The Treasury

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[2] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Office of the Minister for Tertiary Education, Skills and Employment
Office of the Minister of Revenue

Cabinet

Student support package for Budget 2013

Proposal

1. This paper seeks Cabinet's agreement to changes to the Student Loan and Allowances Schemes for Budget 2013.

Executive summary

2. The tertiary education package for Budget 2013 aims to improve the contribution of tertiary education to economic growth by increasing the proportion of young people with higher level qualifications and by ensuring that New Zealand's skills base supports the needs of industry and encourages innovation. The student support initiatives outlined in this paper enable us to achieve our priorities through Budget 2013, as set out in the accompanying Cabinet paper *Tertiary Education Package for Budget 2013*. The student support initiatives will improve the value of the Government's expenditure on student support, and provide further savings to reprioritise to meet our wider tertiary education goals.

3. Our main priority for improving the performance of the Student Loan Scheme in this Budget is to improve repayments from overseas-based borrowers and to increase personal responsibility for debt repayment. Our emphasis is also on ensuring that the adjustments we make now will improve the value of the scheme in the future.

4. In addition to extending our Overseas-Based Borrower Initiative (OBBCI), for which funding is being sought from the Vote Revenue Budget package, we propose the following:

   a. Extending the current student loan and student allowances stand-down period for permanent residents (including Australians) from 2 years to 3 years from 1 January 2014 to increase our confidence that permanent residents will stay in New Zealand when they finish their study and repay their student loans.

   b. Putting in place an ongoing information-sharing agreement between Inland Revenue and Internal Affairs to obtain further contact details from overseas-based borrowers and liable parents when they renew or apply for their passport.

   c. Adjusting the overseas-based borrower repayment regime (from 1 April 2014 for the 2014/15 tax year and beyond) to improve the long term sustainability of the scheme by speeding up repayments of compliant overseas-based borrowers and ensuring they can make progress on their loans. We aim to achieve this by:

      - Introducing a fixed repayment obligation for overseas-based borrowers that is set at no less than their annual obligation from the time they become an overseas-based borrower. If the borrower is already overseas, their repayment obligation will remain at the rate they face at 1 April 2014.

- Adding higher repayment thresholds for overseas-based borrowers with larger student loans.

d. Making it an offence for a borrower to knowingly default on an overseas-based borrower repayment obligation so that an arrest warrant can be requested to prevent the most non-compliant borrowers from leaving the country from 1 July 2013.

5. As we continue to recover from the economic downturn, we propose to continue improving the value of student support spending in this Budget by targeting student allowances more tightly on the basis of returns to study and on initial years of study through:

e. [6]

f. Removing student allowances eligibility for those aged 65[1] and over from 1 January 2014.

6. The student support package also includes the following initiatives:

- Changing the way the cost of lending is calculated in the Student Loan Scheme, by linking the calculation to prevailing interest rates. This initiative will bring the calculation into alignment with accounting standards. The savings that result from this change will begin in the 2012/13 financial year.
- Administrative funding to enable StudyLink to administer recent changes related to level 1 and 2 Student Achievement Component provision agreed to by Cabinet last year whereby a student undertaking fees-free study cannot access the fee component of a student loan and under 18 years old enrolled in fees-free places are ineligible to borrow through the Student Loan Scheme [CAB Min (12) 21/5A refers].

7. Amendments to the Student Loan Scheme Act 2011 are required for initiatives (c) and (d) above. Amendments to the District Court Rules 2009 are also needed for initiative (d). Amendments to the Student Allowances Regulations are required for initiatives (e) and (f) and for extending the student allowance stand-down for permanent residents in initiative (a).

8. The operating impact of the package for the 2013/14 to 2016/17 financial years is estimated to be a saving of $109.569 million. The debt impact over the same period is estimated to be a saving of $7.436 million.[2]

9. The major overall impacts of the package are that it:

- reduces the student loan write-down from 39.09 cents in the dollar to 34.92 cents in the dollar (which includes a reduction to 34.89 cents in the dollar from the student support package and an increase of 0.03 cents in the dollar from the tertiary education package)

[1] This would be linked to the age of eligibility for New Zealand Superannuation. This means that if the eligibility age of New Zealand Superannuation increases so too would the age at which student allowances eligibility is removed.

[2] This includes the option to reduce student allowance entitlement for those aged 40 and over from 200 weeks to 80 weeks. The 120 week variant is yet to be costed in detail but is likely to reduce the savings of this initiative by as much as 60%.

- reduces the repayment times for the almost 30,000 overseas-based student loan borrowers who have loan balances above $15,000, providing they comply with their obligations
- on average, removes student allowances eligibility for approximately 2,860 students a year and reduces the cost of student allowances by $61.807 million over four years (2013/14 to 2016/17).

Background

10. The student support system is designed to reduce financial barriers to participation in tertiary education. With the Government's commitment to providing near universal student loans and maintaining high levels of tertiary education participation, it is important that student support Budget policy changes continue to meet the objective of improving value for the Government, particularly during difficult economic times.

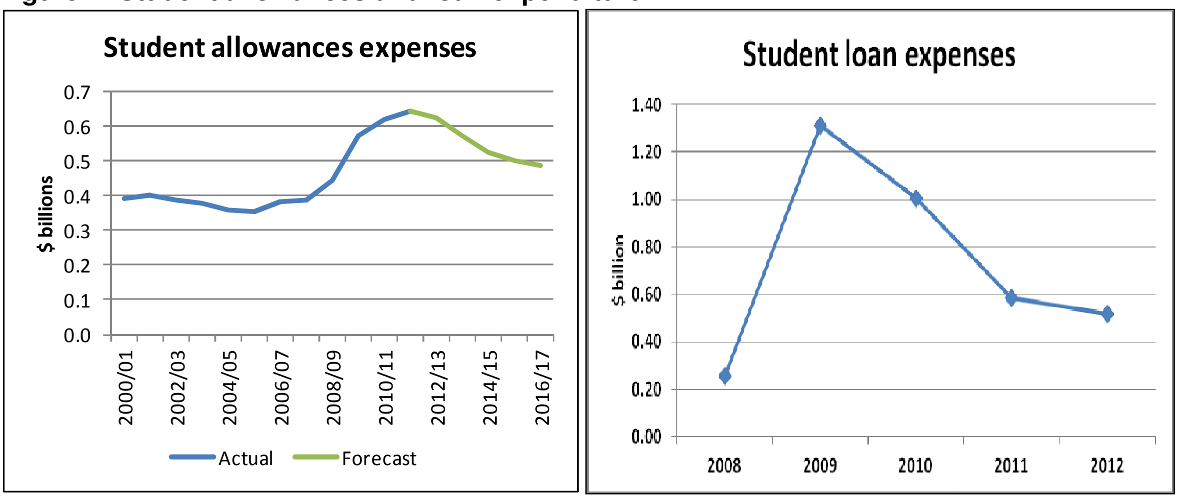
11. The Student Loan Scheme provides broad access to upfront finance with repayments to be met from future earnings. Loans involve a lower level of government subsidy than allowances, so they are a means of managing the trade-offs between access to study and affordability for Government.

12. Student allowances aim to address the financial barriers to study for low income groups. They assist people to enter tertiary education who have very little upfront cash or family resources, and who heavily discount the future benefits of qualifications. Student allowances also provide additional support for students with higher financial needs, for example those with dependants.

13. The Government spends a significant amount of money on student support each year. In 2011/12, the Government spent $2,255 million on tuition subsidies, students drew $1,586 million in new student loan lending, and the Government paid $649 million for student allowances. Tuition subsidies, student loans and student allowances combined have represented between 6% and 7% of core Crown expenditure in each year between 1994/5 and 2011/12.

14. The figure below shows the growth of student allowance expenditure since 2008 and the impact of the changes we have made to student loan policy, which has contributed to the decrease in student loan expenditure.

Figure 1: Student allowances and loan expenditure



15. OECD countries spend, on average, 20.5% of their public budgets for tertiary education on financial aid to students. New Zealand spends more than double this proportion

(43.1%), and is second behind the UK (54.2%) on the proportion of total public tertiary education expenditure that supports students.

Problem definition

Student allowances

16. Government expenditure on student allowances has increased significantly in recent years – from $385 million in 2007/08 to $649 million in 2011/12 (a 69% increase). The number of students receiving an allowance has also increased, particularly since 2009, due to policy changes implemented by the previous government (such as increases to the parental income threshold) and the effects of the recession, including higher tertiary enrolments due to increased unemployment.

17. Student allowances are not well targeted to those in most need. Policy changes to the parental income threshold mean that the original intent of allowances as a mechanism to support students from low income backgrounds has broadened to include middle income families.

18. In Budget 2012, we made changes to the Student Allowances Scheme to begin shifting the focus of support back to students from lower income backgrounds by freezing student allowances parental income thresholds. We also tightened the targeting of the scheme so that it centres more on students in their initial years of study by removing eligibility for postgraduate study and long programmes.

19. There is room to improve the targeting of student allowances particularly for students aged 24 and over. For students aged under 24, parental income testing provides a useful targeting mechanism. For more mature single students, however, there is no parallel test. Many New Zealanders for example, would be surprised to learn that people can access student allowances for up to five years throughout their adult lives.

Student Loan Scheme

20. Our analysis of the Student Loan Scheme has identified three broad types of borrower groups that represent low value lending:

    - Borrowers whose labour market returns are insufficient to make progress in repaying their loans (including borrowers under the repayment threshold, borrowers with large student loans who have poor labour market outcomes, and borrowers who use loans for non-educational purposes).
    - Borrowers who go overseas and do not repay (who may or may not have high incomes).
    - Borrowers who would still participate in tertiary education if the government subsidy on student loans was reduced (for example, while lending to this group may be high value, it may be unnecessary).

21. In addressing these areas, recent budgets have focused on:

    - encouraging educational performance and decision-making (e.g. introducing a performance element to the scheme and a 7 EFTS life-time limit)
    - restricting areas of high risk lending (e.g. not lending to those in default for $500 or more in a year)
    - shifting more of the costs of tertiary study to those who can afford to pay and who are more likely to receive higher levels of private return from their study (e.g. increasing the repayment rate from 10% to 12% and broadening the definition of income for loan repayment purposes)

- improving contact with overseas-based borrowers (e.g. data-matching between Inland Revenue and NZ Customs and requiring contact details from those wanting to take advantage of the repayment holiday while they are overseas).

22. Prior to Budget 2010, the cost of lending was 47.39 cents in the dollar. The cost of lending following Budget 2012 is 39.09 cents in the dollar.

23. The Government has also introduced the OBBCI to improve the level of repayments and overall compliance of defaulting borrowers. This began as a small pilot in October 2010 with a focus on borrowers in Australia, utilising private sector providers in a series of tracing and collection studies as well as online advertising. The pilot proved successful and achieved a return on investment of over $5 for every $1 spent within 9 months. The OBBCI has subsequently been scaled up and now also focuses on borrowers in the United Kingdom. Information-matching arrangements will be introduced between Inland Revenue and Customs to identify borrowers in serious default. Inland Revenue is also scoping the implementation of debt collection measures in Canada and the United States, further legal activity, and engagement with online payment intermediaries. The return on investment has now increased to over $10 for every dollar spent. Additional funding to continue the OBBCI is being sought through the Vote Revenue package.

24. Budget 2013 has assessed the scope for further improvements to the value of the loan scheme to make further changes that do not significantly compromise the scheme's access objectives.

Strategy for Budget 2013

25. In developing a student support package for Budget 2013, we have considered that:

    - the use of loans as a policy lever assumes that increased or more stable earnings should result from study, and that credit market failure is the main reason some people do not invest in study (i.e. people understand and are prepared to meet the costs of study, they just do not have the financial means to meet them)
    - tighter targeting of student allowances to those from low income families and to the initial years of study means that future policy changes to reduce the cost of the Student Loan Scheme need to retain relatively broad access to student loans.

26. Our focus, therefore, is to put in place initiatives that:

    - build on the success of the OBBCI programme in collecting repayments from overseas-based borrowers (now and into the future) and increasing their personal responsibility for debt repayment
    - further redistribute tertiary education costs according to the benefits of study by making changes to student allowances eligibility ahead of any further options for reducing eligibility for loans.

Budget 2013 package

27. The proposed Budget 2013 package aims to improve the value of student support spending in the following ways:

Improving repayments from overseas-based borrowers and increasing personal responsibility for debt repayment by:

- extending the student loan and allowance stand-down period for permanent residents (including Australians) from 2 years to 3 years from 1 January 2014
- putting in place an ongoing information-sharing agreement between Inland Revenue and Internal Affairs to collect contact detail from passport applications
- adjusting the overseas-based borrower repayment regime from 1 April 2014 for 2014/15 and beyond, by introducing:
  - a fixed repayment obligation for overseas-based borrowers that is set at no less than the borrower's annual obligation from the time they become an overseas-based borrower. If the borrower is already overseas, their repayment obligation will remain at the rate they face at 1 April 2014
  - additional repayment thresholds for overseas-based borrowers
- making it an offence for a borrower to knowingly default on an overseas-based borrower repayment obligation so that an arrest warrant can be requested to prevent the most non-compliant borrowers from leaving the country from 1 July 2013.

Targeting student allowances more tightly on the basis of returns to study and to initial years of study by:

- [6]
- removing student allowances eligibility for those aged 65 years and over from 1 January

28. The student support package also includes the following initiatives:

- Changing the way the cost of lending is calculated in the Student Loan Scheme, by linking the calculation to prevailing interest rates. This initiative will bring the calculation into alignment with accounting standards. The savings that result from this change will begin in the 2012/13 financial year.
- Administrative funding to enable StudyLink to administer recent changes related to level 1 and 2 Student Achievement Component provision agreed to by Cabinet last year whereby a student undertaking fees-free study cannot access the fee component of a student loan and under 18 enrolled in fees-free places are ineligible to borrow through the Student Loan Scheme [CAB Min (12) 21/5A refers].

Improving repayments from overseas-based borrowers

29. Overseas-based borrowers have much lower repayment compliance and slower repayment times than New Zealand–based borrowers[3]. Under current valuation assumptions, if all overseas-based borrowers were compliant (still allowing for death and bankruptcy write-offs), the value of new lending would increase by 3 cents in the dollar.

[3] The higher domestic compliance is largely due to compulsory collection through the income tax system and sanctions which are more easily enforced when non-compliance occurs.

30. As at 30 June 2012, there were 701,232 borrower accounts held by Inland Revenue. Of these borrowers, 101,095 (14%) of these borrowers were overseas-based. However, these borrowers represented 58% of all borrowers with overdue payments (53,471) and had 80% of all overdue repayments ($409.7 million).

Table 1: Overdue student loan repayments at 30 June

Overdue Repayments	*2011 million*	*2012 $million*	*% change*
Borrowers based			
-in New Zealand	*$122.8*	*$102.6*	*-16.4%*
-overseas	*$288.9*	*$409.7*	*41.8%*
Total	***$411.7***	***$512.3***	***24.5%***
Number of borrowers			
-in New Zealand	*49,803*	*38,577*	*-22.5%*
-overseas	*50,264*	*53,471*	*6.4*
Total	***100,067***	***92,048***	***-8.0%***

Source: Student Loan Scheme Report, 2012

31. The number of overseas-based borrowers going into default continues to increase, with the amount in default held by borrowers overseas having risen to $423 million by 31 January 2013. The previous three-year repayment holiday acted to mask the extent of the problem of non-compliance of overseas-based borrowers.

32. The high level of default is primarily due to a significant portion of borrowers not meeting their obligations of keeping Inland Revenue up to date with their contact details and making payments. Evidence to date from the OBBCI reflects the importance of maintaining contact with overseas-based borrowers. Inland Revenue has had a 70% compliance rate among borrowers it has contacted as part of this initiative. Up until February 2013, the total cash collected from this initiative is $51.1 million and the costs of the programme are $5 million. This means we have achieved a return on our investment of $10.20 for every dollar spent.

Tightening student loan and allowances eligibility criteria for permanent residents

33. Ministry of Education research indicates that permanent residents and Australians are more likely to go overseas than New Zealand citizens and are less likely to return[4]. While non-citizens who remain in New Zealand after study represent good value investment and lending for the Government, those who go overseas are more likely to default on their student loans than borrowers who are New Zealand citizens. Our data shows that, as at 31 March 2011, of the proportion of overseas-based borrowers who were in default, 29.3% were Australian citizens, 14.5% were Chinese citizens and 12.6% were New Zealand citizens.

34. To increase our confidence that permanent residents will stay in New Zealand after study and make a contribution to our economy and society, we propose extending the student loan and student allowance stand-down period for permanent residents (including Australians) from 2 years to 3 years from 1 January 2014. This means that migrants will need to have lived in New Zealand for at least three years, be ordinarily resident in New Zealand, and have been entitled to reside indefinitely in New Zealand for at least three years before they can receive a student loan and/or student allowance.

35. We believe that this is a reasonable way of distinguishing which permanent residents intend to stay in New Zealand and which intend to leave. While this initiative places a restriction on access to student support, it does not treat permanent residents any differently from other students once they become eligible.

[4] Smyth, R and Spackman, D (2012) Going Abroad. Wellington: Ministry of Education.

36. We propose that a transitional arrangement be put in place in 2014 for permanent residents who would have been eligible for student support under the existing 2 year stand-down policy in 2014.

37. However, a consequence of this proposal is that it would move student support policy out of alignment with the benefit system and this is an issue that may be raised. However, tertiary study is a choice for individuals, one they will gain benefit from when they finish study, whereas people may be on the benefit system for reasons that are beyond their control.

38. This change will bring our practice into line with that in the United Kingdom, where there is a three-year stand-down for permanent residents. Stand-down requirements for permanent residents in other countries vary. For example, in Australia all students must be Australian citizens in order to access their loan scheme. The exception to this is South Australia, where permanent residents are required to reside in Australia while they are studying in order to remain eligible for a student loan. In Canada and the United States there is no stand-down requirement for student support for permanent residents.

Information sharing agreement between Inland Revenue and Internal Affairs

39. We are seeking Cabinet's approval in this paper to put in place an ongoing information sharing agreement between Inland Revenue and Internal Affairs. The aim of this agreement is to collect quality contact details for overseas-based borrowers to support the prevention and collection of student loan default. We also plan to use this information-sharing match to collect contact details for liable parents living overseas who have child support obligations.

40. The process does not require any substantial systems development or testing. Inland Revenue and Internal Affairs are working with the Office of the Privacy Commissioner to develop an appropriate sharing arrangement. An Order in Council under Part 9A of the Privacy Act 1993 will be required to approve the new information sharing agreement. This process will require public consultation with relevant sector groups.

Adjusting the overseas-based borrower repayment regime

41. Currently, there is a three-stepped repayment regime for overseas-based borrowers based on their loan balance, while those in New Zealand are income-contingent (see Table 2). Unless they are on a repayment holiday, overseas-based borrowers are required to make repayments every six months, in September and March. Interest is charged from the day the borrower leaves New Zealand.

Table 2: Current overseas-based borrower repayment obligations

Loan Balance	Amount due per year
<= $1,000	The whole balance
>$1,000 and <= $15,000	$1,000
>$15,000 and <= $30,000	$2,000
>$30,000	$3,000

42. The current overseas-based borrower regime aims to strike a balance between a borrower's ability to repay and timely repayment of student loans. For borrowers who are compliant with their student loan obligations, Inland Revenue currently automatically reduces their repayments based on their loan balance.

43. However, for about 14% of overseas-based borrowers (i.e. those who have a student loan balance over $50,847), the amount due per year will not exceed the interest charged on their loan. These 14,581 borrowers will continue to see their student loan balance increasing even if they are compliant.

44. We propose to make changes to the thresholds and repayment obligations of overseas-based borrowers to speed up repayments for compliant borrowers. These changes do not generate savings in the short term but will improve the sustainability of the Student Loan Scheme over the longer term. This regime has not been reviewed since they were set up in 2007. These changes would apply from 1 April 2014 for the 2014/15 tax year and beyond.

45. Our proposals are to:

a. add two additional steps to the current overseas-based repayment regime with larger amounts due per year as set out in Table 3. This would ensure that a larger proportion of compliant borrowers make payments that at least cover the interest on their student loans. The new policy will reduce the proportion of borrowers who would not cover their interest were they compliant with their obligations from 14% (potentially up to 14,581 borrowers) to 3.5% (potentially up to 3,758 borrowers).

Table 3: Proposed repayment obligations for overseas-based borrowers

Loan Balance	Amount due per year
<= $1,000	The whole balance
>$1,000 and <= $15,000	$1,000
>$15,000 and <= $30,000	$2,000
>$30,000 and <= $45,000	$3,000
>$45,000 and <= $60,000	$4,000
>$60,000	$5,000

b. introduce a fixed repayment obligation for overseas-based borrowers that is set at no less than their annual obligation from the time they become an overseas-based borrower. If they are already overseas, their repayment obligation will remain at the rate they face at 1 April 2014. This repayment obligation will remain until their loan is repaid. Commercial loans operate on the same basis.

46. Table 4 sets out a comparison of minimum and average wage rates between countries to provide an indication of the repayment obligation as a percentage of income. These percentages are calculated by dividing the actual repayment obligation by the total income of the borrower. The median loan balance of an overseas borrower is $19,300. Under the proposed regime, a borrower moving to Australia with a $20,000 loan balance and earning the minimum wage will face a repayment rate of 5.14%. If they are earning the Australian average wage then their repayment rate will drop to 2.88% as the income of the borrower would be higher. If the borrower were in New Zealand earning the equivalent of the Australian minimum wage, their effective repayment rate would be 6.11% (i.e.12 cents on every dollar earned over $19,084).

Table 4: Repayment as a percentage of income

Loan Balance	Australian minimum wage	Australian average wage	UK minimum wage	UK average wage
$20,000	5.14%	2.88%	8.55%	4.14%
$30,000	7.71%	4.32%	12.82%	6.22%
$45,000	10.28%	5.76%	17.09%	8.30%
$60,000	12.85%	7.2%	21.37%	10.37%
NZBB - same income	*6.11%*	*8.7%*	*2.21%*	*7.25%*

(Source: Inland Revenue)

47. The proposed regime would increase the repayment obligations for overseas borrowers in default (see paragraph 30 for current details of these borrowers) and therefore increase the amount of their default unless they start to comply. There may also be some previously compliant borrowers with balances greater than $45,000 who stop repaying or repay less than their obligation because of the higher rate. If the current compliance rate of overseas borrowers does not change, borrowers in default will owe

an additional $19 million by 2015 excluding any penalties that may be applied to overdue amounts if they continue to default.

48. We want to see greater equity between the obligations of those who stay in New Zealand and those who go overseas. While one short-term consequence of increasing the repayment obligations for overseas borrowers will be growth in the amount in default (because of late payment interest), it is not fair to relax obligations on non-compliant overseas based borrowers while New Zealand based borrowers pay off their loans – as occurred in the past with the amnesties on overseas borrowers. The purpose of the OBBCI is to manage the problem on non-compliance in an equitable way. That initiative is already making progress collecting from non-compliant borrowers. Eventually, we expect the OBBCI to start reducing the rate of growth of overseas-based borrower debt.

A sanction for the most non-compliant

49. In conjunction with adjusting the overseas-based borrower repayment regime, we are proposing to introduce a new sanction targeting the most non-compliant overseas-based borrowers. There are risks and costs associated with this initiative but on balance we consider that the sanction will be a well-targeted intervention and well placed in our overall package of measures designed to increase overseas-based borrower's responsibility for making student loan repayments.

50. Under the Child Support Act, Inland Revenue can request the District Court to issue an arrest warrant for a liable parent who is about to leave New Zealand with the intent to avoid their obligations. This power is supported by an information match with the New Zealand Customs Service which notifies Inland Revenue when serious defaulters return to New Zealand and what their contact details are. Inland Revenue will then contact the defaulter to negotiate repayment, and if the liable parent refuses to comply and is about to leave the country, a warrant for their arrest can be requested.

51. Introducing similar provisions to the Student Loan Scheme Act would send a clear message to all borrowers that non-compliance is unacceptable and that there are real consequences for ignoring repayment responsibilities. This is a targeted measure that could be applied to the worst cases of default while deterring the wider group of borrowers from not complying. This new sanction would be supported by a communications campaign to ensure that borrowers understood the potential consequences of non-compliance.

52. Amendments to the Student Loan Scheme Act would be made to make it a criminal offence to knowingly default on an overseas-based borrower repayment obligation. This is a necessary provision as an arrest warrant is usually only requested in connection with a suspected criminal offence. In the event of a successful conviction a fine of no more than $2,000 would be an appropriate penalty in line with other minor offences such as disorderly behaviour or wilful damage.

53. [8]

54. We believe very few defaulters would risk arrest for the sake of avoiding their obligations. While student loan obligations are a financial burden that some borrowers may wish to avoid, the factors that can motivate entrenched child support default (i.e. custody and marital disputes) are not present in a student loan context.

55. For the small number of borrowers who remain non-compliant once the arrest warrant has been issued, Inland Revenue would request information from airlines under section 17 of the Tax Administration Act to determine which flight a borrower is booked on. This information would be provided to Police stationed at the airport who would have to locate the defaulter before they boarded their flight. Police have advised that as this would have to be achieved without photos, often in large crowded areas, this could be difficult and time consuming.

56. [8]

57. This proposal may have the appearance of the Police acting as debt collection agents for Inland Revenue. If enacted it would be made clear that police would only act as independent officers of court and execution of these arrest warrants would remain at constabulary discretion.

58. This proposal would have cost implications for Courts and while the number of expected arrest warrant requests is low the exact number is unknown and the costs to Courts have not been estimated.

59. Legislative amendments would be required for this initiative. The sanction could apply from 1 July 2013 which would allow defaulting borrowers who had already made travel plans time to contact Inland Revenue and address their situation.

Targeting student allowances more tightly on the basis of returns to study and initial years of study

60. While there are social benefits of having an educated older population (e.g. working longer, volunteer work or community involvement), the return on the Government's investment in a person's tertiary education is much less if they only have a few years left in the workforce. This is evident in our analysis of the Student Loan Scheme which has identified high cost loans as being strongly associated with those being over 50, a non-New Zealand citizen, and studying below degree level.

61. In the Student Allowances Scheme, between the ages of 30 and 54, there is a steady proportion of approximately 22% permanent residents. However, at the age of 55, this increases steeply to 30.8%, 45.6% by age 60, and 82.3% by age 65. There are several reasons why permanent residents might be over-represented at older ages. For example, they could be accessing the allowance as an alternative to other forms of living support[5] or they could be pursuing studies and accessing opportunities not previously available to them.

62. This trend is mirrored by a significant variation among the proportion of Asian recipients which increases sharply at age 55 (rising from 25.8% of 50 – 54 year olds to 39.8%). By age 65, the Asian population is significantly over-represented in the Student Allowances Scheme, making up 84% of all recipients 65 years and over (compared to

[5] For example, to qualify for NZ Superannuation, a person must be 65 years or older and have lived in New Zealand for at least 10 years since they turned 20. Five of those years must be since they turned 50.

an average of 22.7%). There is also an increase in study at secondary schools, wānanga, and Private Training Establishments and a decrease in study at universities after age 55.

63. Study undertaken by these students is unlikely to have significant economic benefits for New Zealand, as these people are unlikely to enter the labour market. Social benefits (for example improving English language skills) could be achieved through part-time study (not eligible for an allowance) or adult and community education.

64. To target student allowances more tightly on the basis of returns to study and for initial years of study we are proposing to:

- [6]

- remove student allowance eligibility for those aged 65 and over (the age would be linked to the eligibility age for New Zealand Superannuation) for study starting from 1 January 2014.

65. Lifetime limits can be used as a rough proxy for existing qualifications, or the amount of prior education for which a person has already received support. Reducing entitlement for people aged 40 and over to a [6] 120 weeks) would reduce spending on students who have already had the opportunity to gain an initial qualification while still providing a pathway for people who may require upskilling to support themselves. [6]

The 120 week variant option would provide around 3 years' worth of allowance, which would support a person for the duration of most undergraduate Bachelor's degrees. Very few people currently use more than 120 weeks of allowance (approximately 8% of recipients aged 40 and over), as such, [6]

66. These changes will create a tiered system of entitlement which decreases as people age. Younger students will receive 5 years of support to recognise they are unlikely to have had income of their own and to support students from low income families whose parental incomes are not enough to support them through study. Older learners will continue to receive [6] 3 years under the 120 week variant) to allow them to retrain or upskill. Both options will ensure those who have not had the opportunity to gain foundation level qualifications will still have access to student allowance for study. For programmes of study that take longer to complete than the new reduced limit, students will have the interest-free student loan scheme available to them, including living costs (for people aged under 55).

Changes to the calculation of the cost of lending in the Student Loan Scheme

67. As part of the greater level of scrutiny of the loan scheme, we have reviewed some aspects of the accounting for loans. As a result we propose to shift the calculation of the cost of lending in the Student Loan Scheme to a 'year of lending' basis.

[6]

68. The current approach to the calculation is a proxy for the true cost of the scheme and is not strictly correct in terms of the accounting standard. The cost of lending is set for each borrower in the scheme, taking account of the interest rate in the year the borrower first entered the scheme, even if the borrower draws from the scheme in subsequent years.

69. This borrower-based method has been used because:

- it is a good proxy for the true cost if interest rates are relatively stable. But the Treasury's long-term forecasts of interest rates have been much lower since 2011 than in previous years. This means that the borrower-based method is a poorer proxy now than it has been in the past.
- it was not possible to calculate the cost of lending in the correct way when the current accounting standards were first applied in 2006. Changes in the administration of student loans that took effect in 2012 have made it possible to account for the cost of Student Loan Scheme lending on a 'year of lending basis' which is more accurate and in line with accounting standards.

70. We therefore consider that it is timely to change the calculation of the cost of lending according to when the borrowing occurs. This is consistent with the accounting standard which assumes that the cost of each year's lending will take account of the interest rates that applied in the year of lending. It is a better reflection of the true cost and if we understate or overstate the cost of lending, this will distort decision-making in the tertiary education portfolio and lead to misallocation of resources. The new method does carry the risk of greater sensitivity to changes in interest rates, because changes will be reflected in the cost of lending on an annual basis, rather than being spread over a number of years.

71. Following consideration by ourselves and the Minister of Finance, we directed the Ministry of Education and Inland Revenue to work with accounting specialists and the scheme valuers and auditors on implementing the change. We intend to implement the new approach with effect from 1 January 2013.

72. The savings of this change have returned to the centre through the March Baseline Update which is consistent with how technical changes are treated in other areas. Further information on the treatment of these savings is set out in the accompanying paper *Tertiary Education Package for Budget 2013*.

Funding to put in place changes to loan eligibility for entry-level education

73. Last year Cabinet agreed to a range of changes to level 1 and 2 Student Achievement Component provision to improve the relevance and results of entry-level tertiary education [CAB Min (12) 21/5A refers]. These changes included making an increasing percentage of places fees-free (thereby removing access to the fee component of a student loan) and restricting students aged under 18 years of age enrolled in the fees-free provision from borrowing from any component of the Student Loan Scheme.

74. This policy change requires changes to StudyLink's system before they can be implemented and StudyLink advice is that it is unable to meet these costs out of its baseline. There are also ongoing operating costs for StudyLink to contact the provider or student when a person is studying toward a fees-free level 1 or 2 qualification and a higher level qualification at the same provider.

75. Joint Ministers have already agreed to make a contribution towards the cost of implementing these decisions in 2012/13. We, along with the Ministers of Finance and

Social Development, agreed to transfer $114,000 that was identified as savings from the He Toki initiative to StudyLink [METIS 713828 refers].

76. StudyLink requires an additional $0.792 million over the next 5 years ($0.522 million over the 2013/4 - 2016/17 Budget period) to deliver these policy changes.

Impact of the package

77. The main benefits and risks of our Budget 2013 proposals are set out in Appendix A. The risks and benefits have been identified in respect of:

- impacts on access to tertiary education
- likelihood of potential policy savings for reprioritisation
- fit with student support objectives and wider government objectives
- Human Rights Act and other legal implications
- public perception issues
- administrative complexity and cost.

78. Appendix A does not include analysis of the proposal to change how the cost of lending is calculated as this analysis is provided in the main body of this paper. This appendix also does not include analysis of changes to loan eligibility for entry-level tertiary education for which additional funding is sought. This policy was agreed to by Cabinet last year [CAB Min (12) 21/5A refers].

79. The major impacts of the package[7] as a whole are that it:

- reduces the student loan write-down from 39.09 cents in the dollar to 34.92 cents in the dollar (which includes a reduction to 34.89 cents in the dollar from the student support package and an increase of 0.03 cents in the dollar from the tertiary education package)
- reduces the repayment times for the almost 30,000 overseas-based student loan borrowers who have loan balances above $15,000, providing they comply with their obligations
- on average, removes student allowances eligibility for approximately 2,860 students a year and reduces the cost of student allowances by $61.807 million over four years (2013/14 to 2016/17).

Transition arrangements

80. We are putting in place generous transition arrangements for some of the policy changes we are making that will provide temporary support in 2014 for those who will be most immediately affected by them.

81. For the student allowance initiatives that reduce the lifetime limit [6] 120 weeks) for those aged 40 or over and remove eligibility for those aged 65 or over, those studying this year with a student allowance will be able to continue receiving an allowance.

82. Permanent residents who would have been eligible for student support under the current two year stand-down policy will be able to access student support at the date at which they would have become eligible. This policy takes full effect from 1 January 2015.

[6]

Financial implications

83. The tables below set out current estimates of the financial implications of the changes to student support. These estimates incorporate the administration costs of the initiatives and benefit flow-ons.

84. These estimates take into account interaction effects of the policies but are still subject to further refinement.

Table 5: Indicative operating impact of the student support package

	Operating impact ($ million)					
Initiatives	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17 & out-years**	**4 year total (2013/14 to 2016/17)**
3 year loans and allowances stand-down for permanent residents	-	0.380	(2.425)	(7.036)	(9.608)	**(18.689)**
Fixed repayment regime for overseas-based borrowers	-	1.601	-	-	-	**1.601**
Additional repayment thresholds for overseas-based borrowers	-	1.640	-	-	-	**1.640**
Border restrictions for overseas-based borrowers	-	0.600	-	-	-	**0.600**
Remove allowance eligibility for those aged 65 and over	-	(0.135)	(1.889)	(2.837)	(3.107)	**(7.968)**
[6]						
Changes in the cost of lending[8]	(41.900)	(33.900)	(18.000)	(7.400)	(0.800)	**(60.100)**
Funding to deliver changes to loan eligibility for entry-level education	0.082	0.448	0.130	0.132	0.132	**0.842**
Total operating impact	**(41.818)**	[6]				

85. The indicative four year (2013/14 to 2016/17) operating impact of the student support package is estimated to be a saving of $109.569 million.

86. [6]

Table 6: Indicative debt impact of the student support package

	Debt impact ($ million)					
Initiatives	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17 & out-years**	**4 year total (2013/14 to 2016/17)**
3 year student loans and allowances stand-down for permanent residents	-	0.000	(1.519)	(7.201)	(11.509)	**(20.229)**
[6]						
Remove allowance eligibility for those aged 65 and over	-	(0.130)	(0.444)	(0.546)	(0.627)	**(1.747)**
[6]						

[8] These savings will be returning to the centre through the March Baseline Update.

87. The indicative four year (2013/14 to 2016/17) debt impact of the student support package is estimated to be a saving of [6]

Administrative implications of the student support package

88. The proposals will have administrative implications for the Ministry of Social Development (StudyLink) and Inland Revenue.

Inland Revenue costs

89. Inland Revenue has requested permanent funding for the Overseas-based Borrower Initiative (OBBCI) as part of Vote Revenue for Budget 2013. The OBBCI has seen large initial success, the initiative has had a rate of return of over $10 for every dollar. There are still a number of additional OBBCI initiatives that have yet to be fully implemented, such as the tracing and collection by private sector agencies in Australia and the United Kingdom and the information match with the Department of Internal Affairs. To ensure the OBBCI meets its objective of bringing overseas borrower debt under control the initiative needs to be fully implemented and continue for some time beyond its current funding.

90. If this permanent funding for the OBBCI is approved, Inland Revenue will not request any further funding for the information sharing agreement with DIA or to implement border restrictions (excluding a communications strategy).

91. The initiatives have been costed on a marginal basis according to Inland Revenue's initial assessment of implementing this solution. The indicative administrative costs are dependent on the proposal development and final decisions on the legislation. Inland Revenue is managing significant fiscal and resource pressures over the short to medium term against a backdrop of increasing customer expectations, a comprehensive legislative change programme and our proposed transformational agenda.

92. Additional funding will be sought for:

- the costs of a communication strategy that we recommend as essential to the effectiveness of border restrictions
- adjusting the overseas-based borrower repayment regime from 1 April 2014 for 2014/15 and beyond, by introducing a fixed repayment obligation and additional repayment thresholds for overseas-based borrowers, and associated communications costs to inform borrowers of these changes.

93. The total funding request is $3.841 million for the 2013/14 fiscal year. Inland Revenue will absorb the costs of $0.336 million incurred in the 2012/13 fiscal year for these policies as well as the continued costs of delivering for the fiscal years 2014/15 onwards.

94. The indicative administration costs implications on Inland Revenue are shown in the following table.

Table 7: Indicative administrative costs for Inland Revenue

Initiative	Operating impact ($ million)					
	2012/13	2013/14	2014/15	2015/16	2016/17 & out-years	4 Year Total
Additional repayment thresholds for overseas-based borrowers	0	1.640	0	0	0	**1.640**
Fixed repayment regime for overseas-based borrowers	0	1.601	0	0	0	**1.601**
Border restrictions for overseas-based borrowers	0	0.600	0	0	0	**0.600**
Total costs	**0**	**3.841**	**0**	**0**	**0**	**3.841**

Inland Revenue comment

95. Staff resources have been anticipated for the delivery of the Budget 2013 initiatives that Inland Revenue will implement. Those resources will be applied to the wider tax policy initiatives in Budget 2013, not only student loans. Whether those resources are sufficient will depend upon the significance, in particular the systems requirements, of the overall Budget 2013 package. If the total resource requirements of a proposed package exceed those anticipated, Ministers will need to weigh the trade-offs of either reducing the scope of the package or shifting resources from projects already on Inland Revenue's work plan.

Ministry of Social Development costs

96. The Ministry of Social Development is seeking the following funding for implementing the student allowances initiatives:

Table 8: Indicative administrative costs for the Ministry of Social Development

Initiative	Cost Type	Operating impact ($ million)					
		2012/13	2013/14	2014/15	2015/16	2016/17 & out-years	4 year Total (2013/14 to 2016/17)
Remove allowances for those aged 65 and over	Set-up	-	0.340	-	-	-	**0.340**
	Ongoing	-	-	-	-	-	**-**
[6]							
3 year student loan and allowance stand-down for permanent residents	Set-up	-	0.380	-	-	-	**0.380**
	Ongoing	-	-	-	-	-	**-**
Funding to put in place changes to loan eligibility for entry-level education	Set-up	-	0.320	-	-	-	**0.320**
	Ongoing	0.082	0.128	0.130	0.132	0.132	**0.522**
[6]							

[6]

Ministry of Social Development (StudyLink) comment

97. StudyLink cannot absorb within existing baseline funding all of the costs associated with the policy changed proposed in this paper. The funding StudyLink is seeking represents the additional costs that cannot be absorbed but are necessary to cover the additional work and new system functionality required to successfully deliver the proposed eligibility and entitlement changes.

98. StudyLink's experience with eligibility changes made as part of the 2012 Budget has highlighted the importance of proactive and detailed communication of eligibility changes with clients and stakeholders. Once final decisions are made, work will commence on the development of a communication strategy.

Consultation

99. The Ministry of Social Development, the Treasury, Inland Revenue, and the Department of Prime Minister and Cabinet have been consulted in the development of this paper.

100. The Ministry of Justice has been consulted on the student allowances proposals and the arrest warrant proposal. The New Zealand Police and New Zealand Customs Service have also been consulted on the arrest warrant proposal. The Department of Internal Affairs and the Office of the Privacy Commissioner have been consulted on the proposal for the information sharing agreement between Inland Revenue and the Department of Internal Affairs.

New Zealand Police comment

101. Police has concerns about the operational and reputational impacts on Police resulting from execution of warrants via border alerts.

102. Police currently has around 37,000 warrants to arrest outstanding, relating to around 15,000 individuals. Given this large volume, warrants for arrest are prioritised. Execution of student loan warrants would be unlikely to gain a high priority except in instances where mechanisms such as border alerts are used.

103. However, current border alert processes create operational issues for Police. As the departing traveller cannot be detained at Customs, Police would have to find the traveller in the airport departure lounge before they can board their flight. As the departure lounge can be large and crowded finding passengers can be difficult and time consuming, especially as Police typically do not have aids such as photographs to assist them with such identification.

104. Use of departure alerts can also have cost implications for airlines. Civil aviation security rules require that a passenger does not board their flight, their baggage must be removed before the flight departs. This can cause delays for the flight with significant resulting costs to the airline. Police note that no cost benefit analysis, including the impact on third parties such as airports, has been conducted.

105. As noted in paragraph 56, where airport police intercept a defaulter before they board their flight, airport police would retain discretion as to whether the warrant should be executed. The situation, where airport police have to make decisions as to whether to stop travel, balancing competing interests and in tight timeframes, increases the risk that the passenger will be allowed to fly.

106. If the proposal is agreed, Police recommend that the border alert processes generally be reviewed to ensure that the system is robust and efficient. [6]

[6]

Treasury comment

Changes to the calculation of the cost of lending in the Student Loan Scheme

107. Treasury supports the change to calculating the cost of lending in the Student Loan Scheme. The new approach, which uses annual interest rate data for each borrowing cohort to calculate the Effective Interest Rate for the loan scheme, will increase accuracy of the scheme and will provide the Government with better information on the cost of lending.

108. The change is fiscally neutral over the long-run because while there are significant savings in the short run the change in the interest unwind leads to comparable costs which eventually offset these short-term savings. Treasury therefore recommends committing only 50% of the savings (i.e. $10.200 million per annum) over the forecast period to achieve a balanced budget package for Tertiary Education. The remaining savings would therefore be available to manage cost pressures in future outyears.

Adjusting the overseas-based borrower repayment regime

109. Treasury is concerned that the proposed changes to the overseas-based borrower repayment regime will not improve the sustainability of the Student Loan Scheme over the longer term (in contrast to the stated rationale in paragraphs 4c/44].

110. Given that 53,471 overseas-based borrowers had overdue student loan repayments at 30 June 2012, Treasury's primary concern is that increasing these obligations will accelerate the growth of the level of default amongst overseas-based borrowers. This is already a significant issue, with the overall level of default having risen to $421 million by 31 December 2012, and rising by approximately $2 million per month (see paragraph 30 and Table 1).

111. Non-compliant borrowers already have large loan balances that grow quickly with successive late payment penalties and compound interest. As a result, increasing the repayment rates will accelerate the rate of growth of the overall level of overseas-based borrower debt, as well as the amount that is in default. Officials have also stated that they do not expect the faster recovery of loans from compliant borrowers under this proposal to generate any savings in the short term (see paragraph 44).

112. Consequently, Treasury is concerned that the primary consequence of increasing the repayment rates for overseas-based borrowers will be to increase the already significant levels of outstanding overseas-based borrower debt. This may also undermine continuing efforts to improve compliance amongst these borrowers.

113. Allowing for these concerns, Treasury does acknowledge that there is a specific rationale for introducing additional thresholds for overseas-based borrowers with very large balances, as the rates that are currently paid by many of these borrowers are not sufficient to service their interest payments.

114. However, the rationale for imposing a repayment rate floor based on the individual's loan balance at the time of leaving New Zealand is not clear. In particular, Treasury is concerned that this will lead to inequitable treatment of borrowers. For example, lower income borrowers who may have larger loan balances but are otherwise identical to other borrowers (e.g. in terms of educational attainment and time spent overseas) will have their repayments fixed at a higher rate for time spent abroad.

Proposed changes to the Student Support Schemes

115. Our first best advice is that we support a broad-based tertiary system with a larger element of private contribution to fund the direct costs of tertiary education. However, given that Ministers have made it clear that certain measures (e.g. interest on Student Loans) will not be considered, we recognise that the scope for future savings under current policy settings is limited to the type of changes outlined in this package.

116. Ministers should be aware that these incremental changes while generating small savings are likely to have impacts on specific groups (refer Appendix A) by limiting their access to tertiary education. For example, the savings initiatives proposed include incremental changes to the eligibility to student support systems, based on age, and immigration status that limit access to tertiary education.

[8]

Legislative implications

120. Amendments to the Student Loan Scheme Act 2011 will be required to introduce changes to the overseas-based borrower repayment regime. The application date for the new regime would be 1 April 2014.

121. Border restrictions require amendments to the Student Loan Scheme Act 2011 and also require regulations to amend the District Court rules. The restrictions could apply from 1 July 2013.

122. These amendments could either be contained in a budget night bill or in a separate mid-year bill that would need to be passed by 1 April 2014. Budget night legislation would be required in order to meet the 1 July 2013 implementation date proposed for the border restrictions.

123. Student allowance initiatives will require amendments to the Student Allowances Regulations 1998.

Regulatory Impact Analysis

124. A regulatory impact analysis has been prepared for all proposals and this is included as Appendix B. The Ministry of Education has reviewed the regulatory impact statement and associated supporting material, and considers that the information and analysis summarised in it meets the quality assurance criteria.

125. We have considered the analysis and advice of the Ministry of Education, as summarised in the attached regulatory impact statement, and we are satisfied that, aside from the risks, uncertainties and caveats already noted in this Cabinet paper or in the Regulatory Impact Statement, the regulatory proposals recommended in this paper are consistent with our commitments in the government statement "Better Regulation, Less Regulation."

Gender Implications

126. Overall, the eligibility proposals will affect more women than men because women are more likely to participate in tertiary education. However, we expect that there will be slightly more women affected by proposal to reduce the student allowance life-time limit for those aged over 40. This is because more tertiary students over 40 are women, compared to the overall student population.

Publicity

127. A communications plan will be developed in consultation with agencies and Ministers' offices prior to Budget 2013 announcements.

Recommendations

We recommend that Cabinet:

1. **note** that a package of changes to the Student Loan Scheme and Student Allowances Scheme has been developed as part of Budget 2013 to improve the value of student support spending by:

    1.1 improving repayments from overseas-based borrowers and increasing personal responsibility for debt repayment

    1.2 targeting student allowances more tightly on the basis of returns to study

2. **note** that this student support package enables us to achieve our tertiary education priorities through Budget 2013, as set out in the accompanying Cabinet paper '*Tertiary Education package for Budget 2013'*

Improving repayments from overseas-based borrowers

3. **agree**:

    3.1 to extend the current student loan and student allowances stand-down period for permanent residents and Australians from two years to three years from 1 January 2014, but continuing to exempt people who are refugees, protected persons, or sponsored into New Zealand by a family member who is entitled to reside indefinitely in New Zealand under refugee or protected persons policy

    3.2 to grand-parent permanent residents who would have become eligible for student loans and allowances in 2014 under the existing 2 year stand-down policy. These permanent residents will be able to access student loans and allowances from the date they would have become eligible in 2014

4. **agree** that an information-matching agreement be established between Inland Revenue and Internal Affairs by 1 April 2014 to obtain contact information from the passport renewal process, to identify non-compliant overseas-based borrowers and child support debtors (subject to operational details and the outcome of discussions with the Office of the Privacy Commissioner)

5. **agree** to introduce a fixed repayment obligation for overseas-based borrowers that is set at no less than their annual obligation from the time they become an overseas-based borrower. If the borrower is already overseas, their repayment obligation will be set at the rate they face at 1 April 2014

6. **agree** to introduce two additional repayment thresholds for overseas-based borrowers with larger student loans from 1 April 2014 which will result in the following overseas-based borrower regime:

Loan Balance	Amount due per year
<= $1,000	The whole balance
>$1,000 and <= $15,000	$1,000
>$15,000 and <= $30,000	$2,000
>$30,000 and <= $45,000	$3,000
>$45,000 and <= $60,000	$4,000
>$60,000	$5,000

7. **agree** to make it an offence for a borrower to knowingly default on an overseas-based borrower repayment obligation so that an arrest warrant can be requested to prevent the most non-compliant borrowers from leaving the country from 1 July 2013

8. **note** that Inland Revenue is currently working through the policy details of arrest warrants for the most non-compliant borrowers but that these are intended to mirror, where appropriate, border controls already in place for child support debtors

9. **note** that Police will consult with border agencies and provide Ministers advice on how to reduce inefficiency in the border alert system

Targeting student allowances to more tightly on the basis of returns to study and initial years of study

10. **agree** to introduce an upper age restriction for student allowances eligibility which is linked to the age of eligibility for New Zealand Superannuation[10], currently 65 years of age, for study starting on or after 1 January 2014

11. **agree** to:

[7]

OR

11.2 reduce the student allowances life-time limit for those aged 40 and over from a maximum of 200 weeks to a maximum of 120 weeks for study starting on or after 1 January 2014

[10] This would mean that if the age for New Zealand Superannuation increases so too would the age at which student allowance eligibility is removed.

12. **agree** that those affected by recommendations 10 or 11 above:

    12.1 who begin their student allowance application period in 2013 and this period carries on into 2014, will be assessed under the 200-week limit for the period of that application[11]

    12.2 will continue to receive a student allowance up until 31 December 2014 or until they reach the (previous) 200 week entitlement, whichever comes first, if they received a student allowance in 2013

Changes to the calculation of the cost of lending in the Student Loan Scheme

13. **note** in consultation with the Minister of Finance and with the agreement of the loan scheme auditors, we have decided to change the basis of calculating the cost of lending in the Student Loan Scheme

14. **note** that the treatment of savings from this initiative is addressed in the accompanying paper *Tertiary Education Package for Budget 2013*

Putting in place changes to loan eligibility for entry-level tertiary education

15. **note** that StudyLink are seeking administration costs of $0.082 million in 2012/13; $0.448 million in 2013/14; $0.130 million in 2014/15; $0.132 million in 2015/16 and out-years to deliver changes to loan eligibility for entry-level education agreed to by Cabinet last year [CAB Min (12) 21/5A refers]

Bill of Rights Act Implications

16. [8]

17. **note** that introducing the power to request an arrest warrant in relation to a new offence under the Student Loan Scheme Act is consistent with other criminal proceedings under the New Zealand Bill of Rights Act 1990

Legislative implications

18. **authorise** the Minister for Tertiary Education, Skills and Employment and the Minister of Revenue to make any technical policy decisions needed in the drafting process of the necessary legislation or relevant regulations to give effect to the student loan proposals in this paper

19. **authorise** the Minister for Tertiary Education, Skills and Employment and the Minister for Social Development to make any technical policy decisions needed in the drafting process of the necessary legislation or relevant regulations to give effect to the student allowance proposals in this paper

20. **agree** that:

    EITHER [required for a 1 July 2013 implementation of border restrictions]

    20.1 amendments to the Student Loan Scheme Act be contained in a Budget night bill

[11] An application period means an approved student allowance application for an approved enrolment period up to a maximum of 52 weeks.

OR

20.2 amendments to the Student Loan Scheme Act be contained in a separate mid-year bill that would need to be passed by 1 April 2014

21. **invite** the Minister of Revenue to issue drafting instructions to the Parliamentary Counsel Office:

    21.1 for a Student Loan Scheme Amendment Bill or Bills to give effect to the student loan proposals in this paper

    22.2 to prepare an Order in Council approving a new information sharing agreement between the Department of Internal Affairs and Inland Revenue

22. **invite** the Minister for Social Development to instruct the Parliamentary Counsel Office to draft amendments to the Student Allowances Regulations (1998) to give effect to the changes to student allowances proposed in this report

Financial implications

23. **note** that the financial implications of the package for the 2013/14 to 2016/17 financial years are: $109.569 million in operating impact savings, with a debt impact saving of $7.436 million[12]

24. **note** that changes to appropriations, including Ministry of Social Development and Inland Revenue administration and IT costs, will be made as part of the tertiary education package for Budget 2013

Administration costs

25. **note** that Inland Revenue has requested permanent funding for the Overseas-based Borrower Initiative (OBBCI) as part of Vote Revenue for Budget 2013 and that Inland Revenue will fund the information match for passport renewal contact information with the Department of Internal Affairs and the implementation of the border restrictions (excluding any communications costs) through the permanent OBBCI appropriation

26. **note** that Inland Revenue will self-fund the costs of $0.350 million for the 2012/13 financial year as well as the continued costs of $0.110 million for administering the border restrictions and increasing the repayment thresholds for overseas-based borrowers for 2014/15 onwards

27. **note** that Inland Revenue will be requesting funding of $3.841 million for 2013/14 for the communications strategy for border restrictions and for implementing the increase in the repayment thresholds for overseas-based borrowers

28. [6]

[12] This includes the option to reduce student allowance entitlement for those aged 40 and over from 200 weeks to 80 weeks. The 120 week variant is yet to be costed in detail but is likely to reduce the savings of this initiative by as much as 60%.

Further decisions

29. **agree** to delegate authority to the Minister of Finance and the Minister for Tertiary Education, Skills and Employment and the Minister of Revenue, where appropriate, to approve any detailed changes to the Student Support Package and the resulting changes in appropriations

30. **note** that Cabinet decisions on this paper are proposed to be announced as part of Budget 2013.

Hon Steven Joyce
Minister for Tertiary Education,
Skills, and Employment

______/________/_______

Hon Peter Dunne
Minister of Revenue

______/________/_______

Appendix A: Risks and Benefits of Budget 2013 student support proposals

Initiative	Main Advantages	Main Disadvantages	Key Impacts
Improving repayments from overseas-based borrowers and increasing personal responsibility for debt repayment			
Putting in place an ongoing information-sharing agreement between Inland Revenue and Internal Affairs to collect contact detail from passport applications and renewals Requires an Order-in-Council via the Privacy Act 1993	• Will improve the quality of contact information for overseas-based borrowers (and child support debtors) and increase compliance • Provides an ongoing, inexpensive and high quality source of contact information.	• Some members of the public may see this as impinging on privacy rights • Will not target borrowers who either do not have or do not travel on New Zealand passports.	• Each year this will potentially impact up to 12,000 overseas-based borrowers and 2,500 liable parents, starting from the third quarter of 2013.
Increase the current student loan and allowances stand-down for permanent residents and Australians for study starting on or after 1 January 2014 To be eligible for student support, students who are not NZ Citizens will need to be ordinarily resident in New Zealand, and have resided in New Zealand for 3 years, and have held the right to reside in New Zealand indefinitely for three years. The policy will exempt those who hold refugee status, protected persons status, or persons sponsored by a family member who held refugee status or protected person status when they entered New Zealand. Transition: Those who would have been eligible for student support under the 2 year stand-down rule in 2014 will be able to access student support from the date they would have been eligible.	• Reduces risk that Government's tertiary education investment is lost by requiring permanent residents to demonstrate a greater commitment to New Zealand after they study • Limits the number of people who go overseas, are non-compliant, and who Inland Revenue cannot contact • Generates small savings for reprioritisation • Minimises the use of student support as an alternative source of living assistance • Transition arrangements will prevent study disruption for permanent residents already in study in 2013.	• May have a negative impact on Pasifika students (a priority group) and cause concern for migrant groups • May compromise immigration objectives of having New Zealand as an attractive destination • Migrants who have genuinely settled in New Zealand may end up on a benefit and defer study until they are eligible • Moves stand-down period out of alignment from the Unemployment Benefit which has a stand-down of two years for permanent residents • Likely to increase NZ Bill of Rights Act (BORA) complaints • It is too early to understand the impacts of the Budget 2010 loan stand-down initiative on permanent resident borrowers in relation to them leaving New Zealand after study and not returning.	• Likely to affect, on average: - around 1,560 borrowers and - 930 student allowances recipients • Loan borrowers affected are more likely to be older borrowers, of Asian ethnicity, and studying at Private Training Establishments (PTEs) • Likely to have a bigger proportionate impact on older groups of allowance recipients; nearly 82.3% of recipients aged 65 and over are permanent residents • While eligibility is tightened for Permanent Residents and Australians, they will still have the opportunity to access student support after three years or to undertake study as a domestic student (but without student support).

<table>
<tr><th>Initiative</th><th>Main Advantages</th><th>Main Disadvantages</th><th>Key Impacts</th></tr>
<tr>
<td>Changing the repayment regime for overseas-based borrowers

Implementation: From 1 April 2014 for the 2014/15 tax year and beyond.</td>
<td>Would speed up repayments from compliant overseas-based borrowers and reduce the cost of lending
Will generate small savings for reprioritisation
Will make borrowers with loan balances below $84,746 make payments that at least cover their interest
Little to no impact on access to tertiary education.</td>
<td>Higher levels of default for non-compliant borrowers
May result in some borrowers becoming non-compliant
Increase in debt book
May raise equity issues e.g. those who leave New Zealand with $15,000 loans will repay $2,000pa while others overseas with a similar loan balance remain in the $3,000pa repayment rate.</td>
<td>This would potentially impact 61,209 borrowers in total.
The following table shows the number of current overseas-based borrowers in each of the repayment thresholds affected by this proposal:
<table>
<tr><th></th><th colspan="4">Loan Balance</th></tr>
<tr><td></td><td>$15k-$30k</td><td>$30k-$45k</td><td>$45k-$60k</td><td>>:$60k</td></tr>
<tr><td>Number of overseas-based borrowers</td><td>28,657</td><td>16,156</td><td>8,633</td><td>9,763</td></tr>
</table>
The impact on compliant borrowers at $20k, $40k, $50k and $70k respectively are:
<table>
<tr><th>Loan balance</th><th colspan="2">Repayment time</th><th colspan="2">Interest cost to borrower</th></tr>
<tr><td></td><td>Current regime</td><td>New regime</td><td>Current regime</td><td>New regime</td></tr>
<tr><td>$20,000</td><td>35 yrs</td><td>15 yrs</td><td>$19,940</td><td>$8,425</td></tr>
<tr><td>$40,000</td><td>57 yrs</td><td>24 yrs</td><td>$57,751</td><td>$31,089</td></tr>
<tr><td>$50,000</td><td>82 years</td><td>21 years</td><td>$117,431</td><td>$33,199</td></tr>
<tr><td>$70,000</td><td>Never*</td><td>27 years</td><td>Indefinite</td><td>$62,092</td></tr>
</table>
*interest exceeds repayments</td>
</tr>
<tr>
<td>Introducing the option to request an arrest warrant to prevent the most non-compliant borrowers from leaving the country

Implementation: From 1 July 2013
Would require changes to the Student Loan Scheme Act 2011.</td>
<td>Creates a sanction that can be targeted and applied to the worst cases of default while deterring the wider group of borrowers from not complying.</td>
<td>Raises risks relating to restrictions on a person’s right to freedom of movement
May discourage people from returning to New Zealand
May be considered draconian by some members of the general public.
Raises risk of police being seen as Inland Revenue debt-collection agents</td>
<td>Would affect a small number of most non-compliant borrowers who have returned to New Zealand and who wish to travel overseas again.</td>
</tr>
</table>

[7]

Initiative	Main Advantages	Main Disadvantages	Key Impacts
Removing student allowances eligibility for those aged 65 and over from 1 January 2014 Transition: Those receiving an allowance in 2013 will be able to continue their study with an allowance up until 31 December 2014 or until they reach the 200 weeks life-time limit (whichever is the sooner). Requires amendment to the Student Allowances Regulations 1998.	• Generates savings for reprioritisation • Minimises the number of people using the assistance as an alternate source of living support.	• May not be well-received by age concern groups (e.g. Grey Power) • Likely to raise BORA complaints • May be seen to contradict other New Zealand ageing strategies such as the Government's positive ageing strategy • Removes a safety net for those who lost eligibility for student loan living costs in Budget 2011.	This policy is likely to affect around 240 recipients each year on average. In 2012, of 231 recipients 65 and over: • permanent residents were over-represented (82.3%, compared to 14.9% overall) • males are over-represented (63%, compared to 46% overall) • Asian recipients are over-represented (84%, compared to 18.9% overall) • most were studying at sub-degree level (92.6%) • 39.0% studied at polytechnics, 25.1% at PTEs and 22.5% at wananga. • 61.5% of aged 65 and over had dependents compared to 9.8% overall.