Education Report: The Annual Maximum Fee Movement for 2019

To: Hon Chris Hipkins, Minister of Education

Date: 27 June 2018

Priority: High

Security Level: In Confidence

METIS No: 1120888

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Messaging seen by Communications team: No

Round Robin: No

Purpose of Report

This paper seeks your agreement to consult on setting an Annual Maximum Fee Movement (AMFM) of 2 per cent for 2019.

Summary

- Following Budget 2018 announcements, it is necessary to continue the process to set the AMFM for the 2019 academic year. The AMFM notice needs to be issued before the end of August to meet the Tertiary Education Commission’s (TEC’s) operational timeline for funding decisions.

- The Education Act 1989 (The Act) requires you to consult on any proposed conditions that limit the fees charged to domestic students. In April, you noted your intention to consult on setting the AMFM at 2 per cent in 2019 [CAB-18-MIN-0158.29]. We seek your agreement to consult on an AMFM of 2 per cent for 2019 by publishing the attached notice in the New Zealand Gazette.

- Funding has been appropriated for a 2 per cent AMFM in the 2019 and 2020 academic years. This funding will cover the increased costs to the Student Loan Scheme and fees-free policy. These costs result from tertiary education organisations (TEOs) increasing fees for domestic students in line with the AMFM.

- We are continuing to monitor the impact of the fees-free policy on the current fee regulation settings, including the AMFM and the compulsory student services fee (CSSF) regulations. We will provide further advice on this in late 2018.
Recommended Actions

The Ministry of Education recommends you:

a. **agree** to progress setting a 2 per cent AMFM for the 2019 academic year

   ![Agree/Disagree]


   ![Agree/Disagree]

c. **note** that the Ministry will provide further advice on the feedback received through submissions, which closes 21 days after publication of the Gazette notice.

d. **agree** that this Education Report is proactively released after we have published the Gazette notice.

   ![Agree/Disagree]

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Andy Jackson  
Group Manager  
Tertiary Education  
27/06/2018

Hon Chris Hipkins  
Minister of Education  
29/6/18
Setting the AMFM for 2019

1. Following Budget 2018 announcements, it is necessary to progress work to set the AMFM for 2019. Figure 1 below provides a workflow diagram for setting the AMFM for 2019 and indicates in green where we are in this process.

2. Continuing the AMFM process now provides certainty on potential fee increases for students, TEOs and government. The AMFM notice needs to be issued before the end of August to meet the TEC’s operational timeline for issuing funding decisions to TEOs in October. This gives providers time to consider fee changes and to carry out their marketing in advance of the new academic year. It also enables providers to make other financial decisions, including contract negotiations with staff.

Figure 1: The process for setting the AMFM for 2019

Consultation is required for any conditions that place limits on fees

3. You may direct the TEC to set conditions that limit the fees that TEOs can charge to domestic students. This is done by including the AMFM conditions in the relevant funding determinations issued under section 159L of the Act.

4. Section 159M(b) of the Act requires you to consult on any proposed conditions in a funding determination that limit the fees a provider can charge to domestic students. Consultation is triggered by way of a notice in the New Zealand Gazette and submissions are open for 21 days following publication. You must then consider any submissions before issuing the relevant funding determinations.

You agreed to consult on a 2 per cent AMFM for the 2019 academic year

5. In January, you agreed to progress a 2 per cent AMFM for the 2019 and 2020 academic years through Budget 2018 [Budget 2018 – supporting affordable tertiary education for students; METIS 1096766 refers]. For 2019, this has not been charged against the operating or capital allowances. The impact is treated as a forecast change in the relevant student loan appropriations for Vote Social Development and Vote Revenue.
6. A 2 per cent AMFM strikes a balance between protecting the affordability of tertiary education for students, allowing providers flexibility to increase revenue and managing fiscal cost to the Crown. It is broadly in line with the consumer price index (CPI) forecast in the preliminary Budget Economic and Fiscal Update (BEFU), which estimates CPI at 1.6 per cent in 2019 and 1.8 per cent in 2020. It is also likely in line with sector expectations, as the AMFM was also set at 2 per cent for the 2017 and 2018 academic years.

**We are continuing to monitor the impact of the fees-free policy**

7. We are continuing to monitor the impact of the fees-free policy on the current fee regulation settings, including the AMFM and CSSF regulation. We will provide advice on this after we have had an opportunity to analyse the early impact of the fees-free policy in late 2018.

8. Future design choices for the fees-free policy are likely to have broader implications for fee regulation settings. As a result, if there are changes to fee regulation settings, these will need to be considered alongside decisions on the approach to fees-free from 2021.

**Next steps**

9. We have attached the AMFM notice setting out the proposed AMFM of 2 per cent. Subject to your agreement, the notice will be published in the New Zealand Gazette on 6 July.

10. We will provide advice on any submissions received following the closing date of consultation (21 days following publication of the notice). Following your consideration of the feedback, you can include the AMFM conditions in the relevant funding determinations for the 2019 academic year, alongside any other decisions on funding conditions.

11. We recommend that this Education Report is proactively released after we have published the Gazette notice.
The Tertiary Education (2019 Annual Maximum Fee Movement) Notice 2018

Under sections 159L(3)(d) and 159M(b) of the Education Act 1989, the Minister of Education gives notice of the proposed conditions setting limits on the annual increases that tertiary education organisations may make to fees charged to domestic students in 2019.

Notice

1. Title—This notice may be cited as the Tertiary Education (2019 Annual Maximum Fee Movement) Notice 2018.

2. Commencement—The proposed conditions outlined in this notice apply for the 2019 academic year only.

3. Proposal—I propose to specify conditions under section 159L(3)(d) that the Tertiary Education Commission (TEC) must attach to funding provided under the relevant funding mechanisms, in particular to specify:
   (a) the annual limits by which Tertiary Education Organisations (TEOs) can increase fees charged to domestic students enrolled in courses that are leading to short awards, certificate, diploma, degree, and postgraduate qualifications that receive Student Achievement Component (SAC) funding for provision at level 3 or above on the New Zealand Qualifications Framework (NZQF) in 2019 (including provision at Information and Communications Technology (ICT) Graduate Schools); and
   (b) the other conditions in relation to fees that the TEC must attach to SAC funding for provision at level 3 or above (including provision at ICT Graduate Schools);
   (c) The proposed conditions do not apply to fees for SAC-funded courses that are at level 1 and 2 on the NZQF, which remain subject to the conditions as set out in the Tertiary Education Fees-Free Conditions Notice [2015] and The Tertiary Education Fees-Free (Levels 1 and 2) Conditions Notice [2016].

4. Application—The conditions set out in this notice refer to:
   (a) Fees as including the following items: tuition fees, compulsory course costs, examination fees, other charges associated with a programme of study, material charges, cost of field trips and any compulsory purchase of equipment or books through the organisation.
   (b) TEOs as organisations as defined in section 159B, include tertiary education institutions (TEIs), private training establishments (PTEs) and rural education activities programme providers (REAPs).

5. Call for submissions—Any TEO and any other person, body or organisation having an interest in the matter is invited to make a submission on the proposed Annual Maximum Fee Movement (AMFM) and other proposed conditions set out in this notice.

   All submissions should be sent to:

   Annual Maximum Fee Movement Submissions
   Tertiary Education Policy
   Ministry of Education
   PO Box 1666
   Wellington 6140
   Email: tertiary.strategy@education.govt.nz

6. Date for submissions—All submissions must be received by 27 July 2018.

Dated at Wellington this day 06 July 2018
HON Chris Hipkins, Minister of Education.
Proposed conditions to be attached to Student Achievement Component funding (SAC) allocated and paid for by the Tertiary Education Commission (TEC) to Tertiary Education Organisations (TEOs)

General

1. These conditions apply to fees charged for SAC funding for provision at levels 3 and above in all TEOs (including ICT Graduate Schools).

2. The fees associated with a particular course are subject to these conditions if:
   (a) the TEO is the sole source of the item to which the fee relates; and
   (b) all domestic students validly enrolled in the course are required to pay the fees.

AMFM

3. For 2019, the AMFM is a 2% increase on the fees, (GST exclusive) charged in 2018 for a course that is part of a programme that leads to a qualification at level 3 and above on the NZQF for which a TEO receives SAC funding.

4. The AMFM applies to any new courses at level 3 and above on the NZQF established by a TEO in substitution for an existing course dealing with the same or similar subject matter, at a same or similar level on the NZQF, for which SAC funding can be used.

Exceptions to the AMFM

5. A TEO may apply for an exception from the 2019 AMFM for a SAC-funded course that is part of a programme that leads to a qualification at level 3 or above on the NZQF on the basis of exceptional circumstances. Any exception granted will not exceed an additional 2% increase over and above the permitted 2% increase.

6. In considering exceptional circumstances, the TEC must only have regard to the following criteria:
   (a) the TEO is unable to support the course(s) while remaining financially viable;
   (b) for courses at levels 3 – 8 on the NZQF, the completion rate for the qualification met or exceeded the median performance benchmark for that level in the previous year;
   (c) the TEO can demonstrate that the course is in some way unique or special, for example, that there are no available local alternatives to the course; and
   (d) not allowing an exception will prevent the TEO from making a significant contribution to the achievement of one or more of the Government’s priorities, as set out in the Tertiary Education Strategy 2014 – 2019.

7. An application must satisfy all criteria to gain an exception.

Low or Zero Fee Courses

8. If the fees for a SAC-funded course that is part of a programme that leads to a qualification at level 3 or above on the NZQF are less than $511.11 (GST inclusive) ($444.44 (GST exclusive)) per Equivalent Full-Time Student (EFTS) in 2018, then for 2019, the TEO may increase the fee to up to $511.11 (GST inclusive) ($444.44 (GST exclusive)) per EFTS, or can increase the fee for the course by 2%, whichever is the greater.

Note: Effect of this Notice

These notes do not form part of this notice, but are intended to indicate its general effect.

A. Section 159L(3)(d) of the Education Act 1989 ("the Act") provides that the Minister, when determining the design of a funding mechanism, may specify the conditions that the TEC must attach to funding provided under the mechanism, including conditions that limit the fees that an organisation may charge domestic students.

B. Under section 159M(b) of the Act, the Minister may not specify conditions that set limits on the fees that organisations may charge domestic students until:

   i. the Minister has published a notice in the Gazette that –
(A) states that the Minister proposes to specify such conditions;

(B) sets out the proposed conditions; and

(C) invites submissions on the proposed conditions; and

(D) specifies the date by which submissions must be received, which must be a date no later than 21 days after the date of the New Zealand Gazette notice; and

ii. the date by which submissions must be received has passed.

C. The conditions setting limits on fees subsequently specified by the Minister in accordance with section 159L(3)(d) of the Act must be imposed as conditions on funding payable by the TEC to an organisation under section 159YA and 159ZC of the Act.

D. Under sections 227(1A) and 234A of the Act, TELs and PTEs respectively must not charge domestic students a fee that exceeds the maximum specified as a condition on funding approved by the TEC under section 159YA and section 159ZC of the Act.