



## Briefing Note: The operating impact of the \$50 increase to student loans and allowances

<b>To:</b>	Hon Chris Hipkins, Minister of Education		
<b>Date:</b>	22 November 2017	<b>Priority:</b>	High
<b>Security Level:</b>	In Confidence	<b>METIS No:</b>	1092983
<b>Drafter:</b>	[REDACTED]	<b>DDI:</b>	[REDACTED]
<b>Key contact and number:</b>	Julie Keenan [REDACTED]	<b>Round robin:</b>	No
<b>Messaging seen by Communications team:</b>	No		

### Key messages

- This paper provides the debt and operating impact of the \$50 weekly increase to student support, as requested.
- The operating impact costs are restated, based on the net debt costs included in your Cabinet Business Committee paper [CBC-17-SUB-0013 refers].
- We signalled in the CBC paper that further work would be needed on costings, including work on demand changes from the two tertiary education 100 days changes.
- Your next draft Cabinet paper will propose that finalised costings for the two tertiary education 100 days changes be submitted to joint Ministers (Finance and Education, to forward to Social Development and Revenue) for approval of detailed changes to appropriations under delegation from Cabinet.



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Hon Chris Hipkins  
Minister of Education

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## Background

### The Government will increase student support from 1 January 2018

1. The Government has committed to increase student allowances and the living costs loan maximum by \$50 a week from January 1, 2018. This will make study more affordable and help to address rising accommodation costs.
2. The increase to student support is intended to address cost barriers to tertiary education and training, making tertiary education more affordable.

### Cabinet agreed to the approach for the \$50 weekly increase

3. Cabinet, in considering your paper on initial decisions to support making tertiary education and training affordable for all [CBC-17-MIN-0013; confirmed CAB-17-MIN-0507], agreed to deliver a:
  - a. \$50 per week, per adult, net increase (based on the M tax code) for student allowance base rates
  - b. \$50 per week increase to the Student Loan Scheme living cost maximum.
4. It was noted by Cabinet that decisions were needed on the above changes to allow for sufficient lead in time for Ministry of Social Development system changes and regulatory amendments.

### Costs in the CBC paper were based on net debt impacts

5. The CBC paper provided indicative costs for the change to student allowance rates and the policy change to the student loan living cost maxima (table 1 below), in net debt terms. It also provided costs for implementation by the Ministry of Social Development. It indicated finalised costings would be provided to Cabinet after decisions on fees-free tertiary education.

*Table 1: net debt impact of \$50 increase to student allowances and loan maxima, based on current patterns of use*

	2017/18	2018/19	2019/20	2020/21	2021/22 & outyears
	\$m	\$m	\$m	\$m	\$m
Increasing student loans living costs by \$50 per week (capital)	47	101	102	103	106
Increasing student allowances by \$50 per week	47	99	100	102	104
<b>Debt impact</b>	94	200	202	205	210

6. In addition to the costs, the CBC paper included an estimate of spending reflecting increased uptake for student support, as a buffer against the risk of cost increases and changes in patterns of use. This was not a forecast of the likely behavioural response, and the paper indicated that it would be revised, taking into account the potential behavioural response to fees-free tertiary education once policy and delivery decisions were taken.

## Restated financial implications show operating impacts

7. In response to the request from your office, we have restated the costings from the CBC paper to show the operating impact of the changes (which take into account future repayments of student loans, that is, the *operating impact*), consistent with the net debt impacts (which reflect how much the government is lending each year and hence the *impact on net debt*).
8. The following table shows the operating impacts, based on the above same costings. They do not show any estimate of increased uptake.

*Table 2: operating impact of \$50 increase to student allowances and loan maxima, based on current patterns of use*

	2017/18	2018/19	2019/20	2020/21	2021/22 & outyears
	\$m	\$m	\$m	\$m	\$m
Increasing student loans living costs by \$50 per week (operating)	25	56	56	56	57
Increasing student allowances by \$50 per week	47	99	100	102	104
<b>Operating impact</b>	72	156	156	158	162

## Next steps

9. We are finalising financial implications of the two 100 days tertiary education policy changes, and working with Treasury on assumptions and costing review. It is possible that costings may change further in review, adjustments will be reflected at that point and approval sought to detailed changes to appropriations.
10. Your Cabinet paper for 27 November will seek interim financial authority for the fees-free policy, and propose a delegation to joint Ministers for the final appropriation changes. Once costings are complete, and reviewed by early December, the finalised costing for the \$50 increase to allowance rates and loan living costs maximum will be submitted to joint Ministers (Finance and Education, for forwarding to Social Development and Revenue) for approval under delegation.