

# Budget 2016: Improvements to tuition subsidy funding and student support policy settings for study overseas

## Agency Disclosure Statement

This Regulatory Impact Statement has been prepared by the Ministry of Education (MoE).

It provides an analysis of changes the Government can make to improve tuition subsidy funding and student support policy settings for study overseas. This work is part of a wider International Education Senior Officials Group (IESOG) project to encourage more New Zealanders to study overseas and develop new international connections and capabilities.

This analysis follows engagement with the tertiary education sector on outbound mobility and study overseas programmes which will help inform an Outbound Student Mobility Strategy for New Zealand to be developed in 2017. One of the issues highlighted as a barrier to study overseas during this engagement was a lack of consistency between, and clarity of, funding entitlements and eligibility.

There are four key constraints on this analysis:

**Data limitations:** we do not know the exact number of New Zealand students who currently undertake study overseas or the extent to which certain factors may be acting as a barrier. We also lack information on the various types of study New Zealand students are undertaking overseas.

**Uncertainty in estimates:** given data limitations, estimates of those affected under the policy initiatives can only provide a general indication of the impact of the policy initiatives to help inform decision-making.

**Quantifying risk:** we do not know the extent to which extending tuition subsidy funding for study at an overseas campus of a New Zealand tertiary education organisation (NZTEO) will encourage graduates to remain overseas for extended periods of time, or if the study will primarily be taken up by New Zealanders already living overseas (both of which are not the intention of the policy).

**Consultation:** we have not consulted with the public on the proposed policy package. However, in October 2015, we engaged with the tertiary education sector to collect information on outbound mobility and study overseas programmes in New Zealand. This included feedback on current funding policy settings.

The IESOG project is occurring in two phases. This policy package completes phase one of the project – to remove impediments to current policy settings that may be creating barriers to overseas study. Phase two of the work will lead to an Outbound Student Mobility Strategy for New Zealand. The development of this strategy will involve engagement with employers and the sector, as well as information on existing overseas study arrangements provided through a benchmarking study facilitated by Universities New Zealand.

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7 September 2016

## Executive Summary

The Government wishes to encourage more New Zealanders to study overseas and develop new international connections and capabilities through exposure to countries with which they are not familiar. Currently, the number of New Zealanders who study overseas is relatively small. While we do not know the precise number, or the extent to which certain factors may be acting as a barrier, engagement with the tertiary education sector in October 2015 highlighted issues regarding the consistency between, and clarity of, funding entitlements.

Current tuition subsidy funding and student support policy settings are complex and can be confusing for students and providers. This is because funding eligibility and entitlements for New Zealanders who study overseas differ according to the type of funding being sought, the type of study undertaken, and in some cases, the residency status of those applying. These inconsistencies currently affect a small number of New Zealanders who may be eligible for some types of funding for study overseas, but not others.

In conjunction with 'International connections for New Zealanders' Budget 2016 initiatives to extend the Prime Minister's Scholarships for Asia and create scholarships for Latin America, we propose to better align funding entitlements and eligibility for study overseas by:

- a) Extending the full-time study student loan interest exemption to recipients of New Zealand Government-funded scholarships.
- b) Extending eligibility for tuition subsidy funding and student support for New Zealand students studying at an overseas campus or delivery site of a NZTEO.
- c) Targeting tuition subsidy funding and student support eligibility for New Zealand permanent residents (NZPRs) undertaking study overseas.

Our policy package will require changes to the following legislation and regulations:

- regulations under the Education Act 1989
- the Student Allowances Regulations 1998
- the Student Loan Scheme Act 2011.

We have identified a range of options for each initiative and assessed these against our criteria and the status quo. We believe that, together, these initiatives balance the Government's objectives to encourage New Zealanders to develop new international connections and capabilities against ensuring that taxpayer investment benefits New Zealand.

## Status quo and problem definition

### *Overview of funding policy settings in the tertiary education system*

The Government supports wide access to tertiary education because it believes that the benefits of a well-educated population are vital to New Zealand's economic and social development.

Financial support for New Zealand students is primarily provided through:

- tuition subsidy funding; and
- student support.

**Tuition subsidy** funding covers, on average, 71 per cent of the cost of tuition. This funding is provided directly to NZTEOs<sup>1</sup> and reduces the up-front fees paid by students.

**Student support** includes both student allowances and student loans:

- A *student allowance* is a weekly payment that helps with living expenses and is not required to be paid back. Student allowances are targeted to students from low-income families.
- A *student loan* can be used to pay for tuition fees, living costs, and course-related costs and must be paid back. Student loans help provide broad access to tertiary education and are interest-free for borrowers who remain in New Zealand.

All domestic students [New Zealand citizens (NZCs) and NZPRs] are eligible for tuition subsidy funding and may be eligible for student support for study in New Zealand. NZPRs must meet particular residence criteria in order to receive student support.<sup>2</sup>

### *Legislation for tuition subsidy funding and student support funding policy settings*

There are three relevant pieces of legislation and regulations related to funding policy settings for this policy package. These are:

- regulations under the **Education Act 1989**: which set out the definition of a domestic student
- the **Student Allowances Regulations 1998**: which sets out student allowance eligibility and entitlements
- the **Student Loan Scheme Act 2011**: which sets out the requirements for interest-free student loans for full-time overseas study.

This policy package proposes changes to all three.

### *Government agencies in the tertiary education sector*

In order to implement the proposed policy package, MoE will work together with the following agencies:

- **Inland Revenue (IR)**: provides operational policy advice on matters concerning the collection of loans and is responsible for the Student Loan Scheme Act 2011.

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1 NZTEOs include Universities, Private Training Establishments, Institutes of Technology and Polytechnics, Wānanga and industry training organisations.

2 NZPRs who wish to gain access to student support are required to be entitled to reside in New Zealand indefinitely, have been living in New Zealand for at least three years and pass an 'ordinarily resident test'. The 'ordinarily resident test' is designed to establish an individual's connection to New Zealand. It takes into account considerations such as property and asset ownership, length of time in New Zealand and eligibility to vote in New Zealand.

- the **Tertiary Education Commission (TEC)**: is responsible for investing government funding (including tuition subsidy funding, through investment plans and contracts with NZTEOs) and for monitoring and managing the performance of NZTEOs.
- the **Ministry of Social Development (MSD)**: provides operational policy advice on matters concerning student loan and student allowance eligibility and entitlement and is responsible for all operational matters regarding the Student Allowances Regulations 1998.
- **Education New Zealand (ENZ)**: is responsible for managing both inbound and outbound scholarship schemes, including the Prime Minister’s Scholarships for Asia (PMSA) and Latin America (PMSLA) and will have a role in establishing eligibility for the new student loan interest exemptions.
- the **New Zealand Qualifications Authority (NZQA)**: develops, registers and supports the New Zealand Qualifications Framework (NZQF) and quality assures non-university NZTEOs.

## Status quo

### *Current tuition subsidy funding and student support policy settings for study overseas*

The current funding policy settings for New Zealanders who undertake study overseas are summarised in Table 1.

Table 1: Current tuition subsidy funding and student support settings for study overseas

Type of overseas study for NZ qualification	Tuition subsidy eligibility		Student support eligibility	
	NZC	NZPR	NZC	NZPR
Study at an overseas provider as part of a New Zealand-based qualification while enrolled at a New Zealand campus of an NZTEO e.g. student exchanges or research overseas	Yes	Yes <sup>3</sup>	Yes	Would need to meet the three year stand down requirement and the ‘ordinarily resident test’
Study at an overseas campus or delivery site of a NZTEO	No	No		
Extramural study through a New Zealand provider while living overseas	Yes	Yes		

### *Only a small number of New Zealanders study overseas*

The Government wishes to expose more New Zealanders to an overseas study experience so that they can develop new international connections and capabilities. To date, there has been very little research that has attempted to quantify the wider public benefit of a study overseas experience.<sup>4</sup> However, international capabilities are expected to pay dividends for New Zealand in improved investment and trade outcomes, social cohesion and relationships.

<sup>3</sup> The TEC has recently made an operational change regarding valid domestic enrolments for 2016. As a consequence of these changes, NZPRs are now permitted to receive tuition subsidy funding for overseas study as part of a New Zealand qualification at level 3 and above on the NZQF.

<sup>4</sup> Fulbright New Zealand commissioned PricewaterhouseCoopers New Zealand to undertake an evaluation of the net economic benefit of the Fulbright Graduate Scholarship programme to New Zealand in 2012. It was found that the investment in the Fulbright Graduate Scholarship Programme yields a return of up to four times its cost.

Currently, the numbers of New Zealand students who undertake study overseas is relatively small, although the precise numbers and the extent to which certain factors may be acting as a barrier to overseas study is unknown.

In 2014, around 1,000 New Zealand students undertook an exchange programme at an overseas provider as part of their New Zealand qualification. Agencies are also aware that, in 2014, 260 students studying overseas as part of their New Zealand qualification received student allowances. In addition to this, in 2013, 908 applications for student loan interest exemptions were approved for borrowers studying overseas.

In October 2015, MoE engaged with the tertiary education sector to collect information on outbound mobility and study overseas programmes in New Zealand. A lack of consistency and clarity around funding entitlements and eligibility was one of the issues highlighted as a barrier to study overseas. This has also been raised in correspondence to the Minister for Tertiary Education, Skills and Employment.

## Problem definition

Current tuition subsidy funding and student support policy settings are complex and can be confusing for students and providers. This is because funding eligibility and entitlements for New Zealanders who study overseas differ according to the type of funding being sought, the type of study undertaken, and in some cases, the residency status of those applying.

These inconsistencies currently affect a small number of New Zealanders. For example:

- those studying a New Zealand qualification at an overseas campus or delivery site of a NZTEO are not eligible for tuition subsidy funding but *may* be eligible for student support
- those studying overseas on New Zealand Government-funded scholarships may not qualify for the full-time study student loan interest exemption because they are not studying at the appropriate level or because they are undertaking an internship.

While these inconsistencies only affect a small number of students currently studying overseas as part of their New Zealand qualification, we need to ensure that funding policy settings provide appropriate support, as the Government encourages more New Zealanders to develop new international connections and capabilities.

## Objectives

The objective of this package of legislative and regulatory changes is to deliver on the Government's policy objective, and provide consistency and clarity across funding policy settings for study overseas. It works in conjunction with 'International connections for New Zealanders' Budget 2016 initiatives, which includes additional funding for the PMSA and the establishment of the PMSLA.

In clarifying funding policy settings, it is necessary to balance the Government's objectives to develop new international connections and capabilities for New Zealanders with ensuring that taxpayer investment benefits New Zealand.

There are four key criteria when considering any changes to tuition subsidy funding and student support policy settings to support New Zealanders studying overseas. These are:

- **Meets the Government's policy objective:** does the option meet the Government's priority to develop new international connections and capabilities for New Zealanders studying overseas?
- **Minimises fiscal cost:** does the option provide value for money and help manage possible funding risks?

- **Improves transparency:** does the option support an objective of being clear and easily understood for students, NZTEOs and government agencies?
- **Administratively simple:** is the option administratively simple to apply and balance compliance for students, NZTEOs and government agencies?

## Options and impact analysis

This policy package contains the following three initiatives that work together to better align funding policy settings for study overseas:

- a) Extending the full-time study student loan interest exemption to recipients of New Zealand Government-funded scholarships.
- b) Extending eligibility for tuition subsidy funding and student support for New Zealand students studying at an overseas campus or delivery site of a NZTEO.
- c) Targeting tuition subsidy funding and student support eligibility for NZPRs undertaking study overseas.

The options for each initiative are outlined on the following pages and assessed against the criteria.

## a) The full-time study student loan interest exemption for overseas based borrowers

We have identified the following two options for this initiative:

- Option 1: Extend the full-time study student loan interest exemption to the recipients of New Zealand Government-funded scholarships (*recommended option*)
- Option 2: Extend the full-time study student loan interest exemption to the recipients of New Zealand Government-funded scholarships and make the study and internship interest exemptions conditional on borrowers returning to New Zealand.

### Status quo

Currently, student loans remain interest-free for borrowers who go overseas for 183 consecutive days or less and who have lived in New Zealand for at least 183 days before leaving.

The Student Loan Scheme Act 2011 also provides an interest exemption for borrowers who go overseas principally to study full-time for longer than six months, provided they meet specific criteria.<sup>5</sup>

### Problem definition

As the legislation currently stands, recipients of New Zealand Government-funded scholarships such as the PMSA and PMSLA may not be eligible for an interest exemption because they are studying at a low level or they are on an internship. In order to ensure clarity and consistency across funding settings, legislative change to the Student Loan Scheme Act is required.

### Option 1: Extend the full-time student loan interest exemption to the recipients of New Zealand Government-funded scholarships (recommended option)

This option extends the full-time study interest exemption to borrowers (and their partners) who are in receipt of a New Zealand Government-funded scholarship and studying overseas, or undertaking a full-time internship or a part-time internship combined with study. This overseas study or internship would be irrespective of the level of study for which the scholarship is provided.

Option 1 provides assistance to New Zealanders who are developing new international connections and capabilities. It also aligns with the purpose of the PMSA and PMSLA, which is broader than academic scholarship (e.g. which aims to identify the scholar's potential to build connections that can be later used in the person's career, not just academic scholarship). For example, many recipients of these scholarships will study a language below level 7 on the NZQF or may undertake an internship. The alignment of funding settings helps improve transparency, ensuring that students and providers easily understand their entitlements.

The disadvantage of Option 1 is that no limits are put in place to manage possible funding risks and ensure international connections and capabilities are brought back to New Zealand. However, this is mitigated by the fact that most students who would be eligible for this exemption are studying overseas for a short period of time and as part of a New Zealand qualification. We estimate that 35 students per annum will gain eligibility for the exemption

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<sup>5</sup> Borrowers who go overseas principally to study for longer than 6 months are eligible for an interest exemption if they are studying full time: 1) at an overseas tertiary education provider at level 7 or above on the NZQF; 2) through a New Zealand tertiary education provider (either as part of a formal exchange or formal agreement); or 3) through a New Zealand tertiary education provider at postgraduate level (level 8 or above) where no formal exchange or formal agreement exists, if an equivalent course cannot be undertaken in New Zealand.

from interest on their student loans if the interest exemption is extended under either Option 1 or 2.

**Option 2: Extend the full-time student loan interest exemption to the recipients of New Zealand Government-funded scholarships and make the study and internship interest exemptions conditional on borrowers returning to New Zealand**

Option 2 is similar to Option 1, but all the study interest exemptions and the internship exemption would be made conditional on borrowers returning to New Zealand. This condition would apply across all borrowers eligible for a full-time study or internship interest exemption, not just those newly eligible under the proposed extension. This option would better manage fiscal cost as it would help ensure the transfer of international connections and capabilities to New Zealand. However, the administrative burden is higher for students, who will be required to take extra steps to establish eligibility. We estimate that the conditional element of this option would mean that around 30 students per annum will lose eligibility for an interest exemption. This number takes into account both those newly eligible and those currently eligible for a full-time study interest exemption.

**Summary**

On balance, we recommend Option 1. While this option does not limit funding risks for the taxpayer as well as Option 2, given the small number of students affected and the mitigating factors previously mentioned, the funding risks are not great. Option 2 also has a higher administrative burden for students. For these reasons, we believe that the Government’s policy objective to encourage more New Zealanders to develop new international connections and capabilities takes priority over minimising fiscal risk. We estimate that the student loan costs of extending the interest exemption are \$0.12 million over four years. If the interest exemption was conditional on returning to New Zealand, there would be a savings of \$0.08 million over four years. This means that under Option 2 the student loan costs over four years would be \$0.04 million. ENZ and IR have advised that there would be no additional administration costs. The options are summarised in Table 2.

Table 2: Options for extending the full-time study student loan interest exemption to recipients of New Zealand Government-funded scholarships

Options	Meets the Government’s policy objective	Minimises fiscal cost	Improves transparency	Administratively simple
Option 1: Extend the full-time student loan interest exemption to the recipients of New Zealand Government-funded scholarships	<b>meets</b> provides assistance for New Zealanders to develop new international skills	<b>does not meet</b> does not ensure international skills are transferred to New Zealand	<b>meets</b> eligibility criteria is clearly outlined for all parties	<b>meets well</b> administrative burden is low for all parties
Option 2: Extend the full-time student loan interest exemption to the recipients of New Zealand Government-funded scholarships and make the full-time student loan interest exemption conditional on borrowers returning to New Zealand	<b>meets</b> provides assistance for New Zealanders to develop new international skills	<b>meets well</b> ensures international skills are transferred to New Zealand	<b>meets</b> eligibility criteria is clearly outlined for all parties	<b>does not meet</b> higher administrative burden for students to establish eligibility

**Level of assessment:**  
 uncertain  
 does not meet  
 neutral  
 meets  
 meets well

## **b) Eligibility for tuition subsidy funding and student support for New Zealand students studying at an overseas campus or delivery site of a NZTEO**

We have identified the following three options for this initiative:

- Option 1: Restrict eligibility
- Option 2: Broaden eligibility
- Option 3: Target eligibility (*recommended option*).

### **Status Quo**

Funding eligibility for New Zealand students who wish to study a New Zealand qualification at an overseas campus or delivery site of a NZTEO is dependent on the type of funding and residency status of those applying.

Eligibility for tuition subsidy funding is established by the Minister for Tertiary Education, Skills and Employment's funding determination. Additional criteria regarding tuition subsidy eligibility for students who study overseas are set out in the TEC's funding conditions. Eligibility for student support is found in two different locations. The student allowance eligibility rules are set out in the Student Allowance Regulations 1998 and student loan eligibility rules are found in various Cabinet minutes.

Currently, New Zealanders who are studying at an overseas campus or delivery site of a NZTEO are not eligible for tuition subsidy funding. However, a NZC is eligible for student support and a NZPR *may* be eligible, provided they meet particular residency criteria.

### **Problem definition**

The differences in funding eligibility are confusing for students and providers, and do not support the Government's objective of encouraging study overseas and the development of new international connections and capabilities. To provide consistency and clarity across funding settings and deliver on the Government's objectives, legislative change to the Student Allowance Regulations 1998 is required.

### **Option 1: Restrict eligibility**

NZCs and NZPRs studying a New Zealand qualification at an overseas campus or delivery site of a NZTEO would not attract tuition subsidy funding (retains the status quo) and would not be eligible for student support (policy change).

Option 1 aligns student support with tuition subsidy funding, making funding entitlements more transparent. It also presents the lowest fiscal cost, manages funding risks and is administratively simple. However, Option 1 would not contribute to the Government's objective of encouraging New Zealanders to develop new international connections and capabilities. We estimate that over four years, 560 students will lose eligibility to student support under this option.

### **Option 2: Broaden eligibility**

NZCs and NZPRs would attract tuition subsidy funding for studying a New Zealand qualification at an overseas campus or delivery site of a NZTEO (policy change). Student support general eligibility settings would remain (status quo).

Option 2 provides opportunities for the greatest number of students to study overseas. It also carries the greatest fiscal cost and funding risks. For example, if funding was opened up for offshore provision by a New Zealand provider, some Private Training Establishments may move to establish campuses in Australia and recruit NZCs normally living there. This would work against the policy objective, which is to encourage those living in New Zealand to study overseas. It is difficult to quantify the fiscal implications of broader eligibility, but we have

estimated this at \$240 million over four years.<sup>6</sup> We estimate that over four years, 17,000 students will gain eligibility to tuition subsidy funding and 13,600 students will gain eligibility to student support under this option.<sup>7</sup>

### **Option 3: Target eligibility (recommended option)**

Option 3 is a middle-ground approach which would target eligibility to tuition subsidy funding and student support for offshore delivery by a NZTEO. This option would help us assess the extent of the uptake and fiscal cost before further expansion is contemplated.

Eligibility of NZCs and NZPRs [who meet the additional criteria discussed in initiative (c)] will be targeted according to the following criteria:

- studying in regions the Government wishes to expand commercial and social linkages with in order to improve investment, trade outcomes and relationships
- higher level study (level 7 and above on the NZQF) in order to establish international research and business connections
- studying part of a New Zealand qualification overseas, rather than the full qualification (to reduce the risk of graduates remaining overseas and attaching themselves to an overseas labour market)
- full-time, face-to-face study (rather than extramural study while living overseas) to minimise the risk that NZCs and NZPRs would take longer to finish their qualification and attach themselves to an overseas labour market.

Option 3 provides opportunities for study in a way that would maximise the economic benefits of study undertaken overseas, while minimising the fiscal cost and funding risks. However, the numbers who would benefit from this policy are likely to be small. This option could be extended once we have a better idea of funding risks. We estimate that over four years, 120 students will gain eligibility to tuition subsidy funding and 80 students will lose eligibility to student support under this option.

### **Summary**

We recommend Option 3. This option best meets the Government's objectives while balancing funding risks. We estimate the policy cost for Option 3 will be \$0.64 million over four years, compared with \$240 million under Option 2 and a savings of \$2.44 million for Option 1. The options are summarised in Table 3.

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<sup>6</sup> The figure of \$240 million takes into account potential provider gaming behaviour that occurred in the early 2000s, particularly in regards to Private Training Establishments in Australia that recruited NZCs normally living in Australia. Since June 2012, NZQA has received 27 applications for offshore delivery, of which four applications were either withdrawn or declined by NZQA. A Universities New Zealand survey last updated in 2013 indicated that six of eight universities deliver offshore.

<sup>7</sup> These figures are based on the estimated 600,000 New Zealanders resident in Australia and the assumption that this group would attend an overseas campus or delivery site of a NZTEO at the same rate as domestic tertiary students.

Table 3: Extending eligibility for tuition subsidy funding and student support for New Zealand students studying at an overseas campus or delivery site of a NZTEO

Options	Meets the Government's policy objective	Minimises fiscal cost	Improves transparency	Administratively simple
Option 1: Restrict eligibility – restrict student support so that settings are consistent with tuition subsidy funding	<b>does not meet</b> restricts assistance for New Zealanders to develop new international skills	<b>meets well</b> reduces fiscal cost and funding risk by restricting assistance	<b>meets</b> aligns student support and tuition subsidy eligibility	<b>does not meet</b> system changes will be complex for agencies to implement
Option 2: Broaden eligibility – extend tuition subsidy funding on the same basis as student support	<b>meets</b> provides assistance for New Zealanders to develop new international skills	<b>does not meet</b> fiscal cost and funding risks are not managed	<b>meets</b> aligns student support and tuition subsidy eligibility	<b>meets</b> tuition subsidy changes moderately easy for agencies to implement
Option 3: Target eligibility – extend tuition subsidy funding and student support for targeted offshore delivery at a NZTEO	<b>meets well</b> provides assistance for New Zealanders to develop new international skills	<b>meets</b> fiscal cost and funding risks managed by targeting criteria	<b>meets</b> aligns student support and tuition subsidy eligibility	<b>does not meet</b> system changes and assessment based on targeting criteria will be complex for agencies to implement

**Level of assessment:**  
 uncertain  
 does not meet  
 neutral  
 meets  
 meets well

## c) Targeting tuition subsidy funding and student support eligibility for NZPRs undertaking study overseas

We have identified the following two options for this initiative:

- Option 1: Maintain the status quo
- Option 2: Target tuition subsidy funding and student support eligibility for NZPRs undertaking study overseas (*recommended option*).

### Status Quo

When this policy initiative was originally proposed, NZPRs who undertook study overseas as part of a New Zealand-based qualification were not eligible for tuition subsidy funding (unlike NZCs), but may have been eligible for student support.

During the TEC's annual review of its funding conditions, changes were made to the criteria for tuition subsidy eligibility for study overseas. To align with the Education Act 1989 definition of a "domestic student", TEC removed the requirement to be a NZC for enrolments from 2016. As a consequence of these changes, NZPRs are now permitted to receive tuition subsidy funding for study overseas as part of a New Zealand qualification at level 3 on the NZQF and above.

### Problem definition

To meet the Government's policy objectives and better manage fiscal cost and funding risks, making regulations under the Education Act 1989 and amending the Student Allowances Regulations 1998 are required.

### Option 1: Maintain the status quo

Option 1 would make no changes to funding eligibility for New Zealanders undertaking study overseas. The status quo means that NZCs and NZPRs are treated similarly in terms of eligibility for tuition subsidy funding and student support for study overseas as part of a New Zealand qualification at a NZTEO.

Maintaining the status quo would enable a greater number of New Zealanders to study overseas and would be the most administratively simple. However, the status quo does not meet the Government's policy objective and presents a funding risk if NZPRs attach themselves to their host country's labour market. Student loan data from 2016 shows that compared to NZCs, NZPRs are more likely to be overseas after study and are more likely to be in default of their student loan. Of those who borrowed between 2009 and 2011, who still have a student loan and are not borrowing in 2016, 15.3% of NZPRs are overseas with 63.1% having overdue repayments, compared with 9.6% of NZCs who are overseas with 50.7% having overdue repayments.<sup>8</sup>

### Option 2: Target eligibility for NZPRs (recommended option)

Under this option, tuition subsidy funding and student support for study overseas (including New Zealand qualifications undertaken at an overseas campus or at an overseas campus or delivery site of a NZTEO) would be targeted to:

- (i) NZPRs who study overseas in countries that they are *unfamiliar* with (to ensure that NZPRs are gaining *new* international skills and capabilities); and
- (ii) exclude NZPRs who study extramurally (to reduce the risk that NZPRs will stay overseas); and
- (iii) require NZPRs to meet an 'ordinarily resident test' for tuition subsidy funding (as they must for student support) to demonstrate their commitment to New Zealand.

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<sup>8</sup> This data was accessed via the Integrated Data Infrastructure. The results are based in part on tax data supplied by IR to Statistics New Zealand under the Tax Administration Act 1994.

Option 2 better targets taxpayer funding to students gaining new international connections and capabilities. It also provides consistency across funding policies, as eligibility criteria would match that already required under student support settings.

**Summary**

Option 2 is the recommended option. Option 2 best balances the Government’s policy objective to encourage New Zealanders to develop *new* international connections and capabilities, enables alignment of funding settings for overseas study and manages possible funding risks.

Approximately 60 NZPRs per annum will lose eligibility to student support and 20 NZPRs per annum will gain eligibility for tuition subsidy funding. This initiative will result in overall savings of \$0.05 million per annum, meaning changes can be managed within existing funding allocations. MSD would require one-off funding of \$0.5 million for systems changes. The options are summarised in Table 4.

Option 2 would require us to develop criteria that define “unfamiliar” in this context.

Table 4: Targeting eligibility to tuition subsidy funding and student support for NZPRs undertaking overseas study

Options	Meets the Government’s policy objective	Minimises fiscal cost	Improves transparency	Administratively simple
Option 1: Maintain the status quo	<b>meets</b> provides assistance for New Zealanders to develop new international skills	<b>does not meet</b> fiscal cost and funding risks are not managed	<b>meets</b> aligns student support and tuition subsidy eligibility	<b>neutral</b>
Option 2: Target eligibility – targeting tuition subsidy funding and student support for NZPRs undertaking study overseas	<b>meets well</b> provides assistance for New Zealanders to develop new international skills and this is targeted to the development of new connections	<b>meets well</b> fiscal cost and funding risks managed by targeting criteria	<b>meets</b> aligns student support and tuition subsidy eligibility	<b>does not meet</b> system changes and assessment based on targeting criteria will be complex for agencies to implement

**Level of assessment:** uncertain  
does not meet  
neutral  
meets  
meets well

**Analysis of sub-options for Option 2 – Defining what we mean by “unfamiliar”**

In developing Option 2, we identified and assessed a range of sub-options which are outlined in Table 5. In summary, we recommend targeting eligibility on the basis of the student not being familiar with the country they wish to undertake study in [option 2(a)] given this option’s best fit with the criteria for analysis. Under this option “unfamiliar” means studying in a country they have never been to, or if they have, have not spent more than six months over the previous five years.

Table 5 Alternative sub-options considered for option 2 – Defining what we mean by “unfamiliar”

Options	Meets the Government’s policy objective	Minimises fiscal cost	Improves transparency	Administratively simple
Option 2(a): Target student support and tuition subsidy funding to NZPRs studying in a country that they have never been to, or if they have, have not spent more than six months over the previous five years (recommended option)	<p><b>meets well</b></p> <p>would not allow NZPRs to return to a country that they are familiar with and therefore encourages NZPRs to gain new international skills</p>	<p><b>meets well</b></p> <p>limits the amount of taxpayer funding extended to NZPRs (who are more likely to be overseas-based after study)</p>	<p><b>meets well</b></p> <p>NZPRs would be clear about their entitlements</p>	<p><b>meets well</b></p> <p>eligibility is established through a declaration that is simple to administer</p>
Option 2(b): Remove eligibility for NZPRs if they are studying in countries where they hold citizenship	<p><b>meets well</b></p> <p>would not allow NZPRs to return to their country of citizenship (which they are likely to be familiar with) and therefore encourages NZPRs to gain new international skills</p>	<p><b>meets well</b></p> <p>limits the amount of taxpayer funding extended to NZPRs (who are more likely to be overseas-based after study)</p>	<p><b>meets well</b></p> <p>NZPRs would be clear about their entitlements</p>	<p><b>does not meet</b></p> <p>the provisions are likely to be difficult to justify under the New Zealand Bill of Rights Act 1990 and so would be difficult to put into effect</p>
Option 2(c): Limiting the time NZPRs spend overseas e.g. 6 months	<p><b>does not meet</b></p> <p>NZPRs can study in their country of citizenship and, by proxy, may not be developing new international skills</p>	<p><b>meets well</b></p> <p>limits the amount of taxpayer funding extended to NZPRs (who are more likely to be overseas-based after study)</p>	<p><b>meets well</b></p> <p>NZPRs would be clear about their entitlements</p>	<p><b>does not meet</b></p> <p>would be hard for TEC and MSD to monitor as agencies would not know if NZPRs exceed the limit until after the event. There would be added complexity if penalties or exceptions are included</p>
Option 2(d): Requiring all NZPRs to have a New Zealand permanent resident visa (those with a residents visa would be excluded)	<p><b>does not meet</b></p> <p>NZPRs can study in their country of citizenship and, by proxy, may not be developing new international skills</p>	<p><b>meets well</b></p> <p>provides the Government with more confidence that the NZPR is committed to NZ</p>	<p><b>meets well</b></p> <p>NZPRs would be clear about their entitlements</p>	<p><b>meets well</b></p> <p>eligibility can be established by citing the appropriate visa</p>
Option 2(e): Including an exception for NZPRs who can prove no connection to the country where they hold citizenship	<p><b>meets well</b></p> <p>would identify NZPRs who would gain a new cultural experience returning to</p>	<p><b>meets well</b></p> <p>provides the Government with more confidence that the NZPR is not</p>	<p><b>does not meet</b></p> <p>as the assessment is subjective, eligibility is not certain and therefore</p>	<p><b>does not meet</b></p> <p>requires additional compliance for NZPRs by way of compiling evidence to</p>

	their country of citizenship	studying overseas with the intention of remaining overseas when they finish	further reduces transparency	justify their application difficulties for NZTEOs and agencies to verify. It may require more face-to-face interactions difficulties in proving and assessing 'no existing connection to the country of citizenship
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**Level of assessment:**  
 uncertain  
 does not meet  
 neutral  
 meets  
 meets well

## Consultation

MoE has developed this policy package in consultation with the following agencies:

- Inland Revenue
- the Tertiary Education Commission
- Education New Zealand
- the Ministry of Social Development
- the New Zealand Qualifications Authority.

There was no public consultation on the proposed policy package. However, in October 2015, we engaged with the overseas education departments of 11 NZTEOs to collect information on outbound mobility and study overseas programmes in New Zealand. Key feedback relating to tuition subsidy funding and student support policy settings included:

- a lack of clarity regarding funding entitlements for students and a request for consistency in messages across government departments
- confusion over the funding restrictions applied to NZPRs
- mixed responses on the danger of losing taxpayer investment for students who undertake an extended period of study overseas.

## Conclusions and recommendations

We recommend the following initiatives:

- a) Extending the full-time study student loan interest exemption to recipients of New Zealand Government-funded scholarships.
- b) Extending eligibility for tuition subsidy funding and student support for New Zealand students studying at an overseas campus or delivery site of a NZTEO.
- c) Targeting tuition subsidy funding and student support eligibility for NZPRs undertaking study overseas.

Currently, student support and tuition subsidy funding settings are complex and confusing. Together, these initiatives provide consistency and clarity around funding entitlements and eligibility for New Zealanders who study overseas. We believe that these initiatives balance the Government's objective to develop new international connections and capabilities for New Zealanders with ensuring that taxpayer investment benefits New Zealand.

## Implementation plan

This policy package is proposed to come into effect from 1 January 2017 for the funding initiatives and from the date of enactment of legislation for the student loan interest exemption. It will require the following government agencies to work closely with each other and NZTEOs to implement the proposed policy initiatives:

- the Ministry of Education
- Inland Revenue
- the Tertiary Education Commission
- Education New Zealand
- the Ministry of Social Development.

The implementation plan for the three initiatives is summarised in Tables 7-9 below.

Table 7: Implementation of the policy to extend the full-time study student loan interest exemption to recipients of New Zealand Government-funded scholarships

Actions	Details
Education agency actions	<ul style="list-style-type: none"> <li>• ENZ would verify applications. To do this they would require:               <ul style="list-style-type: none"> <li>○ evidence that the scholarship has been awarded</li> <li>○ the scholarship is on the approved list of scholarships</li> <li>○ the start and end dates of study</li> <li>○ that any internship meets the criteria.</li> </ul> </li> <li>• ENZ would not charge for verifying applications.</li> <li>• ENZ would request that agencies that award eligible scholarships advise them of the awardee details when the awards are made. Details will need to include the awardee's date of birth and Inland Revenue number.</li> </ul>
Borrower actions	<ul style="list-style-type: none"> <li>• Borrowers would apply any time prior to or during their study or upon their return to New Zealand.</li> <li>• A student would need to provide IR with proof of their eligibility (i.e. a letter of verification from ENZ).</li> <li>• Provide IR with evidence of their relationship with their partner (if relevant).</li> <li>• Provide IR with evidence that their partner accompanied them overseas (if relevant).</li> </ul>
IR actions	<ul style="list-style-type: none"> <li>• IR would process the new exemption in the same way as existing full-time study exemptions.</li> </ul>
Legislative implications	<ul style="list-style-type: none"> <li>• Amendments to the Student Loan Scheme Act 2011.</li> </ul>

Table 8: Implementation of the policy to extend eligibility for tuition subsidy funding and student support for New Zealand students studying at an overseas campus or delivery site of a NZTEO

Actions	Details
Education agency actions	<ul style="list-style-type: none"> <li>• A change to the Ministerial funding mechanism would be required.</li> <li>• A redraft of current funding conditions (TEC) would be required following the change to the funding mechanism (September 2016, applicable from 1 January 2017). In addition to funding mechanism changes (MoE) and funding condition changes, the TEC would need to implement additional information gathering about overseas delivery sites.</li> <li>• The option would be implemented through the Investment Plan process. As part of the standard investment plan development with the TEC, an eligible provider would forecast the number of students they expect to enrol at their overseas delivery sites. The TEC would consider this as part of the overall mix of the provider's provision and would be reflected in reporting through the Single Data Return (SDR). This would:               <ul style="list-style-type: none"> <li>○ provide up-front information about the programmes offered in the overseas sites and the number of students who would enrol</li> <li>○ limit any fiscal risk associated with tapping into an eligible group of new students to the system. Providers would be able to expand their enrolments at overseas campuses from the level of their original forecasts, but above the current 2% available under the new flexible funding arrangements, they would either have to trade-off other provision to do so or discuss a further expansion with the TEC</li> <li>○ incorporate students attending overseas campuses into the performance system and provide MSD information on overseas campuses and delivery sites.</li> </ul> </li> </ul>

Actions	Details
	<ul style="list-style-type: none"> <li>• TEC would update its website to provide further guidance and information on the new changes in December 2016.</li> <li>• Changes to be reflected in a SDR manual update in November 2016.</li> </ul>
MSD actions	<ul style="list-style-type: none"> <li>• MSD will update application forms/systems to capture new information needed to determine entitlement for both NZCs and NZPRs, and therefore require additional functionality to assess applications. This will require changes to the current assessment approach. This will incur some costs.</li> </ul>
Legislative implications	<ul style="list-style-type: none"> <li>• Amendments to the relevant 159L funding condition.</li> <li>• Amendments to the Student Allowances Regulations 1998 and to the existing Cabinet authority for student loan entitlements.</li> </ul>

Table 9: Implementation of the policy to target tuition subsidy funding and student support eligibility for NZPRs undertaking study overseas

Actions	Details
Education agency actions	<ul style="list-style-type: none"> <li>• A change to the Ministerial funding mechanism would be required.</li> <li>• A redraft of current funding conditions (TEC) would be required following the change to the funding mechanism (September 2016, applicable from 1 January 2017).</li> <li>• TEC would need to communicate with the sector in October 2016 as part of Investment Plan discussions in a way that mitigates the risk that providers may anticipate an increase in tuition subsidy funding.</li> <li>• TEC would update its website to provide further guidance and information on the new changes in December 2016.</li> <li>• Changes to be reflected in a SDR manual update in November 2016.</li> </ul>
Tertiary provider actions	<ul style="list-style-type: none"> <li>• Providers will need to apply an ordinarily resident test to establish the domestic status of NZPRs studying overseas (similar to the MSD test).</li> </ul>
MSD actions	<ul style="list-style-type: none"> <li>• MSD currently operates a manual application process for overseas study. For this initiative, MSD will need to update its application forms/systems to capture the new information needed to determine entitlement for NZPRs and therefore implement additional functionality to assess applications. This will require changes to the current assessment approach. This will incur some costs.</li> </ul>
Legislative implications	<ul style="list-style-type: none"> <li>• Amendments to the Student Allowances Regulations 1998 and to the existing Cabinet authority for student loan entitlements.</li> <li>• MoE would undertake work on the Education Act 1989 to define the domestic status of NZPRs to align with those in the proposed new 159L funding condition.</li> </ul>

## Monitoring, evaluation and review

This policy package forms part of the Outbound Student Mobility Strategy for New Zealand. Later this year, we intend to report back to the Minister for Tertiary Education, Skills and Employment on ways to further optimise policy and funding settings to support New Zealanders studying overseas. This will include advice on how best to monitor and measure success of the Strategy.

There is no formal evaluation process in place to review the policy package. However, MoE can utilise data from the following sources to monitor the initiatives, including the take-up of the policy:

- **MSD's overseas study form.** Students will be required to fill out this form in order to apply for student support while studying overseas. MSD will assess their eligibility for student support and will record both the numbers of successful and unsuccessful applications, as well as the reasons for declining unsuccessful applications.
- **The Single Data Return.** NZTEOs are required to record information on their students through the SDR to assess their eligibility for tuition subsidy funding. This will include information on programmes offered at overseas sites and the numbers of students who enrol in these programmes.
- **The Integrated Data Infrastructure.** This will enable information collected through the SDR to be matched with wider data sets held by Statistics New Zealand. This will allow us to examine more widely the demographics and study characteristics of New Zealanders who study overseas.
- **IR data.** This will provide information on the numbers of student loan interest exemptions granted under the new initiative.