



## Aide Memoire: Initial decisions to support making tertiary education and training affordable for all

To:	Hon Chris Hipkins, Minister of Education		
Date:	16 November 2017	Priority:	High
Security Level:	In Confidence	METIS No:	1090370
Drafter:	[REDACTED]	DDI:	[REDACTED]
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Messaging seen by Communications team:	No		

### Key Messages for Cabinet Business Committee

- You are due to take your paper *Initial decisions to support making tertiary education and training affordable* to Cabinet Business Committee on Thursday 16 November.
- We propose that your key messages for Cabinet Business Committee are:
  - I am seeking your agreement to:
    - the approach required for increasing student allowances and loan living costs by \$50 per week
    - the broad eligibility parameters for one year fees-free tertiary education.
  - I will report back to you later in November, with finalised costings of increasing student allowances and student loan living costs, and seeking your agreement to the delivery channel and detailed eligibility criteria for fees-free.



Andy Jackson  
Group Manager  
Graduate Achievement, Vocations and Careers

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## Purpose

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1. This aide memoire supports your presentation of the Cabinet paper *Initial decisions to support making tertiary education and training affordable for all* at the Cabinet Business Committee on Thursday 16 November. Officials will attend to support your presentation of the paper and can assist in answering questions.

## Talking points

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### **Making tertiary education and training affordable for all**

2. Supporting all New Zealanders to have happy and successful lives starts with a strong and accessible education system that delivers everyone the opportunity to be the best they can be. This is why the Government is committed to making tertiary education and training affordable for all.
3. This paper seeks agreement to proposals for delivering on our 100 day manifesto commitments for tertiary education. As lead Minister, I am seeking agreement to:
  - 3.1 the approach required for increasing student allowances and loan living costs by \$50 per week
  - 3.2 the broad eligibility parameters for one-year fees-free tertiary education.
4. Decisions on the \$50 increase are required now to implement these changes by 1 January 2018. This will allow sufficient lead in time for the Ministry of Social Development to make system changes and regulatory amendments.
5. On 31 October, Cabinet agreed that I work, in consultation with the Ministers of Finance, Social Development, Revenue and the Associate Minister of Education (Hon Tracey Martin) to develop these two proposals. This is the first report back. I expect to report back to Cabinet Business Committee on Wednesday 29 November on fees-free delivery and policy for 2018, seeking your agreement to the delivery channel and detailed eligibility criteria for fees-free, including the approach for Industry Training.

### **Increasing living costs support for students by \$50 a week**

6. Increases in living and accommodation costs relative to loan and allowance funding have put significant pressure on students. We have committed to increase student allowances and living costs loans by \$50 a week from 1 January 2018. This will make study more affordable and address rising accommodation costs.

#### *Increasing the maximum student allowance rates by \$50*

7. I recommend that you **agree**:
  - 7.1 to deliver a \$50 per week, per adult, net increase (based on the M tax code) for student allowance base rates
  - 7.2 this will apply to all eligible recipients, new and current, from 1 January 2018.
8. These changes are designed to meet rising accommodation costs, reduce financial barriers for students and shift the balance of contributions so that the Government is making a greater investment in the success of our tertiary system and our students.

9. Note this will mean that "couple rates" which reflect the living costs of two adults will be increased by \$100 per week, to maintain the relativities between single and couple rates.<sup>1</sup>
10. Note that these changes will reduce alignment across the student support and benefit systems, particularly as current student allowance rates are set at the same level as the rates for Job Seeker benefit. We will need to carefully consider how achieving our tertiary education objectives will impact on the interface between the tertiary and welfare systems.
11. Increasing student allowance rates (combined with fees-free tertiary study) could encourage some students to move into study due to financial rather than educational incentives. However, existing policy settings like performance requirements to maintain student support eligibility, alongside on-going monitoring of the impacts of this change, will enable risks to be managed. This approach can also inform any future changes to the student support and welfare systems.
12. The Ministries of Education and Social Development will monitor and reassess any impacts arising from reduced alignment with the welfare system, as well as managing any adjustments to current tertiary education policy settings.

#### *Regulations and regulatory impact assessment*

13. Officials have undertaken a regulatory impact assessment (RIA) to be released with the Cabinet paper.
14. I recommend that Cabinet Business Committee invite the Minister of Social Development to lead the amendments to the Student Allowances Regulations (1998) to give effect to the \$50 increase to student allowance rates. The Minister would likely come to the Cabinet Legislation Committee with amended regulations in early December, and would seek a waiver of the 28-day rule in order to ensure changes were in place for 1 January 2018.

#### *Increasing the student loan living cost component by \$50 a week*

15. The Student Loan Scheme living costs maximum would increase from \$178.81 to \$228.81 per week. The increase will be implemented by the Ministry of Social Development through changes to the student loan contracts, and students will need to agree to any increase in the amount borrowed. These changes can be agreed by Cabinet, and will not require any regulatory amendments.
16. I recommend that you **agree**:
  - 16.1 to deliver a \$50 per week increase to the Student Loan Scheme living cost maximum
  - 16.2 that this will apply to all eligible recipients, new and current, from 1 January 2018.

#### *Financial implications*

17. Officials have provided indicative operating costs for the change to student allowance rates and the policy change to the student loan living cost maxima. The final financial impacts are still under development, as the impacts of the fees-free policy and increases to student allowances and loan living costs are closely related.
18. Cabinet will be asked to take further decisions on the fees-free policy soon, and at this point officials will provide modelling of the impact of both policies together.

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<sup>1</sup>This change will not apply to all "couple rates" - for example, rates which are already half a full couple rate (paid individually to two qualifying students in a relationship), or rates designed for individual students with earning spouses.

19. Indicative costs average \$308 million per annum, \$126.5 million per annum for the changes to student allowance rates and \$181.5 million per annum for the student loan living costs maximum (averaged across the forecast period). The \$181.5 million per annum reflects the amount lent to borrowers, but does not reflect any amounts repaid.
20. This estimate reflects the cost of the policy proposal (based on current patterns of use) and applies a 5% allowance for increased uptake for student support. It represents a buffer against the risk of cost increases and changes in patterns of use.
21. We cannot be certain that the upper bound is a genuine upper limit on costing: there is no precedent for such a significant increase in rates of living support, and the change related to fees-free is also unprecedented and may change uptake. It is possible that operating impacts will exceed or be lower than the upper bound.
22. The Ministry of Social Development's early estimate is that there will be a one-off implementation operating expense of \$600,000 for 2017/2018.

### **Establishing the broad eligibility parameters for fees-free tertiary education**

23. I will report back to Cabinet on 4 December, seeking your agreement to the delivery channel and final detailed eligibility criteria to deliver a first year of fees-free education in 2018. Decisions will require a careful balance of practicality and delivery on the vision, as existing administration, funding and information systems may not be able to deliver the full set of changes for 1 January 2018.
24. Following implementation in 2018, I will work with officials to ensure that a long-term option to deliver on this policy can be in place for 2019.
25. I am focussing fees-free on quality-assured programmes that are a good investment for New Zealand and for students.
26. Therefore, I seek your agreement to my proposal that fees-free apply to:
  - 26.1 courses and qualifications approved by the New Zealand Qualifications Authority or Vice Chancellors Committee, and funded by the Tertiary Education Commission
  - 26.2 study at Level 3 or above on the New Zealand Qualifications Framework
  - 26.3 domestic students eligible for Tertiary Education Commission tuition subsidies.
27. This means that the fees-free will only be available for fee-regulated courses with the objective of reducing student debt. Depending on decisions made later in November on eligibility, in the 2018 year there may be some first time students who do not qualify for fees free.

### **Next Steps**

28. My office will work with the relevant agencies and the Prime Minister's office on announcements about increases to student allowance rates and the loan living costs maximum, to ensure the public are aware of the changes and students have the information to support decisions about study for 2018.
29. I recommend that Cabinet Business Committee invite the Minister of Social Development to lead the amendments to the Student Allowances Regulations (1998) to give effect to the \$50 increase to student allowance rates.
30. I will report back to you later in December:
  - 30.1 with the finalised costing for the \$50 increase to allowance rates and loan living costs maximum alongside the finalised costs for fees-free
  - 30.2 seeking your agreement to the delivery channel and final detailed eligibility criteria for fees-free, including the approach for Industry Training.