

Briefing Note: Response to media questions on fees-free forecasts and fee payments

To:	Hon Chris Hipkins, Minister of Education		
Date:	12 March 2018	Priority:	Medium
Security Level:	In Confidence	METIS No:	1112691
Key contact and number:	Julie Keenan (Education)	DDI:	s 9(2)(a) OIA
	Deirdre Marshall (TEC)		
Messaging seen by Communications team:	Yes	Round robin:	No

Summary

- We recommend the key messages for media queries on fees-free forecasts for 2018 are:
 - Investing in education and the future of our young people is an absolute priority for the Government.
 - The Government is committed to life-long learning to help better equip people for the challenges and opportunities of the 21st Century economy.
 - A key part of this is improving affordability and access to tertiary education and industry training. Students and parents have identified the cost of study as a real issue, especially against a background of the rising cost of living, including the cost of accommodation.
 - The policy also has objectives to transform public education and to reduce the burden of student debt. These objectives don't depend on new people who would not have studied otherwise: they also apply to those who already planned to study or train.
 - The Government has set aside over \$300 million in 2017/18 to pay the fees of around 80,000 students and trainees in fees-free education and training. This amount was calculated based on participation by students in 2016, and allowing for a modest increase in participation by fees-free eligible students in 2018 (but no overall increase in participation in 2018). This is the Budget provision for fees-free tertiary education and training, not a prediction of take-up.
 - Almost all eligible students will have their fees fully paid, and the remaining small minority of students with very high fees will have their fees cut by \$12,000. As most students pay fees through student loans, this will reduce their fee borrowing by \$4-6000 for most and up to \$12,000.
 - I am continuing to compare fees-free uptake to the estimates prepared to cost the policy and to 2017 patterns of participation. There are no earlier forecasts of first-year participation and there will be no reliable update on first semester 2018 take-up until approximately May 2018.

- Officials (TEC and Education) do not expect early 2018 enrolments to be up on 2017 levels except for some individual providers.
- That is not surprising. Demographic trends and a strong labour market mean tertiary education numbers have been in decline for some years.



Julie Keenan
Policy Director
Graduate Achievement, Vocations and Careers

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Proactively Released

Media requests

- On Friday 9 March your office requested a note that provides information on reduced student loan borrowing as a result of fees-free and also pre-election forecasts of participation.
- Your office asked that this note answer three Key Questions, and include a section with suggested key messages/statements that could be used in the House or the media. The three Key Questions were:
 - What's the figure that students won't now have to borrow as a result of fees free: "Those finishing study or training will end up with \$xx less student loan debt to repay"
 - Can we also please include an expected global total of fees paid by Government in 2018? I.e. can you please confirm/correct the following statement – In total, under the fees-free policy, the government will pay around \$300m of first-year fees for students each year.
 - Pre-election forecasts for participation – what is the best/most recent information on forecasts for 2018 participation that we will be tracked against?

Responses to key questions and messages for media response

- We recommend you provide the following high-level responses about fees-free tertiary education to provide context for these questions:
 - Investing in education and the future of our young people is an absolute priority for the Government.
 - The Government is committed to life-long learning to help better equip people for the challenges and opportunities of the 21st Century economy.
 - A key part of this is improving affordability and access to tertiary education and industry training. Students and parents have identified the cost of study as a real issue, especially against a background of the rising cost of living, including the cost of accommodation.
 - The Government has taken major steps forward in starting to break down the financial barriers to tertiary education and industry training for all people who have not studied before. This includes young people who are finishing school and adults who have put off further education because of the cost.
 - The policy also has objectives to transform public education and to reduce the burden of student debt. These objectives don't depend on new people who would not have studied otherwise: they also apply to those who already planned to study or train.
 - The Government has delivered on its promise of delivering the first year of fees-free tertiary education and training from 1 January this year and \$50 increases in student allowance and student loan living support.
 - Based on the fees-free policy eligibility criteria, the Ministry of Education estimated that around 80,000 students and industry trainees may qualify for fees-free tertiary education in 2018.
 - This is a win for students and their families, and for the future of our economy and society. If New Zealand is to be wealthy and successful we must make it easier for

our young people to study at our universities, polytechnics, other tertiary providers, and through industry training such as apprenticeships.

- The one-year fees-free tertiary education for 2018 is just the first step in the process as the Government rolls out a full programme of three years' fees-free tertiary education by 2024. The policy will be phased in between 2018 and 2024, extending fees-free tertiary education to two years in 2021 and three years in 2024.
- It was by no means clear that bringing in fees-free for 2018 would boost tertiary enrolments or trainee numbers early this year, as many people have taken their decisions by October or November; however, we would expect an increase in enrolments over time, especially from groups that are otherwise under-represented.
- You have asked two questions about payments for fees-free tertiary education: impact on individual student loan balances, and total cost to government. You can say:
 - Almost all eligible students will have their fees fully paid, and the remaining small minority of students with very high fees will have their fees cut by \$12,000. As most students pay fees through student loans, this will reduce their fee borrowing by \$4-6000 for most and up to \$12,000.

Note that this response doesn't comment on the overall student loan balance. For many students, increased borrowing from the \$50 weekly increase to student loan living costs will partly or fully offset the decreased borrowing from fees-free first-year study.

- The Government has set aside over \$300 million (GST exclusive) in 2017/18 to pay the fees of around 80,000 students and trainees in fees-free education and training. This amount was calculated based on participation by students in 2016, and allowing for a modest increase in participation by fees-free eligible students in 2018 (but no overall increase in participation in 2018). This is the Budget provision for fees-free tertiary education and training, not a prediction of takeup.
- This funding is equivalent to over \$350 million (GST inclusive) of fee reductions to students in 2017/18. Students would have paid GST on their fees. It is also equivalent to around \$200 million (GST exclusive) in avoided funding from government for student loan borrowing.

Note: Government funding referred to above is the GST-exclusive funding provision in Budget. Funding allocated varies in years after 2017/18, rising gradually: we recommend using a current year figure as funding will be adjusted for policy changes and takeup. Source is METIS 1108973 of 23 February.

It is too early to adjust this figure for takeup in 2018: initial information will be available after April data is analysed, but students and trainees will continue to take up fees-free education and training throughout the year.

- You have asked about current uptake of fees-free education and training, after media and other comment. We have worked with TEC to prepare the responses below.
 - I am continuing to compare fees-free uptake to the estimates prepared to cost the policy and to 2017 patterns of participation. There are no earlier forecasts of first-year participation and there will be no reliable update on first semester 2018 takeup until approximately May 2018.
 - Officials (TEC and Education) do not expect early 2018 enrolments to be up on 2017 levels except for some individual providers. We have indicative data from the

universities suggesting no increase in enrolments this year, but don't have corresponding information for the other tertiary organisations.

- That is not surprising. Demographic trends and a strong labour market mean tertiary education numbers have been in decline for some years.
- Final enrolments for 2017 became available in early March 2018. 2017 enrolments were around three percent lower than the previous published forecast (for level 3+ study in providers, calculated on an equivalent full-time basis), and also were lower than 2016.
- As we expect 2018 demand for tertiary education to be similar to or lower than 2017, due to strong work opportunities and demographics, it is likely that 2018 participation will be lower than previous estimates.

Background material

Future updates on fees-free takeup

- By the end of April TEC will have fees free reporting results for March and April, covering the number of eligible learners enrolled, and the cost of their fees. Providers are due to submit SDR information by the end of April, covering the year from 1 January and is as at 15 April. Once agencies have a full SDR return (usually in early-mid May), we can use that data to cross-check with the fees-free reporting to ensure that we are confident that the data is robust. Full analysis of the SDR will take several weeks, with analysis available later in May.

Demand forecasting in tertiary education

- The Ministry of Education produces a demand forecast for level 3+ student achievement component (SAC) EFTS at tertiary education providers. The forecast is based on a predictive model, which uses forecast unemployment rates and population projections to predict SAC Level 3+ EFTS. Up to now, the forecast has had a high level of accuracy, but is dependent on the accuracy of the forecasts of unemployment and population.
- The demand forecast excludes workplace-based training. For workplace-based training we forecast the number of learners (measured using the standard training measure) using a similar method to that for the Level 3+ forecast. However, this forecast is less accurate than the Level 3+ forecast and is not published.
- The forecast number of SAC Level 3+ EFTS affects decisions on Vote Tertiary Education, and also underpins Budget decisions for student loans and allowances in Vote Social Development and Vote Revenue. Although the forecast is accurate, a variance of even 1% is material in terms of funding and student numbers.
- The Ministry publishes the methodology and the results of the Level 3+ forecast after the Budget. The latest publicly available forecast was used for Budget 2017 and was published in May 2017 at: <http://www.educationcounts.govt.nz/publications/80898/172620>. The published forecast provides more detail on the forecast methodology. We produce a demand forecast twice a year, for BEFU and also for HYEUFU. We used the preliminary HYEUFU forecast to inform the costings for the fees-free policy.
- The demand forecast provides estimates of EFTS by subsector (universities, polytechnics, wānanga, and private training establishments) and by broad levels of study (Level 3-4 certificates, Level 5-7 certificates/diplomas, bachelors degrees, and Level 8-10 postgraduate study). We do not forecast particular demographic characteristics, providers, or first-year in tertiary education student numbers.

- Although the demand forecast does not provide the numbers of expected fees-free students, the forecast shows what demand may have been like without fees-free. So we can compare actual SAC Level 3+EFTS in 2018 with forecast EFTS to get a sense of any impact on participation from the fees-free policy. The 2018 BEFU forecast will be based on actual 2017 EFTS.
- It is important that 2018 EFTS are compared with actual 2017 EFTS (rather than prior forecast EFTS for 2017).
- Table 1 presents the forecast Level 3+ SAC EFTS in 2017 and compares them to the actual EFTS in 2017. The actual participation in tertiary education has been lower than was forecast.

Table 1: Actual SAC Level 3+ EFTS in 2017 compared with BEFU 2017 forecast and preliminary HYEFU 2017 estimate

Grouping	2017 actual	BEFU 2017 forecast for 2017	Preliminary HYEFU 2017 estimate for 2017	Variance (Actual – BEFU Forecast)	
				#	%
Total L3+	202,730	209,090	205,960	-6,360	-3.0%
Universities	114,170	115,310	115,210	-1,140	-1.0%
Polytechnics	50,460	54,080	51,530	-3,620	-6.7%
Wānanga	18,300	18,560	18,250	-260	-1.4%
PTEs	19,800	21,140	20,970	-1,340	-6.3%
Level 3-4 certificates	43,620	47,110	46,370	-3,490	-7.4%
Level 5-7 certificates/diplomas	21,920	22,470	22,290	-550	-2.4%
Bachelors degrees	106,150	108,700	106,130	-2,550	-2.3%
Level 8-10 postgraduate study	31,040	30,810	31,170	230	0.7%

Note: We use the preliminary HYEFU estimate in this table as this was used in the costing of the fees-free policy.

- The data shows that overall, actual Level 3+ SAC EFTS were 3% lower than was forecast in the 2017 BEFU and 1.6% lower than estimated for the 2017 HYEFU.
- Actual Level 3+ EFTS was lower than forecast in the 2017 BEFU in polytechnics and private training establishments (PTEs). By level, postgraduate (level 8 or higher) was the only one to exhibit a slight increase on what was forecast in BEFU 2017, while actual Level 3-4 certificates EFTS were down by 7.4% compared with BEFU 2017 forecasts.

Costs of providing fees-free tertiary education

- The costs and savings in the responses above are drawn from the financial implications agreed by Ministers in December (METIS 1094149 refers), except for the fees avoided by students, which are from a 29 November note (METIS 1093947 refers).
- The government provisions for fees-free payments to providers and industry training organisations are GST-exclusive. As around 61 percent of fees are paid through student loans (and the rest through sources such as students or families, employers or scholarships), the savings to government from reduced student loan borrowing are lower than the new costs to government. The total avoided payments by students are higher, as students pay GST on their fees.
- We recommend you use the government provisions as the first numbers in responses as these can be traced directly to government budgets, while avoided fees cannot be seen in Budget provisions.

Fee savings to students

- A 17 November Ministry of Education briefing note “How many students may be affected by a fees-free \$ value cap?” shows the estimated distribution of fees covered by the fees-free policy for potentially eligible students in provider-based programmes. This is available online at: <http://education.govt.nz/assets/Documents/Ministry/Information-releases/100-days/Ministers-note-How-many-students-may-be-affected-by-a-value-cap-on-fee....pdf>
- The bar chart in that briefing note is presented below with the underlying data.
- Not all students borrow under the student loans scheme for their fees.
 - Part time students are not eligible for student loans.
 - Some students who can take a loan pay their fees without borrowing (including by scholarships)
 - Students with lower fees are less likely to borrow. (The Ministry of Education estimated that just under 50% of fees-free eligible students would have fees under \$4000)

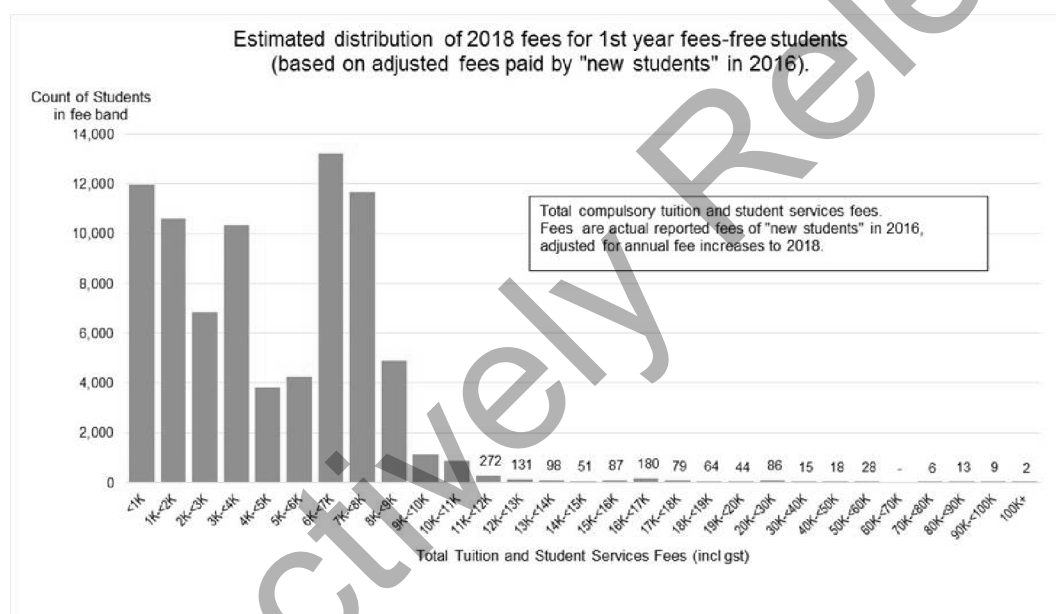


Table 2: estimated distribution of 2018 fees for fees-free students (based on 2016 adjusted fees)

Fees (incl gst)	Estimated potentially eligible students (rounded to nearest 100)	% of potentially eligible students
<1K	12,000	15%
1K-<2K	10,600	13%
2K-<3K	6,800	8%
3K-<4K	10,300	13%
4K-<5K	3,800	5%
5K-<6K	4,200	5%
6K-<7K	13,200	16%
7K-<8K	11,700	14%
8K-<9K	4,900	6%
9K-<10K	1,100	1%
\$10k+	2,100	3%
Total	80,700	100%