example, TEC’s operating budget increased from $44.6 million in FY17 to $66.5 million in FY18 (a 36.7% increase in operating revenue) due to this change.

There are multiple reasons for increasing ENZ’s fees 10%. First, during the 2016 recruitment round for the ENZ Board there were significant issues in attracting qualified candidates for the role due to the level of fees. There were six candidates that were originally shortlisted who would only continue with their applications if fees were increased. Second, the outcome of ENZ’s 2015 Performance Improvement Framework review has driven development of a more complex strategy and business model. For example, ENZ are now aiming to play a strategic thought leadership role for international education. This requires different skill sets for the Board members. Third, ENZ’s fees have not changed since ENZ was established in 2011.

The level of proposed fee increases are in alignment with Cabinet Office guidelines that require State sector remuneration increases to be fair but conservative.

I would be grateful if you could provide me your feedback on these proposals and support them when they are considered by APH.

I look forward to your response.

Yours sincerely

Chris Hipkins
Minister of Education

cc    Emily Fabling, Deputy Secretary, Strategy, Planning and Governance, Ministry of Education