Stage 2 Cost Recovery Impact Statement

Reintroducing the Export Education Levy

Agency Disclosure Statement

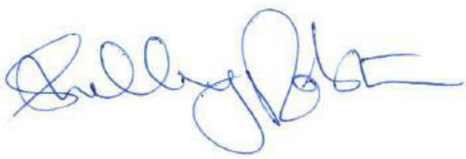
This Cost Recovery Impact Statement has been prepared by The Ministry of Education. It provides an analysis of options to reinstate the Export Education Levy and set the rate of the Export Education Levy.

Assumptions on student numbers have a large impact on EEL revenue expectations. 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). Scenarios are used to inform rate setting and expectations but should not be used as forecasts. Officials have been unable to forecast student numbers with confidence.

Consideration has been given to reintroducing the levy, leaving the levy revoked and delaying the reintroduction of the levy. For rate setting options looked at include reinstating 2019 rates, and the rates for two expenditure options that would restore activity levels close to 2019 levels.

International Education providers have been consulted on the option to reinstate the levy for 2019 and set rates at 2019 levels. The consultation period was two weeks.

Further work on allocating roles and ensuring data collection is fit for purpose will be required before the Levy can be collected efficiently, this work is ongoing.



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Executive summary

1. This Regulatory Impact Analysis covers the policy decision to reinstate the Export Education Levy, the considerations for setting the levy rate and implementation.

2. The case for reinstating the levy is that the suspension was only ever temporary, and that providers benefit from the funded activities.

3. The case for leaving the levy revoked in the short term is the lack of sector support during the rebuild phase as student numbers are low after border closures. The medium-term case for leaving the levy revoked is that for some funded activities it performs poorly on measures such as accountability, solving a collective action problem and fairness.

4. With expected low student numbers in comparison to 2019, levy rates would need to be higher to fund the same level of activities. Consultation has indicated that providers would not support a raise in rates, and it is likely that providers can target funds better than the levy in the short term. On this basis the 2019 levy rates are proposed, with a reduction in levy funding of activities until student numbers recover.

Status quo

5. In 2003, the Government introduced the EEL to fund a clearly defined set of activities that benefit the international education sector and New Zealand's international reputation. The EEL is now authorised by section 641 of the Education and Training Act 2020.

6. The activities funded by the EEL include:

    - the development, promotion, and quality assurance of the export education sector
    - support (financial or otherwise) of other bodies engaged in the development, promotion, or quality assurance of the export education sector
    - reimbursing international students affected by provider failure
    - the administration and audit of the Code in respect of international students
    - the funding of the cost of the operation of the International Student Contract Dispute Resolution Scheme
    - the general administration of the levy and associated purposes.

7. The EEL is payable by any education provider that enrols international fee-paying students, this means universities, schools, Te Pūkenga, private training establishments and Wānanga will pay the levy. Providers are charged a portion of tuition fees paid by international students, 0.89% for private trains establishments, and 0.5% for the rest of the sector.

8. In response to COVID-19, EEL payment obligations were cancelled for international fee-paying students enrolled between 1 January 2020 and 31 December 2021.

9. On 6 October 2021, the Cabinet Business Committee agreed to remove the obligation to pay the EEL for the 2022 calendar year [CBC-21-MIN-0109]. This was implemented by revoking the regulations with the intention to when required, make new regulations to impose an Export Education Levy [LEG-21-SUB-0197].

10. During the suspension of the EEL the Government continued to support services through the COVID Response and Recovery Fund. The support included funding for: promotions and marketing, industry capability building, international student welfare, and reimbursement for provider closures. Budget 2022 support was also provided for the NZQA administered Code of Practice.

Policy Decisions

11. Now that borders are open and international students are returning the question arises about the reintroduction of the levy.

<table>
<tr><th>Decision</th><th colspan="5">Options</th></tr>
<tr><td>1. Whether to reintroduce EEL</td><td colspan="4">Yes</td><td>No</td></tr>
<tr><td>2. When to reintroduce EEL</td><td colspan="2">2023</td><td colspan="2">2024 or later</td><td>N/A</td></tr>
<tr><td>3. Rate to reintroduce at</td><td>2019 levels of 0.5%/0.89%</td><td colspan="2">1.1%</td><td>1.3%</td><td>N/A</td></tr>
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Policy Rationale to Cost Recover - Decision to Reintroduce the Levy

12. The Crown funds activities for international education primarily through baseline funding of education agencies (Education New Zealand, Ministry of Education, New Zealand Qualifications Authority), and supplements appropriated funding using the EEL. This model emerged with the establishment of Education New Zealand from 2011.

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

14. The outcomes sought vary by activity:

Marketing and promotion

15. In addition to course quality, international students often choose to study in New Zealand for "destination" attributes: lifestyle, environment and natural beauty, English-speaking, and safety. This means that a centralised function which markets the New Zealand brand internationally and provides a source of information on the New Zealand education system can add value. This supports (potential) international students in their decision-making process and means that providers can focus on highlighting the comparative advantages of their specific programmes.

16. This role is currently fulfilled by ENZ. Prior to 2011, it was filled by a sector trust, funded under contract with MoE, using levy funding. ENZ promotes New Zealand as a study destination and supports the delivery of education services offshore. The majority of ENZ activities are designed to support the international education sector. The 10% of the ENZ budget that comes from the EEL has funded:

- professional and institutional development of the industry (sector engagement, workshops, forums)
- research and resource development (brand health tracker, student perception)
- promotions and marketing (events, fairs, marketing campaigns, Digital resources for students, support agents' promotion of New Zealand).

17. The benefit of collective action to promote New Zealand is likely achieved through ENZ baseline funding, although the addition of EEL funding allows activity that brings benefits. The benefit is that New Zealand is promoted as a destination for international students and seen as a desirable place to study. This reputation helps international education providers to attract students, in combination with their offerings (including individual marketing).

18. ENZ notes that a removal of EEL funding would lead to a reduction in expenditure and the prioritisation of activities could impact the NZ brand offshore, brand research, and professional development. ENZ see a reduction in funding, as having a significant impact. ENZ is forecasting Crown revenue of $31.2m in 2023 without EEL revenue and excluding funding for scholarships.

Administration of the Code of Practice and the Disputes Resolution Scheme

19. When international students come to study in New Zealand, education providers have an important responsibility to ensure that students are well informed, safe and properly cared for. To support this, the Government has developed the Education (Pastoral Care of Tertiary and International Learners) Code of Practice 2021 (the Code of Practice), which sets out minimum standards providers must meet, building on the previous 2016 Code.

20. The presence of minimum standards benefits provides across the sector by ensuring that the poor practice of a few providers does not impact the reputation of NZ providers.

21. The provisions for the Code of Practice and its administration are set out in the Act. The administrator (currently NZQA) supports implementation and monitoring of the Code of Practice; promotes international student safety and wellbeing; helps resolve issues; and protects New Zealand's reputation as a safe and welcoming international education destination.

22. The requirements for the International Student Contract Disputes Resolution Scheme (DRS) are also set out in the Act. The DRS deals with financial and contractual complaints where international students have been unable to successfully resolve with their education provider. An accessible, free, fair and impartial system for resolving international student complaints is an important part of our protections for international students and supports our international reputation for high-quality pastoral care. The legislative requirements and the need for (both real and perceived) impartiality means that this service cannot be provided by the sector.

23. New Zealand's reputation and international students both benefit from the Code of Practice.

Support for sector implementation of the International Student Wellbeing Strategy

24. The International Student Wellbeing Strategy (ISWS) supports the international education sector by enhancing New Zealand's international reputation as safe, welcoming and responsive to international student needs.

25. In 2016, a series of violent and racially-motivated attacks against mostly Chinese students in Auckland prompted the development and funding of the ISWS. In addition to long-standing concerns about student welfare and the recognition that the Code of Practice alone wasn't sufficient to ensure a positive experience for international students in New Zealand, there were fears in the sector that, if unaddressed, incidents such as these would prompt a significant decline in key markets.

26. Projects funded under the ISWS have been 100% sector funded, through the EEL (although the Ministry of Education and other agencies have absorbed staffing and administrative costs). The funding needs for wellbeing initiatives are flexible, and within a range of $0.25m – $0.75m per annum.

27. Wellbeing projects must fit within the EEL purposes set out in the Education and Training Act, which is the 'development, promotion, and quality assurance of the export education sector.'

Private provider closure-related reimbursements

28. Ensuring that international students are reimbursed in the event of private provider failure is a key part of protecting our international reputation for a high-quality, student-centred international education offering. The whole sector benefits from ensuring that students are protected, and ENZ views these provisions as an important part of being able to market New Zealand as a country that ensures students get a high-quality education.

29. New Zealand is the only one of our key English-speaking competitor countries, apart from Australia, which makes provision for refunding full tuition fees to an international student when the education that has been delivered is deemed to have been of such poor quality that it is not recognised. This is linked to the fact that New Zealand has an increasingly well-developed "mid-flight" (while the course is still in progress) inspection and moderation process of the quality of a provider's teaching and assessment practices, which in some instances leads to programme or provider closure.

30. However, the Student Fee Protection Rules (SFP Rules), introduced in 2004, ensure that international student fees are protected (generally in a Trust) should a provider face financial difficulties or liquidation and be unable to refund students for any pre-paid but unused portion of their fees. This means that, in practice, the only sector-funded coverage for international students affected by private provider failure is due to regulatory closures, when the provider has delivered education which is not up to the prescribed quality standards. In most cases where NZQA is looking at regulatory closure a pathway to completion is found for existing students.

31. These reimbursements are currently funded 100% by the sector, through the EEL. While an important function, the significant costs over recent years (peaking at $3.2m in 2017/18) have put increasing financial pressure on the EEL account. Ongoing provision of $0.75m - $1.5m, depending on sector size, is required per annum.

32. International students are the primary beneficiaries of the reimbursement funding. However, providers also benefit from the guarantee, as attracting students is easier with the expectation of reimbursement. Providers that would otherwise struggle to signal high quality programmes and resourcing benefit the most from student reimbursement.

The EEL does not perform strongly as levy for collective action, accountability, or administration reasons

Marketing and promotion, research, and industry development

33. The highest priority marketing and promotion activities are likely to be covered through the internal prioritisation of Education Agencies baselines. It is unclear that the sector values the additional activities enabled by EEL funding above the activities that they could fund if they retained the levied funds. However, EEL funding can create a sense of ownership over ENZ's activities, which exacerbates a perception of a crown agency as a sector advocacy body.

34. With universities, schools and Te Pūkenga benefiting from New Zealand's education reputation, combined with the wider economic benefits of international education there is a strong case for continued Crown funding of ENZ baseline marketing and promotion at or around current levels.

35. In 2003 with less Crown funding of marketing and promotion of the New Zealand international education sector, the levy helped ensure that activities promoting NZ as an education destination were not underprovided due to providers struggling to coordinate action. This is no longer the case with the substantial presence of Education New Zealand and its baseline resourcing.

36. Collecting the levy involves the deadweight costs of the policy, financial and administrative activity to collect the levy, in addition to the time of the providers in understanding and making the payments. The Crown spends approximately $0.4m collecting the $7m levy, of which $2.2m comes from providers without a form of Crown ownership. This is a high ratio of administration and will be higher while revenue is lower than 2019 as the sector rebuilds after COVID 19.

37. Levy activity is directed, and mostly delivered by the Crown rather than the providers. This limits the ability of the sector to direct to activities that they see as highest value but allows the Crown to target areas where it sees value. This has created some tension with ENZ where a provider may feel they should have some say over ENZ priorities.

38. With general promotions activity and an active New Zealand Education brand covered through ENZ, there will always be the ability for the sector to self-fund additional targeted promotions. The peak body alliance and ENZ could partner to put forward proposals for joint support.

Code of Practice and the Disputes Resolution Scheme

39. The Code of Practice fulfils a regulatory function that now exists for domestic students. Funding of a regulatory function requires collective action, accountability to the wider community (including students) rather than directly to providers and fits well with the functions of the NZQA.

40. The dispute resolutions scheme is required to be an accessible, free, fair and impartial system for resolving international student. The legislative requirements and the need for (both real and perceived) impartiality means that this service cannot be provided directly by the sector.

41. This makes either Crown Funding, levy funding, or a direct charge for code signatories potential funding methods for the functions. Crown funding would have the benefit of low administration costs and parity with the domestic function. A direct charge to

providers in a dispute would help to tailor the size of the administration to the demands placed on the service by the presence of international students.

42. There is now a comprehensive Code across tertiary (domestic and international) and there is an intention to combine the provision of the dispute resolution schemes for domestic and international students after ETAB 2 passes. The Crown funds the domestic code and dispute resolution through vote Tertiary Education.

43. The Crown interest in funding a code for domestic students is clear. For international students and providers there is a strong case that they benefit from the code and should support the running costs. The main issue is that Code costs alone are not high enough to justify the administration costs of a levy, or user charging. Therefore, the case for sector funding of the Code is linked to the case for the sector to fund other costs.

44. A rationale for the Crown to fund the code and dispute scheme is that (1) it is a regulatory requirement, (2) it would match the funding arrangements of the domestic code, (3) it could benefit from economics of scale and scope with the domestic code, (4) it benefits Crown owned providers, and (5) it is among the highest value activities for international education – so would be top of the list for a Crown contribution to support the sector.

Wellbeing supports

45. In 2020, 21 wellbeing initiatives were funded, such as:

- workshops giving an overview of international student rights living in New Zealand, covering topics such as immigration; employment; tenancy and general contracts.
- entrepreneurial pitch competition, and support for female entrepreneurs to develop their skills
- on-campus Māori cultural experience for new international students within the first six weeks of arriving
- activities for international students.

46. A funding round was run by the Ministry of Education to select initiatives, with projects selected by international education sector representatives including students, communities, education providers and government representatives.

47. Only the students who participate in the wellbeing initiatives benefit. Without the EEL, providers would have resourcing they could put toward these kinds of initiatives to support students and make their offering stronger. Direct accountability in this way could also improve the quality and appropriateness of the service offered.

Reimbursement

48. The sector, as a whole, benefits from ensuring that students are financially protected. Student reimbursement can be seen as insurance against a situation where one provider brings down the New Zealand education sector reputation.

49. However, it’s not clear-cut that failures in one provider type (such as English language schools) would impact other provider types (such as universities) and vice versa. The complicating factor is when foreign governments that direct their outbound students could take a role in coordinating action against NZ.

50. The insurance analogy is also imperfect, as the risk of a provider failing in course provision and failing to make up for it to students is not evenly shared within sub-sectors let alone across sub-sectors.

51. Ending the reimbursement scheme would risk leaving some students with a bad experience of New Zealand education and without a qualification reflecting the time they have studied here (where a formal qualification is important, not necessarily the case with English Language providers). Ending the practice of reimbursement may include a risk of reputational damage which could impact student numbers and tuition fee revenue.

52. Reimbursement decisions could be made on a case-by-case basis and funded by the Crown. This would limit fiscal costs to cases that would severely impact New Zealand's reputation and recent policy changes combined with the Immigration Rebalance are likely to make low value provision less likely, thereby reducing the need for reimbursement.

53. Public organisations should only be charging compulsory targeted levies where a service benefits the group that bears the incidence of the levy, or the levy is necessary to mitigate or compensate for an externality that an activity is imposing on society.

Reviews of cost recovery charges

54. The EEL rate is being reviewed because the levy will be reintroduced, and the ability of the sector to absorb the levy and the number of international students has changed.

55. The activities are prescribed in legislation and outlined above in paragraph 6.

56. The payment rates are prescribed through regulation. The regulations must prescribe the amount or the method of calculating the amount (or both) of export education levy payable by individual signatory providers, and may prescribe different amounts, or different methods of calculating the amounts, payable by different classes of signatory provider. EEL rates when the levy was suspended were 0.50% of international student tuition fees for universities, Te Pūkenga, and schools, and 0.89% of international student tuition fees for Private Training Establishments (PTEs).

57. While the levy is suspended it does not raise funds for the activities. If the levy is reintroduced, while student numbers are low as the sector rebuilds after COVID 19 and a restricted border, the EEL will not raise as much, this will limit the activities that can be funded.

Cost Recovery Principles and Objectives

58. The Education and Training Act 2020 has four purposes:

    a. provides New Zealanders and those studying in New Zealand with the skills, knowledge, and capabilities that they need to fully participate in the labour market, society, and their communities; and

    b. supports their health, safety, and well-being; and

    c. assures the quality of the education provided and the institutions and educators that provide and support it; and

    d. honours Te Tiriti o Waitangi and supports Māori-Crown relationships.

59. The activities for the levy are specified in the Act, and all link to either the well-being of students, the quality of education, or attracting students to study in New Zealand.

60. Based on Auditor-General fee and levy guidance, and Treasury Guidelines for setting charges in the public sector a good use of a levy should:

    a. primarily benefit the levied
    b. solve a collective action problem that prevents the levied from acting themselves
    c. include accountability to ensure high value spending
    d. avoid excessive administration costs.

Policy Rationale

61. The rationale for an Industry levy for international education activities is that:

    - For promotion and marketing, the industry benefits from ENZ marketing and promotion, so a levy avoids free rider problems of leaving all promotion to providers. Full public funding for the activity would not reflect that international education providers benefit much more than society.
    - For International Student well-being driven activities (code, dispute resolution, wellbeing initiatives, reimbursement) it would not be practical for individual providers to fund the activities. Public funding would be an option, but industry funding reflects that education providers are the primary beneficiaries of international students, and they have a duty of care to ensure the well-being of international students.

62. The nature of the outputs is club goods - they are excludable and non-rivalrous. International providers can be levied and are the only ones that benefit from marketing and their students benefit from the wellbeing outputs. Both marketing and wellbeing (such as having a code of practice) are non-rivalrous, many students can be attracted by a campaign, and benefit from standards.

63. The levy can be seen as partial cost recovery, due to the baseline funding that the agencies delivering the outputs receive.

64. The charge is proposed to be a percentage of international student tuition fees. This has the benefit of charging based on the benefits that international providers receive from international students. The Act provides flexibility on the type of charge. A flat fee per student based on length of course would not capture the difference in financial value per student depending on institution or course. This is particularly relevant for the funding of promotional and marketing activities.

65. International education providers will pay the levy, with the incidence of the fee also passing through to international students. 171 Tertiary institutions currently enrol international students as code signatories, and over 700 schools.

66. The average international student tuition fee per full-time student in 2020 was $30,000 for universities, $17,000 for Te Pūkenga, $15,000 for PTEs and $15,500 for schools. This will make the average fee per student $150 for universities, $85 for Te Pūkenga, $133 for PTEs and $77 for schools.

The level of the proposed fee and its cost components

Levy activity expenditure requirements

67. EEL activities funded in 2019 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.

68. This analysis 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.

69. 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.

70. 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

71. 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.

72. 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 only make small allocations to ENZ or Student Wellbeing initiatives. This would prioritise maintaining statutory obligations and administration of the fund, as well as making provision for PTE closures.

73. If international student numbers underperform the scenario used, further prioritisation will be required.

2019 Rate Scenario

Operating funding sought ($m)	**2022/23**	**2023/24**	**2024/25**
ENZ	0	0.2	0.2
Code of practice administration	0	0.723	0.723
Dispute Resolution Service	0.233	0.233	0.233
Policy and Administration	0.4	0.4	0.4
International Student Wellbeing	0	0.25	0.25
Provision for reimbursements resulting from PTE closures	0	0.75	0.75
Advance Repayment	0.2	0.3	0
Total	**0.833**	**2.856**	**2.556**

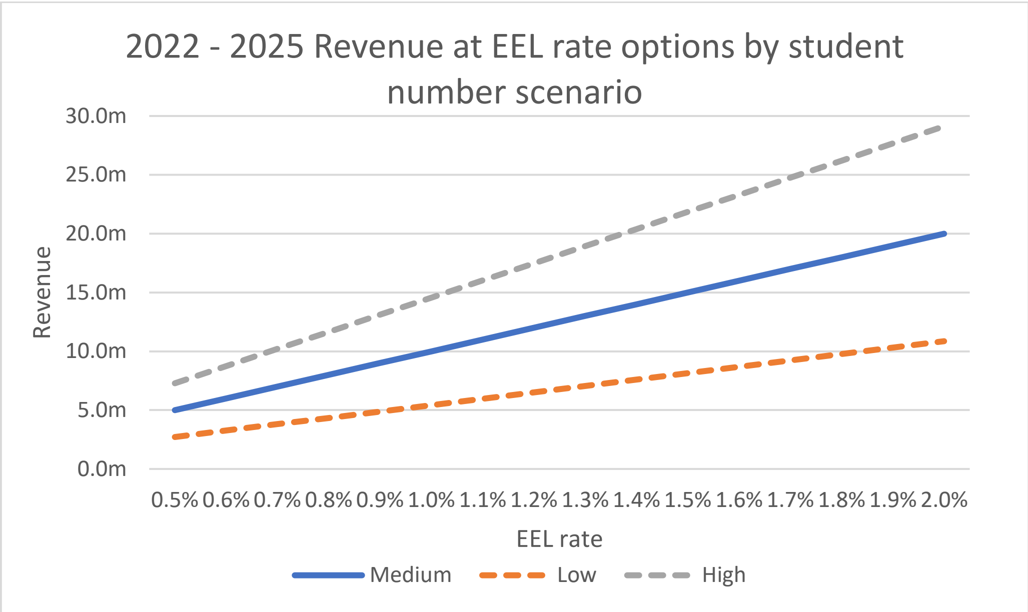
Students

74. 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.

75. 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

76. 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.



77. 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.

78. 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.

79. 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.

80. 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.

81. 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.

82. 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).

83. The impact analysis and consultation sections show that increasing rates above 2019 levels, such as to 1.1% would be seen as too unfair by the sector. The sector preference is likely to be to reduce activity rather than raise rates.

Consultation

84. The Education and Training Act 2020 (the Act) requires consultation with International Education providers that have signed up to the International Education (Pastoral Care of Tertiary and International Learners) Code of Practice 2021 (the Code).

85. The options provided to signatory providers through a two week consultation were to reinstate the levy for 2023 at the 2019 rates.

86. Through consultation the international education sector has raised that they still face hardship, and they expect this to continue through 2023. There is significant uncertainty on how many students will want to study in New Zealand in 2023. The sector cites flight availability, slow visa processing, loss of key personnel and traveller wariness as contributing to a very slow recovery for the sector.

87. Providers wish to use resources to focus on viability, followed by recovery before funding EEL activities. Feedback from individual providers and a joint submission from all the sector peak bodies recommends delaying the EEL for a year. Many providers also raised that they do not support the EEL as a funding tool, including seeing limited benefits from the EEL funded activities.

88. Visa data shows that 15,000 international students were in New Zealand in September 2022, compared to over 65,000 in 2019. It is likely that international education providers remain impacted by uncertainty and low student numbers through 2023.

89. The proposal has not been altered to reflect sector feedback.

Conclusions and recommendations

Ministry Recommendation

90. The analysis presented above, and stakeholder views do not support the reintroduction of the levy when assessed against levy criteria. Introducing a criterion of ensuring cost sharing between the Crown and international education providers for activities leads to a decision to reintroduce the levy. If the levy is to be reintroduced, then the question is when and at what level.

91. While EEL activities offer clear benefits to international students and providers, most of the activities could be carried out by the providers directly, or are already heavily supported by the Crown, lessening the marginal benefits of using the levy.

92. With EEL spending directed by the Crown, and largely implemented by the Crown, there is an accountability gap that calls into question the use of an industry levy. Providers pay the levy but get no say in how it is used. In the case of reimbursements for a provider failure, the main beneficiaries do not meet the cost.

93. The administration burden of this levy is high and would increase if activities were reduced. With 80 percent of the levy coming from Crown institutions (schools, universities and Te Pūkenga), the administration cost is difficult to justify, particularly as it does little to create good incentives.

Levy performance

	Primarily benefits the levied	Solves a collective action problem or externality	Accountability to those making payments	Avoids excessive administration costs
EEL				
Promotion and Marketing, research, and industry development	✓	×	×	×
Code of Practice and Dispute Resolution	✓	✓	×	
Reimbursement	×	-	×	
Wellbeing Initiatives	✓	×	×	

94. With a poor case for using levies, and no industry support for the levy, the Ministry of Education recommendation is to leave the EEL revoked, with public funding for the Code of Practice administration and dispute resolution ($1m per annum).

The case to reinstate the EEL

95. The rationale for an Industry levy for international education activities is that:

- For promotion and marketing, the industry benefits, so a levy avoids free rider problems of leaving all promotion to providers. Full public funding for the activity would not reflect that international education providers benefit alongside society.
- For International Student well-being driven activities (code, dispute resolution, wellbeing initiatives, reimbursement) it would not be practical for individual providers to fund the activities. Public funding would be an option, but industry funding reflects that education providers are the primary beneficiaries of international students, and they have a duty of care to ensure the well-being of international students.

When to reinstate the EEL

96. Through consultation providers have highlighted that the recovery of the sector will take time. Visa data shows that 15,000 international students were in the country in September 2022. It is likely that international education providers remain impacted by uncertainty and low student numbers through 2023.

97. With the flow of students into New Zealand impacted from 2020, even if flows resume at pre-COVID levels it will take 3-4 years of an open border for the stock of students to return to 2019 levels.

98. The levy is proportional to income from students, so providers with low student numbers will pay less levy. Delaying the levy for a year (until 2024) may have a revenue reduction impact of around $1.8m.

99. There is a choice between delaying the reintroducing of the levy to 2024 or bringing it back for 2023. The choice will depend on the willingness of the Crown to support or forgo activities during the period of suspension, and a judgement about when providers have the resources to support levy activities.

Rate setting

100. While international student numbers are recovering it would take a flat rate of 1.1 – 1.3% to fund levy activities at similar levels of outputs to 2019. This would be a significant increase for international education providers at a difficult time. On this basis reinstating 2019 levy rates and prioritising expenditure is the preferred option.

Implementation plan

101. For the schooling sector, the levy will be deducted from operational funding instalments that schools receive from the Crown:

   - Trimester 1: 31 January to 30 April – July instalment
   - Trimester 2: 1 May to 31 July – October instalment
   - Trimester 3: 1 August to end of school year – January instalment.

102. Tertiary institutions will be invoiced by trimester. Implementation in this way will match existing practice from 2019 before the levy was suspended.

103. Implementation risks include:

   - Loss of institutional knowledge in the collection of the levy – this will be mitigated through assigning roles and drawing on previous experience in the collection of the levy
   - Sector compliance with levy collection, given the low level of support for the levy – this will be mitigated through communication and enforcement activity
   - Loss of provider knowledge of processes for providing information the levy is calculated from – this will be mitigated through providing instructions.

Monitoring and evaluation

104. Performance metrics will be developed showing the outputs of the funded activities, and the collection of the levy. This will be reported in the mandatory Annual Report, or if this is changed, then a similar report.

Review

105. A review will be conducted during 2024/25 to evaluate levy collection, levy rates and required expenditure.