MINISTRY OF EDUCATION
TE TĀHUHU O TE MĀTAURANGA

Education Report: Education Report: Export Education Levy Rate and Improvement Options

To:	Hon Chris Hipkins, Minister of Education		
Date:	25 August 2022	**Priority:**	Medium
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Purpose of Report

The purpose of this paper is to outline Export Education Levy (EEL) rate setting options for 2023 to 2026. It also outlines options investigated for improving the collection of the EEL.

This follows report METIS 1266742 where you indicated a preference for reinstating the EEL for 2023.

Summary

1. The Export Education Levy (EEL) has been revoked from 2020 to the end of 2022 as a response to the pressures of COVID-19 and the border response on international education providers. You have indicated an intent to reinstate the Levy from January 2023.
2. In 2019 the EEL collected around $63 per international student in the country, with rates of 0.5% of international student fees for universities, Te Pūkenga, and schools, and 0.89% of international student tuition fees for Private Training Establishments (PTE). A PTE would be charged around $210 per year from a tuition income of $23,500 (average tertiary fee). Total EEL revenue in 2019 was $6.96m, with an international student cohort of 110,000.
3. Many of the activities funded by the levy have fixed costs, this causes a revenue shortfall when student numbers fall.
4. If 2019 EEL rates were retained at 0.50% of international student tuition fees for universities, Te Pūkenga, and schools, and 0.89% of international student tuition fees for PTEs, we estimate around $6m would be raised over 3 years. This would not provide for expected expenditure of $10.7-$12.7m over the same period.
5. This paper looks at the EEL rates required to fund expenditure of $12.7m over three years (central scenario) and $10.7m (minimum option). We find rates of 1.3% for the central scenario and 1.1% for the minimum could be expected to cover these spending intentions. This relies on international student numbers recovering to 50,000 by 2024/25.

6. If student numbers underperform the track to 50,000 then the levy will raise less than expected. In this event we would look to reduce support for ENZ followed by the student wellbeing initiatives. If the lower 2019 rates are chosen then there is not expected to be any room to respond to low student numbers through reducing activity funding.

7. The policy of reimbursing international students in the case of provider closure creates a risk of unpredictable costs for the EEL. There have been no cases of reimbursement from 2020 – 2022, but a cost of $3.2m in 2017/2018. Ongoing provision of $0.75m per annum has been assumed in expenditure scenarios. In the event significant and unpredicted closure costs remerge then management options are likely to be limited to changing the policy or Crown funding.

8. A rate differential between PTEs and other sectors has been used in 2019 to reflect the higher likelihood that PTEs create a need for student reimbursement. Maintaining a proportional difference would lead to differential rates of 1.9% for PTEs and 1.1% for other subsectors.

9. These rates would balance expenditure and income. The alternatives would be to reduce expenditure further or support expenditure with funds from other sources.

10. There are significant sources of uncertainty in the model, including assumptions on the speed and volume of students beginning their education in New Zealand, and the mix of students across sub-sectors. This uncertainty means we may have to adjust expenditure and/or revenue sources as the pace of recovery becomes clearer.

11. Rates of 1.1% or 1.3% would be a significant increase for the international education sector. An increase in rates is unlikely to be welcomed by the sector, they are likely to raise issues of affordability, alignment with rebuild objectives, administration burden, and lack of quality/control over spending.

12. The Governor-General may, by Order in Council made on the recommendation of the Minister, make regulations imposing an export education levy on signatory providers who receive tuition fees from international students enrolled with them. Before making a recommendation, the Minister must consult signatory providers.

13. The Ministry of Education (MoE) can conduct consultation with the sector, proposing rates at your preferred level to support the activities allowed for in the Education and Training Act 2020.

Recommended Actions

The Ministry of Education recommends you:

a. **note** that reinstating the Export Education Levy requires setting a levy rate

Noted

EITHER

b. **agree** to consult on setting EEL rates at 1.1% of tuition fees for all international education providers

Agree / Disagree

OR

c. **agree** to consult on setting EEL rates at 1.3% of tuition fees for all international education providers

Agree / Disagree

OR

d. **agree** to consult on setting rates at their 2019 levels of 0.89% of tuition fees for PTEs and 0.50% for other sub-sectors

Agree / Disagree

e. **note** the Education and Training Act requires a separate Annual Report for the EEL

f. **agree** to test the value the sector places on having a separate annual report as part of the rate setting consultation

Agree / Disagree

Shelley Robertson
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Te Puna Kaupapahere

25/08/2022

Hon Chris Hipkins
Minister of Education

2/9/22

Background

14. The EEL charges education providers to fund activities within a legislatively defined set of activities that benefit the international education sector and New Zealand's international reputation.

15. A sudden and significant increase in closure-related reimbursements (from an average of $0.15m until 2017 to $3.2m in 2018-19) caused immediate financial pressure on the EEL reserves. Following public consultation in 2018, you agreed to increase the rate to 0.89% of international student tuition fee revenue for Private Training Establishments, and to 0.5% for all other providers (METIS 1175029 refers). The differential rate was in recognition of the disproportionate burden on the EEL caused by PTEs.

16. When the levy was suspended the rate was 0.50% of international student tuition fees for universities, Institutes of Technology and Polytechnics, and schools, and 0.89% of international student tuition fees for Private Training Establishments.

17. Many of the costs covered by the EEL are fixed or do not scale with the number of current international students, such as funding for New Zealand Qualifications Authority (NZQA) to run the Tertiary and International Learners Code of Practice and funding for Education New Zealand (ENZ) to market and promote New Zealand's education abroad, undertake research and support industry development.

18. The fund has a balance of $3.56m in June 2022 and has a repayable advance of $4m due to the Ministry of Education by 2023/24. The expenditure requirements include $0.5m which together with the account balance of $3.56m should allow the advance to be repaid.

19. COVID-19 has had a significant impact on the international education sector, and international student tuition fee revenue is likely to take a number of years to recover. The impact of low student numbers and fixed costs is that the EEL rate will have to significantly increase to maintain spending levels. The alternative is funding from other sources.

Analysis

20. Setting a rate requires estimating expenditure needs, estimating international tuition fee income, and setting a levy rate that balances the two, considering the difficulties in collection. With the pace and scale of student numbers particularly uncertain, the analysis looks at three tracks for student volume recovery.

21. This analysis looks at setting EEL rates over the next three years to break even (depleting the positive balance). This ensures that the EEL balance is sustainable and recognises that the next three years will be unusual with international student numbers building up from 13,000 (June 2022) closer to pre-COVID-19 numbers. The pace of this recovery is uncertain.

22. While the rates proposed are designed to break even over three years, you could adjust the levy rate at the two-year point, this could be a useful option if the student numbers begin to differ from the medium scenario used in the modelling.

Key assumptions

23. The largest uncertainty is the pace of student recovery, three scenarios for student recovery have been used to illustrate this. Average tuition fees, distribution of students across sub-sectors, student reimbursement costs and the success of levy collection also add uncertainty.

24. The following student number scenarios have been used. These are scenarios rather than forecasts due to the high level of uncertainty.
    - Low – a steady increase from 13,000 to 25,000 over three years
    - Medium – a steady increase 13,000 to 50,000 over three years
    - High – a steady increase from 13,000 to 75,000 over three years

25. Assumptions based on collection of the EEL in previous years include: a rate of 0.6 equivalent full-time students for every student, 20% of students studying at a PTE, and an EEL collection success rate of 75%.

26. Indications are that the university sector is expecting a student recovery in line with the high student numbers scenario or better. The main analysis in this paper is centred on the medium scenario.

Levy activity expenditure requirements

27. EEL activities funded in 2019 and supported by the CRRF include:
    - Promotion, marketing, research and industry development from Education New Zealand (ENZ)
    - Ministry of Education policy and administration of the EEL (MoE)
    - Provision for reimbursements resulting from PTE closure - ensuring that international students are reimbursed in the event of private provider failure (NZQA)
    - Code of Practice administration - maintain service level and associated resource (NZQA)
    - International Student Contract Disputes Resolution Scheme
    - International Student Wellbeing – funding for international student wellbeing initiatives
    - Scheduled repayment of an advance from MoE to the EEL fund to cover previous shortfalls.

28. This report looks at two spending profiles for the EEL, a base scenario of $12.7m over three years from 22/23 to 24/25 and a low option of $10.7m over the same period. The difference is the amount of funding for ENZ activities which is scalable.

29. Scaling the other activities would have impacts. NZQA code compliance and dispute resolution are legislatively required activities. Wellbeing initiatives and reimbursement are optional, but current policy is to provide both.

30. Reimbursements and Student Wellbeing Initiatives have been scaled from their 2019 levels. This is possible due to lower student and provider numbers.

Central Scenario

Operating funding sought ($m)	**2022/23**	**2023/24**	**2024/25**
ENZ	0	3.266	3.266
Code of practice administration	0*	0.723	0.723
Dispute Resolution Service	0.233	0.233	0.233
Policy and Administration (MoE)	0.400	0.400	0.400
International Student Wellbeing	0**	0.300	0.500
Provision for reimbursements resulting from PTE closures	0**	0.750	0.750
Advance Repayment	0.200	0.300	0
Total	**0.833**	**5.972**	**5.872**

*covered by Budget 22
**covered by CRRF

31. A low option that totals $10.7m over the period does so by reducing annual ENZ EEL expenditure from $3.266m per year to $2.300m while keeping expenditure on the other activities the same.

32. A spending scenario to match the expected rate revenue of $6.3m if the EEL rates were reintroduced at 2019 levels would have to make further spending reductions than the low option. In this case, the EEL would no longer fund ENZ or Student Wellbeing initiatives. This would maintain statutory obligations and administration of the fund only.

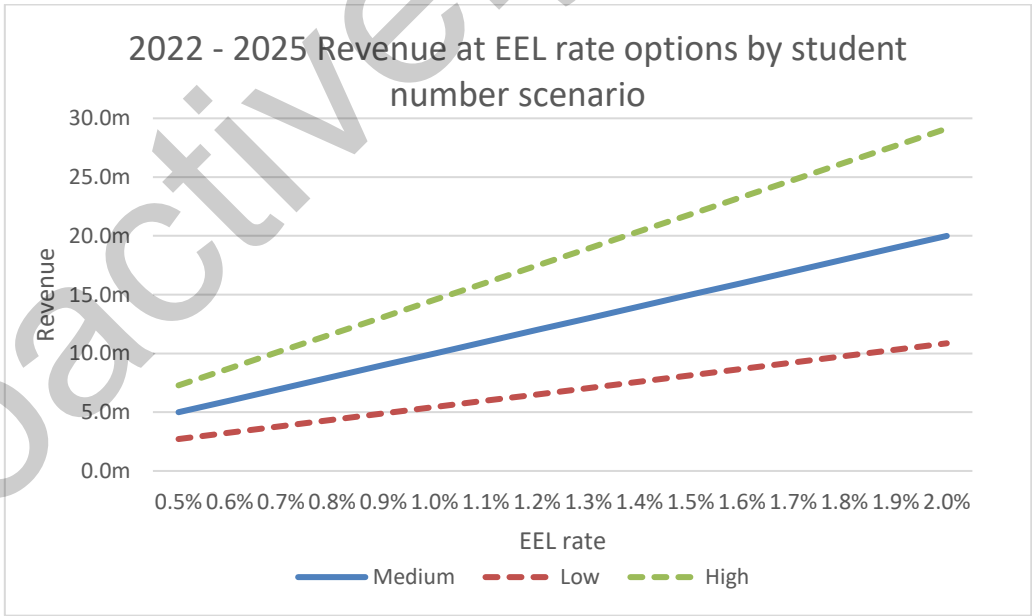
Students

33. The number and pace of the student recovery is perhaps the largest uncertainty to consider when setting levy rates. The analysis in this paper uses a medium recovery scenario of 50,000 students by June 2025. The sensitivity analysis includes paths to 25,000 (low) and 75,000 (high). In 2019, there were 110,000 students, however these students built up over time and included students who were in their first, second and third (or more) year of study.

34. We are monitoring international student trends, and international student numbers are recovering well in Australia (annual study commencement rates at 70% of 2019 levels in May 2020). However, there are reasons to suspect the path for New Zealand may not mirror other countries such as different COVID-19 management border policies and reforms such as the Immigration Rebalance.

Rate Analysis

35. The following chart shows the revenue expectations depending on the rate. The blue line shows the medium student scenario (50,000 by 24/25). The dashed lines show revenue expectations with high (75,000 by 24/25) and low (25,000 by 24/25) student volumes.



36. If the EEL is reintroduced at the same rate as 2019, we expect it to raise around $6m over the next three years. This compares to expenditure scenarios of $10.7 – $12.7m.

37. An EEL rate set at 1.3% would cover expenditure of $13m up to 2024/25 if we build up to 50,000 students in 2024/25. If student numbers are lower at 25,000 then a rate of

2.3% would be required. If student numbers are higher at 75,000 then a rate of 0.9% is required.

38. An EEL rate set at 1.1% would cover expenditure of $11m up to 2024/25 if we build up to 50,000 students in 2024/25. If student numbers are lower at 25,000 then a rate of 2.0% would be required. If student numbers are higher at 75,000 then a rate of 0.8% is required.

39. Alternatively, $12.7m could be raised with a PTE rate of 1.9%, and non-PTE of 1.1%, $10.7m could be raised with 1.6% for PTEs and 0.9% for non-PTEs. PTE students make up around 20% of equivalent full time (EFT) students and charge higher tuition fees than other sectors excluding universities.

40. A higher rate has been used in the past for PTEs. This reflects that they are much more likely to trigger the policy of reimbursing students for education that has failed to meet NZQA monitored standards, when the provider is unable to reimburse or remedy. Given the uncertainty of reimbursement requirements and the relative recovery of PTEs it is difficult to justify and set a split rate over the next three years.

41. On this basis, setting a rate at 1.1% would balance goals of sector support and targeted spending during the rebuild and a principle that the sector should fund EEL activities. This rate could be lower if spending was reduced (such as less on promotion and marketing) or if some core regulatory activities continue to be supported through budget (such as NZQA code function and dispute resolution).

EEL Improvements

42. We have looked at several improvements to the EEL, within the policy of reinstating the EEL for January 2023. This includes governance, process changes that require legislation, and process issues that contribute to high collection costs and some failure to collect.

Sector advisory group

43. The levy is designed to fund activities that benefit the sector overall, setting up an advisory group with sector representatives could help to ensure expenditure is well targeted to activities the sector values (within legislated activities). The risk is that with EEL expenditure required to support critical functions such as the NZQA code and dispute resolution, and support core Crown agency activities such as ENZ marketing and promotion, there is relatively little that the group could be given influence over. There is also an existing mechanism through the Peak Bodies Forum where agencies discuss their plans for the coming year in addition to providing updates on their activities.

Legislative requirements

44. The Education and Training Act requires a separate bank account and Annual Report for the EEL. The requirement of a separate EEL Annual Report and treatment akin to a separate entity creates significant additional administrative complexity and cost, duplicating accounting and audit effort. It's unusual to require a separate Annual Report for levies, the Ministry School Insurance Scheme levy does not. MBIE has many levies, with accountability and reporting achieved with disclosures within the Ministry Annual Report. We recommend testing the value the sector places on a separate annual report as part of consultation on the rate.

Administration of the Levy

45. In the modelling, based on past experience we have assumed a 25% rate of non-collection of the levy. Levy collection is complicated by:

a) Complex data with enrolment information collected from three systems (schools, funded tertiary providers and unfunded tertiary providers)
b) Movement of tertiary providers between unfunded and funded systems
c) Rate calculation and Invoicing
d) Enforcement challenges for non-payment
e) Poor fit with existing systems, such as enrolling tour groups who attend for short periods

46. The Ministry will work to improve EEL collection and administration; however it is unlikely the administration burden can be significantly reduced. In the past the EEL has contributed $0.15m per annum to MoE administration costs, however this does not cover the true cost of administration. Due to the complexity of the fund the Ministry estimates an administration cost of around $0.4m in 2019. The expenditure scenarios include $0.4m for administration if required.

Next Steps

47. The Ministry can begin consultation on a new rate based on the agreed recommendations in this paper. Post consultation, we can draft a cabinet paper seeking agreement to the policy decision to reinstate at the specified rate, after considering consultation feedback.