

Education Report: Final Options for International Education Savings

Executive Summary

1. As part of the Vote Education line by line review we proposed savings from international education expenditure totalling \$29.1m over four years. This level of projected savings included imposing a cap on Student Achievement Component (SAC) funding for international PhD students as at 30 June 2010, and completely phasing out the New Zealand International Doctoral Research Scholarships programme (NZIDRS). Following your meeting with Education New Zealand on 17 March 2009, you asked for advice on how to maintain a reduced NZIDRS, while still maintaining the agreed level of \$29.1 million in savings over four years.
2. In response to our report of 20 March 2009 [METIS 327463 refers], you advised that you wish to advance a proposal for Budget 2009 to maintain a smaller-scale doctoral scholarships programme (20 new awards a year) and cap projected SAC expenditures on the domestic fees exemption for international PhD students as at 30 June 2009. You also directed the Ministry to investigate further options to limit projected expenditures on international scholarships, and on the domestic fees exemption for international PhD students.
3. As signalled in our 20 March report to you, there would be operational risks for the government in imposing a cap on SAC expenditures for international PhD students. Further discussions this week with the Tertiary Education Commission (TEC) have reinforced this view. TEC considers that any cap on places for international student numbers would impose significant new compliance and complexity requirements for universities and create additional responsibilities for the TEC. TEC considers that these compliance requirements would be counter to the government's intention to

[Information deleted in order to maintain professional legal privilege]

5. Moreover, while enrolments of international PhD students are included in the current baseline for SAC expenditures, the growth in enrolments that a cap would prevent is not currently in the baseline (beyond limited provision for overall enrolment growth). Consequently, the only way of obtaining actual SAC savings from capping the numbers of international PhD students would be to reduce the total SAC baselines, which would effectively mean a reduction in funding for other enrolments. A decision to abolish completely the subsidy for international PhD students would yield

savings but we think this would be damaging to a key support for the internationalisation of New Zealand education and would be strongly opposed by the universities.

6. In light of these considerations, we now recommend against changing the policy relating to international PhD enrolments to generate savings for the Line by Line review. The Ministry apologises for the fact that we have formed this view so late in the budget process. We have investigated other savings options to ensure that the total level of savings previously signalled in the Line by Line Review is achieved.
7. A scenario involving a combination of a smaller number of doctoral scholarships (10 per year) scaling back the Export Education Innovation Programme (EEIP) from 2009/10, reducing expenditures on secondary exchange programmes, phasing out the domestic fees exemption for German and French Masters students from 1 January 2010 and making some provision for a reduction in the education counsellor network, is proposed for your consideration.
8. This mix of savings would still maintain a package of measures in support international education albeit at a lower level.
9. While Education New Zealand has expressed a view that the doctoral scholarships is important to maintain, our view is the universities would see domestic fees status for international PhD students as more valuable. There could be risks to the education relationship with the European Union as a result of phasing out the exemptions for German and French Masters students which was the original reason for not proposing the elimination of this subsidy in the line by line review. However in our view the low value of this subsidy makes it worth taking this risk. We note that the Ministry of Education has not yet consulted with the Ministry of Foreign Affairs and Trade on this proposal.

Recommended Actions

We recommend that you:

- a. **note** that you have previously approved a proposal to maintain a smaller-scale NZ International Doctoral Research Scholarships (NZIDRS) programme, and to implement a cap on the projected Student Achievement Component (SAC) expenditures on the domestic fees exemption for international PhD students at 30 June 2009 levels, rather than at 30 June 2010
- b. **note** the Tertiary Education Commission has advised that:
 - the new compliance requirements needed to implement a cap on the domestic fees exemption for international PhD students, would be counter to the government's intention to create a simpler and more flexible tertiary funding system

[Information deleted in order to maintain legal professional privilege]

- c. note that the overall cap on SAC expenditures in the existing Investment Plans, would mean that the only way of obtaining actual savings from capping international PhD enrolments would be to reduce the total SAC baseline with implications for the funding of other courses
- d. agree not to proceed with the proposal to cap SAC expenditures on international PhD students as part of the Line by Line review
- AT **Approved** / Not approved
- e. note that, if you agree to d), then to achieve the savings previously signalled in the Line by Line Review, (\$29.1m over 4 years), other savings from international education expenditure will need to be made;

Either

- f. approve a proposal, as detailed in the table below,
- to reduce expenditures on the NZIDRS to 10 new awards per year from 2010, and
 - reduce the Export Education Innovation Programme (EEIP), and
- [withheld - confidentiality of advice]
- eliminate the equivalent of one education counsellor position from 1 January 2010, and
 - phase out the domestic fees exemptions for German and French Masters students from 1 January 2010..

Savings categories	2009/10 (\$m)	2010/11 (\$m)	2011/12 (\$m)	2012/13 (\$m)	4year total
Phase out undergrad scholarships	0.4	0.8	1.0	1.0	3.2
Eliminate Tertiary Study Abroad Awards	0.5	1.0	1.0	1.0	3.5
Smaller-scale NZIDRS (10/year)	1.0	1.5	1.9	2.7	7.1
Reduce the EEIP	0.6	0.6	0.6	0.6	2.4

[withheld - confidentiality of advice]

Eliminate the equivalent one Education Counsellor position	0.3	0.6	0.6	0.6	2.1
Phase out fees exemption for German and French Masters	0.7	2.2	3.0	3.0	8.9
Total savings					

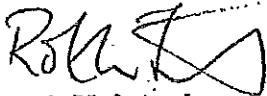
AT

Approved / Not approved

Or


- g. direct the Ministry to pursue alternative savings options.

Approved / Not approved



Rob McIntosh
Deputy Secretary
Strategy and System Performance

NOTED / APPROVED



Hon Anne Tolley
Minister of Education

2/4/09

Education Report: Further Advice on Proposed International Education Savings

Purpose

1. This paper provides modified options on savings in international education expenditure to ensure that the total level of savings previously signalled in the Line by Line Review is achieved.

Background

Proposals for international education savings

2. As stated in our report to you on 20 March 2009 [METIS 327463 refers], we recalculated the proposed Budget 2009 savings (listed as 'Option 1' in the following table) by bringing forward a proposed cap on SAC spending on domestic fees for international PhD students to 30 June 2009 enrolment levels to allow for an option under which continuation of a smaller-scale doctoral scholarships scheme would be possible (i.e. 20 new scholarships from 2010 and thereafter, rather than 35 to 40 as at present).

Feasibility of achieving savings from capping international PhD student numbers

3. The Tertiary Education Commission (TEC) advises that introducing a cap on international PhD enrolments would involve new and significant compliance and monitoring requirements for the universities and create additional responsibilities for the TEC, and so would run counter to the government's policy to introduce a simpler and more flexible tertiary education funding system, with lower compliance and administration costs.

[Information deleted in order to maintain professional legal privilege]

5. In addition the current SAC baseline budget does not include a specific funding pool for the projected growth in international PhD students. Consequently, under current policy settings the only way of obtaining actual SAC savings from capping enrolments of international PhD students would be to reduce the total SAC baseline. Given there is limited money allocated

¹ These compliance requirements would likely involve university management attempting to monitor and limit enrolments of international PhD students by their particular faculties – a task which they have not previously needed to undertake. In the case of TEC, implementing a cap would likely involve establishing and managing a new SAC funding pool specifically for international PhD students, and advising specific limits on enrolments by each university.

to support growth (which must also cover growth in domestic student places in degree programmes), achieving the savings would require cuts to other programmes to achieve the projected savings. Both the TEC and the Ministry think this is undesirable and accordingly recommend that alternative sources of savings are found. You should note, however, that if the growth in international PhD enrolments occurs as projected this will still need to be funded within the total SAC funding available.

Options for savings

6. There is a range of other options possible to limit expenditures on international education programmes, in order to meet the previously agreed overall level of total savings over the next four years.
7. A reduction in the scale of the Export Education Innovation Programme (EEIP) could be considered. The amount of funding available is relatively arbitrary and a smaller fund would still advance some of the objectives sought. This change would be very easy to implement, through the Ministry's annual contract with Education NZ, and can contribute savings from 1 July 2009.
8. Phasing out of the domestic fees exemptions for German and French Masters students would also be feasible, and could generate up to \$3 million in potential SAC savings per year. These mutual exemptions have been in place since 1977, and form part of education co-operation agreements between New Zealand and the respective governments. The Ministry considers that these exemptions have markedly fewer academic and research benefits than the exemption for international PhD students. The Ministry has also received feedback from the universities (via the previous Chair of the NZ Vice Chancellors' Committee) that they do not consider the exemptions for French and German Masters students are worth maintaining, because it tends to overly skew participation in some courses to students who would be likely to study in New Zealand in any case. Abolition of the subsidy was not previously recommended in the line by line review because of concerns about adverse impact on the bilateral relationship with Germany and France. However after further consideration the Ministry is of the view that this is insufficient reason for continuing the subsidy in the current environment.

[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials]

10. Finally we have had discussions with you previously on the future of the education counsellor network. We had advised that the future of particular counsellor positions be considered as the terms of the current counsellors come up for review. We will report to you further on this shortly

recommending that the future shape of the network be considered in the context of the broader review of New Zealand's offshore representation which is to be conducted for Budget 2010, and noting the short term implications of this for current counsellor off shore placements which are due to expire before the end of 2009 and in 2010. In the interim you could assume for the line by line exercise that savings are made to the equivalent of one of these postings not being renewed from 1 January 2010.

11. The following table shows that the previously agreed overall level of total savings over the next four years (in the Line by Line review) could be met by:

- maintaining a smaller scale NZIDRS from 2010 (10 new students per year)
- reducing EEIP expenditures from \$0.89 million to \$0.30 million in 2009/10 and outyears
- eliminating expenditure equivalent to one of the eight Education Counsellor positions from 1 January 2010 (with final decisions about where this reduction will be made in the Budget 2010 off shore review)
- reducing expenditures on secondary teacher and student language exchanges, from \$1.44 million to \$0.7 million
- phasing out the domestic fees exemptions for French and German Masters students from 1 January 2010.

Savings categories	2009/10 (\$m)	2010/11 (\$m)	2011/12 (\$m)	2012/13 (\$m)	Four-year total
Savings from Line-by-Line review	2.1	6.0	9.2	11.8	29.1
Alternative options					
Phase out undergrad scholarships	0.4	0.8	1.0	1.0	3.2
Eliminate Tertiary Study Abroad Awards	0.5	1.0	1.0	1.0	3.5
Smaller-scale NZIDRS (10/year)	1.0	1.5	1.9	2.7	7.1
<i>[deleted - confidentiality of advice]</i>					
Eliminate one Education Counsellor position	0.3	0.6	0.6	0.6	2.1
Reduce the EEIP	0.6	0.6	0.6	0.6	2.4
Phase out fees exemption for German and French Masters	0.7	2.2	3.0	3.0	8.9
Total savings					

Risks

12. We believe that the universities will be unlikely to criticise phasing out the domestic fees exemptions for German and French Masters students, although this change would take effect within the current plan cycle. Indeed without this subsidy and consequent domestic status for the students, universities would be able to charge German and French Masters students international fees which would compensate them for the loss of SAC funding in this area.

13. Phasing out these exemptions and consequent domestic fees for French and German masters students, however, could involve a risk to the education relationship with the European Union (EU), given that Germany and France are key EU member states. We understand government policy is for an enhanced partnership with the EU. A proposal to eliminate the domestic fees exemption for German and French Masters students could be viewed as being counter to this policy. This risk could be balanced by signalling an intention to consider an expanded student exchange programme with the wider EU, as government finances permit.
14. Advertising for the 2010/11 year language secondary teacher awards has already commenced. There may, therefore, need to be some managing down of expectations around the total number of awards once applications are in and awards are made.