

Budget Sensitive

Office of the Minister of Education

Chair, Cabinet

Making tertiary education more affordable: fees-free education in 2018

Proposal

- 1 This paper seeks Cabinet's agreement to:
 - 1.1 the eligibility criteria and coverage (for 2018) for the government's commitment to make the first year of tertiary education or training fees-free for new students and trainees from 2018
 - 1.2 interim fiscal authority for both the fees-free policy and the \$50 per week increases to maximum rates for student allowances and student loans for living costs, and delegations to finalise the financial implications, and
 - 1.3 power to act to determine final details of fees-free industry training for 2018 .
- 2 It also reports back on decisions I have taken, in consultation with the Ministers of Finance, Social Development, Revenue, and the Associate Minister of Education (Hon Tracey Martin), on the delivery mechanism for fees-free tertiary education in 2018.

Executive Summary

- 3 This Government is committed to making a greater investment in the success of our tertiary system and our students. From 1 January 2018 we will start delivering two main changes to make tertiary education affordable for all:
 - 3.1 make the first year of tertiary education or training fees-free for new students and trainees
 - 3.2 increase student allowances and living cost loans by \$50 a week.
- 4 Cabinet has previously agreed broad eligibility criteria for our fees-free policy in 2018 [CBC-17-MIN-0013 refers]. Having consulted with the Ministers of Finance, Social Development, and Revenue, and the Associate Minister of Education (Hon Tracey Martin), I now seek your agreement to detailed eligibility criteria and coverage rules for the fees-free policy for the first, interim year of implementation in 2018.
- 5 The proposed eligibility criteria focus the policy on quality-assured programmes, are consistent with current eligibility criteria for student loans and allowances, and target recent school leavers and those who have not previously undertaken tertiary education.
- 6 The eligibility criteria, coverage and delivery model are consistent with our policy objectives of making tertiary education more affordable, removing barriers to participation (particularly for those who have not previously studied at tertiary level), and assisting more people to acquire the skills they need for work.

- 7 They also work to minimise the potential risks of adverse behaviour in response to the policy. We will be able to genuinely deliver on “fees-free” to students from 1 January 2018.
- 8 The ministerial subgroup, with delegated authority from Cabinet [CAB-17-MIN-0509 refers], has agreed the fees-free policy for 2018 will be delivered through a provider-payment mechanism managed by the Tertiary Education Commission (TEC). This reflects the consensus of advice from officials on the balance of risks, benefits and costs involved in the two mechanisms considered.
- 9 There are some differences for industry training, reflecting its special characteristics. Trainees do not access student loans and allowances, fees are more varied and not currently regulated, and costs are shared between government, employers and trainees.
- 10 For industry trainees, the fees-free policy for 2018 will target apprenticeships and other longer training programmes. It will cover the tuition and assessment components of fees charged to eligible trainees and their employers. The TEC will make payments to Industry Training Organisations (ITOs), who will be required to ensure that such fees are not charged for trainees covered by the fees-free policy.
- 11 Implementing fees-free tertiary education in 2018 carries some risks. These relate in particular to the speed of implementation of the policy, which may result in some confusion about eligibility for students and trainees, increase the risk of gaming by providers and students, and impact on the delivery experience for students and the sector. The delivery mechanism relies on engagement of providers, some of whom have been clear in their support for the other delivery mechanism considered.
- 12 Education agencies are working to minimise these risks. The TEC will use existing monitoring and audit processes and will employ new information and resources to enhance monitoring. Education agencies will review the results and impacts of the policy throughout 2018, once the initial data from the sector has been received and analysed in May. During 2018, a longer-term implementation option and any associated new policy settings will be developed to deliver on this policy in future years.
- 13 The TEC and I will continue to engage with providers to manage implementation for 2018.
- 14 Cabinet has previously agreed budget allowances for these two policies, using the cost estimates available at that time [CAB 17 MIN 0506]. The estimates Cabinet considered on 20 November [CBC 17 MIN 0013] for increasing student allowances and living cost loans by \$50 a week were consistent with budget allowances, but did not consider the interaction between the two policies. The budget allowances for fees-free tertiary education were based on the pre-election Fiscal Plan, as no detailed costings of budget or Cabinet standard were available. Following further work, this paper proposes an interim financial authority which would have:
- 14.1 a positive net debt impact of \$365 million compared to Budget allowances
 - 14.2 operating expenditure of \$745 million higher over the forecast period, impacting the Operating Balance before Gains and Losses (OBEGAL) and to be reflected in the in the Half Year Economic and Fiscal Update [CBC 17 MIN 0013 refers].
- 15 To meet the deadline for announcing the policy and implementation details, I seek interim financial authority for the costs of fees-free education and the potential increased demand from both of our 100 days tertiary education commitments. The overall operating cost of our two ‘100 days’ tertiary education commitments is \$2,846 million over four years. This includes administrative costs for Government agencies.

- 16 I seek delegated authority for the Ministers of Finance, Education, Social Development and Revenue to approve the appropriations.

Background

- 17 Our policy commitment to a first year of fees-free tertiary education and increased student allowances and living cost loans will improve the affordability of study, meet rising accommodation costs, and shift the balance of contributions so that Government is making a greater investment in the success of our tertiary system and our students. Encouraging greater participation in tertiary education will help to support inclusive economic and social development.
- 18 These changes will deliver on our commitment to make tertiary education and training affordable for all by:
- 18.1 expanding access and participation, especially for those who have not previously studied or those for whom finance has been a real barrier to participation
 - 18.2 improving affordability and reducing student debt levels
 - 18.3 supporting lifelong learning
 - 18.4 ensuring the benefits of tertiary education for New Zealanders, including residents with an ongoing commitment to New Zealand, are shared through a highly-skilled population contributing to a strong society and thriving economy.

Previous Cabinet decisions

- 19 Cabinet has previously agreed that:
- 19.1 I will develop a proposal to deliver on the Government's 100 day plan commitments 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]
 - 19.2 student living support will be increased from 1 January 2018 as follows:
 - 19.2.1 student allowances rates will increase by \$50 net per week (based on the M tax code), except for couple rates that reflect the living costs of two adults, which will increase by \$100 net per week (based on the M tax code)
 - 19.2.2 the maximum student loan living cost loan entitlement will increase by \$50 per week [CBC 17 MIN 0013 refers].
 - 19.3 the initial high-level eligibility criteria for the fees-free policy in 2018 will target:
 - 19.3.1 courses that are quality assured by the New Zealand Qualifications Authority (NZQA) or the Vice Chancellors Committee, and approved for funding by the TEC
 - 19.3.2 students studying at Level 3 or above on the New Zealand Qualifications Framework (NZQF)
 - 19.3.3 domestic students eligible for TEC tuition subsidies [CBC 17 MIN 0013].
 - 19.4 I would determine, in consultation with the Ministers of Finance, Social Development, Revenue, and the Associate Minister of Education (Hon Tracey Martin), the delivery mechanism for fees-free tertiary education in 2018 [CAB 17 MIN 0509 refers].

Eligibility for fees-free tertiary education

- 20 To deliver on the policy objectives of fees-free tertiary education, I propose that for a student to be eligible for fees-free tertiary education in 2018 at a provider, they must:
- 20.1 be enrolling in courses that commence in 2018, are approved for funding by the TEC, are recognised by the NZQA or Universities New Zealand, and are part of a qualification or training scheme at NZQF Level 3 or above;
and
 - 20.2 be either a New Zealand citizen (including citizens of Realm countries), an Australian or a New Zealand permanent resident who has lived in New Zealand for at least three years, a refugee or protected person, or a sponsored family member of a refugee or protected person; *(This allows Australians and new permanent residents to demonstrate their ongoing commitment to New Zealand. This is consistent with current student support eligibility criteria)*
and
 - 20.3 not be concurrently enrolled in a school at the start date of the course or programme;
and either
 - 20.4 (a) have been enrolled in a school at any time during 2017 or 2018 *(all 2017 and 2018 school leavers who meet criteria 1-3 above will be eligible for fees-free tertiary education regardless of any prior tertiary study undertaken)*;
or
(b) not have previously undertaken more than half a year of equivalent full-time tertiary education (0.5 EFTS or 60 credits) at Level 3 or above on the NZQF, including tertiary education at an equivalent level undertaken in any other country, but excluding any tertiary education undertaken while enrolled in a school.
- 21 The TEC will have discretion to grant eligibility for fees-free to people who do not meet all of these criteria due to exceptional cases of personal circumstances.

Programme eligibility and fee coverage – provider-based tertiary education

- 22 I propose that, for students in provider-based tertiary education, the fees-free policy will cover tuition fees and associated mandatory fees, and compulsory student services fees.
- 23 Fees-free support will be capped at \$12,000 (incl GST) per student in 2018. A dollar value cap on fees-free entitlements reduces inequity in the value of subsidy students may receive, contains costs, manages risks of gaming and undesirable practices by providers or students, and preserves options for future policy development.
- 24 Students may need to pay other optional and occasional fees. Students whose total fees exceed the cap are likely to be able to borrow the balance of their fees through the student loans scheme (subject to the cap on student loans for aviation students' fees).
- 25 Students who undertake less than 1 EFTS in 2018 can use the balance in future years, but eligible students cannot opt to pay fees in 2018 and "bank" entitlements for future use.
- 26 The eligibility criteria for fees-free tertiary education in 2018, recommended by the ministerial subgroup, are detailed on the following two pages.

Student eligibility criteria for provider-based fees-free tertiary education in 2018

Provider-based fees-free tertiary education will be available in 2018 for students who:

A: enrol in eligible courses and qualifications

Eligible courses are those that are:

- part of a qualification or training scheme at NZQF Level 3 and above, and
- are approved for funding by the TEC, and
- recognised by NZQA or Universities NZ.

and

B: meet citizenship or residency criteria

Fees-free tertiary education is available to

- NZ citizens (including Realm citizens) or
- people ordinarily resident in NZ who have been living in NZ at least 3 years while holding a residence class visa, or
- refugees and protected persons, and people sponsored into NZ by a family member who, when they were sponsored, was a refugee or protected person.

and

C: are not concurrently enrolled in a school at the start date of the course or programme

and

EITHER

D1: finished secondary school in 2017 or 2018

If you were enrolled in a school at any time in 2017 or 2018, you qualify for fees-free in 2018.

OR

D2: have not taken more than half a year of tertiary study at Level 3+ since leaving school.

Fees-free is for people whose previous tertiary study at Level 3+ (including overseas study at an equivalent level) does not exceed a half year of full-time study (0.5 EFTS, or 60 credits).

This includes all forms of tertiary education towards formal qualifications, including industry training, in NZ or overseas, since leaving school. Level 3+ Youth Guarantee courses taken since leaving school are counted toward the prior tertiary study limit.

Fees-free is for quality-assured programmes that are a good investment for NZ and for students. This aligns with eligibility for student support and government tuition subsidies. It limits fees-free to courses with regulated fees. It excludes privately funded study such as on-line courses with overseas institutions.

Most Level 1-2 foundation courses are already free. Students don't need to use their fees-free entitlement for courses intended primarily to prepare for level 3+ study.

This aligns with eligibility for student loans and allowances. It helps to ensure support is directed to people who have established an enduring attachment to New Zealand.

This excludes residents (including Australian citizens and permanent residents) who have not lived in NZ for at least 3 years. These people still qualify as domestic students for tuition subsidies and regulated student fees.

In 2016, 1,170 Australian citizens and 12,935 other permanent residents with ≤ 0.5 EFTS prior L3+ study enrolled in L3+ programmes. There is no direct measure of how many met the 3-year residence requirement.

A range of supports are available for secondary students who begin tertiary study before they finish school. Tertiary courses taken while enrolled in school (including Gateway, STAR, and Trades Academy courses) will not affect students' future fees-free eligibility.

No assessment of prior tertiary study is needed for 2017 or 2018 school leavers (this group includes people who were in trades academies, home schooling, alternative education, etc).

In 2016, 30,570 people who left school in 2015 or 2016 enrolled in L3+ study (65% enrolled in universities, 25% in polytechnics and wānanga, and 12% in PTEs).

Fees-free will support a first year of tertiary study at NZQF Level 3+ for people who have little or no prior tertiary education at this level.

Allowing 0.5 EFTS prior study means people can qualify with a small amount of prior level 3+ study, such as summer semester courses, short industry training courses, etc.

Based on the criteria above, up to 75,285 students in 2016 may have qualified for fees-free tertiary education.

Summary of fees-free coverage for 2018: fees, amount of study, timing of courses

What fees will the Government pay?

The fees-free policy will pay:

- Tuition fees, associated mandatory fees
- Compulsory student services fees

Students will need to pay other optional and occasional fees such as students association and club memberships, some course materials, late fees, etc.

This aligns fees-free coverage with current fee regulation and those courses currently covered by the student loan scheme. Excluding compulsory student services fees would impact on delivery channel options (current student loans systems do not differentiate fee components).

Future work is needed to assess if compulsory student services fee regulation is fit for purpose, and the future approach to tuition fee regulation as government pays an increasing share.

What is the upper limit on fees-free support per student in 2018?

Fees-free support will be capped at \$12,000 (incl gst) per student in 2018.

A dollar cap on free entitlements reduces inequity in the value of subsidy students receive, contains costs, manages risks of gaming and undesirable practices by providers or students. It preserves options for future policy development.

Students with fees exceeding \$12,000 will be able to borrow through the student loans scheme (aviation students' borrowing for fees is capped at \$35,000 per EFTS).

A per student EFTS cap was considered, but will not be implemented in 2018 as it involves considerable administrative complexity that cannot be resolved in the time available.

Students make many course changes each year and existing systems have limited ability to track changes to quickly and accurately apportion fees and refunds as would be required.

Other existing measures will also act to manage risk of students enrolling in excessive course loads or of providers gaming the policy. These systems include quality assurance, performance measures for tertiary providers, and the TEC's oversight of and investment in providers' plans.

What period of study is covered?

Fees-free for 2018 covers courses commencing in the 2018 calendar year.

A clear cut-off for 2018 fees-free will allow smoother transition for any 2019 changes.

Can students save fees-free entitlements to use later?

Students who don't use a full 1 EFTS in 2018 can use the balance later.

But eligible students cannot opt to pay fees in 2018 and "bank" their entitlement for future use.

Fees-free is to support access to tertiary education for people who have no prior study. Carrying forward unspent balances from part-time or short study supports lifelong learning.

But deferring entitlements for use in more expensive later courses (e.g. postgraduate or medical school) is not consistent with the policy intent and could significantly increase costs to government and inequity in levels of support received by different students.

Providers have advised that it is preferable to keep fees-free policy as simple as possible, and that the various scholarship arrangements can be adapted around this, for example by deferring fees scholarships to year two, or paying scholarships in cash.

Industry Training: a tailored approach

- 27 The 2018 fees-free policy requires a different approach in the industry training sector. Trainees generally pay lower fees than provider-based students, but fees charged to trainees and employers are unregulated, and arrangements vary widely. Trainees and employers may pay fees for training and assessment to Industry Training Organisations (ITOs), or directly to training and assessment providers. Trainees may also pay other costs, such as occupational licensing fees, and fees for the services that group training schemes provide in managing an apprenticeship.
- 28 Some trainees pay nothing directly, with employers meeting training costs. Employers and industry are expected to financially contribute to training costs. The TEC has set this at 30% of traineeship costs and 20% of NZ Apprenticeship costs. The ultimate sharing of costs by employers and employees is hard to observe or regulate.
- 29 Government funding is limited to 75 credits (equivalent to 0.625 EFTS) per trainee per year. Government funding is paid at two flat rates, which do not vary by field of study as tuition subsidies do for provider-based study.
- 30 In 2016:
- 148,500 learners participated in industry training, of which
 - 43,000 were apprentices (this includes both NZ Apprentices and other learners in programmes of 120+ credits at Level 4 and above)
 - Around 9,000 learners began an apprenticeship.

Proposed fees-free eligibility criteria and coverage for industry training in 2018

- 31 I propose that for 2018, the fees-free policy for industry training will target apprenticeships and other programmes of at least 120 credits (equivalent to 1 EFTS) at Level 3 or higher on the NZ Qualifications Framework.
- 32 A minimum of 120 credits gives assurance that the training programme has career benefit to the trainee. It reduces the risk that learners will use up their fees-free entitlement on short training programmes directed by (and often entirely paid for by) their employers, or that employers will shift training costs onto trainees.
- 33 I propose that as for provider-based tertiary education, fees-free industry training will be available to people who:
- 33.1 are not concurrently enrolled in a school at the start date of the programme,
and either
- 33.2 a) have been enrolled in a school at any time during 2017 or 2018
or
b) have not previously undertaken more than half a year of equivalent full-time tertiary education (0.5 EFTS or 60 credits) at Level 3 and above on the NZQF, including tertiary education at an equivalent levels undertaken in any other country, but excluding any tertiary education undertaken while enrolled in a school.
- 34 Funding for industry training is not targeted by residency status – anyone legally employed in New Zealand can access industry training through their employer. Industry training therefore differs from current policy settings for student support, which limits NZ residents' access to student loans and allowances by applying a 3 year residency requirement. I am

seeking further advice about whether it is necessary and appropriate to limit fees-free industry training on the basis of residency or visa status, to achieve the objectives of the fees-free policy and with regard to the Human Rights Act protections against discrimination on the basis of national origin.

- 35 Credits achieved at Level 3+ in prior industry training will be included in the assessment of prior study when determining individuals' eligibility for fees-free tertiary education.
- 36 I propose that fees-free industry training in 2018 will cover all fees for training and assessment charged to eligible trainees and their employers. This includes fees paid to ITOs directly and to training and assessment providers.
- 37 Fees-free industry training will not cover other fees and charges paid by eligible trainees.
- 38 Based on these eligibility and coverage rules, the Ministry of Education estimates that up to 6,000 new trainees will be eligible for fees-free industry training in 2018.

Implementation approach

- 39 I previously advised Cabinet that the interim delivery channel for fees-free in 2018 would need to adapt existing systems, and would involve operational design challenges, limitations and risk. I advised that options would involve changes for the TEC, Ministry of Social Development and potentially Inland Revenue.

Provider-based education

- 40 Officials identified two feasible models to deliver fees-free in 2018 for students in provider-based education:
 - 40.1 A provider-payment model, where students' eligibility for fees-free would be determined at the time of enrolment. The TEC would pay providers in early 2018 based on modelling of 2017 enrolments. This would be reconciled with actual 2018 data later in the year and unders and overs resolved. This would avoid any disadvantage to providers from the timing or volume of enrolments.
 - 40.2 A student loan model, where students would borrow to pay their fees on enrolment, with the value of fees covered by the policy later being cleared from their loan balance. A separate process similar to the provider-payment model would be required for any students eligible for the fees-free policy, but not eligible for student loans under the current rules of the student loans scheme.
- 41 On 20 November, Cabinet agreed that the ministerial subgroup overseeing implementation of the fees-free policy would have power to act to select the preferred implementation model for 2018 [CAB-17-MIN-0509 refers].
- 42 The ministerial subgroup considered these two implementation options and received advice from officials. Agencies' advice was led by a governance group comprised of Chief Executives or Deputy Chief Executives of the Ministry of Education (chair), Ministry of Social Development, Inland Revenue, and the Tertiary Education Commission; and senior officials from the Treasury, the State Services Commission, and DPMC.
- 43 The ministerial subgroup has agreed that the provider-payment model be implemented to deliver the fees-free policy for 2018, reflecting the consensus of advice from officials on the balance of risks, benefits and costs involved in each model.

- 44 The key advantages of the provider-payment model over the Student Loan model are:

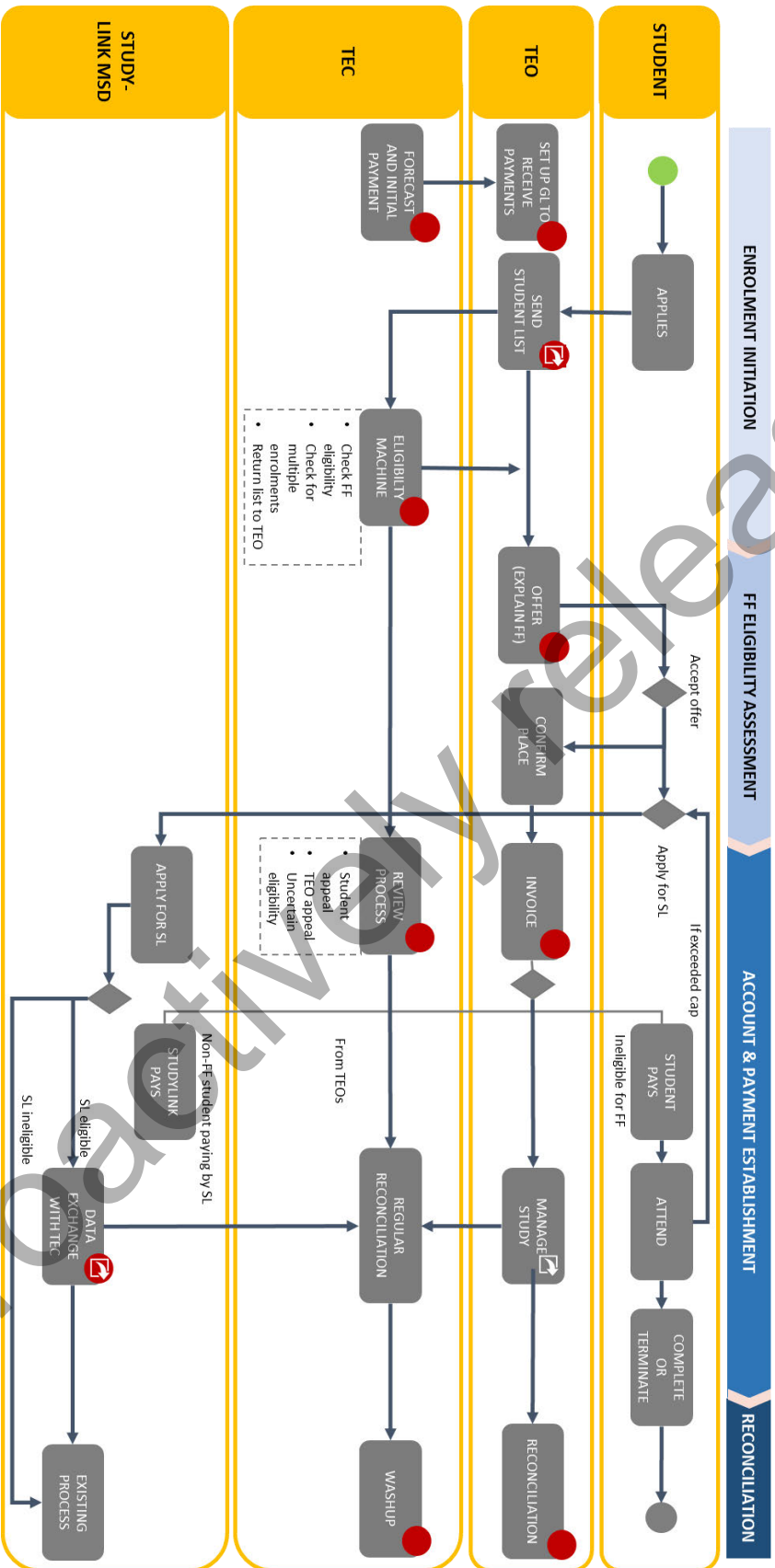
Student experience	Students eligible for fees-free tertiary study will not be required to take out student loans for fees when they enrol, and wait for the fee debt to be reversed at a later date. This provides clarity for students at the outset.
Greater flexibility in eligibility criteria	The student loans mechanism requires either that eligibility for fees-free study be tightly aligned with current student loans scheme coverage, or that a parallel system be created for students (such as part-time students) not able to use student loans to pay their fees
Better alignment with likely future direction for policy design	The student loans scheme, designed to finance students' private contributions to the cost of their education, is not a good long-term fit for a policy that aims to shift these costs from private to public investment.

- 45 On balance, these advantages outweigh the disadvantages of the provider-payment model, which include:

Greater complexity and administrative burdens for providers	Providers will need to: <ul style="list-style-type: none"> - send information of new enrolments to the TEC, who check eligibility for fees-free - change their invoicing process to communicate fees-free status to those students who are eligible - implement a process step to manage students whose tuition fees would exceed the fees-free cap.
Tight timeframes for new system development.	The timeline for implementation and system changes is short and this will create high cost and risk. Providers will need training in implementation in a period of peak work for providers and agencies.
Reputational risks for providers	Providers' reputation could be damaged if the process is slow or mistakes are made.

- 46 A fuller assessment of the two delivery model options, as presented to the ministerial subgroup, is provided in Appendix 1.
- 47 Officials are finalising the details and mechanisms of operation for the provider-payment approach. The TEC is leading an implementation programme with the involvement of the Ministries of Education, and Social Development, and Inland Revenue. The programme includes communication, stakeholder management, business process design, data and information, audit and monitoring and programme management. Progress will be monitored by a Governance Group of CEs and senior leaders, who will report to the Minister of Education and Associate Minister of Education (Hon Tracey Martin).
- 48 For first-time borrowers or students who have previously borrowed for less than 0.5 EFTS who have already applied for loans for fees, the Ministry of Social Development will be reviewing these loan applications to turn off the request for fees in those applications. This is to prevent any students who are eligible for fees-free from having a loan for fees when they do not need one. Students will be notified so that they can request a loan for any fees required above the \$12,000 cap.
- 49 The diagram below sets out how the provider payment model will work for 2018. As you can see, this option will ensure that students are only invoiced for fees if they do not qualify for fees-free, or if they exceed the fees cap.

PROVIDER PAYMENTS DELIVERY MODEL



Industry Training

- 50 For industry training, officials propose a model similar to the provider-payment model for provider-based tertiary education. The TEC will make payments to Industry Training Organisations under a delegated authority from the Minister of Education. ITOs would ensure that fees for eligible trainees' training and assessment are charged to the TEC and not to trainees. Because of the complex and varied fee and payment arrangements in the industry training system, and the limited information currently available about these, a prescriptive and formulaic approach is unlikely to be successful.
- 51 Ministers will establish a set of principles for fees-free industry training in 2018 and delegate to the TEC the task of negotiating payments to individual ITOs, based on existing information and, where necessary, further information ITOs will be asked to provide. The proposed principles are:
- 51.1 Eligible trainees will not be charged for training and assessment costs
 - 51.2 ITOs will be compensated by the TEC for the identified actual and reasonable cost of the fees (with the relevant fees and charges in 2017 as the baseline for establishing payment)
 - 51.3 ITOs will work to ensure that trainees benefit from the fees-free policy – ensuring that employers and training/assessment providers do not charge trainees for costs covered by the policy.
- 52 Work is ongoing to develop the contractual and funding model for fees-free industry training. Education agencies will progress this in consultation with the Industry Training Federation and ITOs. The expectation for ITOs to give effect to the fees-free policy can be formalised in contracts with the TEC, and by the Minister introducing a new condition of funding for the Industry Training Fund under a supplementary funding determination, to ensure that all ITOs participate.
- 53 Fees-free industry training for future years will require better information and reporting systems in relation to fees and payments in the sector. Options to improve reporting and transparency include enhanced TEC monitoring, new funding conditions and/or introduction of fee regulation measures.

Risks

- 54 Implementing fees-free tertiary education in 2018 carries some risks which will need to be managed. These relate in particular to the speed of implementation, which may result in some confusion about eligibility for students, increase the risk of gaming by providers and students, and impact on the delivery experience for students and the sector. The delivery mechanism relies on the engagement of providers when universities and some polytechnics have been clear in their support for the student loan delivery mechanism.
- 55 The public and students will have high expectations about who will be eligible for fees-free study. People may enrol with the expectation that their study will be free, and be upset if they do not meet the criteria.
- 56 From students' perspective, providers will be accountable for implementing the policy. Providers have short timeframes to implement, in a busy period, and will be concerned that their reputation will be damaged if the process is slow or mistakes are made.

- 57 Education agencies are working to minimise these risks as much as possible. Clear and effective communication of eligibility criteria and the policy rationale will be crucial for mitigating risks. The TEC will work closely with providers to support implementation. This may include on-site support, and the development of tools to help learners and providers confirm eligibility. The enrolment process under the provider-payment model will enable providers to submit student details to TEC for automatic confirmation of student eligibility, where possible. Where there is uncertainty regarding a student's eligibility, it will be assessed by the TEC, reducing the burden on providers.
- 58 The key risks and mitigation for students' and providers' behavioural responses to the policy are listed in Appendix 2.
- 59 The TEC's existing tertiary education organisation (TEO) monitoring framework will be utilised to minimise risks and provide performance information. Audits and investigations are being scoped to closely monitor whether providers or students are attempting to game the system from 1 January 2018. TEC will establish monthly reporting by TEOs from January 2018. This will allow enrolment trends to be assessed to inform monitoring activities. Early messaging from the TEC that fees-free tertiary education will be a significant focus of its monitoring activities in 2018 will also serve to disincentivise TEOs from attempting to game the system.
- 60 As part of the business process design, the TEC will establish processes to obtain additional information to enable effective monitoring and performance assessment of the policy in the 2018 delivery model. This will be supported by additional monitoring resources within TEC, and by system-wide analysis by the Ministry of Education. Information about use and uptake and about student patterns of participation will inform in a mid-year review of the initial takeup and delivery settings. This review will aim to identify any undesirable behavioural changes and adapt monitoring and audit to reduce these. It will also inform any system changes required for 2019 and subsequent years.

Fees-free education in future years

- 61 Bringing in an entitlement to fees-free study is a major shift in policy for the New Zealand tertiary education system. It is likely that in the long-term fees-free tertiary education will be delivered through a different mechanism. Future design choices for fees-free tertiary education are likely to have broader implications for the future design of current tertiary fee regulations, funding, and information systems, and for student loans and allowances. These changes will be worked through following implementation of this initial 2018 year.
- 62 I expect officials to monitor performance of policy and delivery closely. As part of that:
- 62.1 I have directed TEC officials to report to me, to forward to interested Ministers, after the February-March enrolment peak, on the performance of the interim 2018 systems for fees-free study
- 62.2 Once initial data on 2018 uptake is analysed in June, I plan to report to Cabinet with short-term changes to the fees-free policy to improve delivery and manage any emerging risks, and set a plan for medium-term changes from 2019
- 62.3 I then expect Education and TEC officials to report against that plan and ongoing performance of the delivery solution, with a first report by late October 2018.

Financial implications

- 63 This section sets out the financial implications of both the Government's 100 days tertiary education policies: the \$50 increase to student loans and allowances, and a first year fees-free from 2018.
- 64 Officials have not been able to complete the normal tables of detailed changes to appropriations in the time available. I seek interim financial authority for these changes, and delegated authority for the Ministers of Finance, Education, Social Development, and Revenue to approve the changes to appropriations so long as they do not exceed the amounts provided in recommendation 34.
- 65 These costings establish the base cost of the changes, based on current patterns of participation, then apply a scenario for demand growth resulting from the joint impact of the policies. 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 1.0% in 2020, 2.5% in 2021 and 2.5% in 2022. These assumptions allow for a moderate increase against 2017 EFTS, and steadying after policy implementation.
- 66 These costings differ from the preliminary estimates used to establish budget allowances of \$2,101 million operating and \$696 million capital expenditure [CAB-17-MIN-0506]. The costings in this paper have a positive net debt impact of \$365 million compared to budget allowances, with operating expenditure \$745 million higher over the forecast period due to a range of costing factors, and capital expenditure \$1,100 million lower over the forecast period due to the student loan savings of fees-free tertiary education. Cabinet decisions on budget allowances used the estimates of cost available at the time. These are described, and the main differences identified, in Table 1 below.

Table 1: key differences between costings

Policy initiative	Costing used for Budget allowances	Key improvements in current costing
\$50 increase to loans and allowances	Separate costings of impact, with 5% uptake buffer as proxy for increased use of loans and allowances.	Costings quality assured and refined, taking into account the fees-free policy settings. Uptake buffer removed and behavioural impacts modelled jointly with fees-free.
1 year of fees-free tertiary education	Fiscal Plan – as provided by Treasury	Modelled using current patterns of uptake, fee payment and student loan borrowing for fees. Impacts in 2017/18 increase (as 85% of fees are paid in the first half-year). Student loan savings recognised in costing. Behavioural impacts refined.
Behavioural impacts of the policies for students	Included separately in each costing: did not recognise the joint impact	Modelled for joint impact of costs.

- 67 Final decisions on appropriations have impacts across multiple votes and categories. There are both costs and offsetting savings (for example because paying fees up front means that government does not have to lend the fees through student loans). Gross

costs (which show the impact on net debt, as they show how much government is paying out in each year) and net costs (which show the operating impact, taking into account future repayments of student loans) are presented.

\$50 student loan and allowance increases

- 68 The following table shows the debt and operating impacts of the decision to increase student allowances and living cost maxima by \$50. These have been revised and quality assured since previous Cabinet decisions.
- 69 These figures exclude administration costs of \$0.6 million in 2017/18. They do not reflect any wider flow-on impacts, such as on the benefit system.

Table 2: debt and operating impact of \$50 increase to student allowances and loan maxima, excluding any behavioural effect

\$ million	2017/18	2018/19	2019/20	2020/21	2021/22 & outyears
A. Student loans (capital)	46	98	99	101	103
B. Student allowances	48	101	102	104	106
Debt impact (A, B)	94	200	201	204	209
C. Student loans (operating)	25	53	54	54	53
Operating impact (B, C)	72	155	156	157	159

First year fees-free

- 70 Table 3 below shows the debt and operating impact of implementing the first year of fees-free. Fees-free costings do not include any costs for a second year of fees-free from 2021. The precise impacts on capital and operating expenditure in the Student Loans Scheme require detailed modelling work, and these will be updated in the March baseline update.
- 71 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 additional fees up to the amount available.
- 72 These costings allow for a \$56 million buffer in the first year of the policy to enable that the TEC to have the up-front funding required to pay providers for 2018 fees when those are needed. Around 85 percent of fees are currently paid in the first six months of the year, most in the months of February and March, but this proportion may change due to the fees-free policy or other factors.
- 73 From 2018/19, the TEC can more readily manage phasing through the year. This buffer also allows for any minor variances between the system-level costing of the policy and the provider-by-provider forecast the TEC will use to fund providers for delivery. Any overpayments would be recovered and either used to manage pressures within the multi-category appropriation or returned.

Table 3: debt and operating impact of first year fees-free, excluding any behavioural impact

\$ million	2017/18	2018/19	2019/20	2020/21	2021/22 & outyears
A. First year fees-free payments	275	372	393	400	410
B. First year fees-free (Buffer)	56				
C. Student loans (capital)	-209	-242	-227	-210	-193
D. Industry Training	10	20	20	20	20
Debt impact (A, B, C, D)	76	150	186	210	236
E. Student loans (operating)	-53	-67	-68	-67	-65
Operating impact (A, B, D, E)	232	325	344	353	365

Combined effects of 100 days policies

74 Table four shows the debt and operating impacts of both the \$50 increases and a fees-free first-year in 2018. The precise impacts on capital and operating expenditure in the Student Loans Scheme require detailed modelling work, and these will be updated in the March baseline update.

Table 4: debt and operating impact of combined \$50 increase to student allowances and loan maxima, fees-free first year, including participation effects and departmental costs

\$ million	2017/18	2018/19	2019/20	2020/21	2021/22 & outyears
A. Student allowances	50	109	118	129	136
B. First year fees-free payments (includes buffer)	339	391	426	446	457
C. Student loans (capital)	-153	-120	-80	-35	-16
D. Tuition subsidies	0	0	17	40	54
E. Industry training	10	20	20	20	20
F. Departmental	6	8	8	7	7
Debt impact (A, B, C, D, E, F)	251	408	509	607	657
G. Student loans (operating)	-25	-4	5	16	18
Operating impact (A, B, D, E, F, G)	380	524	593	658	691

Implementation costs

- 75 There are significant implementation costs for a number of government agencies, in addition to the costs of the policy.
- 76 The implementation costs described below are for the interim model being introduced in 2018. When the permanent system for future years has been identified (after the report-back to Cabinet proposed in paragraph 62.2) there may be further costs associated with this which will need to be assessed as part of future policy decisions. Some of these may reduce the outyears estimates shown below.

Tertiary Education Commission

- 77 The TEC will incur significant costs, including additional staff and system costs. The additional staff are required to work with and monitor 173 tertiary organisations that we expect will be enrolling fees-free students. The TEC expects the number of staff to reduce after the initial year of implementation (although there may be additional system costs for the longer-term solution).
- 78 The TEC's current high-scenario estimate is \$5.4m in 2018, falling to \$3.7m in outyears. Their low estimate is \$3.5m falling to \$2.8m. These costs do not include any other Government Agency costs or any costs incurred by providers.

Ministry of Social Development

- 79 Reversing early loan applications and providing additional contact centre service resource is estimated to cost the Ministry of Social Development \$1.3m in 2017/18, falling to \$0.8m per annum in out-years. Costs may be affected by final detailed delivery plans for 2018 and, for out-years, how fees-free is implemented beyond 2018.

Ministry of Education

- 80 The Ministry of Education will incur significant costs to support the implementation of fees-free in its first year. It will also need to resource the major work next year to undertake a review of the policy, and develop the policy and delivery model for 2019 onwards. The Ministry will also need to provide ongoing system-level advice, monitoring, research and analysis of the programme.
- 81 The Ministry estimates that undertaking this work will require the establishment of a permanent fees-free policy and performance monitoring team; as well as fixed-term project support for the early years of the policy. Initial costs would be between \$2.55 and \$3.00 million per annum, reducing to \$1.55 to \$2.00 million per annum from 2020.

[REDACTED]

- 82 [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Treasury comment

- 83 It is unusual for Cabinet to be asked to approve a proposal with this level of expenditure without having the final appropriations before them. However, the timeframes officials

have been working to have necessitated this to ensure this policy is implemented by 1 January 2018. Given these circumstances, and the fact that the final costings are available to Cabinet, Treasury supports the approach of seeking interim financial authority with joint Ministers subsequently approving appropriations within these bounds.

- 84 Cabinet should expect that when it is making policy decisions on future proposals of this magnitude, outside of these time pressures, the paper will contain the full financial implications at the time.

Consultation

- 85 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).
- 86 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, the Department of Prime Minister and Cabinet (Policy Advisory Group), and the Treasury has led officials' work in providing advice on implementing the 100-days tertiary education priorities.
- 87 Other agencies consulted are: the Ministry for Vulnerable Children, Oranga Tamariki; Te Puni Kōkiri; the Ministry for Women; the Ministry for Pacific Peoples; and the Ministry of Business, Innovation and Employment.

Human Rights

- 88 There are potential human rights implications with applying a three year stand-down for holders of a residence class visa (i.e. Australians, Australian permanent residents, and New Zealand permanent residents (NZPRs)) and not to New Zealand citizens.
- 89 The restriction is proportional in its effect. The policy only affects eligibility – it does not affect entitlements once eligibility is granted. The exclusion is also a situational one rather than total exclusion i.e. a permanent resident is still considered a domestic students when they are studying in New Zealand and, accordingly, are eligible for tuition subsidy funding and student support
- 90 The restriction is rationally connected to its purpose because:
- 90.1 the criteria are designed to give the confidence that NZPRs have the ties to New Zealand. The personal investment of a NZPR in New Zealand would logically tend to enhance the prospect of New Zealand-funded qualifications being used for New Zealand's ultimate benefit.
- 90.2 of those who go overseas there is a greater likelihood that NZPRs will remain overseas and they may never return to NZ and contribute to our society or economy. They are also more likely to be in default of their loan which means that the cost of their student loan to the government is increased. The restrictions for NZPRs will help manage these risks.

91

[REDACTED]

- 92 Government funding for industry training is not currently targeted on the basis of residency status or visa class. As trainees are already employed and contributing to the New Zealand economy, the rationale for restricting access to public funding (as applied to student support) is more limited. I am seeking further advice on whether targeting fees-free industry training by length of residency or by visa status would be appropriate and necessary to give effect to the Government's policy objectives.

Legislative Implications

- 93 The proposed approach for 2018 does not impose any new restrictions on the fees tertiary education providers¹ can charge – the Crown will pay the fees on behalf of eligible students. This means that the Minister is not required to consult under s159M of the Education Act on a proposal to limit the fees providers can charge.
- 94 The Minister of Education may consider regulating ITO fees following the consultation process prescribed in the Education Act 1989.

Regulatory Impact Analysis

- 95 A Regulatory Impact Statement for increasing student allowances rates by \$50, which requires amendments to Regulations, accompanied a previous Cabinet paper [CBC-17-MIN-0013 refers].
- 96 There are no legislative changes required for the fees-free policy and, as such, no Regulatory Impact Statement has been prepared for this initiative.

Gender Implications

- 97 The proposals in this paper have no known gender implications. Having no minimum study load requirement will benefit many women who are only able to undertake small amounts of study while managing their child care responsibilities.

Disability Perspective

- 98 There are no known disability issues arising from the proposals contained in this paper. Having no minimum study load requirement will benefit people with disabilities who cannot manage large study loads.

Communications

- 99 My office will work with relevant agencies and the Prime Minister's office on announcements about fees-free, to ensure the public are aware of who is eligible and

¹ The Government currently regulates the amount by which providers can increase course fees each year. It also regulates the fees that providers can charge for some courses (for example, study at levels 1 and 2 is fees-free).

students have the information to support decisions about study for 2018 and how they can apply for fees-free.

100 I propose to issue a press release outlining that:

100.1 The Government has delivered on its first 100 days promise of delivering the first year of fees-free tertiary education and training from 1 January 2018.

100.2 The Government has taken major steps forward in starting to break down the financial barriers to tertiary education and training, not just for young people who are finishing school, but also for adults who have been put off further education because of the cost.

100.3 The Government has already announced \$50 increases in student allowance and student loans living costs limits.

100.4 Up to 75,000 students beginning their study next year are expected to save thousands of dollars in fees.

100.5 The changes for 2018 are just the first step in the process as the Government rolls out a full programme of three years' fee-free tertiary education by 2024.

101 The TEC and I have been, and will be, engaging with providers as partners in delivering fees-free tertiary education. Some providers would have preferred the policy to be delivered through the student loans scheme. I have considered their views, and the TEC and I will continue to work with them.

Recommendations

The Minister of Education recommends that Cabinet:

Previous Cabinet decisions

1 **note** that on 31 October 2017, Cabinet agreed to the Minister of Education developing a proposal to deliver on the Government's 100 days 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 agreed to increase both student allowances and the weekly maximum for living cost loans by \$50 a week and that finalised costings will be submitted to Cabinet on 4 December for confirmation [CBC-17-MIN-0013 refers]

3 **note** that Cabinet has agreed that access to fees-free in the 2018 interim year, a prospective student [CBC-17-MIN-0013 refers]:

3.1 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

3.2 must be studying at Level 3 or above on the New Zealand Qualifications Framework

3.3 must be domestic students eligible for Tertiary Education Commission tuition subsidies

- 4 **note** Cabinet has agreed that detailed eligibility criteria will be confirmed alongside decisions on the implementation of this policy in the 2018 interim year [CBC-17-MIN-0013 refers]
- 5 **note** that Cabinet has:
- 5.1 authorised the Minister of Education, in consultation with the Ministers of Finance, Social Development, Revenue, and the Associate Minister of Education (Hon Tracey Martin), to determine the delivery mechanism for fees-free tertiary education in 2018
 - 5.2 agreed that officials work with tertiary education organisations on the details of the delivery mechanism for fees-free tertiary education in 2018, with oversight from the Minister of Education, in consultation with the Ministers of Finance, Social Development, Revenue, and the Associate Minister of Education (Hon Tracey Martin), before policy details are publicly announced [CAB-17-MIN-0509 refers]

Eligibility for fees-free provider-based tertiary education

- 6 **agree** that for a student to be eligible for fees-free tertiary education in 2018 at a provider, they must:
- 6.1 be enrolling in courses that commence in 2018, are approved for funding by the Tertiary Education Commission, are recognised by the New Zealand Qualifications Authority or Universities New Zealand, and are part of a qualification or training scheme at New Zealand Qualification Framework (NZQF) Level 3 or above;

and
 - 6.2 be either a New Zealand citizen (including citizens of Realm countries), an Australian or a New Zealand permanent resident who has lived in New Zealand for at least three years, a refugee or protected person, or a sponsored family member of a refugee or protected person;

and
 - 6.3 not be concurrently enrolled in a school at the start date of the course or programme;

and either
 - 6.4 (a) have been enrolled in a school at any time during 2017 or 2018 (all 2017 or 2018 school leavers who meet criteria 1-3 above will be eligible for fees-free tertiary education regardless of any prior tertiary study undertaken);

or

(b) not have previously undertaken more than half a year of equivalent full-time tertiary education (0.5 EFTS or 60 credits) at Level 3 or above on the NZQF, including tertiary education at an equivalent level undertaken in any other country, but excluding any tertiary education undertaken while enrolled in a school

- 7 **agree** that the TEC will have discretion to grant eligibility for fees-free to people who do not meet all of the criteria in recommendation 6 due to exceptional cases of personal circumstances
- 8 **agree** that fees-free tertiary education for those students enrolled with a provider will cover students' compulsory tuition fees, compulsory student services fees, and other compulsory fees, up to a maximum of \$12,000 (incl GST) per student
- 9 **agree** that students who undertake less than 1 EFTS of study in 2018 can use the balance later, but eligible students cannot opt to pay fees in 2018 and "bank" their entitlement for future use

Fees-Free for industry trainees

- 10 **agree** that for a trainee to be eligible for fees-free tertiary education in 2018 in industry training, they must:
- 10.1 be enrolling in a programme at New Zealand Qualification Framework (NZQF) Level 3 or above that commences in 2018, is funded by the Tertiary Education Commission, is approved by the New Zealand Qualifications Authority, and comprises at least 120 credits (this includes all New Zealand apprenticeships);
and
 - 10.2 not be concurrently enrolled in a school at the start date of the course or programme;
and either
 - 10.3 (a) have been enrolled in a school at any time during 2017 or 2018 (all 2017 or 2018 school leavers who meet criteria 1-3 above will be eligible for fees-free tertiary education regardless of any prior tertiary study undertaken);
or
(b) not have previously undertaken more than half a year of equivalent full-time tertiary education (0.5 EFTS or 60 credits) at Level 3 or above on the NZQF, including tertiary education at an equivalent level undertaken in any other country, but excluding any tertiary education undertaken while enrolled in a school
- 11 **agree** that when assessing prior tertiary study to determine individuals' eligibility for fees-free tertiary education (as set out in recommendation 6.4b and 10.3b above), prior industry training will be measured on the basis of credits achieved at Level 3 and above
- 12 **agree** that for eligible trainees, fees-free industry training in 2018 will cover all fees for training and assessment (including fees paid to ITOs, paid directly to training and assessment providers, or paid as part of the fees charged by group training schemes)
- 13 **note** that officials are working to refine implementation and funding mechanisms for fees-free industry training for 2018, under which the TEC would make payments to Industry

Training Organisations conditional on ensuring that eligible trainees and their employers are not charged fees for training and assessment

- 14 **agree** that the Minister of Education, in consultation with the Minister of Finance and the Associate Minister for Education (Hon Tracey Martin), will have power to act to determine and announce the final details of fees-free industry training for 2018, including final decisions on individual eligibility criteria and design of the implementation and payment model
- 15 **invite** the Minister of Education to report-back to Cabinet on the final details of fees-free industry training for 2018

Implementation of fees-free tertiary education

- 16 **note** that the ministerial subgroup has agreed that the provider-payment model be implemented to deliver the fees-free policy for 2018
- 17 **note** that implementing fees-free tertiary education in 2018 carries some risks relating to the speed of implementation of the policy, which may result in some confusion about eligibility for students, increase the risk of gaming by providers and students, and impact on the delivery experience for students and the sector

Administration costs

- 18 **note** that the TEC requires additional staff resources to work with and monitor 173 tertiary education organisations that will be enrolling fees-free students in 2018, along with associated fit out and system build costs
- 19 **agree** to increase operating funding for the 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
- 20 **note** that the Ministry of Education will incur significant costs to support the implementation of fees-free in its first year, undertake a review of the policy, and develop the policy and delivery model for 2019 onwards
- 21 **agree** to increase operating funding for the 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
- 22 **note** that the Ministry of Social Development requires additional resources to reverse existing student loan applications for fees-free students and to manage increased call volume through StudyLink's contact centre in relation to fees-free implementation, and to make one-off system changes to deliver increased rates for student allowances and student loans for living costs
- 23 **agree** to increase operating funding for the Ministry of Social Development for delivery of the fees-free policy by approximately \$1.3m in 2017/18 and \$0.8m in out-years
- 24 **agree** to increase operating funding for the Ministry of Social Development to deliver increased rates for student allowances and student loan living costs by \$0.6m for 2017/18

Student loan and allowances (\$50 increase)

25 **note** that on 20 November, Cabinet Business Committee [CBC-17-MIN-0013 refers]:

25.1 agreed to increase maximum student loan and allowance rates by \$50 per week from 1 January 2018

25.2 noted that finalised costings were intended to be submitted to Cabinet on 4 December 2017 for confirmation

Financial implications

26 **note** that the changes to give effect to the policy decisions in recommendations 6 to 14 above, and administration costs at recommendations 19, 21 and 23 above, and to Cabinet Business Committee's previous decision to increase the student loan living cost component, and student allowances [CBC-17-MIN-0013 refers], will have the following impact on the operating balance and net debt:

\$ million	2017/18	2018/19	2019/20	2020/21	2021/22 & outyears
A. Student allowances	50	109	118	129	136
B. First year fees-free payments (includes buffer)	339	391	426	446	457
C. Student loans (capital)	-153	-120	-80	-35	-16
D. Tuition subsidies	0	0	17	40	54
E. Industry training	10	20	20	20	20
F. Departmental	6	8	8	7	7
Debt impact (A, B, C, D, E, F)	251	408	509	607	657
G. Student loans (operating)	-25	-4	5	16	18
Operating impact (A, B, D, E, F, G)	380	524	593	658	691

27 **note** that the expenditure to increase the student loan living cost component and student allowances, and to implement fees-free tertiary education in 2018, will be reflected in the Half Year Economic and Fiscal Update

28 **note** that Cabinet agreed the future budget allowances based on the student support increase and fees-free policies having a combined operating cost of \$2,101 million and capital expenditure of \$696 million over the forecast period [CAB 17 MIN 0506] with a resultant \$2,797 million impact on net debt over the forecast period

- 29 **note** that the cost of the policy decisions above, summarised in recommendation 26, incur operating expenditure of \$2,846 million and reduce capital expenditure by \$404 million over the forecast period
- 30 **note** that compared to the cost estimates used in setting budget allowances, operating expenditure is \$745 million higher and capital expenditure is \$1,100 million lower over the forecast period
- 31 **agree** that the variance in operating expenditure of \$745 million will impact on the Operating Balance before Gains and Losses (OBEGAL) and will be reflected in the Half Year Economic and Fiscal Update
- 32 **note** that the cash expenditure outlined in recommendation 31 is fully offset by the reduction in capital expenditure over the forecast period resulting in a positive net debt impact of \$365 million
- 33 **agree** that the positive variance in recommendation 32 above is included in the Half Year Economic and Fiscal Update as a positive impact on net debt over the forecast period
- 34 **authorise** the Ministers of Finance, Education, Social Development and Revenue jointly to determine final detailed changes to appropriations subject to:
- 34.1 the net debt and operating impact not exceeding \$2,432 million and \$2,846 million respectively, over the forecast period, and
- 34.2 the net debt and operating impact in 2021/22 and outyears not exceeding \$657 million and \$691 million, respectively

Further work

- 35 **direct** officials to report back to the Minister of Education and Associate Minister of Education (Hon Tracey Martin) on the detail of any outstanding administrative issues
- 36 **authorise** the Minister of Education and Associate Minister of Education (Hon Tracey Martin) to approve the detail any outstanding administrative issues for the fees-free proposals in this paper
- 37 **note** that the Minister of Education has directed TEC officials to report to him after the February-March enrolment peak, for forwarding to interested Ministers, on the performance of the interim 2018 systems for fees-free study
- 38 **invite** the Minister of Education to report-back to Cabinet, once initial data on 2018 uptake is analysed in June, with short-term changes to fees-free tertiary education to improve delivery and manage any emerging risks, and to set a plan for medium-term changes to delivery from 2019
- 39 **note** that, to support transparency in government decision-making, I intend to make this and previous Cabinet papers on delivering our tertiary education 100 day commitments publicly available through the Ministry of Education's website.

Authorised for lodgement

Hon Chris Hipkins

Minister of Education

Appendix 1: Assessment of the options for implementation (based on assessment presented to Ministerial subgroup)

	Provider Payment	Student Loan Scheme reimbursement
Meets government priorities	Yes. Fee is free to the student up front.	Yes. Students can receive full fees-free support, however, the fee is paid through the loan and then reimbursed later.
Learner experience	<p>Students already interact with TEOs, and while they may need to provide additional information concerning prior study, this change will have minimal impact on them.</p> <p>When a student enrolls with a TEO, the TEC will confirm student eligibility for fees-free using data provided by the TEO.</p> <p>For some students it will be uncertain if they are eligible. Students classified as uncertain will need to provide evidence through an additional process. This may include a declaration.</p> <p>Students who have already applied for loans or paid their fees will have the fees portion on their loan halted by StudyLink or have the TEO make a refund (TEC will design this).</p>	<p>All students would need to apply for a loan to access fees-free, and provide information on prior study. Certainty regarding eligibility is deferred.</p> <p>Most first year students are eligible for a loan. There are about 25,000 who are ineligible for loans who meet fees-free eligibility. These students will need to be dealt with through a separate process between TEOs and TEC.</p> <p>Some students who do not currently take out loans will need to apply for them (approximately 11,000). Some students may be unwilling to do this for cultural or religious reasons and would need to be dealt with through the process for students who are not loan eligible.</p> <p>Some students will not know if their loan is fully covered until their account is reconciled at IR.</p> <p>Students would be able to test their eligibility using an online eligibility tool to be developed by TEC.</p>
TEO Impact	<p>Increased administration for TEOs to support an estimated 80,000 eligible students.</p> <p>TEOs are 'bulk-funded' by TEC for eligible fees-free students, based on a forecast by TEC.</p> <p>TEOs send information of new enrolments to TEC, who check eligibility and send "yes", "no" or "maybe" information to the TEO.</p> <p>TEOs intervene in their invoicing process to communicate fees-free status to those students who are eligible. Collection of fees is halted for those students. The size of impact of this change on the TEOs is yet to be confirmed with TEOs.</p> <p>TEOs may also need to implement a process step to manage students whose tuition would exceed the fees-cap (if there is one).</p> <p>TEOs will continuously provide data to TEC on new enrolments for</p>	<p>Increased administration for TEOs to support those students ineligible for loans (circa 25,000 students).</p> <p>However, adjustments to provide eligibility certainty for students and minimise government risk would increase the impact on TEOs.</p> <p>One possible adjustment is that TEOs would provide regular reports confirming current courses for students claiming fees-free places in order to allow students' loan accounts to be cleared sooner.</p> <p>The exceptions pathway (circa 1/3 or 26k students) would involve a similar process to the provider-payment option. While scaled down in volume (about a third) the impacts on TEOs will be similar.</p>

	Provider Payment	Student Loan Scheme reimbursement
	<p>eligibility checking. Accountability for eligibility remains with the TEC.</p> <p>The accountability for having an auditable process for the financial transactions will remain with the TEOs.</p>	
Critical path for delivery	<p>TEO communications, resourcing and training, which is likely to require on-site support from TEC.</p> <p>Funding determination (159L of the Education Act) to enable payment of funds to TEOs.</p> <p>Forecast of estimated fees-free tuition payable per TEO. Make payments against forecast.</p> <p>Build of eligibility checking process and establishment of a review mechanism.</p> <p>Refunding student fees that have already been paid or student loans that have already been established.</p>	<p>Resourcing for communications to students and TEOs.</p> <p>Legislation to enable change to Inland Revenue notifications and recovery system, and information sharing.</p> <p>Develop TEC eligibility tool.</p> <p>Establishment of agency information sharing.</p>
Risks	<p>Changes to TEO systems appear unavoidable and the quantum of change is uncertain.</p> <p>Training for TEOs will need to occur after announcement (to avoid leaks). Delivering training in a period of peak work for TEOs and agencies will be challenging.</p> <p>TEOs are concerned that their reputation will be damaged if the process is slow or mistakes are made. The timeline is short and this will create high cost and risk.</p> <p>We will pay providers for some students who studied overseas or prior to 2003, or are NZ residents who have been here less than three years.</p>	<p>Unless eligibility is restricted to students eligible for student loans, there will be up to 25,000 students who need to use the TEC-led exceptions pathway and this volume may be difficult to manage.</p> <p>This will require development of two interim solutions, each with its attendant risk. The exception pathway will have the same risks and costs as the provider-payment option.</p> <p>Reputational risk arising from students who think they are eligible but finding out they are ineligible up to 18 months later due to standard loan reconciliation timelines.</p> <p>That the online eligibility tool is not completed in time.</p> <p>The eligibility results from the online eligibility tool are incorrect, but are used by students to access fees-free who are not actually eligible. Having relied on our tool we would be unlikely to claim this money back.</p> <p>Some students may pay their fees (or have them paid) and not realise they needed to apply for a loan. This is likely to be a small number and communications to students will lessen the risk.</p> <p>TEC needs reciprocal information sharing agreement with IR.</p>
Cost to implement	<p>Government agency costs in 2017/18:</p> <p>Circa \$6.9m</p> <p>Breakdown of costs:</p>	<p>Government agency costs in 2017/18:</p> <p>Circa \$10.6m</p> <p>Breakdown of costs:</p> <p>Administrative costs associated with additional student loan applications (estimated \$2.3m).</p>

	Provider Payment	Student Loan Scheme reimbursement
	<p>Training costs to support TEOs (\$0.6m)</p> <p>In-house implementation costs (15 FTE -\$1.2m)</p> <p>Project costs (\$3.5m-\$4.9m)</p> <p>Cost to MSD in reversing early loan applications and contact centre service (estimated \$1.3m).</p> <p>Provider Costs:</p> <p>Provider reps indicate \$10 - \$15m</p> <p>Breakdown of costs:</p> <p>Costs to TEOs to handle new processes (provider reps indicate up to \$10 - \$15m across all TEOs for 2018). This covers changes to invoicing and reporting on fees-free course enrolments.</p>	<p>MSD project and operational costs to cover any data provision, eligibility checking, and tracking of fees-free course enrolments (estimated \$1.4m).</p> <p>TEC alternate pathway provisioning (estimated at 80% of costs from the provider payments option)</p> <p>IR loan administration costs (\$1.8-2.4m)</p> <p>Provider Costs:</p> <p>Provider reps indicate \$8 - \$12m</p> <p>Breakdown of costs:</p> <p>Estimated at 80% of the cost from the Provider-payment option.</p>
Training required	<p>Training and support for TEOs</p> <p>Communicate eligibility criteria and processes to students</p> <p>Produce decision support tools (online collateral)</p>	<p>Training for MSD contact centre</p> <p>Develop communications about difference in eligibility criteria between student loan and fees-free.</p> <p>Produce decision support tools (online collateral)</p>
Sustainable for 2019	<p>Sustainability across multiple years depends on TEOs implementing system changes.</p>	<p>Support for out-years complex to implement.</p>

Appendix 2: Risk Analysis

Students' and Tertiary Education Providers' Behavioural Responses

Risk	Impact	Mitigation
Ineligible students claiming fees-free entitlements	Cost to Government. May undermine integrity of policy and public confidence.	Where appropriate, students claiming eligibility will sign declarations concerning their eligibility – in regard to prior tertiary study in NZ or overseas. Where appropriate, students will be required to repay entitlements inappropriately claimed.
Students not knowing if they are eligible. Confusion about the “no prior study” rules. Dissatisfaction from learners who are not eligible.	Poor student experience Risk of individual cases causing controversy Administrative costs to manage borderline cases	Policy rationale and eligibility criteria clearly and effectively communicated TEC tools to help learners and providers confirm eligibility TEC led process to address difficult cases Appeal process where necessary
Late withdrawals - students not paying fees may withdraw from courses too late to claim refunds	Cost to Government Funding wasted on uncompleted courses Negative impact on tertiary providers' performance measures for course and qualification completions	TEOs have performance incentives to reduce non-completions. Students who fail to withdraw from courses on time for refunds will consume their fees-free entitlement on those courses
Lack of EFTS cap encourages students to enrol in excessive course loads	Cost to Government Poorer academic outcomes for students	Quality assurance and TEC performance measures give TEOs incentives to avoid poor learning outcomes TEC's control of providers' overall total enrolments and programme mix via plans
Providers gaming fees-free to maximise revenue (eg: bringing forward 2019 course start dates)	Cost to Government May undermine integrity of policy and public confidence.	TEC approval required for plan changes Ongoing provider monitoring Future TEC funding depends on providers' current performance and TEC confidence
Employers shifting costs onto trainees Fee inflation in the industry training sector (currently unregulated).	Trainees use up fees-free entitlement funding training employers should pay for. Integrity of industry training funding system compromised	Minimum programme size rules for fees-free industry training. Monitoring by TEC. Set funding for 2018 using past fee rates Future work on fee regulation options
Learners opt to defer start of study to 2020 to claim an additional year fees-free	Financial risk to providers Cost to Government Opportunity costs for learners	Clear communication about policy direction Fees are only one part of total cost of study – deferring costs lost years of income premium for graduates
Learners who do not contribute to costs of study may be less motivated and engaged	Poor learner outcomes Lower provider performance on completion rates.	Learners are still investing – spending a valuable fees-free entitlement. Providers face strong performance incentives to ensure good outcomes. Academic performance test to be adopted in extending fees-free in future.

Risk	Impact	Mitigation
People miss out on eligibility because of prior study that was low value	Cannot take advantage of fees-free study	Ongoing access to student support and tuition subsidies
Inequity in \$ value of the support students receive	Students benefit more or less from policy	\$ cap on entitlement
Fees-free leads to changes in demand across tertiary subsectors	<p>ITOs may be disadvantaged relative to tertiary providers as they lose price advantage</p> <p>May increase demand for more expensive (PTE and university) programmes over cheaper (PTE, ITP, Wānanga, industry training) options</p>	<p>TEC management of plans</p> <p>Relative prices of options only one factor in student choices</p>
Industry trainees consuming entitlement on courses they have relatively little choice over	Trainees don't take full advantage of fees-free study.	<p>Target longer programmes at L3+</p> <p>Interim model for 2018 – develop future options</p> <p>Unconsumed entitlements of part-time learners can be carried forward</p>