



Tertiary Education Report: Update on the performance of the interim 2018 systems for fees-free study and planned operational changes for 2019

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|------------------------|---------------|------------------------------|------------|
| Date: | 21 May 2018 | TEC priority: | Medium |
| Security level: | In Confidence | Report no: | B/18/00332 |
| | | Minister's office No: | |

| ACTION SOUGHT | | |
|---|--|----------|
| | Action sought | Deadline |
| <p>Hon Chris Hipkins Minister of Education</p> | <p>Note that TEC has provided you with an update on the performance of the operational fees-free programme and planned operational improvements for 2019.</p> <p>Agree to forward this report to the Minister of Finance, Minister for Revenue, Minister for Social Development and Associate Minister for Education Hon Tracey Martin for their information.</p> <p>Agree that the TEC proceed to test and implement the proposed “carry-forward” policy and process described in this report, for 2019 and beyond, for people who have used only part of their first year fees-free entitlement.</p> <p>Agree not to proactively release this report until after Cabinet has considered options for 2019 changes to the fees-free policy (a Cabinet report is currently planned for July).</p> | |
| Enclosure: Yes/No | Round Robin: Yes/No | |

| CONTACT FOR TELEPHONE DISCUSSION (IF REQUIRED) | | | | |
|--|---|-----------------|--|-------------|
| Name | Position | Telephone | | 1st contact |
| Section 9(2)(a) | Deputy Chief Operating Officer, Operations Directorate | Section 9(2)(a) | | ✓ |
| | | | | |

THE FOLLOWING DEPARTMENTS/AGENCIES HAVE SEEN THIS REPORT

- DPMC MPI ENZ ERO MBIE MoE MFAT
 MPP MSD NZQA NZTE TEC TPK Treasury

- Minister's Office to Complete:** Approved Declined
 Noted Needs change
 Seen Overtaken by Events
 See Minister's Notes Withdrawn

Comments:

Recommendations

Hon Chris Hipkins, Minister of Education

It is recommended that you:

1. **Note** that you requested an update on the performance of the interim 2018 systems for fees-free study following the February-March enrolment peak and you intended to forward this to interested Ministers [CAB-17-MIN-0515].
2. **Note** that we are pleased with the operation and performance of the systems that were implemented for fees-free given the tight timeframe for development and implementation. Tertiary education organisations have been positive about the considerable efforts made by us and partner agencies to implement the fees-free policy.
3. **Note** that the Ministry of Education, the Ministry of Social Development, Inland Revenue, and the New Zealand Qualifications Authority have worked together to identify opportunities for policy and operational improvements for 2019. This paper has considered feedback from monitoring the 2018 implementation. Further changes may be identified to address any new issues that arise.
4. **Note** that this briefing addresses operational issues and planned changes for 2019 and that you will receive a briefing from the Ministry of Education on “Potential changes to fees-free policy settings and implementation for 2019.” [METIS1122008 refers]
5. **Agree** to forward this report to the Minister of Finance, Minister for Revenue, Minister for Social Development, and Associate Minister for Education Hon Tracey Martin for their information.
6. **Agree** that the TEC proceed to test and implement the proposed “carry-forward” policy and process described in this report, for 2019 and beyond, for people who have used only part of their first year fees-free entitlement.
7. **Agree** that the TEC wait to release this briefing in full after Cabinet has considered options for 2019 changes to the fees-free policy (a Cabinet report is currently planned for July). This is to ensure that Ministers and officials can develop and consider advice (including on any legal and budget matters).

9(2)(a)

9(2)(a)

Deputy Chief Operating Officer,
Operations Directorate
Tertiary Education Commission

21 May 2018

Hon Chris Hipkins
Minister of Education

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Purpose

1. You requested an update on the performance of the interim 2018 systems for fees-free study following the February-March enrolment peak and you intended to forward this to interested Ministers [CAB-17-MIN-0515] including the Minister of Finance, Minister for Revenue, Minister for Social Development, and Associate Minister for Education Hon Tracey Martin.
2. This briefing summarises the key systems for running the fees-free programme and how these have performed since first implemented in December 2017.
3. This briefing also outlines operational issues identified through implementation and outlines some planned changes to implementation arrangements and operational policy for 2019.

Background

4. The Government announced details of fees-free tertiary education and training for 2018 on 4 December 2017. It was confirmed that, from 1 January 2018, the first year of tertiary education or training would become fees-free for new students and trainees. The announcement also confirmed that the TEC would be responsible for implementing fees-free in 2018.
5. You directed us to report on the performance of the interim 2018 systems for fees-free study [CAB-17-MIN-0515 refers]. The initial model to deliver fees-free in 2018 detailed in the Cabinet Paper (see Appendix A) was intended as an interim model because of time constraints. The aim of the interim system was to be as simple as possible for learners and tertiary education organisations (TEOs). However, because many of the processes had to be operated manually, this created limitations for how simple the overall process could be.

The TEC is leading the implementation of the fees-free policy

6. A number of partner agencies are also involved including the Ministry of Education (MoE), the Ministry of Social Development (MSD), Inland Revenue (IR) and the New Zealand Qualifications Authority (NZQA).
7. The TEC has developed and implemented operational processes for communication, stakeholder management, business process design, data and information, payments, audit and monitoring and programme management.
8. A number of operational processes necessary for running fees-free business processes have been implemented including statutory declaration processing, eligibility appeals, provider and industry training organisation reporting, and helpdesk functions.
9. MSD used existing processes and services, including making arrangements for existing loan applications for eligible students that included fees in the application, information provision services and using their call centre, to help answer learner queries about fees-free. IR has experienced flow-on effects from learners reversing their Student Loans after establishing they are eligible for fees-free. NZQA has received National Student Number (NSN) related queries including learners contacting them to find out their NSN.
10. We consider the impacts of fees-free on these agencies below.

Fees-free operational processes focus primarily on learner eligibility and supporting TEOs

Eligibility for fees-free tertiary education

Fees-free website and online eligibility tool

11. An online eligibility tool and information website was launched on 5 December 2017 (www.feesfree.govt.nz). This allows learners to self-check their current eligibility status and also serves as an information source for potential and active learners and other interested stakeholders, for example whānau, teachers and the wider community. To date, the website has been available 100% of the time, with no unplanned unavailability. There had been 454,829 unique visitors to the fees-free website as at end of day 15 May 2018.
12. Changes are regularly made to the website to ensure content is up to date. Feedback received from learners and TEOs indicates that the eligibility tool is easy and simple to use.
13. As part of the online eligibility tool, learners who return an unknown eligibility status can complete an online eligibility assessment and, if the relevant criteria are met, a statutory declaration is produced for the learner to complete. We provided comprehensive information on completing statutory declarations, including who could be an authorised witness, on the fees-free website. This included additional information for learners overseas who initially found it difficult to find out who could act as a witness.

Statutory declarations

14. A fees-free Operations Team was established within the TEC to process statutory declarations. 34,050 statutory declarations had been requested from the fees-free website and 19,317 completed statutory declarations had been received by the TEC as at end of day 15 May 2018.
15. In discussions with you last December on the new offence for false declarations for fees-free tertiary education, the Ministry of Education advised that the statutory declaration process was resulting in a cost and an administrative/compliance burden for learners and TEOs. The primary concern regarding the statutory declaration process is the opportunity cost of time and the inconvenience for learners to locate and attend upon an authorised person required to witness statutory declarations. Concerns have also been raised by TEOs where they have chosen to pay to have authorised people available on-site to witness statutory declarations when learners enrol.
16. The cost and compliance burden may be a barrier for some learners considering accessing fees-free education – and this barrier may fall disproportionately on those we specifically want this policy to reach.

Updating NSNs eligibility status

17. We built processes to ensure information is quickly updated and communicated when a learner's eligibility changes from "unknown" to "yes". TEOs can check learners' eligibility statuses in a number of different ways. These were developed so that TEOs could use the method most useful for them. All requests from TEOs have fast turnaround and the process has been well received.

Eligibility appeal process

18. The TEC has discretion to grant eligibility for fees-free to people who do not meet all of the eligibility criteria due to exceptional personal circumstances. A process was established for

managing requests from learners who believe they have exceptional circumstances. This process is performing well with processing times reduced since it was first implemented.

19. Sixty-six exceptional circumstance appeals have been approved since the implementation of fees-free. The most common reasons for approval include medical circumstances and TEOs incorrectly reporting courses to the TEC.
20. As part of this process, learners can also appeal their not eligible status. At 15 May 2018, the TEC had received 1,978 appeals and closed 1,820 of those. The most common reasons learners appeal are:
 - a. how many prior credits they have undertaken
 - b. wishing to have the credits they achieved in the workplace discounted, and
 - c. questioning credits that were undertaken but never achieved.

Reporting

21. The TEC established monthly reporting by providers from January and ITOs from April 2018. These reporting processes have required the development of a specialist data team to provide support to the TEOs and management of the data received. The success rate for valid reports has improved since January 2018 with all but one TEO successfully submitting their April fees-free report.
22. TEOs are adapting to the new reporting requirement. We have worked closely with them to support correct reporting. The information gathered has allowed the TEC to fund and monitor fees-free allocations.

TEO support

23. While the TEC used existing means, including the Sector Helpdesk, to support TEOs; extra resources (including data specialists) and training have been required to scale up fees-free quickly. The Sector Helpdesk is performing well, with prompt response times.
24. The Ministry of Social Development also offers support to learners on behalf of fees-free through already established phone services. This arrangement has worked well and will continue into 2019.

Monitoring systems

25. The TEC monitors the performance of fees-free operational systems through internal service-level agreements (SLAs) performance metrics. SLAs have been defined for the key operational processes necessary for running the fees-free business process. These allow us to monitor and assess the customer experience.

TEOs are generally satisfied with the systems implemented so far

26. TEOs have been positive about the considerable efforts made by us and partner agencies to implement the fees-free policy.
27. However, as expected, concerns have been raised about some of the implementation arrangements.

28. We have identified options and a recommended approach for some of these issues, while some issues are still being worked on.
29. We haven't yet undertaken a review of the current systems with learners given the short timeframes for implementation. We plan to engage with learners during the work planning for 2019.

Work with Inland Revenue, Ministry of Social Development and the New Zealand Qualifications Authority

30. We met with Inland Revenue, the Ministry of Social Development and the New Zealand Qualifications Authority to discuss service performance and current issues they are experiencing.
31. The main problem identified is the time it can take to determine a student's eligibility. These can result in numerous unintended consequences with flow-on effects and compliance costs for students, TEOs and government agencies.
32. This problem also applies to eligible learners who incorrectly apply for Student Loans. In this case, Student Loans have to be reversed if learners applying for Student Loans are then later determined as eligible for fees-free. In a worst case scenario, this can have negative flow-on effects for them, e.g. repayments deducted from their salary or wages, issues with the New Zealand Customs Service and flow on impacts to benefits entitlements.

Changes to implementation arrangements and operational policy for 2019

33. The TEC is working to develop a comprehensive communications strategy. With more time available for 2019, this will differ from the 2018 communications strategy. It will provide information earlier to allow for the extra time learners have to make decisions about study in 2019 and future years. It will also allow us to integrate with partner agencies campaigns including StudyLink's "call to action" campaign.
34. As part of this we will clarify the technical terminology used in 2018. Learners and TEOs have told us that some of terms used in fees-free information are unclear. For example, we have received questions about what it means to have "undertaken" tertiary education. The current definition can be applied differently to provider-based courses and industry training programmes because of the different metrics we use to calculate prior study. A number of appeals related to this have been submitted.
35. The TEC will also continue to provide information to TEOs on fee scholarships under the fees-free policy, including the implications of the policy settings.

Statutory declaration process

36. You have introduced the *Education Amendment Bill 2018* to the House to create a new offence provision in the Education Act 1989. This will allow us to consider how to verify eligibility for learners who aren't automatically identified as "yes" (eligible for fees-free) and "no" (not eligible for fees-free). We are working with TEOs to develop a process that is simple and clear for learners. We will test any process with learners prior to implementation.

Timeframe for claiming fees-free entitlement

37. Currently, learners can claim retrospective eligibility indefinitely. This creates uncertainty for learners, TEOs, and agencies.

38. The TEC is looking at implementing a timeframe within which an eligible learner can claim their fees-free entitlement for any eligible courses or industry training programme they undertake.
39. As a starting point, the TEC are working with MSD to assess how we can match MSD policies for accepting Student Loan contracts to fees-free and what this means for learners. We will need to consider consumption issues when introducing new rules.

Contracts

40. The TEC is working on refining contracts with TEOs, including:
- a. timing payments to TEOs to more closely match when they would otherwise receive fee revenue
 - b. minimising any funding recoveries required, and
 - c. clarifying how responsibilities and risks are shared between the TEC and TEOs.

Recovery of payments

41. The TEC will explore options that enable us to recover payments from learners found to be ineligible for fees-free after they have claimed and received an entitlement. We will explore contractual and legislative remedies. We will update you if changes are required.

Entitlements for learners who have consumed less than one EFTS in 2018

Carry-forward entitlements for learners studying with providers who have undertaken less than one equivalent full-time student (EFTS) of fees-free study in 2018

42. Cabinet agreed that where learners have used less than one EFTS of fees-free support in 2018, the remaining balance of their fees-free entitlement could be carried forward to use in future years (assuming the student had not already reached the \$12,000 cap). The policy aims to support flexible lifelong learning options, including part-time and part-year study.
43. When the policy for 2018 was launched, details of how this “carry-forward” of unused fees-free entitlements would work had not been determined. No EFTS cap was implemented for 2018, reflecting the need for further development work. A simple dollar cap of \$12,000 was substituted.
44. The TEC is working on an approach to implement the carry-forward for 2019. Our proposed approach is outlined in Appendix B. We seek your agreement on this approach.

The TEC will continue to regularly update you on changes to implementation arrangements and operational policy for 2019

45. The TEC will keep you informed through our regular meetings and briefings. We are currently developing the 2019 work programme which includes sector and learner consultation on process design.
46. We will also be working with the Ministry of Education to propose simplified references to fees-free policy in Ministerial funding determinations, instead focussing the detail in the Minister’s letter of delegation for the fees-free programme and using contracts with TEOs to operationalise the policy intent.

47. We understand that MoE are putting policy options to you to take to Cabinet. Once you have finalised decisions we will work to operationalise any changes.

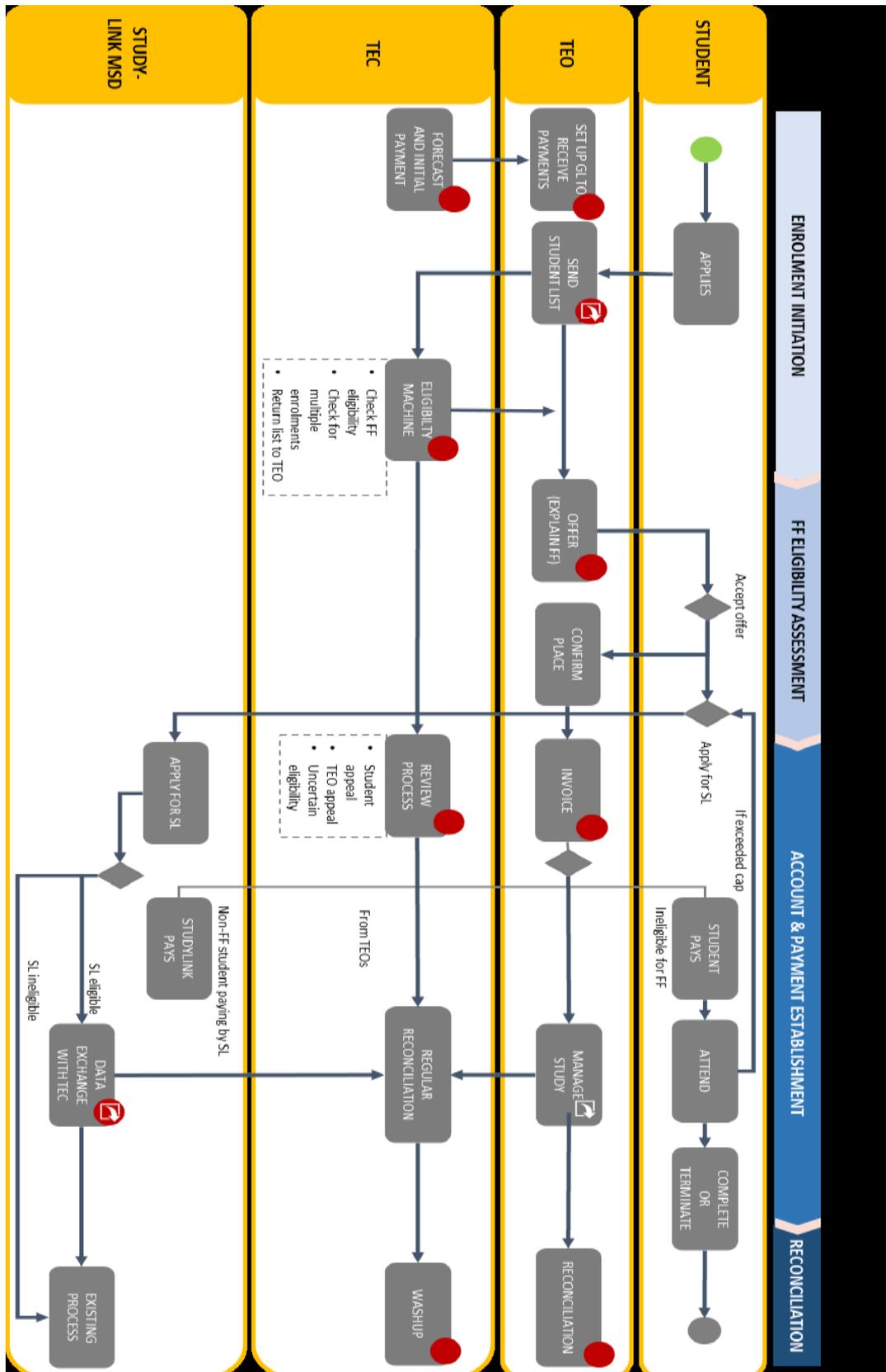
Conclusion

48. What we've done is working well enough to deliver for 2018. But now we have the opportunity to make design improvements for 2019. We've assessed systems, and identified some possible opportunities, and a way to assess these against design/system principles. We're going to test these with learner, sector and agency stakeholders.

49. We will report back to you by end of June so that these are agreed in time for you to notify Cabinet in July, and in time for us to build any processes in time for 2019 implementation.

50. We will continue to monitor and review to make ongoing improvements and keep you posted on any further issues that arise.

Appendix A: Process for provider-based payments (as at 20 November 2017)



Appendix B: Entitlements for learners who have consumed less than one EFTS in 2018

51. The “carry-forward” of unused entitlement requires accurate tracking of learners’ use of their fees-free entitlement with more timely information updates than were available from TEOs’ “single data return” reporting. We are building processes to track and communicate carried forward entitlements, but to do so need to develop the specific operational rules that will apply.
52. Learners, providers and the public need to know as soon as practicable how the carry-forward of unused fees-free entitlements will operate for 2019 and beyond. The TEC is already receiving calls from learners and providers who want to know about remaining entitlements.
53. We are currently advising learners and tertiary education organisations who ask that:

“In 2019 the individual amount of fees-free available for a learner who commenced study in 2018 will depend on what they studied in 2018 and their remaining entitlement. It is likely that a student who completes less than one EFTS in 2018 will be able to carryover the balance of their entitlement into 2019 and beyond. The carryover is likely to consider both EFTS and dollars.”

The TEC is working on an approach to implement the carry-forward for 2019

54. We propose maintaining the dollar cap of \$12,000 (including GST) per learner per calendar year and introducing an EFTS cap which would apply to each learner per calendar year. So for each eligible learner, both a dollar cap and EFTS cap would be applied.
55. We are working with MoE to assess options for an EFTS limit for new learners. They will provide you with advice on this shortly.
56. The TEC’s proposed approach to carry-forward fees-free entitlements is outlined below. Appendix C provides examples of how this will work in various scenarios.

Both an EFTS limit and a dollar limit will apply to the total fees-free entitlement for learners carrying balances forward.

57. Learners’ remaining fees-free entitlements should reflect both the EFTS they have consumed, and the value of fees-free support they have received to date. Their entitlement will be used up when they reach either \$12,000 (including GST) of fees-free support or the EFTS cap.
58. This provides greater consistency between full-time and part-time learners accessing fees-free support. It prevents learners from claiming more than \$12,000 in fees-free support for very expensive programmes by spreading their study over multiple years (as an extreme example, a learner taking an aviation qualification with fees of \$60,000 per EFTS could claim \$60,000 by studying 0.2 EFTS per year for five years).

Carry forward entitlements will be calculated at the end of each calendar year

59. We propose that the carry-forward arrangements apply calendar year to calendar year for all learners who have used some fees-free entitlement. On 31 December each year, the TEC will assess what each fees-free learner has “consumed”, and carry forward the remaining entitlement. Any changes to policy settings for the new year would also apply to any unused entitlements carried-forward.

Entitlements are “consumed” when the date for withdrawal with a refund has passed

60. Some providers (primarily PTEs) charge a single fee for a programme of consecutive courses. Current withdrawal and refund rules mean these providers can retain the whole fee amount after the statutory withdrawal period of the first course. In these cases, fees-free entitlements

are claimed and counted in the year the programme begins, regardless of whether some courses in the programme begin in the following year.

61. If a learner withdraws from a programme like this after the refund date, the provider is entitled to retain the fees for all courses in the programme, including any courses the student did not commence, and the entire programme will count against the learner's fees-free entitlement. This will not leave either the learner or the PTE in a better or worse position than prior to the introduction of the fees-free policy. This issue of fees and refunds for programmes structured as consecutive courses raises broader issues that the Ministry of Education intend to consider in future work on options for legislative change in the Education Act rewrite project.

In applying carry-forward entitlements, credit-based (or EFTS-based) fees will be prioritised over those fees that are not based on EFTS, such as compulsory student services fees

62. Some learners will start the year with less remaining fees-free EFTS entitlement than the EFTS value of the courses they enrol in. In these cases, fees-free entitlements will be applied first to tuition fees and compulsory course costs, and then to compulsory student services fees.
63. When the EFTS cap is reached the learner will have no further EFTS related fee payments made. They may still receive payment of any fees that are not tied to EFTS as long as they have not exceeded \$12,000 total entitlement. So for example, where a student has used their EFTS entitlement, but not claimed \$12,000, the TEC will still pay all of their Compulsory Student Services Fees that is claimed at the same time as the last EFTS fraction. Once the last EFTS fraction has been used by the learner, no further fee payments will be made for subsequent periods of study, even if the \$12,000 cap has not been reached.

... and courses and fees will be covered in order of reporting date, start date and value

64. Many learners with carry-forward entitlements will enrol in a mix of courses with a total EFTS or credit value greater than their remaining fees-free entitlement. They may enrol in and be charged for these courses at different dates throughout the year, and different fees may be charged for each course.
65. If either the EFTS cap or the \$12,000 value cap is reached before all course-based fees are covered, a learner's carry-forward fees-free entitlement will be applied to their courses in the order that they were reported to TEC. The course start date and the EFTS cost are considered next, until the fees-free EFTS are exhausted.
66. Residual fees-free entitlements will not be rounded up to cover the full cost of the final course covered. For example, if a learner has 0.05 EFTS (6 credits) fees-free entitlement remaining, and they enrol in a course of 0.1 EFTS (12 credits), their fees-free support will cover half their course fee and they will have to pay the balance themselves.

The TEC's proposed approach aligns with Cabinet's previous policy decisions

67. The approach outlined above is consistent with Cabinet's previous decisions and the policy intent of the 2018 first year fees-free policy. We recommend that you agree that the TEC proceeds to test this approach with sector experts and to implement it for 2019. This includes preparing communications messages to learners and providers as soon as practicable on how the carry-forward arrangement will operate, and arrange for necessary system changes with providers.

We need to do more work to clarify carry-forward arrangements and the management of programme changes and multiple enrolments for industry trainees

68. Only industry training programmes of 120 credits or more are eligible for the 24 months fees-free support offered to apprentices and other industry trainees. If a trainee stays with their programme for at least 24 months as intended, this will fully consume their fees-free entitlement.

69. However, some trainees leave an apprenticeship before completing 24 months and may switch to another industry training programme, or enrol in provider-based study. Others may combine part-time provider based study with a fees-free eligible industry training programme. Our policy design work in 2017 did not fully address this range of scenarios.
70. We are working to develop a method to calculate carry-forward entitlements for trainees who withdraw from their programme within 24 months. This is part of broader work needed to fully connect our systems for tracking and determining eligibility for fees-free support across provider-based study and industry training. This may include a cap on industry training entitlements where trainees switch between more than one apprenticeship or other eligible training programme.

Appendix C: Examples of how the fees-free entitlement carry-forward will operate using 1 EFTS and \$12,000 caps

| Scenario | 2018 study EFTS and \$ consumed | Carryover entitlement for 2019 and beyond | What happens in 2019? |
|-----------|---------------------------------|---|---|
| Learner 1 | 1 EFTS costing \$3000 | None. 1 EFTS consumed | Has no further entitlement. |
| Learner 2 | 0.6 EFTS costing \$12,000 | None. \$12,000 fee cap reached | Has no further entitlement. |
| Learner 3 | 1.2 EFTS costing \$10,000 | None. Over 1 EFTS consumed | Has no further entitlement. |
| Learner 4 | 0.8 EFTS costing \$8,000 | 0.2 EFTS up to \$4,000 | Learner enrolls in 0.8 EFTS at a cost of \$8,000. TEC pays for the first reported 0.2 EFTS of study at a cost of \$2,000. TEC also covers CSSF \$500. Learner has consumed 1 EFTS and \$10,500. Learner has no further carryover as they have reached the 1 EFTS entitlement. |
| Learner 5 | 0.2 EFTS costing \$10,000 | 0.8 EFTS up to \$2000 | Learner enrolls in 0.2 EFTS at a cost of \$11,000. TEC pays for the first \$2000 of study (0.1 EFTS). TEC does not cover any compulsory student services fees as the \$12,000 cap has been reached. Learner has consumed 0.3 EFTS and \$12,000. Learner has no further carryover as they have reached the \$12,000 entitlement. |
| Learner 6 | 0.5 EFTS costing \$6,000 | 0.5 EFTS up to \$6,000 | Learner enrolls in 0.5 EFTS at a cost of \$6,000. TEC pays for the first 0.5 EFTS of study at a cost of \$6,000. TEC does not pay for any compulsory student services fees as the \$12,000 cap has been reached. Learner has consumed 1 EFTS and \$12,000. Learner has no further carryover as they have reached both the 1 EFTS and the \$12,000 entitlements. |