MINISTRY OF EDUCATION
TE TĀHUHU O TE MĀTAURANGA

# Briefing Note: Cabinet Social Wellbeing Committee meeting: Addressing pressures on the Export Education Levy and consultation on proposed increases to the levy

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| **To:** | Hon Chris Hipkins, Minister of Education | | |
| **Date:** | 31 August 2018 | **Priority:** | Medium |
| **Security Level:** | In Confidence | **METIS No:** | 1149559 |
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## Summary


- You are taking a paper entitled *Addressing pressures on the Export Education Levy and consultation on proposed increases to the levy*, to the Cabinet Social Wellbeing Committee (SWC) on Wednesday 5 September.
- The paper seeks agreement from SWC to:
  - a temporary advance of Crown funds to the Export Education Levy (EEL), through a capital withdrawal from the Ministry of Education, to be repaid in full by June 2024; and
  - consultation with the international education sector on two options for immediate changes to the EEL percentage rate to generate more revenue.
- This briefing provides you with speaking notes for the meeting, as well as information to respond to possible questions from your colleagues.


Belinda Himiona
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**Graduate Achievement, Vocations and Achievement**

31/08/2018

## Talking Points

### Introduction

1. I am seeking agreement on two issues related to the Export Education Levy:
   - a temporary advance of up to $6 million of Crown funds to the Export Education Levy account, to be paid back in full by the levy by end of Financial Year 2023/24.
   - consultation with the international education sector on two options to increase the levy percentage rate to generate more revenue.

### Background on the EEL

2. The Export Education Levy is paid by all education providers that enrol international students, as a percentage of international student tuition fees.

3. The levy funds a broad range of annual activities benefiting the whole international education sector, including marketing and promotion, international student wellbeing, and administration of the Code of Practice for international student pastoral care.

4. The EEL can also be used in the event of programme or provider closures at Private Training Establishments (PTEs) to reimburse international students for tuition fees, or pay the costs of transferring those students to another provider to complete their studies.

5. This 'consumer guarantee' for international students helps make New Zealand a desirable study destination and is a point of difference for New Zealand in the global market.

### Current context (the focus on quality has resulted in more provider closures)

6. We are committed to high quality and to a system that puts students at the centre. Our newly released International Education Strategy for New Zealand 2018-2030 is focused on delivering high quality education and an excellent overall student experience to international students.

7. Until recently, the amount the levy collected each year – around $5.0 million – has been able to cover the core functions. Reserves were sufficient to cover any international student reimbursements, which until 2016/17 averaged $0.15 million annually over the previous decade, and never more than $0.9 million in any one year.

8. The immediate pressures on the levy were not expected and have arisen quickly. An actuarial report in 2016 found it "highly unlikely" that reimbursements in any one year would surpass $700,000. We consulted with the sector in 2016 on options to lower the levy and increase levy funded expenditure to reduce the high cash balance.

9. We are in a very different context now. Rapid growth in the sector, particularly during 2012-2016, resulted in a range of quality issues among providers. Since 2016, NZQA has increased their quality assurance monitoring and activity which has led to an unprecedented number of programme and provider closures.

10. The Export Education Levy account has paid out $3.2 million in closure-related costs to international students in the last year —by far the highest amount for this function in any period since the levy was established in 2003.

**The problem (there are further closures coming and the EEL balance will soon be nil)**

11. Private Training Establishment closures are predicted to continue, with an estimated $2.5-$4 million per year in EEL account reimbursement drawdowns for the next two years.

12. If no action is taken, and anticipated closures are realised, the EEL account balance is highly likely to reach nil by this October.

**Interim solution (temporary advance and increased revenue)**

13. I do not believe reducing EEL funded expenditure is the best way to address the immediate pressures, as its functions benefit the sector as a whole and contribute to New Zealand's international reputation as a safe, welcoming and high quality study destination.

14. I believe the best way forward in this context is a temporary advance of up to $6 million of Crown funds to the Export Education Levy account from the Ministry of Education. The advance will be fully repaid from the levy by the end of financial year 2023/24.

15. This temporary advance will allow the levy to continue to fund its annual functions. As levy revenue increases as a result of proposed changes, repayments to the Crown can commence.

**The financial modelling and analysis to determine options**

16. Officials have considered a range of options to increase EEL revenue, and conducted robust and independent financial modelling on possible scenarios.

17. It is extremely difficult to predict EEL revenue and expenditure. Revenue is based on enrolments and tuition fees. Although enrolments are expected to decrease in the short term, we can't know the magnitude of the decrease or the impact on overall tuition fee revenue. Student reimbursement costs are also variable, and come at the end of a long monitoring and investigation process.

18. Financial modelling was done on a range of low-high risk scenarios for both revenue (enrolments) and expenditure (closures) over the next five years. Proposed options for increased levy rates are based on a moderate decline of 10,000 students and moderate risk scenarios for closures and reimbursement payments.

**Options for change**

19. Officials have identified two options for changes to the EEL levy rates, both of which require a greater contribution from PTEs than from other provider sectors:
    - **Option 1: Differential increase** –all providers pay more, but at different rates, with non-PTEs (universities, ITPs and schools) increasing from 0.45% of tuition fees to 0.55%, and PTEs increasing from 0.45% of tuition fees to 0.83%
    - **Option 2: PTE increase only** – only PTEs pay more, with an increase to 1.24% of international student tuition fees (non-PTE levy rate remains at 0.45%).

20. Both of these options can occur within current legislation and enable repayment by end of FY 2023/24.

**Sector consultation**

21. The Ministry of Education, along with Education New Zealand and NZQA, will conduct the standard four weeks of sector consultation from mid-September to mid-October. The new levy rates must come into effect by 1 January 2019 in order to apply to levy payments based on Trimester 1 enrolments which typically make up to 75% of annual EEL revenue.

## Reactive Q&As

**Why aren't providers being held responsible for reimbursing international students?**

22. Providers are expected to pay closure-related costs. Some of them can't (because they're insolvent) and some of them won't, and we currently do not have a regulatory tool that enables us to "force" them to pay.

23. However, we do have a new NZQA PTE Registration Rule which requires PTEs to cover reimbursement or transfer costs of affected international students in the case of programme closures if they wish to continue operating. This means that a PTE who doesn't reimburse students following a programme closures can now be deregistered.

**Should we stop closing low-quality providers or reimbursing international students?**

24. I do not think we can remain committed to quality in international education and allow these providers to continue to operate. I have indicated that I will continue to support the monitoring activity of NZQA, including closures where required.

25. Reimbursements to students also support the Strategy and our commitment to students, and are an integral part of our global reputation for quality.

**How can you ensure that the levy is fair?**

26. Non-PTEs are likely to find any proposed increase for their sectors unfair, but I believe that they also benefit from having a high-quality private sector. Their proposed increase is modest, and is the first increase since the EEL was introduced.

27. High-performing PTEs will find the proposed changes unfair as they will feel punished for the poor behaviour of low-quality providers. However, at the moment the EEL is functioning as an "insurance scheme" for ALL PTEs. They can all potentially draw on it, and it is thus fair that they all contribute equally.

**Would you expect some providers to pay a higher levy in future?**

28. The goal is to ensure providers pay for their fair share of the risk of not delivering education to the quality standards we and their students expect. It may be possible to consider a more nuanced approach to risk-related payments in future, but in the given timeframe, the proposed changes are fair.

## Proactive Release

29. It is intended that this briefing is proactively released as per your expectation that information be released as soon as possible. Any information which may need to be withheld will be done so in line with the provisions of the Official Information Act 1982.

**Agree / Disagree**