

## Education Report: Further information to support decisions at 8 November Ministerial meeting on tertiary education manifesto commitments

<b>To:</b>	Hon Chris Hipkins, Minister of Education		
<b>Date:</b>	7 November 2017	<b>Priority:</b>	High
<b>Security Level:</b>	In Confidence	<b>METIS No:</b>	1089962
<b>Drafter:</b>		<b>DDI:</b>	
<b>Key contact and number:</b>		<b>Round robin:</b>	No – for forwarding
<b>Messaging seen by Communications team:</b>	Yes / No		

### Key Messages

1. To implement your policies by 1 January 2018, a Cabinet decision is needed in by mid-November to implement the \$50 increase to student allowances and loan living costs.
2. Following our earlier report to you we are providing you with some additional information on the impact of increasing student allowance and loan living costs by \$50 a week.
3. The \$50 increase to students allowances will mean that:
  - a. around 3,000 new recipients will be entitled to less than \$50 of student allowance, if income thresholds remain the same
  - b. the new recipients will cost around \$3 million (0.7% of the gross student allowance expenditure for 2017)
  - c. we have identified a potential issue for partnered student allowance recipients. For some student allowance rates, the total rate payable is intended to support the living costs of a couple rather than an individual. This means that adding a \$50 increase to these rates will effectively mean \$25 per person.
4. We have provided further information for supporting decisions on the broad eligibility parameters for fees-free in 2018, and how the system is currently set up to manage demand. This includes advice on minimum course load requirements for fees-free, a prior tertiary study limit exemption, applying a maximum EFTS limit and fee cap, and the impact on scholarships. We propose you take decisions in principle on these matters, subject to the design of a delivery mechanism.
5. The Ministry of Social Development advice is that decisions on the \$50 increase to student loans and allowances living costs are needed by mid-November, as system changes to implement the increase by 1 January 2018 must start that week. Any delay would jeopardise this.

## Recommended Actions

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The Ministry of Education recommends you:

### *Extra \$50 per week for loans and allowances*

- a. **seek** confirmation from your colleagues, to allow for finalisation of your 16 November Cabinet paper, that:

- i. the extra \$50 for student allowance recipients should be delivered by an increase to student allowance base rates, with monitoring of impacts for the benefit system

**Agree / Disagree**

- ii. the income thresholds for student allowances should remain the same

**Agree / Disagree**

- b. **note** we seek your confirmation that your preferred approach to the \$50 student allowance increase remains applying a flat \$50 to all rates, given implications for couples

### *Fees-free eligibility criteria*

- c. **agree in principle** (subject to further work) that eligibility for fees-free in 2018 will :

- i. include students with up to 0.25 EFTs of prior study

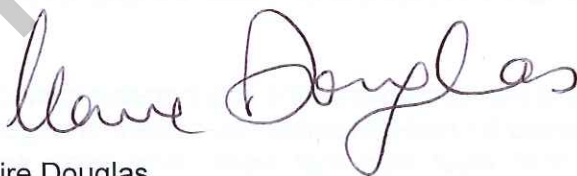
**Agree / Disagree**

- ii. have a maximum load of 1.2 EFTS

**Agree / Disagree**

- d. **note** that we will communicate and engage with scholarship administrators so that they can adapt to the new fees-free environment

- e. **forward** this paper to the Ministers of Finance, Social Development, and Revenue, and Associate Minister of Education (Hon Martin) for decisions on the questions above.



Claire Douglas  
**Deputy Secretary**  
**Graduate Achievement, Vocations and Careers**

8 / 11 / 17

Hon Chris Hipkins  
**Minister of Education**

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## Purpose

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1. This paper provides further information on the:
  - a. number of new recipients who will benefit from the \$50 increase to student allowances and loans for living costs
  - b. impact of eligibility criteria for fees-free in 2018
  - c. approach to fee scholarships.
2. The attached draft 16 November Cabinet paper seeks agreement to the \$50 increase to ensure that this change can be in place for 1 January 2018. This Cabinet paper is due to be lodged on Tuesday 14 November, and we are seeking your feedback to finalise after this meeting.

## Background

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6. You, the Ministers of Finance, Social Development and Revenue, and the Associate Minister of Education, Hon Tracey Martin, agreed on 1 November to some broad design choices to deliver the Government's manifesto commitments to:
  - a. implement the first stage of the Government's fees-free tertiary education policy
  - b. increase student allowances and living cost loans by \$50 a week.
7. We previously provided advice to support decisions in principle needed on the implementation approach for the \$50 increase for student support and the broad eligibility parameters for fees-free (METIS 1089251 refers).
8. This paper provides the further information to support decisions on the \$50 loan and allowance increase, and advises on eligibility decisions needed to implement the interim solution for fees-free policy by 1 January 2018.
9. For increases to student allowances and living costs loans, decisions are needed to support finalisation of your 16 November Cabinet paper. The Ministry of Social Development has advised that these decisions must be made by mid-November to enable implementation by 1 January 2018.

## Information to support decisions on the \$50 increase

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**Leaving student allowance income thresholds the same would mean more students will access more student allowance support as a result of the \$50 change**

10. You have asked for advice on the likely number of new recipients who will benefit from the \$50 increase to student allowances.
11. Student support includes parental and personal (or household) income thresholds and abatement rules. You agreed in principle, that the income threshold for student allowances remain the same after the \$50 increase, subject to information on the number of new recipients that would be entitled to a student allowance.



12. The \$50 increase will mean that people with higher incomes receive some student allowance, and that others currently receiving an abated allowance receive a \$50 increase to their rate. Overall, increasing the rates by \$50 net will deliver an extra \$50 to all current allowance recipients regardless of their current rate.<sup>1</sup>
13. For those who do not currently receive allowance, they may gain access to support at a rate under \$50. These students would also be able to borrow up to the new maximum student loan living costs limit, meaning they would see the \$50 in hand increase through a mix of higher allowance and higher loan maxima rates.
14. There are around 65,000 student allowance recipients, 72% or around 47,000 receive an unabated student allowance. We estimate that there will be around 3,000 more eligible recipients, 4.6% of student allowance recipients in 2017, who receive less than \$50 per week. Costing around \$3 million or 0.7% of the gross student allowance expenditure for the 2017 calendar year (based on preliminary HYEPU 2017 forecasts and actuals up to September 2017).
15. We previously estimated a mid-point indicative annual costing for the \$50 increase to student allowances of \$101 million<sup>2</sup>. We have further refined our indicative costs and these are referenced in the draft Cabinet paper. This indicates a four-year average annual operating cost of \$153 million.
16. This does not include implementation costs. Further work is underway to finalise the detailed costs, including agency policy and implementation costs. Early estimates are that there will be a one-off implementation operating expense of \$600,000 for 2017/18.
17. We recommend no changes be made to the student allowance income threshold for 1 January 2018. The system changes required to the Ministry of Social Development to minimise new recipients may not be feasible by 1 January 2018, due to the lead in time necessary. This issue could, however, be considered in any further work on the long-term affordability of tertiary education.

#### **A flat \$50 increase to student allowances has implications for couple rates**

18. In further developing the advice on implementing this change, we have identified a potential issue for partnered student allowance recipients. This is because, for some student allowance rates, the total rate payable is intended to support the living costs of a couple rather than an individual.

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<sup>1</sup> With some minor variation for those who are not on tax code 'M'.

<sup>2</sup> The indicative estimate is between \$30 and \$55 million per annum for changes to student loan living costs maxima (from additional lending of \$60 to \$100 million per annum) and between \$75 and \$125 million per annum for the change to student allowance rates.

19. As an example, the relationship between couples with a weekly income of not more than \$428.60 (with no children) is examined below, in contrast to the individual rates available for a single student aged under 24 living away from home.

Rate	Net amount on current rates	Net amount after planned flat \$50 increase	
		Per person	To couple
<b>Couple rate</b> – where student's spouse / partner is not enrolled in more than 0.5EFTS, and student is childless	\$354.06	-	\$404.06
<b>Half couple rate</b> – paid to each partner when student's spouse / partner is enrolled in more than 0.5EFTS and student is childless	\$177.03	\$227.03	\$454.06
<b>Individual rate</b> – student single, aged under 24, childless and living away from home	\$177.03	\$227.06	-

Rates assume a tax code of 'M'

20. Alongside these rates are a number of rates designed to be paid individually to each member of a couple when both are eligible to receive student support ("half-couple" rates), and others designed to meet the needs of an individual whose partner is a low income-earner. These "half-couple" rates are paid at half the corresponding couple rate. These have not been included in the table above, which focuses only on the set of rates in the student support system explicitly intended to support the living costs of two people through one payment. However, a flat increase of \$50 would put these "half-couple" rates out of alignment with the corresponding couple rate that has historically been paid at twice that amount. This adds to the misalignment with the benefit system noted previously.
21. Adding a \$50 increase to these rates will effectively mean \$25 per person. This may have human rights implications, although this kind of targeting already exists in the student support system. There may also be incentive effects (for example, creating an incentive for people in a relationship to declare as single in order to receive greater support).
22. In total, around 6% of recipients (fewer than 4,500 people) were paid couple rates in 2016. Couple rates are designed to reflect the lower per-adult costs that people who are in a relationship face when costs are shared, by comparison to single people.
23. Note that we have assessed alternatives to the current approach. At a high level, these alternatives are:
- Apply a \$50 increase to all couples* – i.e. a \$50 increase to combined rates, and \$25 increases to half-rates. This approach has been taken in the past with the Child Material Hardship Package and would maintain existing relativities between "half-couple" and couple rates. However, this would not deliver as closely on your manifesto commitment, could create an incentive for people to lie about their relationships status as single per-person rates would be higher, and may also have human rights implications (although this type of targeting already exists in the student support system). This approach would be less costly than the currently agreed approach.
  - Apply the \$50 increase on a per-person basis* – i.e. deliver \$50 to half-couple rates, and \$100 to combined rates. This would resolve potential incentive effects, but may not be seen to deliver on your manifesto commitment and may have potential human rights implications (although this type of targeting already exists in the student support system). This approach would be the most costly of the three alternatives considered.



24. We seek your confirmation that your preferred approach to the \$50 student allowance increase remains applying a flat \$50 to all rates.

### Information to support decisions on the eligibility for fees-free study

25. At your meeting with officials on Monday 6 November you asked for further information on the eligibility criteria for fees-free policy. In this section we provide further information and detailed advice to inform the particular eligibility decisions that are subject to the design of delivery mechanisms.
26. We propose to only include the first order eligibility decisions that we are confident can be delivered by 1 January 2018.

### Prior tertiary study limit

27. You asked for advice on how much prior study would be suitable to ensure that students who had, for example completed, part time study, or short industry training courses in prior employment, were still able to benefit from the fees-free policy. The fees-free policy is also not intended to penalise people who participate in foundation education or secondary-tertiary programmes (e.g. Gateway, STAR, Trades Academies, and Youth Guarantee fees-free which are exempt).
28. Table 2 shows a range students who have undertaken prior study, completing up to 0.5 EFTS values of prior study. Table 3 presents the estimated reduction in tuition fees<sup>3</sup> estimated tuition fees under a number of different EFTS values for prior study.

Table 2: Number of students using various prior study limits (based on 2016 data)

Category	Prior study in Level 3+ (EFTS)					
	None	< 0.1	< 0.2	< 0.3	< 0.4	< 0.5
First year in tertiary	61,430	61,430	61,430	61,430	61,430	61,430
Returning with prior study load	0	1,750	5,610	8,685	12,000	14,535
Total	61,430	63,180	67,040	70,110	73,425	75,965

This table includes Australians and permanent residents.

Table 3: Estimated tuition fees for 2018 (GST inclusive) using various prior study limits (\$millions)<sup>4</sup>

Category	Prior study in Level 3+ EFTS					
	None	< 0.1	< 0.2	< 0.3	< 0.4	< 0.5
First year in tertiary	\$285	\$285	\$285	\$285	\$285	\$285
Returning with prior study load	\$0	\$4	\$14	\$22	\$32	\$40
Total	\$285	\$289	\$299	\$307	\$317	\$325

This table includes Australians and permanent residents.

29. We recommend allowing for 0.25 EFTS of previous study. This would cover those who have undertaken around two standard papers. A lower EFTS limit also would reduce risk of students gaming policy and manages costs to the Crown.

<sup>3</sup> Note that these do not reflect the costs of the fees-free policy, as loan savings would provide an offset of costs.

<sup>4</sup> Note as above.

### Part-time students studying less than 0.25 EFTS

30. You have asked officials to provide advice on the impact of a course load eligibility requirement for fees-free based on current minimum course loads used for student loans and allowances. Table 4 provides an estimate of the number of part-time students who will be excluded from fees-free policy, if we required that students undertake 0.25 EFTS or more.

Table 4: Number of first time in tertiary students by prior study EFTS load

Category	Prior study in Level 3+ EFTS					
	None	< 0.1	< 0.2	< 0.3	< 0.4	< 0.5
Full-time	46,150	46,820	48,200	49,055	50,270	51,420
Part-time	15,275	16,360	18,840	21,060	23,155	24,540
Total	61,430	63,180	67,040	70,110	73,425	75,965

Table 5: Estimated tuition fees 2018 (GST inclusive) by prior study EFTS load<sup>5</sup>

Category	Prior study in Level 3+ EFTS					
	None	< 0.1	< 0.2	< 0.3	< 0.4	< 0.5
Full-time	\$254	\$257	\$263	\$267	\$273	\$279
Part-time	\$31	\$33	\$36	\$40	\$44	\$46
Total	\$285	\$289	\$299	\$307	\$317	\$325

31. Overall, applying a low or minimal course load requirement would increase access and may provide more opportunity for life-long learning and "sampling" study to find the right fit.
32. However, setting a more substantial minimum would provide consistency with existing funding approaches and provider performance expectations for student progress. In addition, evidence suggests that there are generally better outcomes for students from more intensive study – including greater likelihood of completing qualifications.

### Maximum EFTS limit

33. Some students take higher study loads, than the commitment for one equivalent full-time year. A slightly higher limit could avoid a number of first year students paying partial fees. However, there is a risk of incentives on students to over-enrol. We know that, with current settings, a small number of students already enrol for over 1.5 EFTS per year, potentially across multiple providers. You requested more advice, noting the intent of the policy is to provide 1 EFTS worth of fees-free study each year.
34. Around 82% (50,500) of students new to tertiary education in 2016 enrolled in courses with an EFTS load of 1 or less. This increases to 96% (59,000) for those who have studied enrolled with an EFTS load of 1.2 or less.<sup>6</sup>

<sup>5</sup> Note that these do not reflect the costs of the fees-free policy, as loan savings would provide an offset of costs.

<sup>6</sup> These proportions would change slightly depending on decisions about prior course load eligibility criteria.



35. At this stage, we recommend a maximum 1.2 EFTS limit, subject to further work on feasibility and the design of potential delivery mechanisms. Although there is a risk that we incentivise students to take advantage of the fees-free policy by enrolling over 1 EFTS, this is part is mitigated by provider enrolment practices and performance management.

### **Maximum Fee value**

36. Establishing a maximum 'payable' fee value would limit the subsidy students could receive for high cost courses (e.g. aviation, where students can borrow \$35,000 for fees). It reduces incentives for gaming around timing of enrolments, and ensures that we have adequate measures in place for the fiscal management of the policy.
37. We have looked at the undergraduate fees in the university sub-sector for 2017 and note that medicine and dentistry command the highest fees expected to be around \$16,000 for undergraduate study in 2018. This assumes that tuition fees and compulsory student services fees are covered by the fees-free policy. Aviation fees are considerably higher, for example \$50,000 per EFTS for a first year student, studying at Massey University in 2018.
38. We are continuing to investigate this issue and whether it is feasible to introduce a limit based on fee value. We will provide further advice in future briefings.

### **Impact on existing fee scholarships**

39. You have asked for advice on the impact of fees-free on scholarship provision. Currently, there are a number of fee scholarships for new entrants offered by a range of business, community and educational organisations. These scholarship providers have different levels of discretion over the scholarships they administer.
40. We are aware that some scholarship providers are already adjusting their scholarships in response to the fees-free education. For example, allowing students to defer taking up the fee waiver option for 2018 and applying it to their second year of study, or providing cash or accommodation cost scholarships. Some scholarship providers can do this immediately while others will need to adjust the rules governing their scholarship funds.
41. We propose communicating and engaging with scholarship administrators so that they can adapt to the new fees-free environment. If the scholarship is converted to cash, recipients with a scholarship of around \$6,000 per annum may receive reduced allowances.

## **Annexes**

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- Annex 1: Agenda for 8 November meeting with the Ministers of Finance, Social Development, and Revenue, and Associate Minister of Education Hon Tracey Martin.
- Annex 2: Draft Cabinet paper – Initial decisions to support making tertiary education and training affordable for all.