



Briefing Note: Costings for the 100 days tertiary education commitments

To:	Hon Chris Hipkins, Minister of Education		
Date:	24 November 2017	Priority:	High
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Messaging seen by Communications team:	No		

Key messages

- This paper outlines the changes made between the interim and final financial implications for the \$50 weekly increase to student support and the first year fees-free policy.
- Note that costings for both policies have now been through full quality assurance, Treasury has reviewed the methodology and assumptions, and costings have been reflected in the Cabinet paper provided 24 November.
- Cabinet has previously agreed budget allowances for these two policies, using the cost estimates available at that time [CAB 17 MIN 0506]. The estimates were consistent for increasing student support, but budget allowances for fees-free were based on the pre-election Fiscal Plan, with no consideration of the interaction between the two policies.
- The difference is a positive net debt impact of \$365 million, with operating expenditure \$745 million higher over the forecast period, and capital expenditure \$1,100 million lower over the forecast period due to the student loan savings, compared to budget allowances.
- Officials have provided base costings in the Cabinet paper so that interim financial authority can be sought for the Minister of Finance, Education, Social Development, and Revenue to approve detailed appropriations.
- Treasury supports the financial recommendations and the approach of seeking interim financial authority for joint Ministers to subsequently approve appropriations within the bounds of the costings provided.



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Hon Chris Hipkins
Minister of Education

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Confirmed costings

1. Interim costings were provided on 20 November for both the 100 days tertiary education policies: the \$50 increase to student loans and allowances, and a first year fees-free from 2018. Some elements of these costings, in particular offsetting savings from student loans, were estimates and had not been through any quality assurance.
2. Further analysis of the costs of the policies has been undertaken and this has led to refinement of the costings. Costings have now been through Ministry of Education quality assurance with amendments outlined below (interim estimates and final costings are appended).

Phasing of costs for fees-free so that the Tertiary Education Commission has the up-front funding required to pay providers for fees when charged, through inclusion of a 2017/18 buffer

3. The first year costs developed by officials reflect that around 85 per cent of tertiary education fees are paid in the first 2-3 months of the calendar year. So a policy starting in January incurs most of the total annual cost, rather than a more usual 'half year' effect, but there is uncertainty and this proportion may change due to the fees-free policy or other factors.
4. There may also be minor variances between the system-level costing of the policy and the provider-by-provider forecast the Tertiary Education Commission (TEC) will use to fund providers for delivery.
5. This up-front cost and uncertainty requires additional funding as a buffer for 2017/18, with any overpayments to be recovered and returned to the centre. From 2018/19, the TEC can more readily manage phasing through the year.

Refinement of the eligibility criteria used to determine fees-free payment costs

6. Final decisions on eligibility for fees-free tertiary education have reduced the overall cost of the fees-free policy. This is due to a reduction of the number of students forecast as eligible for the policy once it is introduced, because:
 - a. we have taken into account prior study at Youth Guarantee level 3
 - b. we have assumed students who are studying postgraduate certificates or diplomas, and masters and doctoral degrees, would not be eligible
 - c. we have removed any people aged under 16 as likely to be still in compulsory education.
7. A \$12,000 fee cap was also applied to reflect decisions by the ministerial subgroup. Interim figures had used a \$15,000 fee cap.

The impact of repayments on student loan lending, that don't occur under the fees-free policy

8. Interim estimates of student loan lending are an average value of lending not incurred under the fees-free policy. In discussion with the Treasury, these have now been updated to reflect both the lending and the repayments on that lending, which are not incurred under the fees-free policy. This reduces the overall savings by the expected repayments that we would have received.
9. Interim figures for student loans capital have also now been through the quality assurance process. This has resulted in both the fees-free student loan (capital) and the \$50 student loan (capital), previously not shown, being reflected in the combined effects of the 100 days

policies, which were omitted for the combined table in the interim figures provided on 20 November. Savings produced from the fees-free policy are offset by increased lending under the \$50 weekly increase to student support.

The cost of lending is significantly lower for first time borrowers and gradually increases in out-years

10. Interim financial figures for the operating impact of student loan lending have been updated to reflect that the cost of lending (i.e. the cost incurred due to the time value of money between when lending occurs and the loan is fully repaid) is significantly lower for first year borrowers and gradually increases in out-years.
11. First year borrowing has a lower cost of lending as this is also the lending that is repaid first. As a result the operating savings are lower than previously estimated.

Inclusion of departmental costs

12. Departmental costs have now been included in the financial implications table of the Cabinet paper – *Making tertiary education more affordable: fees-free education in 2018*, provided 24 November.
13. We previously noted that there would be significant implementation costs for a number of government agencies, in addition to the costs of the policies. These costs have now been finalised as a decision has been made on the delivery mechanism for the fees-free policy.
14. These are implementation costs for the interim fees-free model being introduced in 2018, as well as system changes to introduce higher rates of student allowance and student loan living costs. When the permanent fees-free system for future years has been identified, there may be further costs associated with this which will need to be assessed as part of future policy decisions. Some of these decisions may reduce out-years estimates.

Budget allowances for fees-free and the \$50 weekly increase to student support

15. Cabinet has previously agreed budget allowances for these two policies, using the cost estimates available at that time [CAB 17 MIN 0506].
16. The estimates Cabinet considered on 20 November [CBC 17 MIN 0013] were consistent with budget allowances for increasing student allowances and living cost loans by \$50 a week.
17. 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. There was no consideration of the interaction between the two policies.
18. Preliminary estimates used to establish budget allowances of \$2,101 million operating and \$696 million capital expenditure [CAB-17-MIN-0506]. The difference is positive net debt impact of \$365 million compared to budget allowances, with operating expenditure \$745 million higher over the forecast period, and capital expenditure \$1,100 million lower over the forecast period due to the student loan savings of fees-free tertiary education.

Next steps

19. The changes identified have been reflected in the Cabinet paper – *Making tertiary education more affordable: fees-free education in 2018*, provided 24 November.

20. Officials have provided base costings and recommendations (supported by Treasury) in the Cabinet paper so that interim financial authority can be sought for the Minister of Finance, Education, Social Development, and Revenue to approve detailed appropriations.
21. We plan a follow-up paper seeking delegated decisions from joint Ministers on appropriations over the coming one to two weeks. We are prioritising this paper. Before being presented to Ministers, this paper will need scrutiny and signoff of changes to appropriations by Chief Financial Officers in all Vote agencies, as well as TEC and Treasury.
22. Further refinements to the costs and methodology will continue to be developed and be incorporated in the March Baseline Update and Budget, with the full overview of financial implications stated in the Student Loan Annual Report for 2018.

Proactively released

Appendix One: Costings for fees-free and \$50 weekly increase to student support

Breakdown of figures included in Cabinet paper – *Making tertiary education more affordable: fees-free education in 2018*, provided 24 November.

Table 1: debt and operating impact of \$50 increase to student allowances and loan maxima, excluding any behavioural effect

	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

Table 2: 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

Table 3: Demand impact of the \$50 increase to student allowances and loan maxima and fees-free first year

	2017/18	2018/19	2019/20	2020/21	2021/22 & outyears
A. Student allowances	2	7	15	25	29
B. First year fees-free payments	9	19	33	46	47
C. Student loans (capital)	9	24	48	75	74
D. Tuition subsidies	0	0	17	40	54
Debt impact (A, B, C, D)	20	50	114	186	205
E. Student loans (operating)	4	10	19	30	30
Operating impact (A, B, D, E)	15	36	85	141	160

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

	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

Appendix Two: Interim estimates

Interim financial implications provided 20 November.

Quality assurance status: this document has received internal quality assurance with the exception of the student loans capital figures (and as a result total impacts)

Draft update to Financial Implications section for 100 days: fees-free draft Cabinet paper

20 November 2017

Financial implications

This section of the paper sets out the financial implications of both the 100 days tertiary education policies: the \$50 increase to student loans and allowances, and a first year fees-free from 2018.

We have costed these effects by establishing a base cost of the changes, based on current patterns of participation, and by applying a scenario for growth in demand as a result of the changes. We are unable to forecast what if any 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.

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

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 the government does not have to lend the fees through student loans).

All the costings are based on current eligibility settings as per decisions indicated by ministers so far. These costings now include the impacts of allowing students to carry forward their unused entitlements to future years.

\$50 student loan and allowance increases

The following table shows the debt and operating impacts of the decision to increase student allowances and living cost maxima by \$50.

These figures exclude administration costs and flow-on impacts on the benefit system.

Table 1: debt and operating impact of \$50 increase to student allowances and loan maxima, excluding any behavioural effect

	2017/18	2018/19	2019/20	2020/21	2021/22 & outyears
Increasing student loans living costs by \$50 per week (capital)	46	98	99	101	103
Increasing student allowances by \$50 per week	48	101	102	104	106
Debt impact	94	200	201	204	209
Increasing student loans living costs by \$50 per week (operating)	25	53	54	54	53
Operating impact	73	154	156	158	159

First year fees-free

The following table 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. Student loans capital and operating figures are estimates only.

Table 2: debt and operating impact of first year fees-free, excluding any behavioural impact

	2017/18	2018/19	2019/20	2020/21	2021/22 & outyears
First year fees-free payments	297	409	431	439	449
<i>Student loans (capital)</i>	-215	-259	-262	-266	-273
Industry Training	10	20	20	20	20
Debt impact	92	170	189	193	196
<i>Student loans (operating)</i>	-92	-111	-113	-114	-118
Operating impact	215	318	338	345	351

Combined effects of 100 days policies

The following table shows the debt and operating impacts of both the \$50 increases and a fees-free first-year in 2018. Tables have been revised to include all current policy eligibility¹, now including out-year effects of part-time study, and is based on a growth scenario.

The combined methodology has not received internal quality assurance.

Table 3: debt and operating impact of combined \$50 increase to student allowances and loan maxima, fees-free first year, including medium-high participation effects

	2017/18	2018/19	2019/20	2020/21	2021/22 & outyears
Student allowances	50	109	118	131	137
Fees-free payments	306	428	466	489	489
<i>Student loans (capital)</i>	-212	-244	-230	-213	-209
Tuition subsidies	0	0	17	40	54
Industry training	10	20	20	20	20
Debt impact	154	313	391	467	491
<i>Student loans (operating)</i>	-91	-105	-99	-92	-90
Operating impact	275	452	522	588	610

¹ These costings assume: a 2% per annum increase in fees, \$15,000 fee cap, up to 2 EFTS study load, carry-over effects of part-time study in out-years

Impact of delivery model choice on costings

As a final delivery model has not yet been confirmed, the choice of model may have an effect on final costings. This may include phasing changes between years (for example if the delivery option includes up-front payments to TEOs).

Implementation costs

There will be significant implementation costs for a number of government agencies, in addition to the costs of the policy. The final costs will be available once a choice of delivery mechanism has been made.

These are implementation costs for the interim model being introduced in 2018. When the permanent system for future years has been identified, 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.

Current estimates for the costs of the interim model are as follows:

Tertiary Education Commission

Implementing the TEO / TEC led option will mean that the TEC incurs 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).

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.

Ministry of Social Development

[to follow]

Inland Revenue Department

[to follow]

Ministry of Education

The Ministry of Education has estimated the additional resourcing needed to establish an enduring Fees Free policy team, to undertake the major work required in the coming year and to provide ongoing advice, monitoring, research and analysis of the policy over time. Given the transitional work required for this policy, this team would initially be supported by a fixed term programme team. Initial costs will be \$2.55-\$3.00 million per annum, with ongoing costs reducing to \$1.55 - \$2.00 million per annum from 2020.

Tertiary Education Organisations

TEOs may incur significant costs to implement the policy, including additional manual processes and changes to finance systems. The TEC is currently processing an estimate of these but they may be as high as \$10m per annum.