

# Coversheet: Increasing student allowances by \$50 per week

Advising agencies	<i>Ministry of Education</i>
Decision sought	<i>Cabinet agreement to proposals to increase student allowance rates by \$50 per week</i>
Proposing Ministers	<i>Hon Chris Hipkins, Minister of Education</i>

## Summary: Problem and Proposed Approach

### Problem Definition

**What problem or opportunity does this proposal seek to address? Why is Government intervention required?**

This intervention proposes to implement the Government's manifesto commitment to increase student allowances by \$50 a week from 1 January 2018.

The \$50 increase to the maximum for student allowances complements a \$50 increase to student loan living costs, and a \$20 increase in Accommodation Benefit payments. The manifesto states that together, these changes will make it easier for students to get by while studying, lowering a significant barrier to education and helping to offset a rapid increase in rents that many students have faced in recent years.

### Proposed Approach

**How will Government intervention work to bring about the desired change? How is this the best option?**

The proposed approach is to increase student allowances by \$50 a week from 1 January 2018.

## Section B: Summary Impacts: Benefits and costs

**Who are the main expected beneficiaries and what is the nature of the expected benefit?**

Total monetised benefits for students from student allowance increases are approximately \$120 million per annum. This is the indicative operating impact for the change averaged across the forecast period. Final costings will be updated when the remaining 100 day policy commitments are fully developed.

Non-monetised benefits include less financial pressure being placed on students to meet their living costs and potential benefits to society and the economy from a more educated workforce.

#### Where do the costs fall?

There will be costs to the Crown from providing an increase in the rates of student allowance. These costs will include around \$120 million per annum from the increase itself and one-off implementation costs totalling \$600,000 (which also includes implementation costs for increasing student loan living costs maxima being done simultaneously) and flow-on costs for the benefit system (for jobseeker support and accommodation assistance over the vacation period).

#### What are the likely risks and unintended impacts, how significant are they and how will they be minimised or mitigated?

There are potential impacts for the tertiary education system and its performance from increasing student allowance rates. It may also alter the incentives between the student allowance and benefit systems. It is not possible to estimate how significant these impacts will be at this time. Impacts will be monitored (see section 7 below).

#### Identify any significant incompatibility with the Government's 'Expectations for the design of regulatory systems'.

There is no significant incompatibility with the Government's 'Expectations for the design of regulatory systems'.

This is an increase to student allowance rates within an existing set of regulations. Other student allowance settings remain unchanged.

## Section C: Evidence certainty and quality assurance

#### Agency rating of evidence certainty?

It is unclear to what extent more support for students' living costs will change the decisions that potential students might make about study, or the decisions of providers to offer courses. This is particularly an issue for 2018, as many prospective students and / or providers will already have made decisions in advance of the policy being introduced.

To be completed by quality assurers:

Quality Assurance Reviewing Agency:
Ministry of Education
Quality Assurance Assessment:
Not applicable – this Impact Statement has been assessed using Treasury guidelines for regulatory impact assessment for 100 day plan priorities.
Reviewer Comments and Recommendations:
<p>The Impact Statement covers the implementation of the \$50 increase in student allowances, which is a Government manifesto commitment.</p> <p>Given the constraints that have been highlighted in the Impact Statement, the Impact Statement appropriately reflects the analysis that has been able to be completed.</p> <p>The panel notes that there will be further work on costings when the other tertiary related policy changes are considered.</p> <p>As the student support system including allowances is already supported by a robust monitoring process, the monitoring of the impact of the student allowance increase will be adequately covered by current processes.</p>

# Impact Statement: Increasing student allowance and living costs support for students

## Section 1: General information

Purpose
1. The Ministry of Education is responsible for the analysis and advice set out in this Regulatory Impact Statement, except as otherwise stated. This analysis and advice has been produced for the purpose of informing policy decisions to be taken by Cabinet on proposals to increase student allowance rates by \$50 per week from 1 January 2018.

Key Limitations or Constraints on Analysis
2. Key limitations on the analysis relate to time constraints, the range of options considered, assumptions underpinning the impact analysis and consultation and testing of the preferred option.
3. The option considered is increasing student allowance rates by \$50 per week from 1 January 2018 in order to deliver on the Government's manifesto commitment. However, there was a range of more detailed design considerations within this overall commitment – for example, whether a flat \$50 increase should apply to all rates or whether a different approach should apply for rates intended to reflect the living costs of two adults. These design considerations are set out in more detail within this analysis.
4. The costing for the impact of the student allowance changes has not been fully finalised, as it will interact with other 100 day commitments for tertiary education. The costing provided presents a range of costs for the increase in student allowance rates. Cabinet approval will be sought now for a range of costs, and at a later date for final appropriations that recognise the interaction with the other policy changes being progressed.
5. Lastly, it should be noted that there has been no public consultation and testing of this proposal. However, the proposal was signalled as a manifesto commitment through the Labour Party's 2017 election manifesto and confers only benefits on recipients.

Responsible Manager (signature and date):
Julie Keenan, Policy Director
Graduate Achievement, Vocations and Careers
Ministry of Education
13 November 2017

## Section 2: Problem definition and objectives

### 2.1 What is the context within which action is proposed?

6. Student allowance spending of \$464 million in 2016/17 supported 70,000 students in 2016. Student allowances are income-tested, non-repayable support that is targeted to students from low-income backgrounds in their early years of study.
7. Student allowances are part of the Government's total tertiary education spending, which is over \$4 billion per year. This includes approximately \$1.1 billion for student financial support through student loans and student allowances. The remaining spending is mainly tuition subsidies to providers, or support for research and industry linkages.
8. This student financial support is designed to assist students in meeting the costs of living while studying, and finance up-front study costs. In addition to student allowances, this assistance comprises:
  - student loans assist students to meet the costs of study, including fees, living costs, and course-related costs (a \$662m cost on new lending in 2016/17). Approximately 177,000 students took out a loan in 2016.
  - the Accommodation Benefit is available to many student allowance recipients to help with accommodation costs, and provides up to \$40 per week (due to increase to \$60 in 2018) other than for sole parents, who receive the generally higher rate of support available through the benefit system's Accommodation Supplement.
  - other benefit system assistance may be available for some students, such as the Accommodation Supplement, which some student loan recipients may access depending on their income, accommodation costs, and family situation.
9. Rates of student allowance and income thresholds are adjusted annually on 1 April to reflect changes in the cost of living (currently measured through the Consumers' Price Index). If students' costs increase by a rate greater than these annual adjustments, this could risk reduced participation or lower performance in study by students more focused on meeting their day-to-day living costs.

## 2.2 What regulatory system, or systems, are already in place?

### The regulatory system for student allowances

10. The Education Act 1989 (the Education Act) is the primary legislation for the Student Allowances Scheme. The Education Act provides the legal authority for various aspects of the Student Allowances Scheme which includes providing the Ministry of Social Development with the statutory authority to administer the Scheme and empowering the making of regulations.
11. Detailed eligibility and entitlement criteria are contained in the Student Allowances Regulations 1998 under the Education Act. These regulations include rates of payment. The proposed change is therefore to rates of payment within an established regulatory system, and does not raise wider issues of the role or appropriateness of regulation.

### Roles of Government agencies

12. The Ministry of Social Development, through StudyLink, administers and provides information on student allowances and the student loan scheme. StudyLink's role includes providing information about student loan eligibility, entitlement criteria and how to apply, as well as processing student loan applications and maintaining loan accounts while the student is studying.
13. The Ministry of Education administers the legislative framework for tertiary education and training, develops strategic policy for the tertiary sector, and monitors the performance and capacity of Crown entities.

### Other agencies with interests

14. Other key agencies with an interest in changes to student allowances include tertiary education providers, who will be affected by changes to incentives for people to undertake and remain in education.

### Regulatory Stewardship

15. The overall fitness-for-purpose of the system has not been examined in the development of this specific initiative.
16. Student allowances are identified by the Ministries of Education and Social Development as relevant to their regulatory stewardship responsibilities. The Ministry of Education keeps a regularly updated register of issues requiring attention across relevant regulatory systems, and takes opportunities to discuss these issues with Ministers in order to review, update or amend legislation as appropriate.

### 2.3 What is the policy problem or opportunity?

17. It is proposed to provide a \$50 per week increase to student allowances in order to make tertiary education and training more affordable by increasing living costs support. The Government's manifesto states that making tertiary education more affordable aims to increase participation and completion of tertiary education, better equipping New Zealanders for the jobs of the future.

### 2.4 Are there any constraints on the scope for decision making?

- *What constraints are there on the scope, or what is out of scope? For example, ministers may already have ruled out certain approaches.*
  - *What interdependencies or connections are there to other existing issues or ongoing work?*
18. This is a manifesto commitment and limited to a specific option. Constraints on the scope for decision-making are noted above in Section 1.

### 2.5 What do stakeholders think?

19. No systematic stakeholder analysis or consultation has been undertaken at this time due to constraints to deliver on 100 day plan manifesto commitments.
20. Agencies have been monitoring public statements about the proposed policy. Student and union groups generally support the proposals. Universities have raised concerns that this change will shift Government support toward students rather than assisting providers to meet increasing costs.

## Section 3: Options identification

### 3.1 What options are available to address the problem?

21. One option has been considered in line with meeting the Government's manifesto commitments to increase the student allowance by \$50 per week.

#### Option: increase the student allowance by \$50 per week

22. Under this option, from 1 January 2018 the student allowance will be increased by \$50 per week. The increase to student allowance rates would be consistently applied across all student allowance rates. Income thresholds to receive student allowances will remain the same.
23. This option will assist students in dealing with increasing costs of living. Additionally, this option addresses rising accommodation costs for students.

#### Design considerations in the development of this option

24. In developing this option, officials considered matters including (but not limited to) whether the increase be \$50 net or \$50 gross, whether there should be a \$50 increase to all student allowance rates and whether income thresholds should remain unchanged.
25. It was considered that a payment of \$50 gross would mean that many students would not receive the full \$50 because they would be required to pay tax on the amount received. To ensure that the majority of the target group received \$50 in the hand, a higher gross rate would be paid in order to account for tax. Therefore, the option was developed to increase the student allowance by \$50 net per week based on an M tax code (the main tax code for student allowance recipients).
26. Student allowance rates are paid at differing amounts depending on a student's relationship status, age, number of children and living situation. A \$50 increase will be a greater change in rate for some students than for others. A \$50 increase for all students would in most cases maintain current relativities based on family situation and avoid any students receiving more or less than others. Therefore, it was considered that the \$50 increase should be applied across all student allowance rates, except for couple rates. This would maintain existing relativities and deliver on the manifesto commitment. For couple rates that are intended to reflect the living costs of two adults, the increase would apply on a per-adult basis to maintain existing relativities between single and couple rates. As a result, couple rates that reflect the living costs of two adults will increase by \$100 net per week.
27. It was considered that income thresholds for student allowances should remain the same. This will ensure broad access to allowances, with abatement impacts providing more students with some allowance support than under previous rates. Lowering income thresholds may have removed the entitlement completely for some students and removed some or all of the gain from the \$50 increase for others.
28. International experience has not been considered in the development in this proposal due to time constraints and its applicability in the context of New Zealand's interest-free student loans.



**3.2 What criteria, in addition to monetary costs and benefits, have been used to assess the likely impacts of the options under consideration?**

29. Not applicable. The key criterion for assessing the options was whether they would deliver on the Government's stated commitment, including whether they could be delivered by 1 January 2018.
30. Other factors considered related to:
- a. feasibility of implementation
  - b. flow-on implications for the tertiary education system
  - c. relativities and incentives across the student support and benefit systems.
31. These potential impacts are set out in more detail in sections 4 and 5.

**3.3 What other options have been ruled out of scope, or not considered, and why?**

32. Not applicable.

Proactively released

## Section 4: Impact Analysis

**Marginal impact:** How does each of the options identified at section 3.1 compare with the counterfactual, under each of the criteria set out in section 3.2? *Add, or subtract, columns and rows as necessary.*

Not applicable, as officials' analysis of impacts was focused on how to implement the Government's manifesto commitments. Analysis of the potential flow-on impacts of implementing the commitment was included in advice on how to deliver the commitment, and included:

- increasing incentives for people to enter study
- potential implications for the relationship between the student support and benefit systems, including reduced consistency in levels of government support for living costs, and the potential implications for incentives for people to move off benefit and into study
- unclear implications for performance and outcomes for the tertiary education system if new students enter study, particularly if these students are motivated by additional support rather than the desire to participate and succeed in study.

**Key:**

- ++ much better than doing nothing/the status quo
- + better than doing nothing/the status quo
- 0 about the same as doing nothing/the status quo
- worse than doing nothing/the status quo
- much worse than doing nothing/the status quo

## Section 5: Conclusions

### 5.1 What option, or combination of options, is likely best to address the problem, meet the policy objectives and deliver the highest net benefits?

33. The option contained within this analysis delivers on the Government's manifesto commitment.

### 5.2 Summary table of costs and benefits of the preferred approach

Additional costs of proposed approach, compared to taking no action			
Affected parties (identify)	Comment: nature of cost or benefit (eg ongoing, one-off), evidence and assumption (eg compliance rates), risks	Impact \$m present value, for monetised impacts; high, medium or low for non-monetised impacts	Evidence certainty (High, medium or low)
Regulators: Crown	There will be an on-going cost to the Crown for providing the increased student allowance.	\$126.5 million p/a. <i>This is the indicative operating impact for the change averaged across the forecast period. Final costings will be updated when the remaining 100 day policy commitments are fully developed.</i>	High
Wider government: Ministry of Social Development	There will be costs from implementing changes to systems and policies for this proposal. One-off system changes. Delivery of changes (these include costs for simultaneous changes being made to the student loan living costs maxima)	\$400,000 \$200,000	Medium
<b>Total Monetised Cost</b>	There will be costs to the Crown from providing an increase in the rates of student allowance.	\$126.5 million p/a + implementation costs totalling \$600,000	High

Expected benefits of proposed approach, compared to taking no action			
Affected parties (identify)	Comment: nature of cost or benefit (eg ongoing, one-off), evidence and assumption (eg compliance rates), risks	Impact \$m present value, for monetised impacts; high, medium or low for non-monetised impacts	Evidence certainty (High, medium or low)
Regulated parties: students	Students will receive a \$50 per week net increase in their student allowance.  Students may be more likely to complete qualifications with additional support as they will be likely to face less financial stress.	\$120 million (p/a)  Medium	High  Low
Other parties:	There may be a benefit to the labour market and the economy from a workforce with an increased level of skills and qualifications because people may be more likely to enter and remain in tertiary education.	Medium	Low
<b>Total Monetised Benefit</b>	Student allowance increases.	\$120 million (p/a)	High
<b>Non-monetised benefits</b>	These include less financial pressure being placed on students to meet their living costs and potential benefits to society and the economy from a more educated workforce.	Medium	Low

### 5.3 What other impacts is this approach likely to have?

34. Increases to the student allowance rates and living costs support for students may alter the incentives between the benefit and student allowance systems. Currently, there are links between parts of the student allowance system and the benefit system, including:
- net amounts of student allowance currently align with the equivalent Jobseeker Support or Sole Parent Support rates in the benefit system
  - sole parents receive student allowance accommodation benefit at the rate of accommodation supplement that would apply as if they received Sole Parent Support (with the formula for accommodation supplement partly based on the amount of Sole Parent Support paid)
  - some students receive non-beneficiary assistance that is affected by the amount of student loan that they receive, and so would receive less of this assistance if there was a student allowance increase.
35. Additionally, during holiday breaks some students move off student allowance and onto a benefit, known as Jobseeker Support Student Hardship (JSSH). Only increasing the student allowance will mean that students may face a drop in income during holiday breaks, as the JSSH rate is the same as the Jobseeker Support rate – although potentially higher accommodation support may mitigate this risk (except for sole parents). There is no policy intent that states that both rates should stay the same, however, they are currently aligned and creating a difference between these rates could cause issues for some students. It may also result in students seeking additional hardship or emergency support during holidays.
36. Increasing student allowance rates could raise questions about why students are receiving additional support with living costs when beneficiaries are not.
37. Increasing student allowance rates could also mean that for some students there is a financial incentive to move into study, if this increase exceeds any difference in accommodation support. This is particularly so for sole parents because they receive accommodation supplement rates while in the student support system as if they received Sole Parent Support. Many of these sole parents are women, and so the positive impact for women may be especially beneficial and have flow-on effects for their children, families, whānau and households.
38. It is not possible to estimate how significant the impacts that have been identified above will be over time. However, current differences in accommodation support and performance tests in the tertiary education sector may mitigate some of these risks.

### 5.4 Is the preferred option compatible with the Government's 'Expectations for the design of regulatory systems'?

39. Officials have not identified any incompatibility with the Government's 'Expectations for the design of regulatory systems'.

## Section 6: Implementation and operation

### 6.1 How will the new arrangements work in practice?

40. The increases to the rate of student allowance by \$50 per week net will be made through amendments to the Student Allowances Regulations 1998 and paid by the Ministry of Social Development through StudyLink. These amendments will come into effect from 1 January 2018 for all new and current recipients.
41. It is considered that this timeframe will be sufficient for regulated parties. The changes will be communicated in advance to students, tertiary education providers and the public.
42. There are no other changes to the ongoing operation of the student allowance scheme.

### 6.2 What are the implementation risks?

43. The Ministry of Social Development has identified implementation risks from cost over-runs for the implementation of new system changes.
44. There are also risks that behaviour change may be outside forecasted levels, if more students than estimated may choose to study.
45. Potential risks will be managed by the Ministry of Social Development through normal project and governance methodologies.
46. Officials will monitor the student allowance system to check uptake and will advise Government as necessary.

## Section 7: Monitoring, evaluation and review

### 7.1 How will the impact of the new arrangements be monitored?

47. Initially, the impacts of the proposal will be monitored through existing administrative datasets and reporting. There are existing datasets for student allowances.
48. Further work will be undertaken on monitoring of the tertiary education changes. This can build from ongoing work to monitor the performance and effectiveness of the student support system. This is an existing focus for the Ministry of Education, and is managed through a range of processes including:
  - annual monitoring of the performance of the tertiary education system, for example through the *Profile and Trends* annual, publicly available, system reporting
  - the development and publication of the *Student Loan Scheme Annual Report*, which provides public performance information on student loans and allowances, including consideration of the broad implications of relevant policy changes
  - ongoing advice to Ministers about the performance and effectiveness of the student support system and any emerging issues.
49. The Ministry of Social Development (MSD) maintains statistics on student allowances and provides these to the Ministry of Education for forecasting and monitoring purposes. MSD in its role of maintaining the social security framework will monitor issues arising from the proposed change as they affect incentives in the benefit system and raise these with Government as needed.

### 7.2 When and how will the new arrangements be reviewed?

50. The new arrangements will be reviewed as part of normal practice and in conjunction with regular monitoring processes, as outlined above.