



## MEMO

**To:** Ministerial group overseeing 100 days tertiary education commitments

**From:** Claire Douglas (Deputy Secretary, Ministry of Education)

**Date:** 20 November 2017

**Subject:** Comparisons and costings to implement options for fees-free initiative in 2018

### Purpose

This paper supports earlier advice about implementing the first year of fees-free tertiary education and training in 2018.

The paper describes:

- the relationships between students, TEOs and agencies for each option
- the trade-offs between the options
- indicative costs for each option to implement fees-free.

### Relationships between students, TEOs, and agencies for each option

We have previously described two options to implement fees-free in 2018:

- *Provider Payment.* Government would pay providers the fees for eligible students through advance payments, which will be reconciled later in the year
- *Student Loan Scheme reimbursement.* Students would borrow to pay fees, and eligible students would later have this amount repaid by Government on their behalf.

Both options are interim measures for 2018, with attendant risks and trade-offs.

The main implementation risk with the provider payment option is that TEOs will need to do work up front, collecting information from students and managing invoicing. This is the busy time of the TEO business cycle, and given the short timeframes, TEOs will want to minimise the disruption. A provider representative indicates an up front cost from \$10-15m for TEOs to make these changes across all TEOs.

In addition to the reputational risk arising from using loans to achieve fees free, the main implementation risk with the Student Loan Scheme reimbursement is that there are fees-free eligible students who are not student loan eligible, or who do not currently take out loans. We estimate that from the approximately 80,000 eligible students, up to 25,000 (mostly part-time students) will use the exceptions pathway which is similar to the provider payments pathway. Effectively this requires two interim systems to be built for 1 January. This would have similar risks and costs in addition to those already factored into the Student Loan Scheme reimbursement option.

Appendix One provides process diagrams for each option showing the action taken by students, TEOs and agencies. Both options can be delivered but the implementation risks, and impact on students and providers, are different between the two.

## Trade-offs between the options for implementation

Table One: differences between the two options

	Provider Payment	Student Loan Scheme reimbursement
Meets government priorities	<b>Yes.</b> Fee is free to the student up front.	<b>Yes.</b> Students can receive full fees free support, however, the fee is paid through the loan and then reimbursed later.
Learner experience	<p><b>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.</b></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><b>All students would need to apply for a loan to access fees-free, and provide information on prior study. Certainty regarding eligibility is deferred.</b></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><b>Increased administration for TEOs to support an estimated 80,000 eligible students.</b></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 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>	<p><b>Increased administration for TEOs to support those students ineligible for loans (circa 25,000 students).</b></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>

	<b>Provider Payment</b>	<b>Student Loan Scheme reimbursement</b>
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 (not yet final)	<p><b>Government agency costs:</b>            Circa \$6.9m            Breakdown of costs:            Training costs to support TEOs (\$0.6m)            In-house implementation costs (15 FTE - \$1.2m)            Project costs (\$3.5m-\$4.9m)            Cost to MSD in reversing early loan applications and contact centre service (estimated \$1.3m).</p> <p><b>Provider Costs:</b>            Provider reps indicate \$10 - \$15m            Breakdown of costs:</p>	<p><b>Government agency costs:</b>            Circa \$10.6m            Breakdown of costs:            Administrative costs associated with additional student loan applications (estimated \$2.3m).            MSD project and operational costs to cover any data provision, eligibility checking, and tracking of fees-free course enrolments (estimated \$1.4m).            TEC alternate pathway provisioning (estimated at 80% of costs from the provider payments option)            IR loan administration costs (\$1.8m)</p>

	<b>Provider Payment</b>	<b>Student Loan Scheme reimbursement</b>
	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.	<b>Provider Costs:</b> Provider reps indicate \$8 - \$12m Breakdown of costs: Estimated at 80% of the cost from the Provider Payment option.
Training required	Training and support for TEOs Communicate eligibility criteria and processes to students Produce decision support tools (online collateral)	Training for MSD contact centre Develop communications about difference in eligibility criteria between student loan and fees-free. Produce decision support tools (online collateral)
Sustainable for 2019	Sustainability across multiple years depends on TEOs implementing system changes.	Support for out-years complex to implement.

### **Cap on first year fees-free**

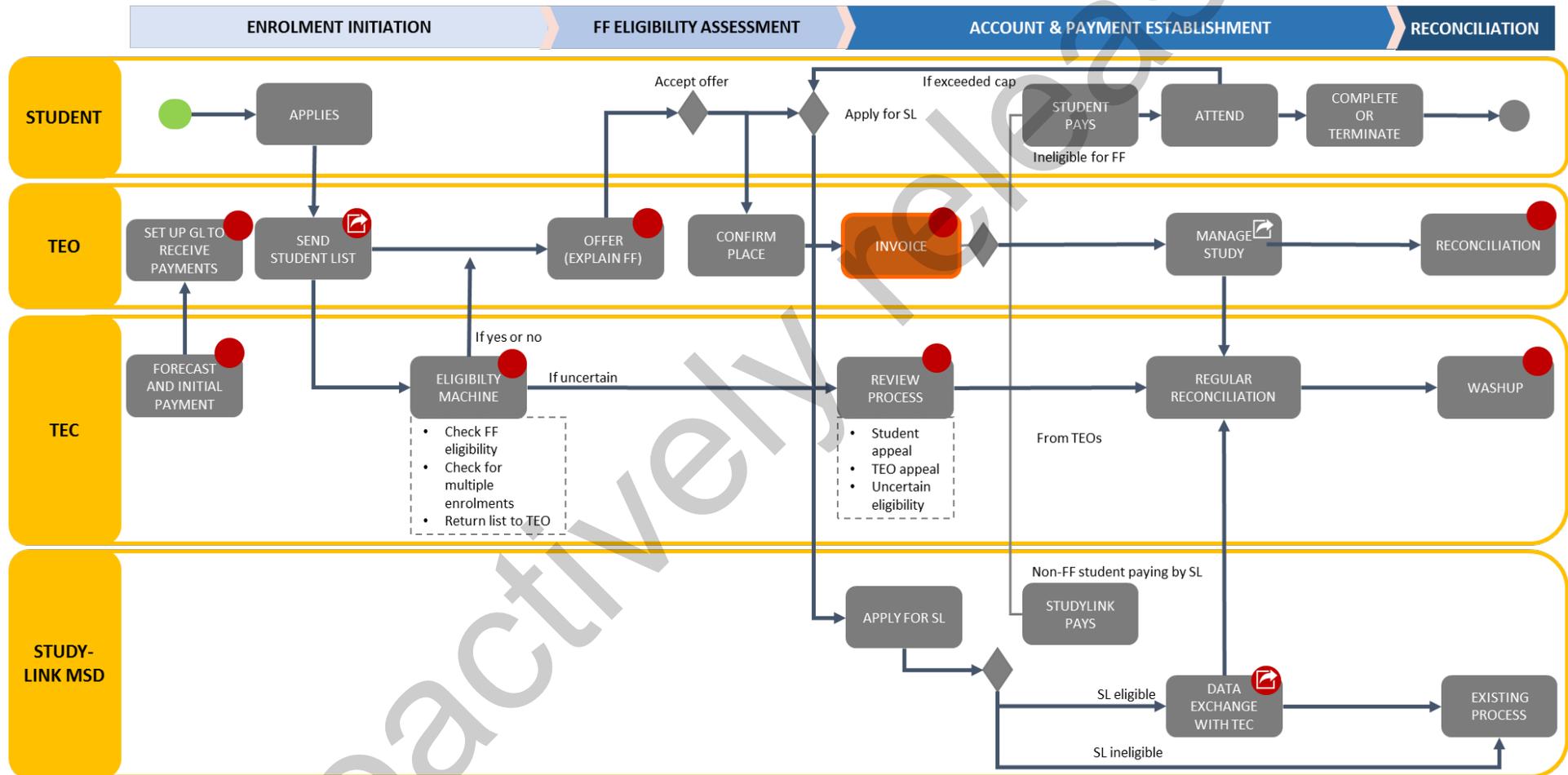
A maximum dollar value for fees-free eligibility can be put in place to moderate adverse behavioural responses. This can be implemented in both options. An EFTS cap is not possible under the Provider Payment option and complex and inadvisable under the Student Loan Reimbursement option.

Any cap increases the complexity for the students and TEOs involved. We estimate a fee cap of \$12,000 would cover 99% of students (including tuition, compulsory course costs, and compulsory student services fees). This means that based on current behaviour patterns about 900 students would need to go through an additional process. This volume of exceptions can be managed by TEC.

Advice on a maximum dollar value is to be discussed by Ministers on 20 November and costings will be updated subsequently.

Appendix One: Process diagrams for the two options:

### OPTION 1: PROVIDER PAYMENTS



Note: Multiple solutions exist to manage students exceeding the fees cap, and also to manage capturing declarations.

# OPTION 2: STUDENT LOAN SCHEME REIMBURSEMENT

