



Education Report: Final financial implications for the '100 days' tertiary education commitments

To:	Minister of Finance, Minister of Housing and Urban Development, Minister of Education, Minister for Social Development, Minister of Revenue		
Date:	6 December 2017	Priority:	High
Security Level:	In Confidence	METIS No:	1094149
Drafter:	[REDACTED]	DDI:	[REDACTED]
Key contact and number:	Andy Jackson [REDACTED]	Round robin:	Yes from Minister of Education
Messaging seen by Communications team:	No		

Purpose

- This report seeks Joint Ministers' approval of final detailed appropriation changes to give effect to the policy decisions made by Cabinet on the tertiary education 100-day commitments [CBC-17-MIN-0013, confirmed CAB-17-MIN-0507; CAB-17-MIN-0515 refers].



Andy Jackson
Group Manager
Graduate Achievement, Vocations and Careers

Education Report: Final financial implications for the '100 days' tertiary education commitments

Structure of this paper

- 1 This paper:
 - sets out previous Cabinet policy decisions on the 100-day commitments
 - summarises the financial implications of the overall package and identifies changes made to the costings since Cabinet decisions were made
 - shows the funding implications for each initiative, including the costs associated with extra demand
 - presents the financial recommendations for joint Ministers' agreement and approval.
- 2 The appropriation changes require the approval of several ministers as they fall across several votes. For example:
 - the Minister of Education is responsible for tuition subsidies and fees-free payments
 - the Minister of Housing and Urban Development is responsible for accommodation assistance for students over the vacation period
 - the Minister of Revenue is responsible for student loan administration costs, lending and repayments
 - the Minister for Social Development is responsible for student allowances delivery and administration costs.

Previous Cabinet decisions

- 3 Cabinet has agreed to introduce two main changes from 1 January 2018, to make tertiary education affordable for all:
 - a. increasing student allowances and living cost loans by \$50 a week
 - b. making the first year of tertiary education or training fees-free for new students.

[CBC-17-MIN-0013, confirmed CAB-17-MIN-0507; CAB-17-MIN-0515 refers]

- 4 On 27 November 2017, Cabinet authorised the Minister of Finance, Minister of Education, Minister for Social Development and Minister of Revenue jointly to determine the final detailed changes to appropriations subject to:
- a. the net debt and operating impact not exceeding \$2,432 million and \$2,846 million respectively, over the forecast period, and
 - b. the net debt and operating impact in 2021/22 and out-years not exceeding \$657 million and \$691 million, respectively.
- 5 Cabinet also agreed to increase operating funding for the:
- a. Tertiary Education Commission for delivery of the fees-free policy from 2018 by \$3.7 million in 2017/18, \$4.1 million in 2018/19 and \$3.7 million in out-years
 - b. Ministry of Education to support the implementation of the fees-free policy by \$3 million in 2018/19 and 2019/20 and \$2 million in 2020/21 and out-years
 - c. Ministry of Social Development for delivery of the \$50 increase to student allowances and loan living costs of approximately \$0.6 million in 2017/18 and the fees-free policy by approximately \$1.3m in 2017/18 and \$0.8m in out-years.

[CAB-17-MIN-0515 refers]

Summary of financial implications

Costing changes following Cabinet's decisions

- 6 The financial implications and appropriations for the fees-free payments to providers are now presented as GST exclusive.
- 7 The figures are lower than that presented in the 27 November Cabinet paper [CAB-17-MIN-0515 refers]. This issue arose because under the current fiscal management approach some figures (e.g. student allowances) do not need GST applied while others (e.g. fees payments) should be presented as GST exclusive, in light of the chosen delivery model. We had presented fee payments as GST inclusive and have now identified this was not the correct treatment. The approach in this paper has been approved by Treasury.
- 8 This change in presentation of the financial implications does not affect the amounts the Tertiary Education Commission will receive or pay, as the TEC receives the GST inclusive amount when the appropriation is drawn down.
- 9 Other changes to the costing following Cabinet decisions include:
- a. the addition of small flow-on costs for Jobseeker Student Hardship and Accommodation Assistance for extra demand, as noted in the original Cabinet decisions

- b. technical changes refining the treatment of student loans and allowance costs, which do not significantly affect the overall costs of the package
- c. a detailed modelling of industry training costs following policy decisions under delegated authority.

10 Table A shows the full funding implications of both 100-day tertiary education commitments:

Table A: Funding implications of tertiary 100-day commitments package

	Funding implications	\$m - increase / (decrease)					
		2017/18	2018/19	2019/20	2020/21	2021/22 & Out-years	Total forecast period
	Operating balance impact						
A	Student allowances (net of PAYE)	49.844	108.365	116.805	127.888	134.323	537.225
B	Jobseeker student hardship (net of PAYE)	1.142	2.358	2.845	3.409	3.675	13.429
C	Accommodation support	0.267	0.684	0.817	0.967	1.033	3.768
D	Student loans (operating)	(25.094)	(4.614)	2.495	11.332	10.797	(5.084)
E	First year fees-free (provider)	302.900	340.000	370.400	387.800	397.400	1,798.500
F	Additional tuition subsidies	-	-	16.600	40.100	54.000	110.700
G	First year fees-free (Industry training)	7.000	14.700	17.700	19.200	20.300	78.900
H	Administration costs (MoE)	-	3.000	3.000	2.000	2.000	10.000
I	Administration costs (MSD)	1.821	0.803	0.803	0.803	0.803	5.033
J	Administration costs (TEC)	3.702	4.087	3.720	3.720	3.720	18.949
	Total operating balance impact	341.582	469.383	535.185	597.219	628.051	2,571.420
	No impact (PAYE)						-
	Student allowances	6.270	13.574	14.513	15.758	16.668	66.783
	Jobseeker Student Hardship	0.137	0.283	0.342	0.410	0.442	1.614
	Total no impact (PAYE)	6.407	13.857	14.855	16.168	17.110	68.397
	Debt impact						-
	Student loan debt impact	(154.863)	(122.537)	(85.847)	(44.343)	(26.350)	(433.940)
	Other debt impact	366.676	473.997	532.690	585.887	617.254	2,576.504
	Total debt impact	211.813	351.460	446.843	541.544	590.904	2,142.564

Notes: Total operating balance impact is the sum of A through J. Other debt impact is the sum of A to C and E to J. PAYE refers to the tax on benefits.

11 The impacts in Table A fall within the parameters set out in paragraph 2 above regardless of the changes to GST treatment. Therefore Joint Ministers are authorised to make appropriation changes to give effect to the \$50 per week increases to maximum rates for student allowances and living cost loans and the first year fees-free policies from 2018.

Financial implications for each element of the tertiary education package

- 12 The financial implications of each element of your tertiary education 100-day commitments package are set out in Tables B to E.

Increasing student allowance and living cost loans by \$50

Table B: Funding implications of \$50 increase to allowances and living cost loans

		\$m - increase / (decrease)					Total forecast period
		2017/18	2018/19	2019/20	2020/21	2021/22 & Out-years	
	Operating balance impact						
A	Administration (MSD)	0.560	-	-	-	-	0.560
B	Student Loans	24.568	53.505	54.145	53.893	53.525	239.636
C	Student allowances (net of PAYE)	47.818	101.341	102.179	103.747	106.235	461.320
D	Accommodation Assistance	0.234	0.553	0.554	0.550	0.557	2.448
E	Jobseeker Student Hardship (net of PAYE)	1.002	1.903	1.926	1.938	1.983	8.752
	Total operating balance impact	74.182	157.302	158.804	160.128	162.300	712.716
	No impact PAYE						
	Student allowances	6.048	12.802	12.906	13.104	13.421	58.281
	Jobseeker Student Hardship	0.120	0.228	0.231	0.233	0.238	1.050
	Total no impact (PAYE)	6.168	13.030	13.137	13.337	13.659	59.331
	Debt impact						
	Student loans debt impact	45.983	97.391	96.845	96.241	95.531	431.991
	Other debt impact	49.614	103.797	104.659	106.235	108.775	473.080
	Total debt impact	95.597	201.188	201.504	202.476	204.306	905.071

Notes: Total operating balance impact is the sum of A through E. Other debt impact is the sum of A, C, D and E.

First year fees-free in 2018

Table C: Funding implications of first year fees-free in 2018 (without provision for additional students)

		\$m - increase / (decrease)					
		2017/18	2018/19	2019/20	2020/21	2021/22 & Out-years	Total forecast period
	Operating balance impact						
A	Student loans	(52.970)	(66.825)	(68.285)	(67.131)	(64.795)	(320.006)
B	First year fees-free (provider)	295.100	323.500	341.700	347.800	356.500	1,664.600
C	First-year fees (Industry Training)	7.000	14.700	17.700	19.200	20.300	78.900
D	Administration costs (MoE)	-	3.000	3.000	2.000	2.000	10.000
E	Administration costs (MSD)	1.261	0.803	0.803	0.803	0.803	4.473
F	Administration costs (TEC)	3.702	4.087	3.720	3.720	3.720	18.949
	Total operating balance impact	254.093	279.265	298.638	306.392	318.528	1,456.916
	Total no impact (PAYE)	-	-	-	-	-	-
	Debt impact						
	Student loans debt impact	(208.765)	(242.089)	(227.193)	(210.179)	(193.480)	(1,081.706)
	Other debt impact	307.063	346.090	366.923	373.523	383.323	1,776.922
	Total debt impact	98.298	104.001	139.730	163.344	189.843	695.216

Notes: Total operating balance impact is the sum of A through F. Other debt impact is the sum of B through F.

Provision for growth in students resulting from the package

- 13 Officials are unable to forecast what demand changes may result as there is no precedent for changes of this scale; therefore the growth scenario used is a means of providing a fiscal buffer for growth in demand. The costings assume participation will hold steady from 2017 rather than decline as forecast, and will then increase against 2017 EFTS by 1% in 2020, representing a 3.8% growth against the EFTS forecast. Based on 2016 patterns of participation, we expect around 80,000 students might be eligible for fees-free in 2018.
- 14 These assumptions allow for a moderate increase against 2017 EFTS, and steadying after policy implementation. The Ministry will refine its forecasting methodology to identify fiscal pressures resulting from the policy changes to inform future Budget decisions.
- 15 Should demand from eligible students be higher than planned, available funds in the Tertiary Tuition and Training multi-category appropriation in Vote Tertiary Education can cover some additional growth in student numbers.

Table D: Funding implications of extra demand

	Funding implications	\$m - increase / (decrease)					
		2017/18	2018/19	2019/20	2020/21	2021/22 & Out-years	Total forecast period
	Operating balance impact						
A	Student allowances (net of PAYE)	2.026	7.024	14.626	24.141	28.088	75.905
B	Jobseeker student hardship (net of PAYE)	0.140	0.455	0.919	1.471	1.692	4.677
C	Accommodation support	0.033	0.131	0.263	0.417	0.476	1.320
D	Student loans (cost)	3.308	8.706	16.635	24.570	22.067	75.286
E	First year fees-free (provider)	7.800	16.500	28.700	40.000	40.900	133.900
F	Additional tuition subsidies	-	-	16.600	40.100	54.000	110.700
	Total operating balance impact	13.307	32.816	77.743	130.699	147.223	401.788
	No impact PAYE						
	Student allowances	0.222	0.772	1.607	2.654	3.247	8.502
	Jobseeker Student Hardship	0.017	0.055	0.111	0.177	0.204	0.564
	Total no impact (PAYE)	0.239	0.827	1.718	2.831	3.451	9.066
	Debt impact						
	Student loans debt impact	7.919	22.161	44.501	69.595	71.599	215.775
	Other debt impact	9.999	24.110	61.108	106.129	125.156	326.502
	Total debt impact	17.918	46.271	105.609	175.724	196.755	542.277

Notes: Total operating balance impact is the sum of A through F. Other debt impact is the sum of A, B, C, E and F.

We are attributing extra demand to the fees-free initiative

- 16 Both the \$50 increase to student living support and the first year fees-free policies may increase participation in tertiary education. However, there is no way to attribute or apportion any increase to a particular policy. For this reason we are attributing the provision for increased participation to the fees-free initiative. Table E sets out the combined impact of the first year fees-free and extra demand:

Table E: Total funding implications of first-year fees-free and extra demand

	\$m - increase / (decrease)					
	2017/18	2018/19	2019/20	2020/21	2021/22 & Out-years	Total forecast period
Total operating balance impact	267.400	312.081	376.381	437.091	465.751	1,858.704
Total no impact	0.239	0.827	1.718	2.831	3.451	9.066
Debt impact						
Student loans debt impact	(200.846)	(219.928)	(182.692)	(140.584)	(121.881)	(865.931)
Other debt impact	317.062	370.200	428.031	479.652	508.479	2,103.424
Total debt impact	116.216	150.272	245.339	339.068	386.598	1,237.493

Funding for tertiary education providers

- 17 Tertiary education providers have to make changes to their enrolment processes and may incur financial costs to implement the policy. The Tertiary Education Commission intends to identify the resources, systems and process costs that the Crown could compensate providers for, if this is required to ensure success of full implementation in 2018. Once this is done, the Tertiary Education Commission will prepare a case to draw upon the between budget contingency for any additional funding that is required.

Recommendations

We recommend that the Ministers of Finance, Social Housing and Urban Development, Education, Social Development, and Revenue, jointly:

- 1 **note** that Cabinet has authorised the Ministers of Finance, Education, Social Development, Revenue and the Associate Minister of Education (Hon Tracey Martin) jointly to determine final detailed changes to appropriations subject to:
 - the net debt and operating impact not exceeding \$2,432 million and \$2,846 million respectively, over the forecast period
 - the net debt and operating impact in 2021/22 and out-years not exceeding \$657 million and \$691 million, respectively
- 2 **note** that we are recommending sign-off by relevant vote Ministers which are the Ministers of Finance, Social Housing and Urban Development, Education, Social Development, and Revenue
- 3 **note** that the figures in this paper have been approved by the Ministry of Education, Tertiary Education Commission, the Ministry of Social Development and Inland Revenue
- 4 **note** the total costings as per the table below:

(\$m)	2017/18	2018/19	2019/20	2020/21	2021/22 & Out-years	Total forecast period
\$50 living support increase						
Total operating balance impact	74.182	157.302	158.804	160.128	162.300	712.716
Total no impact	6.168	13.030	13.137	13.337	13.659	59.331
Total debt impact (loans)	45.983	97.391	96.845	96.241	95.531	431.991
Total debt impact (loans & other)	95.597	201.188	201.504	202.476	204.306	905.071
First year fee-free (including extra demand)						
Total operating balance impact	267.400	312.081	376.381	437.091	465.751	1,858.704
Total no impact	0.239	0.827	1.718	2.831	3.451	9.066
Total debt impact (loans)	(200.846)	(219.928)	(182.692)	(140.584)	(121.881)	(865.931)
Total debt impact (loans & other)	116.216	150.272	245.339	339.068	386.598	1,237.493
Overall total						
Total operating balance impact	341.582	469.383	535.185	597.219	628.051	2,571.420
Total no impact	6.407	13.857	14.855	16.168	17.110	68.397
Total debt impact (loans)	(154.863)	(122.537)	(85.847)	(44.343)	(26.350)	(433.940)
Total debt impact (loans & other)	211.813	351.460	446.843	541.544	590.904	2,142.564

- 5 **note** that the total operating impact and total net debt impact in the table above are within the delegated authority set by Cabinet [recommendation 1 above refers]

Increasing student allowances rates and student loan living costs by \$50

- 6 **note** Cabinet has agreed to increase student allowances rates and student loan living costs from 1 January 2018 [CBC-17-MIN-0013; confirmed CAB-17-MIN-0507]
- 7 **note** the funding implications of increasing student allowances rates and loan living costs by \$50, by Vote are:

	\$m - increase / (decrease)				
	2017/18	2018/19	2019/20	2020/21	2021/22 & Out-years
Vote Social Development					
Operating balance impact	49.380	103.244	104.105	105.685	108.218
Debt Impact (loans)	46.074	98.161	99.063	100.616	102.915
No Impact	6.168	13.030	13.137	13.337	13.659
Vote Social Housing					
Operating balance impact	0.234	0.553	0.554	0.550	0.557
Debt Impact (loans)	-	-	-	-	-
No Impact	-	-	-	-	-
Vote Revenue					
Operating balance impact	24.568	53.505	54.145	53.893	53.525
Debt Impact (loans)	(0.091)	(0.770)	(2.218)	(4.375)	(7.384)
No Impact	-	-	-	-	-
Total					
Operating balance impact	74.182	157.302	158.804	160.128	162.300
Debt Impact (loans)	45.983	97.391	96.845	96.241	95.531
No Impact	6.168	13.030	13.137	13.337	13.659

- 8 **note** that the operating balance impact shown in recommendation 7 differs from the total operating in recommendation 9 because the appropriations account for expenditure only whereas the funding implications take a wider view and include income the Crown receives from student loans

- 9 **approve** the following changes to appropriations to increase student allowances rates and student loan living costs by \$50:

	\$m - increase / (decrease)				
Vote Social Development/ Minister for Social Development	2017/18	2018/19	2019/20	2020/21	2021/22 & Out-years
Departmental Output Expenses:					
Management of Student Support (funded by Revenue Crown)	0.560	-	-	-	-
Benefits or Related Expenses:					
Student Allowances	53.866	114.143	115.085	116.851	119.656
Jobseeker Support and Emergency Benefit	1.122	2.131	2.157	2.171	2.221
Vote Social Housing/Minister of Housing and Urban Development					
Benefits or Related Expenses:					
Accommodation Assistance	0.234	0.553	0.554	0.550	0.557
Vote Social Development/ Minister of Revenue					
Non-Departmental Capital Expenditure: Student Loans	46.074	98.161	99.063	100.616	102.915
Vote Revenue/ Minister of Revenue					
Non-Departmental Other Expenses:					
Initial Fair Value Write-Down - Student Loans	24.813	56.005	59.106	61.271	63.302
Total Operating	80.595	172.833	176.902	180.844	185.736
Total Capital	46.074	98.161	99.063	100.616	102.915

Approve/
Not Approve

Approve/
Not Approve

Approve/
Not Approve

Approve/
Not Approve

Hon Grant Robertson
Minister of Finance

Hon Phil Twyford
Minister of Housing
and Urban
Development

Hon Carmel Sepuloni
Minister for Social
Development

Hon Stuart Nash
Minister of Revenue

___/___/___

___/___/___

___/___/___

___/___/___

First year fees-free for new students, including extra demand, for 2018

- 10 **note** that Cabinet has agreed to the eligibility and design criteria for implementing the first year fees-free policy for 2018 [CAB-17-MIN-0515 refers]

11 **note** the funding implications of the first year fees-free policy by Vote are:

	\$m - increase / (decrease)				
	2017/18	2018/19	2019/20	2020/21	2021/22 & Out- years
Vote Social Development					
Operating balance impact	3.427	8.282	16.348	26.415	30.583
No Impact	0.239	0.827	1.718	2.831	3.451
Debt Impact (loans)	(203.525)	(232.821)	(212.870)	(190.977)	(193.382)
Vote Social Housing					
Operating balance impact	0.033	0.131	0.263	0.417	0.476
No Impact	-	-	-	-	-
Debt Impact (loans)	-	-	-	-	-
Vote Tertiary Education					
Operating balance impact	313.602	361.787	411.420	452.820	477.420
No Impact	-	-	-	-	-
Debt Impact (loans)	-	-	-	-	-
Vote Revenue					
Operating balance impact	(49.662)	(58.119)	(51.650)	(42.561)	(42.728)
No Impact	-	-	-	-	-
Debt Impact (loans)	2.679	12.893	30.178	50.393	71.501
Total operating balance impact	267.400	312.081	376.381	437.091	465.751
Total no Impact	0.239	0.827	1.718	2.831	3.451
Total debt Impact (loans)	(200.846)	(219.928)	(182.692)	(140.584)	(121.881)

12 **note** that the operating balance impact shown in recommendation 11 differs from the total operating in recommendation 14 because the appropriations account for expenditure only whereas the funding implications take a wider view and include income the Crown receives from student loans

13 **agree** to add the following category to the Multi-category appropriation "Tertiary Tuition and Training" in Vote Tertiary Education:

Name	Type	Scope
Fees-free Payments	Non-Departmental Other Expense	This category is limited to ensuring fees-free study for eligible students, apprentices and trainees.

Agree/
Not Agree

Agree/
Not Agree

Hon Grant Robertson
Minister of Finance

Hon Chris Hipkins
Minister of Education

___/___/___

___/___/___

- 14 **approve** the following changes to appropriations to implement the first year fees-free policy for 2018, by Vote:

	\$m - increase / (decrease)				
	2017/18	2018/19	2019/20	2020/21	2021/22 & Out- years
Vote Social Development/ Minister for Social Development					
Benefits or Related Expenses:					
Student Allowances	2.248	7.796	16.233	26.795	31.335
Jobseeker Support and Emergency Benefit	0.157	0.510	1.030	1.648	1.896
Vote Social Housing/Minister of Housing and Urban Development					
Benefits or Related Expenses:					
Accommodation Assistance	0.033	0.131	0.263	0.417	0.476
Vote Social Development/ Minister of Revenue					
Departmental Output Expenses:					
Management of Student Loans (funded by revenue Crown)	1.261	0.803	0.803	0.803	0.803
Non-Departmental Capital Expenditure:					
Student Loans	(203.525)	(232.821)	(212.870)	(190.977)	(193.382)
Vote Revenue/ Minister of Revenue					
Non-Departmental Other Expenses:					
Initial Fair Value Write-Down - Student Loans	(52.627)	(70.465)	(71.951)	(68.526)	(72.383)
Vote Tertiary Education/ Minister of Education					
Non-Departmental Output Expense:					
Administration of and Support for the Tertiary Sector	3.702	4.087	3.720	3.720	3.720
Multi-Category Expenses and Capital Expenditure:					
Tertiary Tuition and Training MCA					
Non-Departmental Other Expense:					
Fees-free Payments	309.900	354.700	388.100	407.000	417.700
Non-Departmental Output Expense Tertiary Education:					
Student Achievement Component	-	-	16.600	40.100	54.000
Stewardship of the Tertiary Education System MCA					
Departmental Output Expenses:					
Policy Advice (funded by revenue Crown)	-	1.965	1.965	1.480	1.480
Research, Data Analysis and Monitoring (funded by revenue Crown)	-	1.035	1.035	0.520	0.520
Total Operating	264.674	300.562	357.798	413.957	439.547
Total Debt	(203.525)	(232.821)	(212.870)	(190.977)	(193.382)

Approve/
Not Approve

Approve/
Not Approve

Approve/
Not Approve

Approve/
Not Approve

Approve/
Not Approve

Hon Grant Robertson
Minister of Finance

Hon Phil Twyford
Minister of Housing
and Urban
Development

Hon Chris Hipkins
Minister of Education

Hon Carmel Sepuloni
Minister for Social
Development

Hon Stuart Nash
Minister of Revenue

___/___/___

___/___/___

___/___/___

___/___/___

___/___/___

Further recommendations

- 15 **agree** that the proposed change to appropriations for 2017/18 above be included in the 2017/18 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply

Agree/
Not Agree

Agree/
Not Agree

Agree/
Not Agree

Agree/
Not Agree

Agree/
Not Agree

Hon Grant Robertson
Minister of Finance

Hon Phil Twyford
Minister of Housing
and Urban
Development

Hon Chris Hipkins
Minister of Education

Hon Carmel Sepuloni
Minister for Social
Development

Hon Stuart Nash
Minister of Revenue

___/___/___

___/___/___

___/___/___

___/___/___

___/___/___

- 16 **note** the Half Year Update fiscal forecasts include the fiscal impacts reflected in the Cabinet paper, however the fiscal forecasts have not been updated to incorporate the changes due to accounting for GST, as the fiscal forecasts were finalised prior to these updated costs being known
- 17 **note** the changes to forecasts for GST, mentioned above, do not materially impact key fiscal indicators across the forecast period and will be reflected in the next forecast update
- 18 **note** that if further funding is required to reimburse tertiary providers for the costs of making changes to their enrolment processes to implement the fees-free policy, then this funding will be sought through the between budget contingency process.