



MINISTRY OF EDUCATION

Te Tāhuhu o te Mātauranga

**Tertiary Education Report: Cost of providing a universal student allowance**

Date:	29 February 2008	Priority:	Low
Security Level:	In Confidence	METIS No:	255638
		Minister's Office Number:	TR8.124

**Action Sought**

	Action Sought	Deadline
Minister for Tertiary Education	Note attached report	9 March 2008

**Contact for Telephone Discussion (if required)**

Name	Position	Telephone	1 <sup>st</sup> Contact
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Enclosure: Yes/No (select as appropriate)

ORIGINAL SENT TO  
27 FEB 2008  
MINISTERS OFFICE

The following departments/agencies have seen this report:

<input type="checkbox"/> CCMAU	<input type="checkbox"/> ERO	<input type="checkbox"/> FRST	<input checked="" type="checkbox"/> MoE	<input type="checkbox"/> MED
<input type="checkbox"/> MoRST	<input type="checkbox"/> NZQA	<input type="checkbox"/> NZT&E	<input type="checkbox"/> TEC	<input type="checkbox"/> TPK

Minister's Office to Complete:

- Approved
- Noted
- Seen
- See Minister's Notes
- Declined
- Needs change
- Overtaken by Events
- Withdrawn

Comments:



RECEIVED  
27 FEB 2008  
BY: \_\_\_\_\_

## **Tertiary Education Report: Cost of providing a universal student allowance**

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### **Recommended Actions**

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We recommend that the Minister for Tertiary Education:

- a. **note** that in a meeting on 20 January 2008, you requested a costing for the provision of a universal student allowance;
- b. **note** that this report discusses the cost of removing the two current financial criteria for student allowance eligibility (personal income and parental income), whilst retaining the eight current non-financial criteria;
- c. **note** that the costs would be partially offset by students borrowing less as part of the living costs component of the Student Loan Scheme, and that these savings have been incorporated into the costing;
- d. **note** that different allowance rates have been retained for the following three groups:
  - i) students under 25 living at home;
  - ii) students under 25 living away from home;
  - iii) all other students;
- e. **note** that the total estimated four-year net cost of a universal student allowance is \$2.094 billion and that this equates to a net cost, over and above funds already committed to the provision of student allowances, of \$728 million.

9(2)(a)

Manager  
Tertiary Sector Performance and Analysis Reporting

  
**Hon Pete Hodgson**  
Minister for Tertiary Education

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# Tertiary Education Report: Cost of providing a universal student allowance

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## Purpose of Report

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1. As requested by you in a meeting on 20 January 2008, this report provides you with the cost of a universal student allowance.

## Background

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2. The principles underlying the current student support system were articulated in the government's 2003 discussion document *Student Support in New Zealand*. These are:
  - To maintain high levels of participation in and completion of tertiary education
  - To ensure that the tertiary education system makes the best possible contribution to national development
  - To ensure equity and fairness
  - To ensure that government investment in student support and tertiary education is financially sustainable
  - To ensure that tertiary education is affordable for students
  - To ensure consistency with the wider social assistance system<sup>1</sup>.
3. The current mix of student support policies is largely built around three types of government student support:
  - student loans
  - student allowances
  - scholarships
4. The role played in the student support system by each scheme and its rationale are summarised in the table below.

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<sup>1</sup> Refer to pages 11 and 12 of the discussion document. The document sets out the breadth of student support schemes.

**Table 1: Student support schemes**

Scheme	Access	Description	Policy rationale
Student loans	Very wide access	Provides interest free finance for fees, study costs and living costs	<ul style="list-style-type: none"> <li>▪ Recognises that some of the benefits of tertiary education accrue to the individual.</li> <li>▪ Loans allow for cost sharing between government and students.</li> <li>▪ Loans remove liquidity constraints that would otherwise constrain participation.</li> </ul>
Student allowances	Access targeted, mostly on financial grounds	Provides a living allowance	<ul style="list-style-type: none"> <li>▪ Recognises that people from financially constrained backgrounds are more debt averse.</li> </ul>
Scholarships	Access tightly targeted – mostly on a mix of academic and financial grounds	Provides assistance with fees	<ul style="list-style-type: none"> <li>▪ Acknowledges academic performance.</li> <li>▪ Financial targeting recognises that people from financially constrained backgrounds are more debt averse.</li> </ul>

### A universal student allowance

5. The New Zealand Union of Students' Associations (NZUSA) has been a persistent advocate for the provision of a universal student allowance, especially now that interest has been removed from the Student Loan Scheme.
6. The number of student allowance recipients in 2007 was 62,479. This represents approximately 57 percent of students eligible under the eight non-financial criteria listed in Appendix 1. The remaining 43 percent did not receive a student allowance either because they did not meet one or both or the two financial criteria, or because they chose not to apply for a student allowance<sup>2</sup>.
7. Successive governments have been disinclined to consider a universal student allowance because of its cost and because it would represent a considerable shift in the basis of the cost-sharing between government and students and their families.
8. This paper seeks to update earlier costings of a universal student allowance.

<sup>2</sup> A student with eligibility for allowances may choose not to apply for a number of reasons. In particular, if the family income is above the parental income threshold, the allowance is abated at one dollar for each dollar of the parents' weekly income above the threshold. Many students choose not to apply if the abatement means they gain only a few dollars a week – because the transaction cost of applying is high or because the student may wish to retain a greater share of his/her lifetime 200 week entitlement.

### Costing parameters

9. Currently, applicants for a student allowance have to meet ten criteria, eight that are related to their studies or to their personal characteristics and two financial criteria. The ten criteria are set out in Appendix 1.
10. This costing considers the implications of removing the two financial criteria for student allowance eligibility, whilst retaining the eight non-financial criteria.
11. The costing uses current forecasts of enrolments numbers.

### Rates

12. Student allowance rates are annually adjusted to the CPI. Table 2 shows the base rates for the costing, as of 1 April 2008. These rates will increase each year on 1 April.

**Table 2: Base rates**

	<i>Base Rate (dollars per week) from 1 April 2008</i>	<i>Proportion of recipients on this rate</i>
<i>Under 25 with no dependants living at home</i>	\$122.77	20.2%
<i>Under 25 with no dependants living away from home</i>	\$153.46	39.9%
<i>Others</i>	\$184.17	39.8%

### Offsetting savings

13. A universal student allowance would lead to a decrease in the number of students borrowing as part of the living costs component of their student loan. These savings have been taken into account in the present costing.

### Other costing assumptions

14. Other costing assumptions cover the basis of indexation, the at home/away from home split and the expected number of weeks of allowances entitlement. These are explained further in Appendix 2.

### Cost of introducing a universal student allowance

15. Table 3 shows the forecast net annual cost of a universal student allowance for the years 2008/09-2011/12, and the forecast difference in cost between offering a universal student allowance and retaining the status quo.

**Table 3: The net cost of a universal student allowance 2008/09-2011/12**

<b>\$000</b>	<b>Total net cost</b>	<b>Difference in net cost compared with retaining status quo</b>
2008/09	285,281	+94,620
2009/10	581,428	+196,391
2010/11	603,110	+210,964
2011/12	624,372	+225,827
<b>Total</b>	<b>2,094,191</b>	<b>+727,802</b>

16. The student loans savings over the four years of this costing have been incorporated into the net cost in Table 3. The savings are set out in Appendix 3.
17. More detailed tabulations of the elements of the costing are available on request.

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## Appendix 1: Criteria for eligibility for student allowances

The eight *non-financial* criteria for allowances eligibility are:

- students must be over 16 years of age;
- students must have full-time student status;
- students must be enrolled in a quality assured course approved by the Tertiary Education Commission for allowances purposes;
- students must have passed over half of their courses in the previous period of study supported by allowances;
- students must be New Zealand citizens, permanent residents or refugees;
- permanent residents must have lived in New Zealand for more than two years;
- students must not have exceeded the 200-week student allowance limit (from which some approved long courses are exempt); and
- students must not be receiving any other government benefits.

Eligibility and the rate of allowance is also currently dependant on the following two *financial* criteria:

- the student's income (and if the student has a partner, the partner's income) and
- the student's parents' income (if under 25 without dependant children and not deemed to be estranged from their parents).

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## Appendix 2: Costing assumptions

The following assumptions concerning the allowance rate have been built into the costing:

- In providing a universal student allowance, all students over the age of 25 who meet the eight non-financial criteria would receive the current maximum (unabated) allowance for single students aged 25 and over.
- The allowance rate for students under the age of 25 would, however, still be dependant upon whether the student lived at home. Students living away from home would continue to receive a higher rate than those living at home.
- It is expected that in 2008, 20.2 percent of all student allowance recipients will be under 25 and living at home, and 39.9 percent of student allowance recipients will be under 25 and living away from home. These percentages have been maintained for the present costing.
- The allowance rates for all years in this costing have also been annually adjusted to the Consumer Price Index (CPI), as is the current practice.

### *Duration of receiving allowances – sensitivity analysis*

The costing in Table 3 is based on the assumption that students receive a student allowance for an average of 30.8 weeks a year – the average number of weeks of tenure in 2007. Part of the reason why this figure is lower than the full eligible period (37 weeks) is because some students only become eligible during the year (e.g. they turn 25 during the year, or their parents' income drops below the parental income threshold). As such, 30.8 weeks is a somewhat conservative figure. Raising this to 32 weeks significantly increases the forecast, four-year net cost (over and above funds already committed to the provision of student allowances) to \$798.357 million, which is \$70.555 million above the cost of universal allowance of 30.8 weeks a year.



**Appendix 3: Student loan offsetting savings**

<b>\$000</b>	<b>Operating</b>	<b>Capital</b>
2008/09	-13,739	-33,881
2009/10	-28,634	-70,368
2010/11	-30,992	-75,685
2011/12	-33,401	-81,116
<b>Total</b>	<b>-106,766</b>	<b>-261,049</b>

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