

[In Confidence]

Office of the Minister of Education

Chair, Cabinet Business Committee

## **Initial decisions to support making tertiary education and training affordable for all**

### **Proposal**

- 1 This paper seeks agreement to proposals for delivering on our 100 days manifesto commitments for tertiary education. As lead Minister, I am seeking agreement to:
  - 1.1 the approach required to increase student allowances and student loan living costs by \$50 per week, as a decision is required now to implement by 1 January 2018
  - 1.2 the broad eligibility parameters for one year fees-free tertiary education.

### **Executive Summary**

- 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. Education also ensures that as a country we can sustainably grow our economy, support our environment, and ensure equity for all.
- 3 The importance of education in supporting individuals and our country to succeed is why this Government committed in our manifesto to making tertiary education and training affordable for all. Meeting this commitment will start by delivering two main changes by 1 January 2018:
  - 3.1 increasing living costs support for students by \$50 a week
  - 3.2 accelerating the three years' fees-free tertiary education policy to deliver a first year free.

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

- 4 I am seeking your agreement to deliver a:
  - 4.1 \$50 per week, per adult, net increase (based on the M tax code) for student allowance base rates
  - 4.2 \$50 per week increase to the Student Loan Scheme living cost maximum.
- 5 This will see around 65,000 student allowance recipients receiving an increase to their base rates. The loan living costs maximum will go from \$178.81 to \$228.81 per week, providing around 100,000 students with extra funds for living costs.
- 6 Student allowance rates and benefit rates have been aligned historically, although students in general receive lower rates of accommodation support than beneficiaries. Increasing student allowance rates may encourage some people to enter tertiary study where they are unprepared or not motivated to succeed. However, performance and

provider expectations in tertiary education encourage students to succeed. On-going monitoring of the impacts of this change will enable risks to be managed, and inform any future changes to the tertiary and benefit systems.

- 7 The indicative fiscal costs for the \$50 increases averages \$283 million per annum for the change to student allowance rates and the student loan living cost maxima. Early estimates are that there will be a one-off implementation operating expense for the Ministry of Social Development of \$600,000 for 2017/18.

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

- 8 I am seeking your agreement to the broad eligibility criteria for one year of fees-free tertiary education from 1 January 2018. This will provide greater clarity for students and tertiary education providers.
- 9 Decisions on the broad eligibility parameters are also necessary to inform the design choices on the delivery channel for fees-free and to identify where there are trade-offs that need to be made in order to have an interim solution in place for 1 January 2018.
- 10 My proposal focuses fees-free on quality-assured programmes that are a good investment for New Zealand and for students. This will align fees-free eligibility with eligibility for existing funding through government tuition subsidies, and with the quality requirements of the wider framework for tertiary education.

#### **Background**

- 11 A well-educated population delivers benefits across society and the economy. As such, Government's role in supporting broad access to tertiary education is crucial to our success as a nation.
- 12 Our manifesto pledges are designed to address the affordability of study, meet rising accommodation costs, reduce financial barriers for students and shift the balance of contributions so that Government is making a greater investment in the success of our tertiary system and our students. These pledges are to, by 1 January 2018:
- 12.1 increase student allowances and student loan living costs by \$50 a week
  - 12.2 make the first year of tertiary education or training fees-free.
- 13 I am seeking decisions quickly on the timing, scope and design of a first stage fees-free policy. Prospective students are already making enrolment decisions and applying for financial support for 2018. StudyLink's peak season campaign is already underway encouraging students to apply early for student loans and allowances.
- 14 It was agreed by Cabinet that I develop a proposal in close consultation with the Ministers of Finance, Social Development, Revenue, and the Associate Minister of Education (Hon Tracey Martin); and to report back to Cabinet in November [CAB 17 Min 0485 refers].
- 15 This paper is the first in a series on the timing, scope and design of both projects. Early decisions are needed on the:
- 15.1 approach for the \$50 weekly increase for student allowance and student loan living costs, to meet cut-off dates for implementation

- 15.2 broad eligibility parameters for the one year's fees-free tertiary education, to provide greater clarity for students and tertiary education providers, inform the design choices on the delivery channel for fees-free and identify where there are trade-offs that need to be made.

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

- 16 Increases in living and accommodation costs relative to loan and allowance funding have put significant pressure on students. 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 the rising accommodation costs.
- 17 Students currently access support for living costs through two main mechanisms, both of which we committed to increase by \$50 per week:
- 17.1 **Student allowances** are grants to full-time students during their period of study (on average 28 weeks a year). The student allowance provides a higher level of subsidy for tertiary education to help students from low-income families, and those most in financial need. Student allowance rates increase annually on 1 April in line with Consumer Price Index (CPI) increases. Rates vary, and are the same as those paid to Jobseeker Support or Sole Parent Support recipients in the benefit system, depending on the student's circumstances. For example (all rates are after tax):
- 17.1.1 a single student living away from home and aged under 24 receives \$177.03 per week
- 17.1.2 a single student with children receives \$329.57 a week.
- 17.2 **Student Loans** provide financial support to help with the costs of tertiary study, and can include loans for living costs. All students may currently borrow up to \$178.81 a week. Many students who are ineligible for allowances borrow for living costs.
- 18 Many student allowance recipients are also eligible for the Accommodation Benefit. For most students this is a maximum of \$40 a week (due to increase to \$60 a week on 1 April 2018 as part of the Families Package). Sole parents can access higher rates in line with the Accommodation Supplement available through the benefit system (up to \$120 more per week for sole parents with one child). Accommodation Benefit does not increase in line with CPI increases.
- 19 Around 63% of student allowance recipients accessed the Accommodation Benefit in 2016. Accommodation Supplement may be available for some student loan recipients, depending on the student's circumstances.
- 20 Students who are eligible for a rate of allowance below the current student loan living costs maximum may elect to "top up" their student allowance through borrowing. Following the changes, these students will be able to borrow up to \$228.81 per week less any amount of allowance received.

## **To implement the \$50 a week increase by 1 January 2018**

- 21 I am proposing a:
- 21.1 net increase for student allowance base rates of \$50 per week, per adult, based on an M tax code (note that this will mean a \$100 increase for couple rates that reflect the living costs of two adults in a relationship)
  - 21.2 \$50 per week increase to the Student Loan Scheme living costs maximum.
- 22 This approach will ensure our manifesto commitment reaches all students accessing student allowances or loans for living costs. Around 65,000 student allowance and 100,000 student loan living costs recipients will benefit from the increases.
- 23 The increase for student allowances will mean that around 3,000 additional students will become eligible for up to \$52 per week of student allowance, as income thresholds will not be changed (there is a \$2 minimum payment for allowances so a \$50 increase may mean some students receive \$52). Couple rates that reflect the living costs of two adults will be increased by \$100 per week to maintain the relativities between single and couple rates.
- 24 A small number of students will not receive the full \$50 per week net increase because a rise in student support will abate other assistance they receive through the benefit system and/or Working for Families. We expect these impacts to be limited.
- 25 A \$50 per week net increase for allowance base rates will mean, for example (all rates are after tax but the Student Allowances Regulations 1998 contain gross rates):
- 25.1 a single student living away from home and aged under 24 would receive \$227.03 per week
  - 25.2 a single student with children would receive \$379.57 a week
  - 25.3 a couple with no children where only one partner is enrolled in more than half of a full-time course, and the couple has a weekly income of \$428.60 per week or less, would receive \$454.06.
- 26 The Student Loan Scheme living costs maximum would increase from \$178.81 to \$228.81 per week. The increase will be implemented through changes to student loan contracts and students will need to agree to any increase in the amount borrowed. The increase in loan living costs entitlements will have a flow on to student loan leaving balances.
- 27 Student allowance rates and the loan living costs maximum will also be adjusted as usual on 1 April in line with any CPI increase.

## **The proposed changes will deliver on our objectives but carry risks**

- 28 Changes to student allowance base rates will have flow-on implications for the relationship between the student support and benefit systems. Many parts of the student allowance system currently link to the benefit system, particularly the net amounts of student allowance. Current student allowance rates align with the equivalent Jobseeker Support or Sole Parent Support rates and Jobseeker Support-Student Hardship that students can apply to receive during their holidays.

- 29 Increasing student allowance rates (combined with fees-free tertiary study) could encourage some students to move into study due to financial incentives, particularly for sole parents who receive similar amounts of accommodation support (3,464 students in 2016). However, some of these students may not be fully prepared or motivated to complete tertiary study and may be unlikely to succeed if they enrol solely for financial reasons.
- 30 Current policy settings will limit the ability of students to continue in study if they have entered solely for financial reasons. The key policy settings are:
- 30.1 providers are held to account for the performance of students
  - 30.2 there are strong processes to ensure quality of provision
  - 30.3 students are held to account for their performance in order to remain eligible for both loans and allowances
  - 30.4 providers must report course withdrawals to ensure that student support is not provided to those who are not eligible.
- 31 Agencies will monitor and assess any impacts arising from the introduction of this misalignment with the benefit system, as well as managing any adjustments to current tertiary education policy settings.

### **Implementing the first stage of the fees-free tertiary education policy from 1 January 2018**

#### *Progress on developing delivery channels for 2018*

- 32 Officials have been investigating options for the interim delivery channel for fees-free in 2018.
- 33 All options would need to adapt existing systems, and involve operational design challenges, limitations and risk. Options would involve changes for the Tertiary Education Commission, Ministry of Social Development and potentially Inland Revenue.
- 34 We are developing options for a new delivery channel that reflects the special characteristics of Industry Training. Industry trainees do not access Student Loans, fees are not regulated in the same way, students usually contribute through training wages and may not pay fees, and costs are shared with employers.
- 35 I will report back to you later in November, seeking your agreement to the delivery channel and final detailed eligibility criteria for fees-free, including the approach for Industry Training. Decisions will require a careful balance of practicality and delivery on the vision, as existing administrative, funding and information systems may not be able to deliver the full set of changes for 1 January 2018. Officials' work on delivery channels for 2018 has identified so far that:
- 35.1 no single agency or provider holds all of the information needed to identify and validate eligibility
  - 35.2 some information is not held by government or able to be validated centrally, for example whether the cost of training fees was ultimately borne by an apprentice or their employer.

- 35.3 existing provider or student payment systems would require significant manual workarounds, and interagency information sharing, to deliver this policy in 2018, for example exchange of information about prior study and prior applications for student support
- 35.4 verifying eligibility after payments are made, and recouping any payments made to ineligible students, will require significant manual effort and/or system change.
- 36 I will work with officials following the 2018 implementation to ensure that a long-term option to deliver on this policy can be in place for 2019.

*Agreeing high-level eligibility for fees-free in 2018*

- 37 In this paper I am seeking your agreement to the broad eligibility parameters for the one year's fees-free tertiary education for the first, interim year of implementation in 2018. This will provide greater clarity for students and tertiary education providers.
- 38 These high level decisions are desirable to inform the design choices on the delivery channel for fees-free and to identify where there are trade-offs that need to be made for interim solutions for 1 January 2018.
- 39 I am focussing fees-free on quality-assured programmes that are a good investment for New Zealand and for students. Therefore, I propose that fees-free apply to:
- 39.1 courses and qualifications approved by the New Zealand Qualifications Authority or Vice Chancellors Committee, and funded by the Tertiary Education Commission,
- 39.2 study at Level 3 or above on the New Zealand Qualifications Framework
- 39.3 domestic students eligible for Tertiary Education Commission tuition subsidies
- 40 This means that fees-free will only be available for fee-regulated courses with the objective of reducing student debt. Taking this approach will also balance the need to keep options open on the delivery channel, focus on the management of good student outcomes, manage expenditure and align with existing tuition subsidy settings.
- 41 Focusing on Level 3+ builds on existing fees-free provision at Levels 1-2, and ensures that students use their fees-free entitlement for tertiary study at Level 3+, where there are better employment and social outcomes.
- 42 I will propose more detailed decisions in late November on eligibility alongside decisions on the delivery approach for 2018. Depending on those decisions, in the 2018 year there may be some first time students who will not qualify for fees-free.

**Consultation**

- 43 This paper was prepared by the Minister of Education, in consultation with the Ministers of Finance, Social Development, Revenue and the Associate Minister of Education (Hon Tracey Martin).
- 44 An interagency governance group, led by the Ministry of Education and including the Ministry of Social Development, Inland Revenue, Tertiary Education Commission, State Services Commission and the Treasury, has been consulted in preparing this paper.

- 45 Te Puni Kōkiri, the Ministry for Pacific Peoples, the Ministry for Women and the Ministry for Vulnerable Children – Oranga Tamariki, have also been consulted in preparing this paper.
- 46 The Department of Prime Minister and Cabinet has been informed of the content of this paper.

### Financial implications

- 47 Officials have provided indicative operating costs for the change to student allowance rates and the policy change to the student loan living cost maxima.
- 48 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. 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.
- 49 Policy changes in this area have impacts across multiple categories. Given student loans are interest-free, there is a corresponding initial write-down in their value which is recognised as an expense to the Crown at the point of lending. An interest unwind is also recognised as revenue (reflecting the time value of money). Both of these impacts are non-cash and impact on the Operating Balance Excluding Gains and Losses (OBEGAL). The net impact of issuing the loans will impact on net debt and this impact is managed consistently with the Government's fiscal responsibility goals. These are reflected in the following table.
- 50 The costs, based on current patterns of use, are:

*Table 1. Costing for student loan and allowance increases, based on current patterns of use*

	2017/18	2018/19	2019/20	2020/21	2021/22 & outyears
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>Total impact</b>	<b>94</b>	<b>200</b>	<b>202</b>	<b>205</b>	<b>210</b>

- 51 Treasury has advised that since only indicative costings are available at this stage, an estimate of spending reflecting increased uptake for student support should be used. This estimate includes the cost of the policy proposal (based on current patterns of use) and applies a 5% allowance from 2019/20 onwards for increased uptake. It represents a buffer against the risk of cost increases and changes in patterns of use. It is not a forecast of the likely behavioural response.
- 52 My officials advise they have a low level of confidence in these indicative costings as a genuine upper limit on cost: 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 indicative costings.

*Table 2. Indicative impact of student loan and allowance increases to be charged against the Fiscal Plan, including increased uptake*

(\$millions)	2017/18	2018/19	2019/20	2020/21	2021/22 & outyears
Increasing student loans living costs by \$50 per week (capital)	47	101	180	182	186
Increasing student allowances by \$50 per week	47	99	125	127	130
<b>Total</b>	<b>94</b>	<b>200</b>	<b>305</b>	<b>309</b>	<b>316</b>

- 53 The indicative costs exclude Ministry of Social Development administration costs and any flow on costs to the benefit system. Early estimates are that there will be a one-off expense of \$600,000 for 2017/18 for the \$50 increase to allowances and loans. Further work is underway to finalise the detailed costs, including agency policy and implementation costs.
- 54 Agencies will provide finalised costings to Cabinet on 4 December for confirmation, alongside my proposals for the fees-free policy. Any adjustments will be reflected at that point and Cabinet approval sought to detailed changes to appropriations.
- 55 The above estimate will be aggregated with other 100 Day Plan policy commitments to calculate the spending available for future budget allowances. This approach will be agreed by Cabinet on 20 November. Any variance to the aggregated estimate of the 100 Day Plan (as set out in that Cabinet paper) will be managed as a pre-commitment against the Budget 2018 allowances
- 56 Revised costings will be provided to the Treasury on 22 November for inclusion in the Half Year Economic and Fiscal Update (HYEFU). Due to this timing, this may create an inconsistency between the impact of final decisions by Cabinet and what is reflected in the Government's Budget Policy Statement and the Treasury's HYEFU.

### **Administrative implications**

- 57 To meet implementation deadlines the Ministry of Social Development will start progressing operational changes from mid-November.

### **Human Rights**

- 58 There are potential human rights implications of the \$50 increase to the student loan living costs maximum as particular groups may take longer to repay their loans than others. However, these implications would not cause actual economic disadvantage to members of these groups, as repayments are structured so as to ensure that the cost to students in real terms does not increase over time, and may reduce given the interest-free nature of loans for those who remain in New Zealand. In the absence of any economic disadvantage there is no discrimination.
- 59 In addition, should there be actual economic disadvantage, this would still not result in infringement of the New Zealand Bill of Rights Act (NZBORA). This is because any infringement would be justified under section 5 of NZBORA given the high personal benefits accrued as a result of tertiary education, Government's decisions around structuring loan obligations, and the high existing costs to taxpayers.



- 60 There are also potential human rights implications of the \$100 increase to student allowance rates for couples, as this change will mean a greater increase to rates based on family status. However, this higher increase has been introduced deliberately to respond to the potential risk that a \$50 increase would result in economic disadvantage for couples. Applying a \$100 increase ensures that this policy delivers the same per-adult increase to all student allowance rates.

### **Legislative Implications**

- 61 Changes to student allowances rates will require amendments to the Student Allowances Regulations 1998.

### **Regulatory Impact Analysis**

- 62 A Regulatory Impact Statement was prepared in accordance with the necessary requirements and is attached.
- 63 The Ministry of Education states that the Regulatory Impact Statement fully meets the requirements.

### **Gender Implications**

- 64 The proposals in this paper have no known gender implications. While women take longer to repay student loans and may find that the repayment time increases following the \$50 increase to the loan living costs maximum, this is unlikely to result in economic disadvantage given the structure of repayment obligations. In addition, applying the \$100 student allowance increase to couple rates will ensure that all student allowance recipients receive the same per-adult increase in support, regardless of gender or family situation.

### **Disability Perspective**

- 65 There are no known disability issues arising from the proposals contained in this paper.

### **Communications**

- 66 My office will work with 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.
- 67 I propose to put out a press release outlining that:
- 67.1 eligible students will be receiving an extra \$50 for students' living costs by 1 January 2018
  - 67.2 the increase will be a \$50 per week, per adult, net increase (based on an M tax code) to all student allowance base rates
  - 67.3 the increase will provide additional support for students to meet the rising cost of study
  - 67.4 the Government is working to identify how the fees-free policy will be implemented. We will publicise the details of decisions as soon as we can

- 67.5 in the meantime, we recommend that students and tertiary education organisations continue to make decisions about study and enrolments for next year as they normally would. This includes starting, or continuing, any applications for study and/or for student loans or allowances.

## Recommendations

The Minister of Education recommends that Cabinet Business Committee:

- 1 **note** that on 31 October 2017, Cabinet agreed to the Minister of Education developing a proposal to deliver on our 100 days manifesto commitments for tertiary education, in close consultation with the Ministers of Finance, Social Development, Revenue and Associate Minister of Education (Hon Tracey Martin) [CAB 17 Min 0485 refers]
- 2 **note** that Ministers have considered policy and implementation issues concerning the manifesto commitments to increase both student allowances and the weekly maximum for living cost loans by \$50 a week
- 3 **note** these changes to living cost support for students are designed to make study more affordable and address the rising accommodation costs
- 4 **note** that these policy changes are expected to benefit all students who are eligible for student loans and allowances in 2018
- 5 **note** that decisions are needed on these changes to allow sufficient lead in time for the Ministry of Social Development system changes and regulatory amendments

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

- 6 **agree** to increase Student Allowance rates for all eligible recipients, new and current, from 1 January 2018 by a maximum of \$50 net per week, per adult, based on the M tax code
- 7 **note** that a \$50 net per-adult increase will mean increasing couple rates, designed to reflect the living costs of two adults in a relationship, by \$100 net per week based on the M tax code
- 8 **note** that this change will mean that additional students will become eligible for up to \$52 of student allowance, as income thresholds will not be changed
- 9 **note** that there are plans to also increase accommodation benefit by \$20 per week from 1 April 2018 as part of the Government's Families Package
- 10 **note** changes to student allowance base rates will have flow-on implications for the relationship between the student support and benefit systems

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

- 11 **note** that the maximum weekly student loan living cost entitlement is \$178.81 for the 2017/18 tax year
- 12 **agree** to increase the maximum weekly student loan living cost loan entitlement by \$50, which will increase the current maximum entitlement to \$228.81 per week for all eligible recipients, new and current, from 1 January 2018

*Financial implications for increasing student allowances and student loan living costs*

- 13 **note** that the indicative costs shown in this paper allow for 5% cost growth as a result of increases from 2019/20 onwards
- 14 **note** that there is an interaction between the policy decisions sought in this paper, and the 100 days commitment to a first year fees-free from 2018; this policy will be the subject of further Cabinet decisions soon, and at this point, the combined fiscal effects of the two policies will be modelled; and that if the combined effect of the two policies is more than allowed for in the costings shown in this paper, there will be a further impact on the costs of student loans and allowances
- 15 **agree** that the following indicative costs be managed against the operating and capital spending that will be reflected in the Half-Year Economic and Fiscal Update to give effect to recommendations (6) and (12):

(\$millions)	2017/18	2018/19	2019/20	2020/21	2021/22 & outyears
Increasing student loans living costs by \$50 per week (capital)	47	101	180	182	186
Increasing student allowances by \$50 per week	47	99	125	127	130
<b>Total</b>	<b>94</b>	<b>200</b>	<b>305</b>	<b>309</b>	<b>316</b>

- 16 **agree** that the above estimate will be aggregated with other 100 Day Plan policy commitments to calculate the spending available for future budget allowances
- 17 **note** that any further variance will be managed as a pre-commitment against the Budget 2018 allowances (which it is anticipated will be set by Cabinet on 20 November)
- 18 **note** that the finalised costing for the \$50 increase to allowance rates and loan living costs maximum will be submitted to Cabinet on 4 December for confirmation, any adjustments will be reflected at that point and Cabinet approval sought to detailed changes to appropriations
- 19 **note** that finalised costings will include Ministry of Social Development implementation costs, currently estimated at a one-off operating expense of \$600,000 for 2017/18
- 20 **note** that costings will be provided to the Treasury by 22 November for inclusion in the Half Year Economic and Fiscal Update
- 21 **note** that due to this timing, there may be inconsistencies between the impact of final decisions by Cabinet on 4 December and what is reflected in the Government's Budget Policy Statement and the Treasury's Half Year Economic and Fiscal Update

*Broad eligibility criteria for the fees-free policy*

- 22 **agree** that access to fees-free in the 2018 interim year, a prospective student:

- 22.1 must be undertaking a course or qualification that is quality assured by the New Zealand Qualifications Authority or Vice Chancellors Committee, and funded by the Tertiary Education Commission
  - 22.2 must be studying at Level 3 or above on the New Zealand Qualifications Framework
  - 22.3 must be a domestic student eligible for Tertiary Education Commission tuition subsidies
- 23 **note** that detailed eligibility criteria will be confirmed alongside decisions on the interim implementation of this policy for the 2018 year

*Legislative implications*

- 24 **authorise** the Minister of Education, in consultation with Ministers of Finance, Social Development, Revenue and Associate Minister of Education (Hon Tracey Martin) to make any technical policy decisions needed in the drafting process of the necessary regulations to give effect to the student allowance proposals in this paper
- 25 **invite** the Minister of Social Development to instruct Parliamentary Counsel to draft amendments to the Student Allowances Regulations (1998) to give effect to the changes to student allowances rates set out in recommendation (6) above.

Authorised for lodgement

Hon Chris Hipkins

Minister of Education