



Education Report: Support for schools that have lost international student revenue

To:	Hon Chris Hipkins, Minister of Education		
Date:	4 June 2020	Priority:	High
Security Level:	In Confidence	METIS No:	1229722
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Messaging seen by Communications team:	No	Round Robin:	No

Purpose of Report

This paper responds to your request to prepare a Budget bid to support schools that have lost international student revenue as a result of COVID-19 and seeks direction on the quantum of funding to be sought.

Summary

- 1 Around 600 New Zealand state and state integrated schools enrol international students. Schools' gross revenue from international students in 2019 was approximately \$200m across the system, which is estimated to be around a third of total locally-raised funds.
- 2 As a result of COVID-19 and no foreign nationals being able to enter New Zealand, many schools are projecting losses in their international student revenue in this school year and the years that follow. In some cases these losses will be significant.
- 3 Due to the actual and expected drop in numbers of international students, schools have requested subsidies to replace their lost income from international students and enable them to retain specialist international staff. This workforce is essential to both provide pastoral care to students already in the country and to enable a future international education market to continue and grow when New Zealand's borders open again.
- 4 We are currently preparing a Budget bid to help state and state-integrated schools manage the immediate financial pressures arising from COVID-19, including transition funding for schools that have lost international student revenue for the remainder of the 2020 school year. We propose seeking transition funding of \$20m for the remainder of the 2020 school years to provide support to schools as they potentially adjust to a lower income stream from 2021 onwards. We propose allocating this transition funding based on the number of international students each school has lost compared with 2019 numbers.

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s 9(2)(f)(iv)

Recommended Actions

The Ministry of Education recommends you:

- a. **indicate** the quantum of transitional funding for the remainder of the 2020 school year to be sought through Budget:

Option 1: \$5 million

Option 2: \$10 million

Option 3: \$20 million (recommended option)

Option 1 / Option 2 / **Option 3**

- b. **note** that , subject to recommendation a), the Ministry of Education will develop a formula to allocate the subsidy for 2020 if the bid is successful

Noted

- c. **not release** the report at this time as decisions on financial support have yet to be made and this report contains Budget sensitive information

Release **Not release**



Dr Andrea Schöllmann
Deputy Secretary
Education System Policy

05/06/2020



Andy Jackson
Deputy Secretary
Graduate Achievement,
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05/06/2020



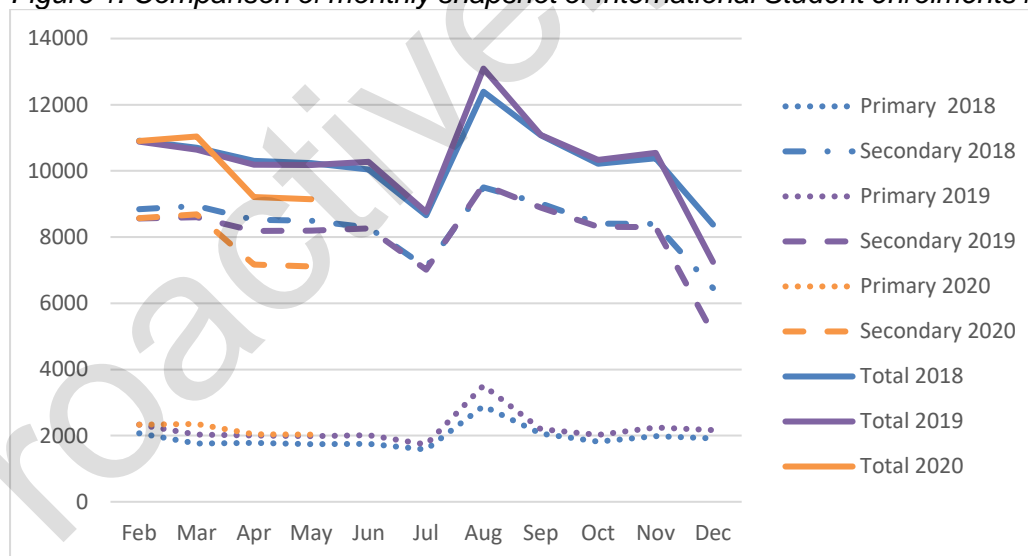
Hon Chris Hipkins
Minister of Education

6 / 6 / 2020

Background

- 1 We have previously provided you with a briefing on the reduction of international fee paying students¹ in state and state integrated schools and related revenue loss [METIS 1227998 refers]. s 9(2)(f)(iv)
- 2 In 2019, total international revenue for state and state-integrated schools was \$201.6m. This made up approximately one third of locally raised funds across the system². Other main sources of locally raised funds are donations and fundraising. International student revenue represents around 3% of school funding across the system when teacher salaries, schools' operational grants and locally raised funds are included. When looking only at operational grants and locally raised funds grant (i.e., the cash available to schools), international revenue represents around 9% of school revenue across the system³.
- 3 You received a joint submission from the Schools International Education Business Association of New Zealand (SIEBA) and Secondary Principals' Association of New Zealand (SPANZ) on the topic of international students on 12 May. This requested support for non-teaching staff employed in state and state integrated schools to support international education, as state sector organisations cannot access the wage subsidy.
- 4 Figure 1 below shows the recent patterns of international student enrolment compared with 2020. While there has been a drop in numbers, it has flattened off between April and May. It is too early to say what the impact for the rest of 2020 will be, although we do know that no new students will arrive. This graph is based on a snapshot of student enrolments on one day each month, not on cumulative enrolments.

Figure 1: Comparison of monthly snapshot of International Student enrolments for 2018-2020⁴



¹ This paper is only concerned with international fee paying students. Other international students such as children of certain visa class holders are funded as domestic students.

² Note that the introduction of the donations scheme in the 2020 school year will have impacted the make-up of locally raised funds, in addition to the impacts of COVID-19.

³ All numbers based on 2018 audited accounts.

⁴ Note primary also includes composite schools in this graph.

International staff and cashflow

- 5 As noted in our previous briefing [METIS 1227998 para 29-30], a range of specialist international staff, including both pastoral care and administration, are employed. In addition, schools may use income from international student fees to pay for other support staff, additional teaching staff, extra-curricular activities, property to cater for international students, enhancing facilities or marketing.
- 6 It may not be possible for some schools to retain some or all of their specialist international staff. Their boards of trustees may need to make difficult decisions about their international staffing requirements, taking into account the need to have the right staff on board to support existing international students, their recovery efforts and also their contractual responsibilities.
- 7 The Ministry of Education provides clear guidance on its website about the responsibilities of the board of trustees in employing staff, especially for teachers employed above the school's staffing entitlement. These include being a good employer as defined in the State Sector Act 1988 and complying with the conditions contained in employment contracts applying to teaching and non-teaching staff. The website specifically has a requirement that: *"Your board of trustees is satisfied it has enough financial resources in the short and long term to meet the ongoing fortnightly salary costs, and other associated costs, of any board-funded staff."*
- 8 Despite this guidance, the speed of change due to COVID-19 has been a shock for boards and a drop in international students is unlikely to have been anticipated in their short or long term planning.
- 9 The Ministry of Education, via Education Payroll Ltd, holds direct debits for school bank accounts. Debits for salaries and wages are made fortnightly. Schools are advised the week before deductions are made so that they can ensure there are sufficient funds in the bank account. Education Payroll holds information on the number of board-funded staff but not on the source of the funding (i.e. operational grant or locally raised funds, including fees from international students).
- 10 Some schools will be concerned as to whether they have sufficient funds to meet their payroll obligations (via Education Payroll Ltd.)⁵ for the rest of the year if their international students leave or anticipated students do not arrive. Other schools will have sufficiently strong balance sheets and reserves to enable them to manage. The Ministry has no visibility of current school finances. It only receives the information retrospectively once audited accounts are submitted.

As schools are part of the state, they cannot take advantage of the wage subsidy to mitigate the financial burden they face in respect of staff

- 11 As we noted in our previous report [METIS 1227998 refers], even if state and state integrated schools had been eligible for the wage subsidy scheme, it is unlikely that most schools would have met the 30 percent income-drop criteria. When making the case for the wage subsidy, schools are likely to be considering the international revenue in isolation, rather than all the funding their school receives.

⁵ The Ministry of Education, via Education Payroll Ltd, holds direct debits for school bank accounts. Debits for salaries and wages are made fortnightly. Schools are advised the week before deductions are made so that they can ensure there are sufficient funds in the bank account. Education Payroll holds information on the number of board-funded staff but not on the source of the funding (i.e. operational grant or locally raised funds, including fees from international students).

- 12 We previously advised you that businesses and organisations cannot claim for losses in different divisions unless they are legally separate entities [METIS 1226335 refers]. The SIEBA/SPANZ joint submission referred to international student enrolments being run “as private businesses”. While this may be their perception, it is not correct. International student enrolments are not run as a private business, they are enrolled as part of a statutory process, within the state school system. Schools are not funded by the Crown for international education, but that does not mean they are therefore ‘private businesses’.

The purpose of the funding

- 13 The impact of COVID-19 on the international education market was sudden and unexpected, hence transition funding to support schools through the 2020 school year is appropriate. This will enable them to manage down their expenditure in 2020, while planning for lower international revenue in 2021.
- 14 You have directed us to prepare a Budget bid to provide support to schools that have lost international student revenue as a result of COVID-19. This is being included as part of a wider package aimed at supporting schools through the immediate financial impacts of COVID-19, such as additional cleaning costs and relief teacher costs. As with the sudden loss of international student revenue, these additional costs to schools could not have been foreseen or budgeted for.
- 15 We propose that the transition support fund operate for the remainder of the 2020 school year. It would provide support to schools as they adjust to a lower income stream for 2021 onwards. This has parallels with the new 12 week COVID-19 Income Relief Payment.
- 16 The transition support fund would provide a subsidy to schools for the remainder of the 2020 school year. School boards of trustees will have to make a realistic plan for their 2021 budget that does not rely on international students. The schools can choose how to use the funding in 2020. It could be used to partially support staff wages or to make redundancy payments.

- 17 s 9(2)(f)(iv)

Recommended approach

2020 subsidies

- 18 We recommend seeking transition funding of \$20m for the remainder of the 2020 school year, included as a component within a wider package aimed at supporting schools through the immediate financial impacts of COVID-19. We estimate that there are approximately 900 FTE employed in specialist international roles. While \$20m is significantly less than what schools would have brought in through international student fees, it is the equivalent of subsidising the wages of these estimated 900 FTE for 42 weeks. Alternatively, this can be scaled to a lower amount.
- 19 If the bid is successful, we propose developing a formula to distribute the funding based on the reduction in international students in each school. The amount distributed to each school would depend on the number of students they have at a point in time, compared with a point in time last year (to give a sense of the reduction each school has experienced). It would be paid as a one-off manual payment to schools.

s 9(2)(f)(iv)

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Risks

- 22 The COVID-19 situation has highlighted that many schools with international students are reliant, for part of their business, on this income and may need to plan for a future loss of that income. The Auditor-General drew attention to this risk in his 2019 report on 2018 school accounts⁶. Boards of trustees' financial risk becomes the Crown's financial risk as the Crown is asked, as now, to fund the expenditure that the boards of trustees can no longer meet. Providing the subsidy in this case may set a precedent for doing so in future cases and encourage poor financial management.
- 23 The risk in providing this additional subsidy is that schools take an overly optimistic view of their future international student income. We would therefore recommend reviewing policy settings to require schools to put greater funding aside to allow for a downturn in their international student business to more realistically manage the financial risks.
- 24 Additionally, there will be a perception of unfairness in the sector if other state and state integrated schools do not receive any additional funding to make up for the loss of other locally raised funds. Schools use a variety of locally-raised funds to employ additional teaching and non-teaching staff, and many of these funding streams are now at risk (for example, major annual fundraising events which are unable to take place). Correspondence has already been received on this topic. This risk is mitigated by the purpose of this funding, which will be clearly communicated – it is funding to support the international workforce during an unexpected market contraction and is not intended to make up for lost revenue.
- 25 Similarly, those decile 8-10 schools who are not eligible for the donations scheme and that don't have international students but whose parent communities may no longer be able to afford donations due to economic uncertainty may perceive this subsidy as unfair. As above, clearly communicating the purpose of this funding being temporary transition support for the international workforce is a key mitigation for this risk.

Links with Government priorities

- 26 Some degree of subsidy to support international education would support the Government's International Education Strategy. However, targeting financial support in this way does not align with other Government priorities, including supporting Māori learners, Pacific learners, or addressing the needs of disabled learners.

⁶ <https://oag.parliament.nz/2019/school-audits>