



COVERSHEET

Minister	Hon Poto Williams	Portfolio	Building and Construction
Title of Cabinet paper	Proposal to increase the annual registration fee under the <i>Engineering Associates Fees Regulations 2002</i>	Date to be published	4 April 2022

List of documents that have been proactively released

Date	Title	Author
16 February 2022	<i>Proposal to increase the annual registration fee under the Engineering Associates Fees Regulations 2002</i>	<i>Office of the Minister for Building and Construction</i>
16 February 2022	DEV-22-MIN-0008	<i>Cabinet Office</i>
2 February 2022	Stage 2 Cost Recovery Impact Statement	<i>MBIE</i>

Information redacted

NO

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

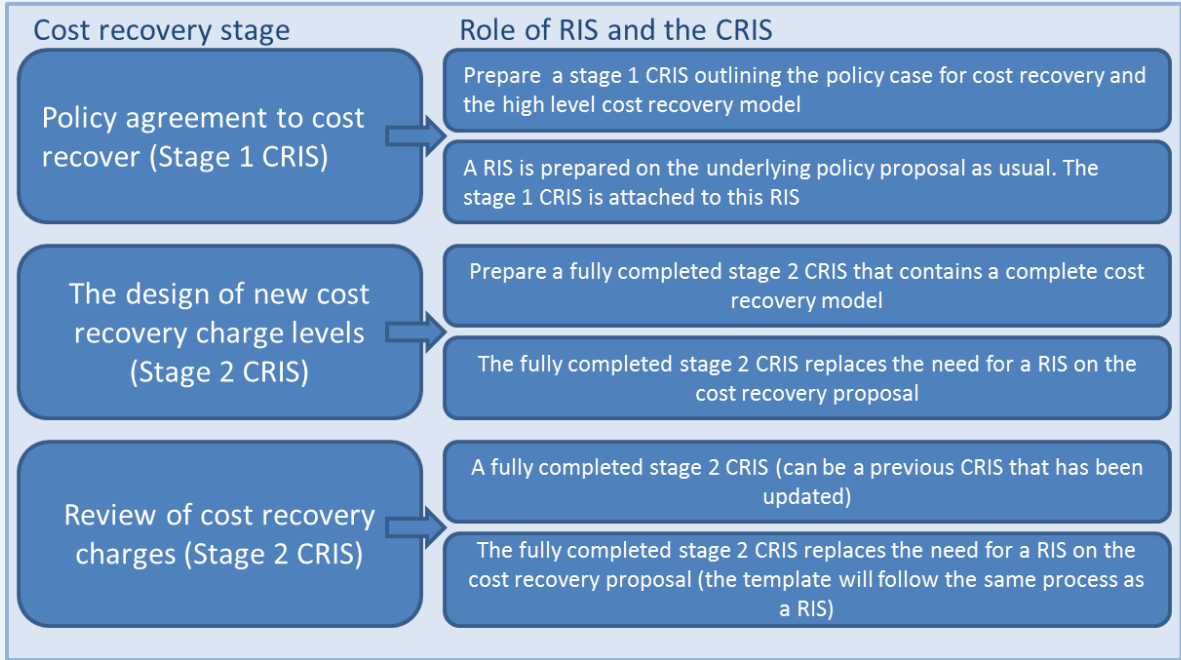
Stage 2 Cost Recovery Impact Statement Template

The stage 2 Cost Recovery Impact Statement (**CRIS**) template is designed specifically for proposals seeking agreement on cost recovery levels.

The stage 2 template can replace the Regulatory Impact Statement (RIS) requirements. Consult your Treasury vote analyst to first decide whether this is appropriate. The template will follow the same QA process as an RIS.

The purpose of the stage 2 template is to provide a place to clearly present the information decision makers require in order to make a decision on cost recovery levels.

The diagram below illustrates the information requirements for each of the cost recovery stages



Guidance to assist you in completing the cost recovery template:

Treasury Guide: [Guidelines for Setting Charges in the Public Sector](#)

Controller and Auditor-General Guide: [Charging fees for public sector goods and services](#)

Stage 2 Cost Recovery Impact Statement

Proposal to raise the annual registration fee for Registered Engineering Associates.

Agency Disclosure Statement

The Ministry of Business, Innovation and Employment (MBIE) has prepared this Cost Recovery Impact Statement to analyse options to ensure the Engineering Associates Registration Board (the Board) can continue to meet its obligations under the Engineering Associates Act 1961.

Time constraint

MBIE has focused on reviewing the level of existing fees set by the *Engineering Associates Fees Regulations 2002*. We see this as the only feasible option to ensure the Board can operate in the medium term (the next two to four years).

As the number of Registered Engineering Associates has steadily declined, the current fees do not adequately recover the Board's costs. The Board is relying on reserves to fund its normal operations and may not have funds to operate by the 2023/24 year. Any change should be implemented by 1 April 2022 to apply to the next registration period.

Options not considered in this document, and related assumptions

This document does not discuss options that would require legislative change, such as structural changes to the 'Registered Engineering Associate' (REA) credential or to the Board's governance. MBIE is separately considering how the broader engineering workforce should be regulated. This work may recommend the credential's repeal and/or transition to more efficient institutional arrangements.

This document does not discuss options to increase the number of people registered. While the Board promotes the credential and attracts some new registrations each year, MBIE assumes that the number of people registered will continue to decline. The credential is voluntary – it is not required to do any specific work in the construction and engineering sectors, and similar purposes are served by private firms, industry body memberships and qualifications. Many of those who are registered are nearing retirement¹.

MBIE assumes that the Board has limited ability to further minimise its costs, while still providing services required by the Act. The Board's expenses generally represent fixed costs of maintaining the Register, governing the regime and communicating with REAs and others about the credential. Due to these fixed costs and the small scale of the Board's operations, this document discusses cost drivers at a high level and does not include detailed costings.

Amy Moorhead

Manager Building Policy, Building System Performance

2 February 2022

¹ An MBIE/Engineering Associates Registration Board survey found that 85 per cent of respondents were aged 55 or over. When asked 'what are your long term plans for your engineering career', many mentioned retiring in the short to medium term.

Status quo

'Registered Engineering Associate' is a voluntary credential that indicates the practitioner meets international standards, and dates back to major public works

The Engineering Associates Act 1961 (the Act) set up the Engineering Associates Registration Board (the Board) to establish and maintain a register of persons who apply and qualify to be registered as Engineering Associates (REAs).

Registration as an REA indicates that the practitioner has met internationally recognised standards and is subject to accountability mechanisms under the Act. The credential was set up during a period when government agencies carried out major public works. Registering as an REA was considered a viable and recognised career step for both employees of the agencies and the private sector. Registration is voluntary (it is not required to do any specific work in the construction and engineering sectors, though some works may be signed off by an REA).

Today, the Board advises that REAs are senior members of the technical engineering profession working in construction, engineering and engineering sciences projects. They often play a 'bridging role', interpreting designs from a chartered professional engineer that are constructed by tradespeople.

Proposed reforms to how engineers are regulated mean the Board's role will change in the longer term

MBIE estimates that REAs make up around five per cent of the engineering technologist and technician workforce in New Zealand. As more construction shifted to the private sector from the 1980s, the original benefits of the REA credential have increasingly been provided by private firms, industry bodies and qualifications.

MBIE is assessing the ongoing rationale for government intervention for engineering associates as part of a separate work programme to reform the occupational regulation of engineers. This work is Phase Two of MBIE's Building System Legislative Reform Programme.

In mid-2021, MBIE consulted on initial policy proposals to reform how engineers are regulated and asked whether REAs and others in the engineering field should be included in a new mandatory registration regime². MBIE noted in its discussion document that if the new regime for engineers is expanded to include these roles, it is likely that the Board's current functions would be taken over by the new regulator. A Bill to implement the final policy proposals is planned for 2022, so major changes to the REA credential are unlikely to come into force by 2023.

The rationale for government intervention in the meantime is to allow the Board to meet its statutory obligations.

The activities to be cost recovered are the Board and the Registrar's statutory functions

The Board's role includes setting minimum standards for registration as an REA, confirming eligibility for registration and overseeing the maintenance of the register.

² <https://www.mbie.govt.nz/have-your-say/proposed-occupational-regulatory-regime-for-engineers/>

The size of the Board is determined by the Act and it has nine members at present:

- three members are appointed by the Minister, including the Chair
- each industry association of a certain scale is also entitled to nominate a member on the Board.

The Board is supported by a Registrar, who maintains the register and the REA scheme day-to-day. The Registrar's activities include assessing applications, ensuring certificates are issued and fees are paid, supporting the Board's meetings and their stakeholder engagement, as well as corporate activities such as financial and office management. The Registrar is the Board's only employee.

The Act provides the authority to cost recover

The Registered Engineering Associates regime is funded by fees paid by REAs or those applying to register³. Section 35(1) provides that regulations can be made by Order in Council if 'necessary or expedient' for the due administration of the Act.

Under section 35(2) this includes regulations for fees to fund a range of activities that the Board undertakes to offer the credential and maintain the Register. Section 35(2)(d) provides for a general, 'annual fee payable to the Board....by persons who are registered or who seek registration under this Act.'

The current fees are set in the *Engineering Associates Fees Regulations 2002* and were last revised in 2013.

Reason for review of cost recovery charges and problem with status quo

MBIE is considering raising the existing fees because a steady decline in REAs has led to consistent financial deficits for the Board. Under current arrangements, MBIE projects that the Board will not have sufficient funds to operate in the 2023/24 year.

The existing policy is to fully recover the costs of the REA regime from REAs and applicants

Full cost recovery is consistent with other occupational regulation regimes in the building and construction sector (discussed further under 'why a user charge?').

At an individual level, the activities that are cost recovered include everything that is required to assess people's eligibility to become an REA and ensure that those on the register still meet minimum standards each year.

At a scheme level, the activities include some promotion and oversight of the credential by the Board to support excellence in the profession and provide ongoing value for registered people. Examples of these activities include maintaining a website about the credential and communicating to stakeholders who rely on the credential (such as local authorities that accept REA registration as an indicator of competence for certain tasks).

The current schedule of charges is in schedule 1 to the *Fees Regulations* and also available on the Board's website.

³ MBIE will provide a one-off payment from Vote Building and Construction to support the Board to meet the cost of the audit of its financial statements for 2019/20 (around \$7,000).

Table 1: Schedule of current charges

Fee and current level (including GST)	Activities/service provided
Application fee: \$150.00	Initial assessment of qualifications and experience, character etc. to determine whether applicant meets eligibility requirements.
Annual registration fee: \$95.00	Fee in return for ongoing registration as an REA, covers cost of running the core scheme.

REACap fees: up to \$110.00 for initial validation, plus \$60.00 per year for ongoing validation

Voluntary validation under the REA Competency Assessed Practitioner (REACap) Scheme. Initial application fee varies based on work required to assess competence.

The Act provides for the Board to recover expenditure from Associations, in limited circumstances

Section 28 of the Act provides that, in the event of the Board not having sufficient funds to pay its lawful expenditure, the deficit should be met by the industry associations with members registered as REAs. This option would be available to the Board if it found it could not pay its debts as they fell due. MBIE's view is that recovering funds from the associations under section 28 is a 'last resort' option to fund the Board that is not available while the Board still has some reserves. The Board cannot rely on this option to provide ongoing certainty of how it will fund its normal operations.

Why fees need to be raised

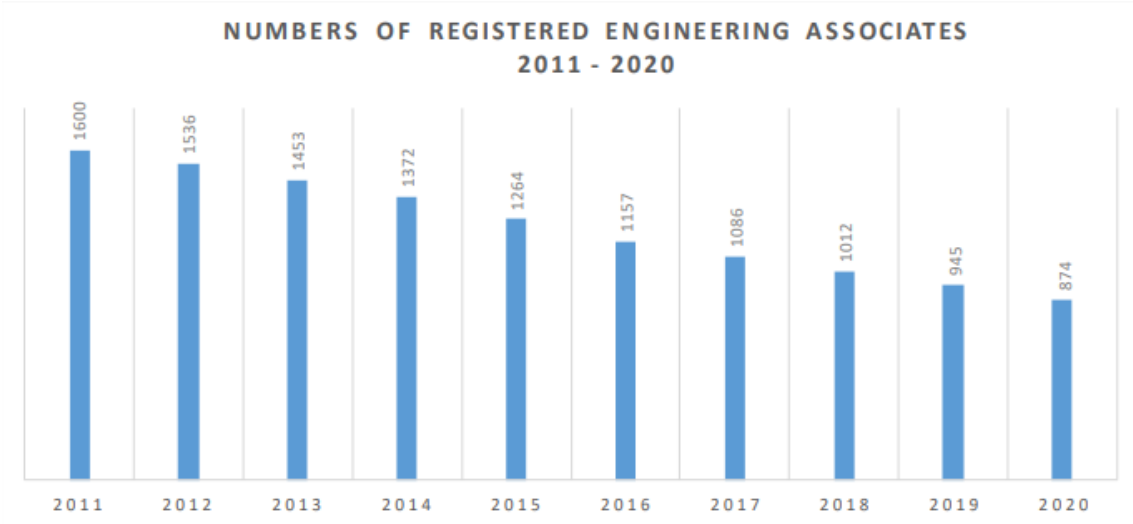
The credential has been in decline since regulatory changes in the 1980s changed the role of government in the building sector. Engineering work shifted from government entities, like the former Ministry of Works, to the private sector.

Figure 1 shows the decline in REAs over the last decade. Over the last five years, the decline has averaged 7.5 per cent, per year. MBIE expects this steady decline to continue for two reasons:

- A recent survey of REAs indicates many are considering retirement in the short to medium term. Approximately 85 percent of REAs are over the age of 55.
- The qualification is voluntary (not required to operate in specific engineering roles) and not widely seen as valuable. REAs account for less than five percent of the mid-tier professional (engineering technicians or technologists) workforce in New Zealand⁴.

⁴ <https://occupationoutlook.mbie.govt.nz/manufacturing-and-technology/engineering-technicians/>

Figure 1: Numbers of Registered Engineering Associates 2011-2020⁵



The Board is working to control costs by taking steps such as using teleconferencing where appropriate. MBIE considers there is limited ability to further control costs further while still providing a service. The Board meets only three to four times per year, the Registrar is the Board’s only employee and the office is staffed part time.

Table 2: Engineering Associates Registration Board financial position

	2021	2020	2019
Total revenue	67,061	74,366	83,961
Total expenses	98,151	89,304	101,793
Surplus/(Deficit)	(30,090)	(14,938)	(17,832)

The Board has been drawing on its reserves to meet its normal costs of operation. Reserves are intended for emergency and unexpected costs, such as legal issues or needing to relocate premises. In 2020, the Board’s accumulated funds fell to \$86,054 (of which \$45,000 is held in a Short Term Investments fund).

⁵ Engineering Associates Registration Board – Annual Report 2020

Cost Recovery Principles and Objectives

Cost recovery principles

- **Authority:** A public entity must have legal authority to charge a fee and must operate within the scope of the empowering provision.
- **Efficiency:** The user charge should be no higher than necessary to produce a good or service to the desired level of quality. The design of the charge should incentivise efficiency – keeping costs down and the quality of the service high.
- **Equity:** The user charge should be administratively fair: identify the impacts of cost recovery, do not seek to recover costs from one group that could benefit a previous or future group.
- **Justifiability:** the costs recovered through fees or levies should reasonably relate to the goods and services they are charged for (minimise risks of cross-subsidisation).
- **Transparency:** fee payers have enough information to understand and assess whether fees are appropriate, and whether revenue is accounted for and used appropriately.

Objectives for fees and charges for Registered Engineering Associates

Fees should support the Board to undertake its core functions under the Engineering Associates Act, leveraging other resources where appropriate (Authority, Efficiency, Transparency)

Section 35 of the Act authorises regulations to be made where necessary or expedient for the due administration of the Act. Subsections 35(c) and (d) specifically authorise fees to recover the costs of specific activities (such as examination and registration) and an annual fee that all people must pay to remain registered.

MBIE's first objective is that fees are set at a level that adequately recovers the costs to the Board of exercising its functions set out in the Act. This would include providing certainty that the Board will be able to maintain the integrity of the register, keep minimum standards up to date and engage with those who rely on the credential and who hold the credential.

The Board also holds a complaints investigation function; however, complaints are rare and MBIE does not anticipate any increase in complaints.

Beyond its minimum statutory functions, the Board should be expected to make use of other resources where it can. In particular, many REAs are also members of industry associations and the Act reflects a strong role for those associations.

People who are getting the benefit of the credential should pay to maintain the credential (Equity, Justifiability)

The costs of maintaining the REA scheme should be met by those who benefit from the service, i.e. those who hold the credential. Where it is possible to attribute specific costs to specific activities that individuals benefit from (e.g. assessing new applications) this should be recovered separately.

Cost recovery should match the time period as much as is feasible so that those who pay for the running of the scheme get the benefit (rather than paying for costs that were connected to a future, or previous group).

Policy Rationale: Why a user charge? And what type is most appropriate?

Why a user charge?

The primary good/service being provided to REAs is registration, i.e. recognition that they hold a credential because they meet minimum standards as assessed and overseen by the Board. MBIE considers the credential is a private good as it is issued only to the person registered for use in their professional career.

Full cost recovery is consistent with other regulated occupations in the building and construction sector, where users of the scheme obtain a licence or registration and pay the fees and levies required to maintain the scheme.

Benefits to parties other than REAs are particularly limited. Unlike licences for restricted work (such as licences for restricted building work), the credential is voluntary. It is not linked to work that is recognised as particularly high-risk so there is no clear benefit to the general public. Where others in the construction sector benefit from the person holding the credential, the REA is likely to be able to pass on some of the cost (e.g. to an employer or client).

What type of user charge is most appropriate? Who will pay the cost recovery charges?

MBIE proposes to maintain a flat, annual registration fee charged to all REAs who register for the year. MBIE understands there are currently fewer than 800 REAs and this number is likely to decline further in 2022.

A flat fee is appropriate because:

- REAs all receive the benefit of the credential for one year, i.e. there are no 'occasional' users
- There is a high degree of certainty of the costs that the annual registration fee recovers, these are salaries and overheads to maintain the scheme.

Assessment of proposed user charge against objectives

Table 3: Assessment of proposed user charge against objectives

Objective	Comment
Fees should support the Board's minimum regulatory functions under the Engineering Associates Act and incentivise leveraging other resources (Authority, Efficiency, Transparency)	<p>Fee in the Act is only for functions under the Act. Board reports on their use fee revenue. Fees that are too high will likely discourage registrations in a voluntary regime, the Board and industry associations have incentives to share resources to maximise benefits to people who pay fees to both.</p> <p>MBIE considers that due to continuous deficits, the Board and Registrar have focused on providing core functions for the lowest cost and leveraging other support where they can.</p>
People who are getting the benefit of the credential pay to maintain the credential – attribute fairly (Equity, Justifiability)	<p>Fee is to be paid by everyone registered in that year – keeps the benefits and timing aligned.</p> <p>Cost of maintaining the constant/fixed costs of the regime are met by everyone who gets the general benefit.</p> <p>Existence of other fees where possible to attribute extra costs.</p>

The level of the proposed fee and its cost components (cost recovery model)⁶

Design of cost recovery charges and setting out the main cost drivers

The current and proposed fees are set out below.

Table 4: Current and proposed fees

	Initial Application Fee	Annual Registration Fee
<i>Current</i>	\$150.00	\$95.00
<i>Proposed</i>	\$150.00	\$200.00
<i>% change</i>	0%	110.5%

The table below summarises the key outputs and cost drivers for costs sought to be recovered by the annual registration fee. Figures from 2019/20 financial statements illustrate the scale of these costs.

The Board's expenses generally represent fixed costs of maintaining the Register, governing the regime and communicating with REAs and others about the credential. Due to these fixed costs and the small scale of the Board's operations this document discusses cost drivers at a high level and does not include detailed costings.

⁶ If a stage 1 template was completed the cost recovery model should be consistent with the high-level cost recovery model. Differences should be noted and explained.

Table 5: Board activities and main cost drivers for annual registration fee

Activities	Cost drivers and high level costs
<p>Maintaining the Register of Registered Engineering Associates</p> <p>e.g. updating changes in details, checking if people should still be on the register, receiving requests to be removed</p>	<p>Registrar’s time: the Registrar is the Board’s sole employee, the office is staffed part time (approx. \$43,000 on wages in 2019/20)</p>
<p>Processing ongoing registrations</p> <p>e.g. checking that REAs still meet minimum standards for registration, including that they have paid the fee</p>	<p>Running EARB website and office: (approx. \$17,000 on office rent, services and expenditure in 2019/20)</p>
<p>Promoting and communicating about the credential with REAs, and stakeholders</p> <p>e.g. sharing news with REAs, answering technical questions about the credential, engaging with entities that recognise the credential</p>	
<p>Governance and oversight of the scheme, and determining matters about individual registrations</p>	<p>Registrar’s time (see above)</p>
<p>Accountability and reporting: Reporting on Board performance, engaging with MBIE and government generally</p>	<p>Board members’ time: the Board meets three to four times per year, members are paid [insert MBIE hourly rate] (approx.. \$12,000 on Board fees in 2019/20)</p> <p>Board expenses: including travel expenses (approx. \$6,000 in 2019/20)</p> <p>Insurance, banking, accounting and audit: approx. \$9,000 in 2019/20</p>

Estimates of expenses and revenue

MBIE estimates that the Board’s expenses will continue to be around \$90,000 per year. This is based on expenditure from 2019/20 and 2018/19 years as well as the following assumptions:

- The Board is unlikely to expand its operations from the current minimum levels (e.g. unlikely to hire more staff or a bigger office) as registrations are expected to keep declining.
- The current costs to the Board are generally fixed costs and are unlikely to decrease in proportion with declining registrations, i.e. the rate of people leaving the scheme could rise but the costs to run it would generally remain the same.

Forecast revenue from the proposed annual registration fee depends on the level of ongoing registrations, i.e. people paying the fee. Table 6 presents a potential range of fee-paying REAs over three years. MBIE assumes that REAs will continue to decline at a rate of at least 7.5 per cent, per year (this is the average decline for the last five years).

MBIE assumes that the proposed fee increase will prompt further decisions to leave the scheme when the fee changes in April 2022. This rate is based on the rate of REAs who did not agree that the proposed fee increase was ‘fair and reasonable’ when surveyed by MBIE in June 2021.

Due to the voluntary nature of the credential and indications from REAs that many are considering retirement, MBIE considers it is likely that ongoing registrations will be at the lower end of our range. The numbers of REAs may also decline more dramatically if MBIE has overestimated the rate of REAs who will pay a higher fee. On the other hand, the Board continues to promote the credential so could attract more new registrations than expected (e.g. if a local/central government programme endorses the credential).

Table 6 Estimated revenue and expenses with proposed new annual registration fee

	2022	2023	2024
Based on assumed fee-paying REAs	496 to 730	458 to 675	424 to 624
Expected revenue from annual registration fee	\$85,000 to \$126,000	\$79,000 to \$116,000	\$73,000 to \$107,000
Estimated expenses	\$90,000.00	\$90,000.00	\$90,000.00
Potential surplus/(deficit) with higher registrations ⁷	\$36,000	\$26,000	\$17,000
Potential surplus/(deficit) with lower registrations ⁸	(\$5,000)	(\$11,000)	(\$17,000)

Other options discounted

MBIE assumes that the Board has limited ability to further minimise its costs, while still providing services at the level required by the Act. The Board’s expenses generally represent fixed costs of maintaining the Register, governing the regime and communicating with REAs and others about the credential. The memorandum account has already been in consistent deficits for several years.

MBIE also considered increasing the application fee to become a REA. MBIE discounted this option as the current level fully cost recovers the time required to process the application. There are few brand new applications to the scheme each year, so a change is unlikely to raise significant revenue. Any increases in application fee could also deter new entrants.

⁷ The higher estimates of registrations assume that the number of REAs will continue to decline at around 7.5 per cent, per year (the average rate of decline for the last five years).

⁸ The lower estimates of registrations assume that up to a further 32 per cent of REAs who are registered in 2021, will choose not to register in 2022 due to the fee increase. This rate is based on the rate of REAs who did not agree that the proposed fee increase was ‘fair and reasonable’ when surveyed by MBIE in June 2021.

Impact analysis

The proposed fee increase will impact individuals who register as Registered Engineering Associates from 1 April 2022, as well as those who would like to register. Those who decide to register and pay the increased fee will pay \$105.00 more per person, per year, than they would under the status quo.

There are currently fewer than 800 Registered Engineering Associates. MBIE is not able to quantify the number of people who may be considering joining the scheme in 2022.

Some people who have previously registered, or who would like to join the scheme may decide not to because of the fee increase. This decision would mean they would not be able to legally use the credential of 'Registered Engineering Associate' but generally would not affect their ability to work. MBIE's assumptions of how many people may leave the scheme are discussed above alongside projected revenue.

MBIE expects the impact on the Board to be positive as it should assist the Board to move closer to a 'break even' position and plan its operations with more financial certainty. This result would assist the Board to continue to deliver services to registered people and to meet its obligations under the Act.

Comparison to registration and licensing fees under other construction sector regimes

MBIE considers that the proposed cost recovery arrangements are reasonable when compared to other cost recovery arrangements for other statutory occupational schemes in the building and construction sector.

Table 7 Comparison of proposed fee to other ongoing registration and licensing costs in the sector

	Minimum ongoing registration and licensing costs (GST inclusive)
Registered Engineering Associates (proposed)	\$200.00 per year
Electrical Workers	Licence renewal fee of \$250.00 every two years
Plumbers, Gasfitters and Drainlayers	Annual licence fee of \$90.00 (for one trade) plus disciplinary and prosecution levy of \$285.00
Licensed Building Practitioners	Licence renewal fee and scheme levy: \$239.00 per year
Registered Architects	Annual Certificate of Registration \$724.00
Chartered Professional Engineers	\$460.00 +GST

Consultation

In mid-2021 MBIE worked with the Board to survey REAs' views on whether the proposed fee increase was fair and reasonable. There were 299 respondents, who account for approximately 35 per cent of all current REAs. MBIE considers that the data is likely to accurately represent the composition of REAs as a whole.

A majority (68 per cent) of respondents considered the fee increase was fair and reasonable. Of those who did not consider the increase was fair and reasonable, some told us they would consider paying a higher fee if the credential was changed to be more valuable to them. Change to the structure of the credential is not within scope of this exercise; however, this feedback has informed our assumptions about how many REAs may leave the scheme due to the fee increase.

MBIE also surveyed REAs on the value of the credential to their career, and their plans for the future. REAs' answers to these questions indicate that while the current REAs value the credential, many are considering retirement in the short to medium term. This feedback has informed our assumption that the rate of REAs will continue to decline, even with efforts from the Board to promote the credential to new members.

Conclusions and recommendations

MBIE's preferred option is to increase the annual registration fee for Registered Engineering Associates from 1 April 2022, to \$200.00 per year (GST inclusive).

MBIE proposes no change to the initial application fee. There are few brand new applications to the scheme, so a change is unlikely to raise significant revenue. The current fee adequately recovers the costs to the Board of processing these applications. Raising the fee could also deter new applicants.

Implementation plan

MBIE will recommend that the Minister for Building and Construction seeks an Order in Council to raise the fee by 1 April 2022. New regulations should be made by 1 March 2022 to allow for notice to be given in the Gazette and the Board to communicate the increase to current and prospective REAs.

Monitoring and evaluation

The Board has an Accountability Agreement with the Minister of Building and Construction that records the Minister's expectations of the performance of the Board. These cover, for example, the effectiveness of the registration process, and timeframes for assessing new applications and any complaints.

MBIE considers these expectations are satisfactory to monitor how the Board delivers services that are cost recovered by the increased fee.

Review

The Minister for Building and Construction intends to introduce reforms to the occupational regulation of engineers in 2022. These reforms could significantly change the statutory framework for how engineering technicians and technologists are regulated. Therefore MBIE expects that within the next three years the *Engineering Associates Act* could be revised or repealed (or that proposals to do so will be before the House of Representatives).

In the meantime, MBIE will consider the financial position of the Board each year to understand the impact of the proposed fee increase and assess whether any further intervention is justified.