



Consultation Document

Options for raising the Export Education Levy rate

Deadline for submissions: 15 October 2018

Contents

| | |
|--|-----------|
| Part 1: Introduction | 4 |
| Our focus on quality..... | 4 |
| Overview of the Export Education Levy | 4 |
| The current financial situation of the EEL | 5 |
| The EEL supports a strong international education sector | 6 |
| Improving the financial sustainability of the EEL | 7 |
| Part 2: Options to increase EEL revenue | 8 |
| Option 1: Differential increase..... | 8 |
| Option 2: PTE increase only | 8 |
| Impact of both options on providers | 9 |
| Part 3: Providing feedback | 10 |
| Purpose of feedback..... | 10 |
| How to provide feedback | 10 |
| Part 4: Submission form | 11 |
| Submitter details..... | 11 |
| Questions on proposed options to increase the EEL percentage rate..... | 12 |
| Additional feedback | 12 |
| Annex 1: EEL-funded activities | 13 |
| Promotion and marketing (\$3.27 million in 2017/18) | 13 |
| Code of Practice Administration (\$0.82 million in 2017/18) | 13 |
| International Student Dispute Resolution Scheme Administration (\$0.22 million in 2017/18) | 13 |
| International Student Wellbeing Strategy (\$0.67 million in 2017/18) | 14 |
| Course or provider closure-related reimbursements (\$3.2 million in 2017/18)..... | 14 |

Key information:

- **Purpose of the consultation:** The Ministry of Education, Education New Zealand, and the New Zealand Qualifications Authority are seeking input from the international education sector peak bodies and individual providers on lifting the percentage rate of the Export Education Levy (EEL). The Minister of Education is required by the Education Act 1989 to consult with providers before changing the EEL Regulations which set the amount of the levy.
- **Reason for changing the EEL settings:** Due to high reimbursement costs related to programme and provider closures (\$3.2 million in 2017/18), the EEL account, used in some cases to reimburse international students, is almost empty. We need to raise EEL revenue in order to safeguard educational quality and New Zealand's reputation as a study destination.
- **What we are seeking from the sector:** This document presents two options to raise the Export Education Levy:
 - **Option 1: Differential increase** – a percentage increase for all providers, 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** – a percentage increase for PTEs only to 1.24% of international student tuition fees (non-PTE levy rate remains at 0.45%).

Both options apply a higher EEL percentage rate to PTEs than other provider sub-sectors, as they are the only part of the sector where closures generate EEL expenditure on student reimbursements. We are seeking your preferences on these two options.

- **Deadline for feedback:** The deadline for responses is 15 October 2018.
- **How to provide feedback:** You may access the online survey at <https://www.surveymonkey.com/r/BSV5ML5>, or email a written submission to EEL.consultation@education.govt.nz using the form at the back of this document. We will also be holding targeted meetings during the consultation period (please refer to <https://www.education.govt.nz/export-education-levy-consultation> for more information).
- **Questions:** You may also submit any questions you have about the consultation process through the email address EEL.consultation@education.govt.nz.
- **Outcome of consultation:** The consultation feedback will inform the lifting of the percentage rate of the EEL, which will be announced later in the year.

Part 1: Introduction

Our focus on quality

Improving and safeguarding the quality of New Zealand's international education sector is at the centre of our recently launched [New Zealand International Education Strategy 2018-2030](#), and underpins the global reputation of New Zealand's \$4.5 billion international education sector.

Quality provision underpins the strategy's aim of providing international students with an excellent education and overall experience while in New Zealand, and of ensuring sustainable growth in a high-value, high-quality sector sought out for its distinctive New Zealand proposition.

Rapid increases in the number of international student enrolments between 2012 and 2016 have been associated with a range of quality issues among providers. The New Zealand Qualifications Authority (NZQA) is responsible for regulating approximately 500 non-university tertiary education organisations. New powers, additional tools, and a firmer regulatory stance by NZQA has resulted in greater use of EEL fund for closure-related costs in the last few years. Provider closures occur only as a last resort, and wherever possible, relevant government agencies work together to minimise the impact on international students.

Overview of the Export Education Levy

The Ministry of Education (the Ministry) manages the EEL, a sector levy established in 2003. Under the Education Act 1989 (section 238I) the EEL can fund a specific and clearly defined set of activities. These are:

- development, promotion, and quality assurance of the export education sector
- reimbursement of international students and Crown agencies for direct expenses related to PTE or private school failure (other mechanisms come into play when quality issues arise at publicly owned providers)
- administration of the Education (Pastoral Care of International Students) Code of Practice (the Code of Practice), and the International Student Contract Dispute Resolution Scheme (DRS)

The EEL percentage rate is set through the EEL Regulations, and has been 0.45% of total international student tuition fee income since it was introduced in 2003. There was initially an additional flat fee of \$185 per provider that was removed in 2017 when the EEL balance was high. The EEL levy is directly and indirectly paid by all providers that enrol international students, including universities, ITPs and PTEs and schools.¹

Reimbursement of international students is a key part of protecting New Zealand's reputation and value proposition

The Education Act and EEL Regulations were amended in 2004 to add the reimbursement of international students in the event of PTE failure. This purpose was introduced following the collapse of language schools with large numbers of Chinese international students who were

¹ State and integrated schools are covered by a separate International Student Levy (ISL) under the Education Act. The foreign fee rate is debited from the operations grant instalments for schools at a weekly rate of \$11 (including GST) per pupil for secondary students and \$10.73 for primary students. An EEL equivalent to that paid by other education providers is deducted from the ISL and paid into the EEL account.

negatively impacted when the schools failed. This had a significant impact on the numbers of Chinese students coming to New Zealand, at all provider types, over the following decade.

The introduction of the EEL reimbursement provisions in the event of PTE failure ensures students and our international reputation are protected in the event of any provider closures. The EEL percentage rate has never been increased to cover the cost of this additional function, and the EEL has relied successfully on “reserves” to pay the low level of reimbursement costs necessary since 2004.

The EEL revenue fluctuates year to year, driven primarily by student numbers and fees charged. As the levy is calculated based on tuition fees, the amount of EEL paid by providers fluctuates according to the number of students enrolled and the courses they enrol in.

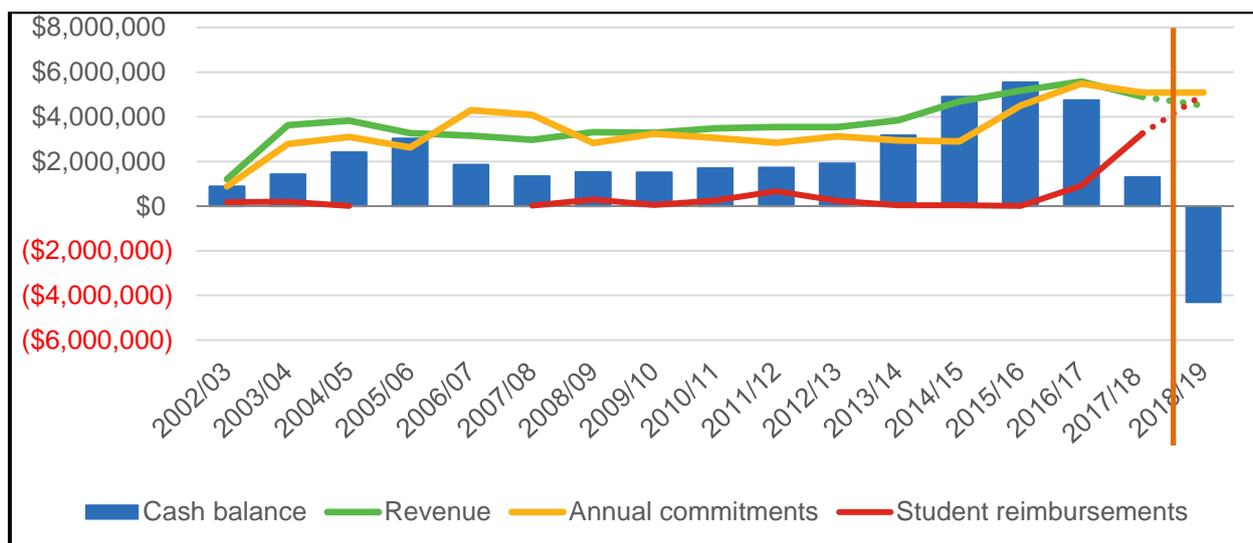
The current financial situation of the EEL

Historically, student reimbursement and transfer costs due to provider failure have been low. As recently as July 2016, a commissioned Actuarial Report² deemed it “highly unlikely” that the annual costs of any claims on the levy would exceed levy revenue. This 2016 report identified an average pay out from the EEL over its history of \$151,300 per year in reimbursement costs, or an average of 16% of PTE contribution to the EEL per year. Until this year, the EEL had carried sufficient cash “reserves” to cover any student reimbursements and transfer costs related to closures.

We are now operating in a very different context. There have been six claims against the EEL in the last 14 months, resulting from four provider closures and two programme closures. These have led to \$3.2 million paid out of the EEL account, including \$2.4 million since the beginning of 2018. There are NZQA investigations underway which may lead to more calls on the EEL.

Figure 1 below shows the relative mapping of the EEL cash balance, revenue, annual planned costs, and student and agency reimbursements since it was introduced, and also shows where it is heading in the next financial year if no changes are made.

Figure 1: EEL cash balance, revenue, annual costs and reimbursements 2002-2018



² Report on an Actuarial Valuation of the Export Education Levy Trust Account, Eriksen & Associates Limited, 20 July 2016.

Because the EEL account balance will soon be zero (possibly as soon as October 2018), and the account is not able to go into overdraft, the Ministry of Education has of necessity arranged a temporary advance of \$6 million of Crown funding to meet pending closure-related costs. The conditions on this advance include that it must be repaid in full by the EEL by 2024.

PTEs are the only sector where student reimbursements are funded by the EEL, as other mechanisms come into play when quality issues arise at publicly owned providers. When closures are necessary, the Government is committed to prioritising fairness and international student wellbeing. Providers are expected to pay closure-related costs. The Government recently amended the Private Training Establishment Registration Rules 2018 to require PTEs to meet all relevant and reasonable costs relating to those students in the event of a programme closure (5.1.3 (i)), to make it fairer on the sector. This new Rule will reduce the likelihood of drawdowns from the EEL where the PTE wants to continue operating.

In cases of full provider closure, the government currently has no legislative authority or lever to “force” failed providers to reimburse students, and some providers are insolvent. When providers are unable or unwilling to fund full or partial reimbursements of international student tuition fees, or to cover costs related to transferring international students to a different provider to complete their studies, the EEL is used for this purpose. This consumer guarantee helps encourage international students to continue seeing New Zealand as a desirable study destination.

The EEL supports a strong international education sector

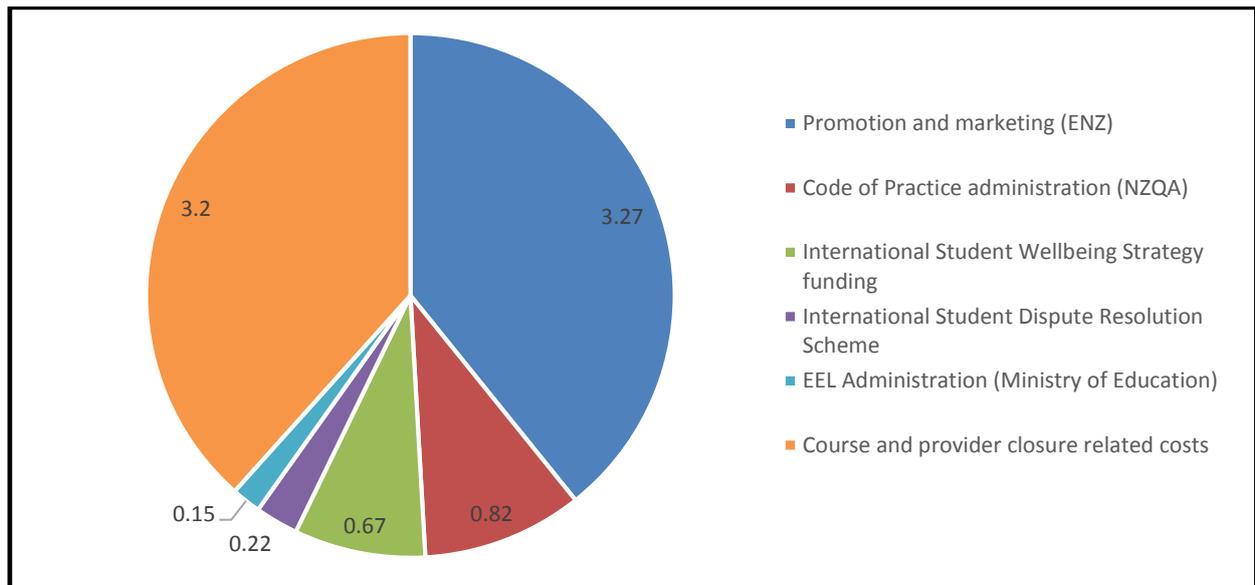
The EEL currently funds a range of activities that benefit the international education sector

In the last four years the EEL has generated around \$5 million in revenue per year, and has covered planned expenditure of around \$5 million per year. These costs include important sector-wide benefits which relate to the core purpose of the EEL, such as funding for Education New Zealand’s promotion and marketing activities, administration of the Code of Practice and the International Student Dispute Resolution Scheme, and funding to implement the International Student Wellbeing Strategy. All providers benefit from these functions, and they cannot be reduced without impacting the sector and New Zealand’s reputation.

EEL revenue and expenditure

In 2017, universities paid 41% of total EEL revenue, followed by PTEs at 25%, and ITPs and schools at 17% each. The payments are made at the end of each trimester, with payments received in May (for Trimester 1) typically accounting for up to 75% of annual EEL revenue.

Figure 2: EEL expenditure in 2017/18 financial year (\$m)



Further details on EEL expenditure are included in Annex 1.

Improving the financial sustainability of the EEL

Continued quality concerns in the sector, especially in the PTE sector, mean that agencies estimate that costs in the coming two years could be \$2.5-\$4.0 million per year based on NZQA's assessment of provider risk characteristics. This figure is expected to reduce to an estimated \$2-\$2.5 million per year over the next three years.

One way to address the current situation would be to reduce EEL expenditure, either on the core functions of the EEL, or on reimbursements to international students in the event of PTE failure (more information on EEL expenditure is in Annex 1). This reduction of expenditure has been ruled out because those broader functions are the ones whose benefits flow to the entire sector, not just one part of it; and because New Zealand's international reputation relies, at least in part, on our generous student protections.

The other way to address the current situation is to increase revenue from the EEL by raising the levy rate. This paper presents two options for raising EEL revenue. Given that the PTE sector is responsible for increased closure-related drawdown on the EEL, both of the options presented in this paper would see PTEs paying a higher levy percentage than other types of providers. The first option is a differential increase in the levy percentage each sub-sector pays. The second option is an increase in the percentage paid by PTEs only.

Part 2: Options to increase EEL revenue

In August 2018, the Ministry of Education, together with NZQA and ENZ, worked closely with PwC to develop a financial model for the EEL. The purpose of the modelling was to look at a number of scenarios for both EEL revenue and expenditure, with a view to increasing the levy rate to a sufficient level (but no higher than necessary) to alleviate pressures, and to put the EEL on a sustainable financial footing over the next few years.

In order to consider a range of possible outcomes, the modelling tested a number of impact scenarios for an anticipated short-term reduction in international student enrolments (which could reduce EEL revenue), including low impact (5,000 fewer students), medium impact (10,000 fewer students) and high impact (15,000 fewer students). The modelling also considered scenarios for potential course and provider closure-related expenditure from the EEL, which ranged from low (\$2.0 million per year) to high (\$4.0 million per year).

On the basis of the financial modelling information, two options have been developed for consultation. Both options differentiate between PTEs and other provider types (non-PTEs).

Table 3: Options for increasing EEL revenue

| Provider type | Current levy rate | Option 1 | Option 2 |
|---------------|------------------------|-----------------------|--------------------|
| | All providers pay same | Differential increase | PTEs only increase |
| Non-PTEs | 0.45% | 0.55% | 0.45% |
| PTE | 0.45% | 0.83% | 1.24% |

Both of the options under consideration would require changes to be made to the Education (Export Education Levy) Regulations 2011. Any change to the EEL percentage rate would come into effect from 1 January 2019 in order to impact the payments based on Trimester 1 enrolments, generally received in May (representing around 75% of annual EEL revenue).

Option 1: Differential increase

Option 1 proposes a percentage increase for all providers, 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%

This option recognises that:

- All providers benefit from the reputational boost the system gets from New Zealand's approach to student protections
- PTEs should pay a higher proportion of the anticipated costs than other provider types because they uniquely cause closure-related expenditure.

Option 2: PTE increase only

Option 2 proposed a percentage increase for PTEs only to 1.24% of international student tuition fees (non-PTE levy rate remains at 0.45%).

This option recognises the fact that PTEs alone create reimbursement costs.

Impact of both options on providers

Table 4 compares both options with the status quo, and looks at the financial impacts on different types of providers (both by size and sub-sector).

Table 4: Financial impact by provider type, size and sector

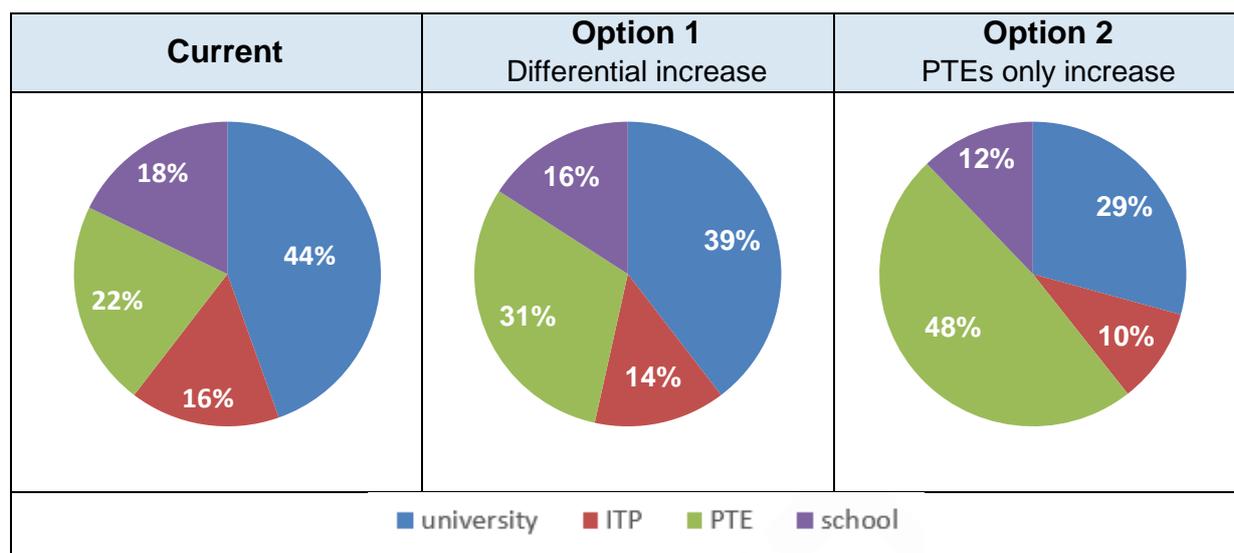
| Provider type | Current all pay same | | Option 1 differential increase | | Option 2 PTEs only increase | |
|----------------------|-------------------------|-----------|-----------------------------------|-----------|--------------------------------|-----------|
| | % | EEL paid | % | EEL paid | % | EEL paid |
| Large university | 0.45 | \$672,161 | 0.55 | \$821,530 | 0.45 | \$672,161 |
| Small university | 0.45 | \$57,949 | 0.55 | \$70,827 | 0.45 | \$57,949 |
| Large ITP | 0.45 | \$152,116 | 0.55 | \$185,920 | 0.45 | \$152,116 |
| Small ITP | 0.45 | \$15,444 | 0.55 | \$18,876 | 0.45 | \$15,444 |
| Large PTE | 0.45 | \$44,757 | 0.83 | \$82,552 | 1.24 | \$123,330 |
| Small PTE | 0.45 | \$425 | 0.83 | \$784 | 1.24 | \$1,171 |
| Large private school | 0.45 | \$15,662 | 0.55 | \$19,142 | 0.45 | \$15,662 |
| Small private school | 0.45 | \$317 | 0.55 | \$388 | 0.45 | \$317 |

N.B: all figures in the table above are case examples only and may differ within provider types.

State and state-integrated schools are covered by a separate International Student Levy (ISL) under the Education Act. An EEL equivalent to that paid by other education providers is deducted from the ISL and paid into the EEL account. If the EEL rate for schools increases, the increased amount will be deducted. While the ISL rate will not change for the beginning of 2019, it may be reviewed at a later date.

Table 5 shows the distribution of EEL payments across provider types under current settings and for each of the two options.

Table 5: Proportion of EEL paid by provider sector



Under Option 1, the PTE contribution to total EEL revenue would increase from 22% to 31%.

Under Option 2, the PTE contribution to total EEL revenue would increase from 22% to 48%.

Part 3: Providing feedback

Purpose of feedback

Your feedback will enable us to make better informed decisions about increasing the EEL levy percentage rate. We will take your comments into account when developing the most appropriate way forward.

Please be assured that any feedback you provide will be confidential to those involved in analysing the consultation data and no individuals will be identified in the final analysis and report writing. If you provide us with contact details below, we may seek further clarification on your perspective. We will communicate the outcome of this consultation to you.

How to provide feedback

The deadline for feedback and comments is **5pm Monday 15 October 2018**. Please refer to this document on the proposed changes when providing feedback.

The easiest way to provide feedback is through the online survey found at <https://www.surveymonkey.com/r/BSV5ML5>. The questions on this online survey are the same as the questions below.

You can also download this document and electronically fill out the questions and email your feedback to EEL.consultation@education.govt.nz. Please email your feedback in Microsoft Word format. You may also fill out the questions below and mail the form back to us at the address below (please factor in the time it will take for mailed feedback to arrive in meeting the 15 October deadline):

International Division
Ministry of Education
PO Box 1666
Wellington 6011

If you have any questions, or would like more information on the proposed changes to the EEL, please contact EEL.consultation@education.govt.nz.

Part 4: Submission form

Submitter details

- Are you submitting on behalf of an organisation or as an individual?
 - Organisation
 - Individual
- If you are submitting on behalf of an organisation, please indicate the type of organisation
 - State or state-integrated school
 - Private school
 - Private Training Establishment
 - Institute of Technology / Polytechnic
 - University
 - Student organisation
 - Sector peak body
 - Other (please specify) _____
- If an individual, please indicate whether you are:
 - An international student
 - A parent or relative of an international student
 - A staff member working with international students
 - An education agent
 - Other (please specify) _____
- Please indicate your region
 - Northland
 - Auckland
 - Waikato
 - Bay of Plenty
 - Hawkes Bay
 - Taranaki
 - Manawatu-Wanganui
 - Wellington
 - Nelson
 - Canterbury
 - West Coast
 - Otago
 - Southland
- Please indicate your contact details. We will only use this information to contact you if there are aspects of your feedback that we would like to clarify with you. If you do not wish to be contacted further, please do not provide your contact details. Personal information will be protected according to the Privacy Act 1993.

Name _____

Email address _____

Questions on proposed options to increase the EEL percentage rate

- Do you prefer
 - Option 1 (differential increase)
 - Option 2 (PTE increase only) to increase the levy percentage rate?
- Please explain why you prefer Option 1 or Option 2.

Additional feedback

- Do you have any further feedback on the EEL, including other ideas on how to ensure the EEL is sustainable?

Thank you for your response. Your feedback will inform final decisions about raising the EEL percentage rate, which will be announced later in the year.

Annex 1: EEL-funded activities

Promotion and marketing (\$3.27 million in 2017/18)

Education New Zealand (ENZ) is partly funded through the EEL to manage and operationalise the international education industry work programme. ENZ maintains a marketing presence for New Zealand education under the Think New brand. It operates in New Zealand's key markets to raise awareness of New Zealand's quality education proposition. International education is a fiercely competitive area and New Zealand needs to continually build and strengthen its desirability as a destination to compete against countries such as Australia, Canada and the United States, which have extremely strong market recognition. ENZ uses its levy funding to build its global marketing reach, and to extend the benefits of international education to New Zealand's regions.

The EEL contributes \$3.2 million (around 10%) of ENZ's total funding for international education programmes (the remaining \$29.8 million comes from the Crown through Vote Tertiary Education). For a number of years, ENZ received \$2.2 million each year from the EEL, to fund a range of activities. Since 2016, ENZ has received an additional \$1 million which is baselined, agreed at a time when the EEL balance was projected to reach \$11 million by 2020.

In the 2016/17 financial year, ENZ spent:

- \$1,506,052 of baseline funding from the EEL on marketing and promotion
- \$477,700 of allocated funding from the EEL on market research including its twice yearly quantitative brand health monitor which gathers insight into the student decision making journey and explores perceptions around New Zealand's 'Think New' education brand.
- \$1,513,521 of funding from the EEL on the Regional Partnership Programme (RPP), used to expand the scope of growth activities and the range of participating regions from seven to fifteen, focused on non-metro centres.

Code of Practice Administration (\$0.82 million in 2017/18)

The Code sets out the minimum standards of advice and care expected of New Zealand education providers to ensure the wellbeing of their international students. Education providers must be approved signatories to the Code to enrol international students. There are approximately 986 Code signatories. NZQA, as Code Administrator, quality assures the implementation of the Code by signatories to achieve the outcomes specified in the Code.

The Code supports the Government's objectives for international education, and is an important part of New Zealand's reputation as a safe study destination where students are well cared for. It requires signatories to take all reasonable steps to protect international students, and aims to ensure international students in New Zealand have a positive experience that supports their educational achievement. The Government's International Student Wellbeing Strategy is underpinned by education providers meeting their Code obligations.

During the 2016/17 financial year NZQA spent a total of \$823,000 of EEL funding on the administration of the Code of Practice.

International Student Dispute Resolution Scheme Administration (\$0.22 million in 2017/18)

The DRS was set up in July 2016 as an independent way to resolve financial and contractual disputes between international students and their education providers in a timely, cost-effective and fair manner.

FairWay Resolution Limited is the contracted operator of the DRS, under the name iStudent Complaints. For the year ending 30 June 2017, iStudent Complaints received 71 enquiries or complaints from international students. The number of cases entering the formal dispute resolution process is low, with most concerns resolved during the enquiry phase.

70% of the enquiries and complaints received related to financial and refund matters, with most of them (62) involving a PTE. A small number of enquiries or complaints were about universities (5), ITPs (3) and intermediate schools (2). There were no complaints relating to secondary or primary schools.

International Student Wellbeing Strategy (\$0.67 million in 2017/18)

The International Student Wellbeing Strategy was released in 2017, and since that time, funding has been allocated from the EEL to support projects that contribute to international student wellbeing. The funding is available to both governmental and non-governmental organisations, including community groups. The first round of funding in 2017 supported 11 projects implemented during the 2018 calendar year, including mental health support for international students, sports days, Noho Marae, radio/podcast programmes made by and for international students, and a social media campaign on the importance of inclusion and diversity. These projects are currently being evaluated, and results will be shared with the sector.

The second round is being run in the second half of 2018, with projects expected to commence in early 2019. The focus of the second round is international student mental health and/or safety. The high number of applications received for this fund indicates strong support for international students and for the strategy among providers and communities.

Course or provider closure-related reimbursements (\$3.2 million in 2017/18)

The NZQA is responsible for the quality assurance of non-university tertiary education organisations (TEOs) under the Education Act 1989. NZQA has discretion in the way it uses its powers and the interventions it takes. These are determined by the seriousness of the non-compliance identified, and the willingness and capability of the TEO to address the issues.

When a provider closure is deemed necessary where international students are enrolled, NZQA works with students and the provider to determine the best outcome for the students. In some cases affected students can be transferred to another provider to complete their studies. In addition to tuition fees at the new provider, transfer costs may include remedial learning or reassessment. If transfer is not possible, students will receive a reimbursement of their tuition fees.

These reimbursement or transfer costs can make use of any remaining fees in the provider's Student Fee Protection (SFP) trust account, generally held by the Public Trust. The provider is expected to fund any additional student reimbursement or transfer costs beyond the funds remaining in the SFP, and NZQA takes all possible steps to ensure that this happens.

However, the Crown has no mechanism to force providers that have closed due to financial or quality issues to cover these costs. When the provider does not reimburse students, the EEL account does so. And when the provider does not pay transfer costs, those costs are paid by NZQA, who is then reimbursed by the EEL account. To promote fairness, recent changes to NZQA Rules by the Government now require PTEs that remain operational to be responsible for the associated cost of closures and transfers to learners, where feasible.



We **shape** an **education** system that delivers
equitable and **excellent outcomes**

He mea **tārai** e mātou te **mātauranga**
kia **rangatira** ai, kia **mana taurite** ai ōna **huanga**