



Student Loan Scheme Annual Report

Incorporating the Financial Statements to 30 June 2002

September 2002

prepared by:



Table of Contents

Foreword	1
Executive Summary	2
Introduction	3
The role of tertiary education.....	3
Tertiary education reforms.....	3
Participation trends	3
The role of the Student Loan Scheme.....	4
The government’s financial contribution.....	4
Ongoing work in the area of student support.....	5
The Costs of the Student Loan Scheme	6
Introduction	6
Overview	6
Calculating the cost of the Student Loan Scheme.....	7
General Student Loan Scheme Statistics.....	8
Uptake of student loans.....	8
Student Loan Debt	11
Financial Statements for the Year Ended 30 June 2002.....	15
Report of the Auditor-General.....	25
Appendix 1 The Student Loan Scheme – Administration	27
The administration of the scheme.....	27
The elements of the Student Loan Scheme	27
Loan repayments	28
Interest.....	29
Appendix 2 The Administration Costs.....	31
Appendix 3 Statistical Tables.....	33
Appendix 4 Glossary of Terms	39

List of Statistical Tables

Table 1	Government Financial Support for Tertiary Study	4
Table 2	Forecast Gross Debt Levels	7
Table 3	Estimated Average Repayment times by Gender & Ethnicity	8
Table 4	Student Loan Uptake	8
Table 5	Percentage of Students who Borrowed Fees by Provider Type	9
Table 6	Average Amount Borrowed.....	10
Table 7	Average Amount Borrowed by Ethnicity	11
Table 8	Loans by Component in 2001	11
Table 9	Range of Loan Balances	12
Table 10	Student Loan Interest Rates	29
Table 11	Administration Costs	31
Table 12 (Fig 1)	Formal Enrolments in Tertiary Education Institutions at 31 July	33
Table 13 (Fig 2)	Formal Enrolments in Tertiary Education Institutions by Gender at 31 July.....	33
Table 14 (Fig 3)	Formal Enrolments in Tertiary Education Institutions by Ethnicity at 31 July.....	33
Table 15 (Fig 4)	OECD [1999] Comparison of Expenditure on Education.....	33
Table 16 (Fig 5)	Loans Taken out in Each Academic ¹ Year 1992–2001.....	33
Table 17 (Fig 6)	Percentage of Students who Borrowed Fees by Provider Type in 2000 and 2001	34
Table 18 (Fig 7)	Percentage of Borrowers by Gender	34
Table 19 (Fig 10)	Percentage of Borrowers by Ethnicity	34
Table 20 (Figs 8-10)	Borrowers & Amount Borrowed by Ethnicity & Gender in 2000 & 2001	35
Table 21 (Figs 11-13)	Borrowers & Amount Borrowed by Age in 2000 & 2001.....	35
Table 22 (Fig 18)	Interest Write-offs at 30 June.....	36
Table 23 (Fig 21)	Deceased & Bankruptcy Write-offs at 30 June.....	36
Table 24	Student Loan Payments received by Inland Revenue	36
Table 25 (Fig 15)	Student Loan Debt with Inland Revenue at 30 June	36
Table 26 (Fig 16)	Average Student Loan Balance with Inland Revenue at 30 June.....	36
Table 27 (Fig 13)	Borrowers by Age.....	36
Table 28 (Fig 17)	Number of Loans Repaid to Inland Revenue at 30 June.....	36
Table 29 (Fig 19)	Interest Write-offs by Type.....	37
Table 30 (Fig 20)	Small Balance Write-offs (Inland Revenue only)	37

List of Figures

Fig 1 (Table 12)	Formal enrolments at Tertiary Education Institutions at 31 July	3
Fig 2 (Table 13)	Formal enrolments at Tertiary Education Institutions at 31 July by Gender	4
Fig 3 (Table 14)	Formal enrolments at Tertiary Education Institutions at 31 July by Ethnicity.....	4
Fig 4 (Table 15)	OECD [1999] Comparison of Expenditure on Education.....	5
Fig 5 (Table 16)	Loans taken out in each Academic Year [1992–2001]	8
Fig 6 (Table 17)	Students who Borrowed Fees by Provider Type.....	8
Fig 7 (Table 18)	Percentage of Borrowers by Gender	9
Fig 8 (Table 20)	Female Borrowers by Ethnicity	9
Fig 9 (Table 20)	Male Borrowers by Ethnicity.....	9
Fig 10 (Table 20)	All Borrowers by Ethnicity	9
Fig 11 (Table 21)	Female Borrowers by Age	10
Fig 12 (Table 21)	Male Borrowers by Age.....	10
Fig 13 Table 21)	All Borrowers by Age.....	10
Fig 14 (Table 20)	Average Amount Borrowed by Gender	10
Fig 15 (Table 25)	Student Loan Debt with Inland Revenue at 30 June	11
Fig 16 (Table 26)	Average Student Loan Balance at 30 June.....	11
Fig 17 (Table 28)	Number of Loans Repaid.....	12
Fig 18 (Table 22)	Interest Write-offs at 30 June.....	12
Fig 19 (Table 29)	Interest Write-offs by Type.....	12
Fig 20 (Table 30)	Small Balance Write-offs.....	13
Fig 21 (Table 23)	Deceased and Bankrupt Borrowers – Loan Write-offs	13
Fig 22	Percentage of Students who Borrowed Fees by Provider Type in 2000 and 2001	34

¹ For definitions of “Academic year”, “Income (tax) year” and “Fiscal year” see Appendix 4.

Foreword

Since 1992, there has been rapid growth in the numbers participating in tertiary education. There have been many factors that have contributed to this growth, including the introduction of student loans to help students pay fees and living costs.

As a result, the New Zealand tertiary education system has moved from an elite system with relatively low participation, to a mass system with high participation. Indeed, New Zealand now has one of the highest participation rates in the OECD.

More and more people are participating in tertiary education. This has resulted in a higher level of gross debt as a greater number of students are borrowing in order to study.

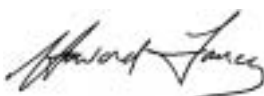
The New Zealand Student Loan Scheme is relatively young in comparison to other schemes operating around the world. The number of students who use the scheme has been growing since the inception of the scheme but the actual rate of growth has been slowing in recent years as the scheme has continued to mature. At the same time average debt levels appear to be stabilising.

The aim of this report is to provide clear, accurate information about the Student Loan Scheme as it is today. This is to ensure that the public has a good understanding of how the Student Loan Scheme operates, borrowers' use of the scheme and the scheme's role in helping to meet the government's objectives of achieving a knowledge society.

This year's report includes the financial statements to 30 June 2002 and new statistical data related to loan repayments and the characteristics of borrowers.

Readers should note that projections may change in the future due to the outcomes of data integration, the proposed actuarial valuation and other new processes.

This report is a joint publication produced in partnership by the three agencies responsible for the Student Loan Scheme: the Ministry of Education, Inland Revenue and the Ministry of Social Development.



HOWARD FANCY
Secretary for Education



DAVID BUTLER
Commissioner of Inland Revenue



PETER HUGHES
*Chief Executive
Ministry of Social Development*

Executive Summary

The 2002 Student Loan Scheme Annual Report provides a consolidated view of the Student Loan Scheme for the 12 months ended 30 June 2002, includes information about student borrowing in the 2001 and preceding academic years and brings together information about student loans from the three government agencies responsible for the management of different aspects of the scheme:

- the Ministry of Education, responsible for strategic policy;
- the Ministry of Social Development, through StudyLink², responsible for delivery of loans to students; and
- Inland Revenue, responsible for collecting student loan repayments through the tax system and facilitating interest write-offs for eligible borrowers.

This report also describes the ongoing work being undertaken to improve reporting on the impact of student loans, as recommended in the Auditor-General's June 2000 review of the scheme. This includes a set of audited financial statements.

A data integration project is being undertaken, designed to provide a better understanding of the outcome of having a student loan for the borrower. The first set of data has already been integrated by Statistics New Zealand, which is scheduled to provide its initial results later this year.

Highlights from the report include:

- The average amount borrowed in an academic year has increased from \$3,628 in 1992 to \$6,058 in 2000 and \$6,135³ in 2001.
- 148,174 students borrowed \$908.9 million in the 2001 academic year.
- The average cumulative student loan debt owing to Inland Revenue has increased from \$5,525 in 1993/94 to \$12,643 in 2001/02, compared with \$12,497 in 2000/01.
- There were 360,612 borrowers with loans outstanding to Inland Revenue as at 30 June 2002.
- 50% of all borrowers have a loan under \$9,069.
- Less than 5% of all borrowers have a loan balance greater than \$40,000.
- As at 30 June 2002, 106,918 borrowers had repaid their loans in full since the scheme began in 1992. 17,085 loans were repaid in 2001/02 compared with 16,539 in 2000/01.
- The net total of all loans outstanding as at 30 June 2002 was \$4.75 billion.
- The Student Loan Scheme has a provision for doubtful debts, currently calculated at 11.4% of the value of the outstanding debt. At 30 June 2002, the doubtful debt provision was \$637 million.
- Since the commencement of the scheme \$1.48 billion in interest and principal repayments has been collected.
- The level of overdue loan repayments as at 30 June 2002 was \$74.42 million of which 44.6% (\$33.2 million) was under instalment arrangement for payment.
- Total interest write-offs recorded in the year to 30 June 2002 were \$141.40 million.
- The long-term student loan forecasting model indicates that the estimated marginal economic cost of each dollar drawn down by students from 2002 onwards is 23 cents, taking into account the time value of money and the cost of loans written off due to death and bankruptcy.
- Forecast overall average loan repayment times are estimated at 10.3 years.

² StudyLink is the new name for Student Services in the Ministry of Social Development. This new name is being progressively introduced during 2002.

³ These figures are not adjusted for inflation.

Introduction

The role of tertiary education

Tertiary education is fundamental to enhancing and improving the nation's skills. New Zealand's future depends on a high performing tertiary sector producing high quality graduates with knowledge and skills that not only improve the lives of individuals and communities, but also advance the country's prosperity as a nation and its place in the world.

Tertiary education also bestows benefits on those who are able to enjoy it. These benefits have been quantified in a variety of ways, the most prominent being: improved employment and income prospects, improved health outcomes and improved prospects for their children.

Tertiary education reforms

In order to ensure that the contribution that tertiary education makes to New Zealand's economic, social and environmental development is maximised, government has undertaken a series of reforms of the tertiary education system. A key element of these reforms is the proposed establishment, subject to the passage of the Tertiary Education Reform Bill, of a Tertiary Education Commission to ensure that tertiary education is focused in areas of high performance and high strategic relevance to New Zealand.

The Tertiary Education Strategy 2002/07 is the centrepiece of the reforms. An essential element is the recognition that the tertiary education system cannot be viewed in isolation from other policies and other sectors. The role of the Strategy is to articulate a vision for the development of the New Zealand tertiary education system over the next five years and to illustrate how this vision is derived from and aligned to government's broader vision for the nation's economic and social development.

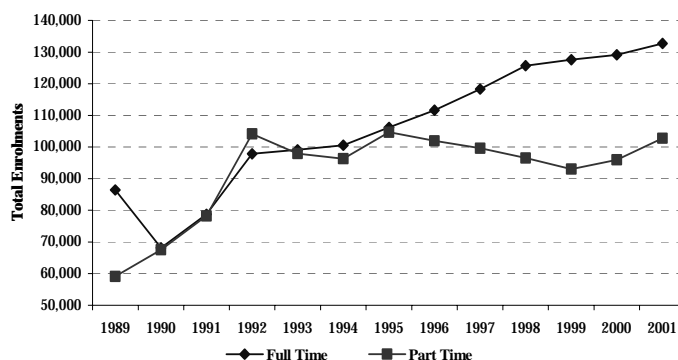
In addition to the Strategy, there will be other "steering mechanisms" employed to improve the contribution of tertiary education to New Zealand's economic, social and environmental development. These are the Statement of Tertiary Education Priorities, charters and profiles, and assessments of strategic relevance. A new integrated funding framework will also complement these "steering mechanisms"⁴.

⁴ Further information on the tertiary education reforms, including the Tertiary Education Strategy, is available at the following website address: <http://www.minedu.govt.nz>.

Participation trends

A strength of the current system of tertiary education is that all New Zealanders are able to access tertiary education. Access is more than just a legislative right; New Zealand has exceptionally high participation rates and a high level of growth in participation. As a result of New Zealand's commitment to open access to tertiary education, this country's participation rate is one of the highest in the OECD.

Fig 1 (Table 12) Formal Enrolments at Tertiary Education Institutions at 31 July [1989-2001]⁵



The following key statistics reflect participation growth in tertiary education:

- 9.7% of the population aged 15+ were in tertiary study at July 2001, an increase of 15% from the participation rate at July 1999.
- 13.2% of the population aged 15+ were in tertiary study at some time during 2001, an increase of 21% from the participation rate during 1999.
- Māori participation has been growing steadily during the 1990s, but grew significantly in 2001 from 14.1% to 18.9% of the Māori population aged 15+. Non-Māori participation grew from 11.4% to 12.4% over the same period. Māori now have higher participation rates than non-Māori, even after adjusting for differences in the age profile of Māori. Much of this growth has occurred at lower qualification levels and Māori participation rates at degree level or above are still less than non-Māori.

Females participate at a higher rate than males among both Māori and non-Māori and across all provider types. Around 57% of all students in 2001 were female. Females as a proportion of all students have been increasing since 1994. Overall, 10.7% of females aged 15 and over were enrolled at July 2001, compared with 8.6% of males. These participation rates were up from 9.3% and 7.5% respectively at July 1999. Participation rates during all of 2001 were 14.5% for females compared with 11.9% for males, up from 11.8% and 9.9% respectively in 1999.

Participation has increased not only in aggregate, but also for all major groups of New Zealanders. In particular,

⁵ All enrolments are point-in-time figures as at 31 July for the years stated, rather than all enrolments in that year. Total enrolments are considerably higher, but follow a similar trend.

Māori, Pasifika peoples and women have all enjoyed increases in participation during the 1990s. Figures 2 and 3 demonstrate these increases in participation for these groups.

Fig 2 (Table 13) Formal Enrolments at Tertiary Education Institutions by Gender at 31 July [1994-2001]

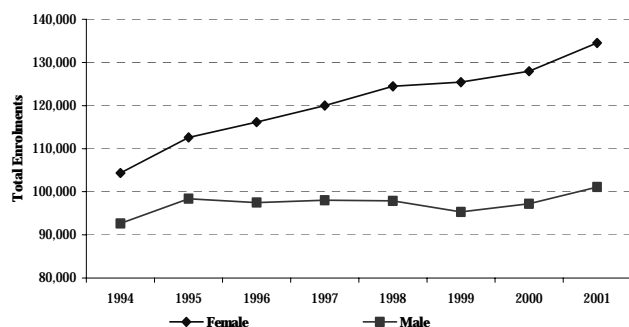
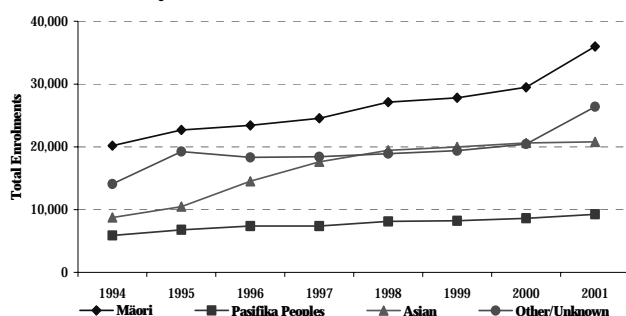


Fig 3 (Table 14) Formal Enrolments at Tertiary Education Institutions by Ethnicity [excluding European/Pākehā] at 31 July [1994-2001]



The role of the Student Loan Scheme

The Student Loan Scheme plays an important role in supporting the government's goals for tertiary education and hence its social and economic goals. Introduced in 1992, the scheme is designed to support the participation of all New Zealanders in tertiary education by providing access to finance for tuition fees and other education-related costs. The scheme provides money on terms more generous than are available for similar unsecured loans from the private sector.

For most borrowers, debt repayment is income-contingent, which means that borrowers are not required to repay any money until they earn sufficient income. The repayment threshold is currently \$15,496, increased from \$15,132 since 1 April 2002. The amount of repayment required in any income year is determined by the amount of income earned over this threshold. The minimum rate of repayment is 10 cents per dollar earned over the repayment threshold. Voluntary repayments can also be made at any time and are encouraged. The scheme recognises that some borrowers may not be earning sufficient income to allow them to meet the interest charged each year. If this is the case, borrowers may qualify for an interest write-off. (See interest write-off definitions in Appendix 4.)

The government's financial contribution

The government provides a financial contribution to students participating in tertiary education through tuition subsidies, student loans and student allowances⁶. Student allowances are available to students who meet income-based eligibility criteria. The Student Loan Scheme can be accessed to enable students and their families to meet other costs of their tertiary education. The government's commitment to ensuring that there is access to tertiary education for all means high participation rates in tertiary education. Therefore, the fiscal cost of moving to a system where tertiary education costs little for students is very significant indeed. Over the 1990s participation in tertiary education dramatically increased, as did government spending in dollar terms on tertiary education. In order to ensure that participation was still funded, the share of the total cost met by the student through fees was increased. This meant that, although government funding of tertiary education increased, the level of per student funding decreased throughout the 1990s, but has risen in 2000 and 2001. Both students and the government have therefore paid more in aggregate dollar terms towards the cost of education since the beginning of the 1990s.

The following table details some of the increased support government has provided over the last six years. (This excludes funding for Industry Training, Modern Apprenticeships and other schemes funded through Skill New Zealand and also adult community education resourced through schools.)

Table 1 Government Financial Support for Tertiary Study

Fiscal Year	Student Allowances ⁷ (\$m)	Tuition Subsidies (\$m)	Student Loans ⁸ (\$m)
1996/97	327	1,130	542
1997/98	344	1,144	657
1998/99	378	1,167	624
1999/00	376	1,262	701
2000/01	391	1,344	873
2001/02	401	1,529	941

Including the Training Incentive Allowance, funding delivered through Skill New Zealand and the costs of administering the system, the government budgeted a total of \$3.36 billion in 2001/02, compared with \$3.02 billion in 2000/01. The amount of funding committed by government to tertiary education is a significant proportion of the country's Gross Domestic Product. As a nation, New Zealand currently spends similar amounts on tertiary education to those spent on the entire budgets of defence, policing and early childhood education combined. Tertiary education expenditure compares very well with that of other countries.

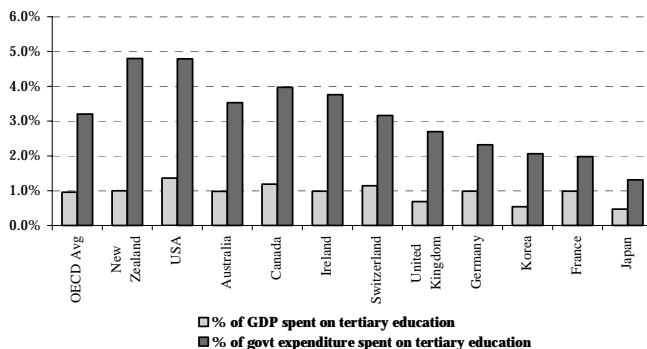
⁶ There are a number of other government awards which are not within the scope of this report, e.g. Top Achievers' Scholarships, the Prime Minister's Scholarships, Training Incentive Allowances.

⁷ Student allowances amounts are before tax (gross) amounts.

⁸ Student loan amounts are capital amounts.

Excluding expenditure on student loans and allowances, New Zealand spends 1% of its GDP on tertiary education. This spending places New Zealand eighth in the OECD in terms of tertiary education expenditure, ahead of countries such as Australia, the United Kingdom and Germany.

Fig 4 (Table 15) OECD [1999] Comparison of Expenditure on Education



Ongoing work in the area of student support

There are a number of interconnected pieces of work that are in progress in the area of student support. These are part of ongoing work as well as in response to the Auditor-General's report on the Student Loan Scheme in 2000 and the Education and Science Select Committee's report on its Inquiry into Student Fees, Loans, Allowances and the overall resourcing of tertiary education.

The Auditor-General's report, *The Student Loan Scheme – Publicly Available Accountability Information*, was released on 23 June 2000 and identified two key areas for improvement:

- clarifying responsibilities and improving information availability by addressing capability and accountability issues; and
- improving financial reporting requirements for the Student Loan Scheme.

In response to the Auditor-General's report, the government has been working to improve financial reporting, clarify responsibilities, and improve the information available to the public about the Student Loan Scheme. These initiatives are discussed below.

The Education and Science Select Committee tabled its report on 30 October 2001 and made one comprehensive recommendation: *that the government undertake a significant, extensive and high-quality research programme into tertiary education resourcing, to be conducted as a matter of priority by all relevant government agencies.*

The Committee also stated its concern at the lack of availability of quality research in the area of tertiary education resourcing.

Many of the Auditor-General's concerns, and indeed many of the concerns reflected in the Committee's report, can be met by putting into place a dataset from the various agencies responsible for the Student Loan Scheme, which

Statistics New Zealand will integrate (the data integration project).

Data integration

Students' educational and demographic information from the Ministry of Education will be integrated with data from the Ministry of Social Development on loan drawdowns and data from Inland Revenue on post-study income and outstanding loan debt. This will form a longitudinal record for each borrower, held securely by Statistics New Zealand, following protocols approved by the Privacy Commissioner. This dataset will show incomes post-study, periods with low income, repayment times, amounts of write-off received and periods spent overseas, for different groups of student loan borrowers.

The dataset will provide for research that will underpin future policy development and provide accurate and timely information for:

- monitoring, analysis and forecasting;
- reporting the value of student loans in the Crown accounts;
- understanding the cost of the scheme to the Crown;
- costing policy changes; and
- assessing some socio-economic impacts of the Student Loan Scheme, including estimation of the return on investing in tertiary education and information on borrowers going overseas.

The data integration project will be able to provide better information to help answer policy questions such as:

- What is the average post-study income level after controlling for non-borrowers of the same age?
- Which groups get interest write-offs?
- What are the total interest write-offs by gender, ethnicity and age?
- What is the effective interest rate by age, gender and ethnicity?
- What are the expected repayment times by age, ethnicity and gender?
- What are the differences in income by age, ethnicity and gender?
- What is the total debt by gender, ethnicity and age?
- What proportion of borrowers are going overseas?
- What is the proportion of borrowers overseas who are repaying their loans, disaggregated by age, gender, ethnicity and debt level?

The integrated dataset will be established later this year.

It is anticipated, however, that some of the analyses will not be possible for some time, as the time series in the integrated dataset will not be fully developed. While an integrated dataset will provide a wealth of information that will help us improve our understanding of the impact of the scheme, it will not answer every question that may be raised about the socio-economic consequences of student loan debt. For instance, it will not tell us about the effect of loans on wages, in terms of the differentiation of wages by occupation. This is because the information needed to analyse such questions is not currently held on administrative databases.

The data integration project will be the government's initial priority in terms of gauging the impact of student loans.

It is important to recognise that there are difficulties in evaluating the cause and effect of the Student Loan Scheme given that it is not known what situation would be faced now, had an alternative policy direction (with no, or a vastly different, Student Loan Scheme) been taken.

Improving information and financial reporting

The government, in its response to the Education and Science Select Committee's report and to the report of the Auditor-General, acknowledged the value of more and better information about the scheme being available for students, providers and the general public. Improved information will enable students, for instance, to make more informed decisions about their investment in tertiary education.

There are a number of initiatives that will make a difference in terms of improving information on student loans, before the data integration project gets up and running. Initiatives already taken or underway include:

- quarterly reporting of information about student loan borrowings and repayments through departmental websites;
- tabling the Student Loan Scheme Annual Report in Parliament; and
- making more explicit the assumptions and risk assessments included in financial forecasts and costings.

The Student Loan Scheme Annual Report has been improved by including the best estimate of the total cost of the scheme to the Crown and by including more detailed information on the scheme and on borrowers. The data integration project will lead, in the longer term, to more detailed reporting against socio-economic indicators.

Fair value accounting system

The government is working to improve reporting on the risks to the Crown of the Student Loan Scheme by providing fair value information about the value of the student loans asset in the Crown financial statements. This work involves an actuarial assessment of likely future returns on the student loan asset.

Instituting a fair valuation of the student loan asset would aid the assessment of the fiscal risks to the Crown, assessing many of the issues highlighted in the Auditor-General's report of June 2000. The data integration exercise will assist in constructing the fair valuation by supporting more detailed analysis of borrowing and repayment characteristics. The government is currently scoping a work programme to provide fair value information.

Graduate outcome study

The Department of Labour is undertaking a study during 2002/03 on the employment and earnings outcomes for tertiary graduates. If the project proceeds on a continuing basis, two groups will benefit:

- *Students and intending students* will have better information on the likely employment prospects and earnings that follow any particular course of study. Students will be more likely to undertake study in areas where skills are in demand.
- *Tertiary institutions* will be better able to respond to labour market needs, and there will also be improved information for those who review the performance of tertiary institutions.

Review of Student Support

The government is undertaking a thorough review of student support involving key stakeholders, and in particular students. The review will include analysis of international models and will be informed by much better information about student debt as a result of the data integration initiative described above.

The Costs of the Student Loan Scheme

Introduction

This section looks at the costs of the Student Loan Scheme, including:

- the impact of the provision being made currently for estimated future non-recovery of loans;
- the forecast economic cost of the scheme, outlining the key assumptions used; and
- forecast repayment profiles.

Overview

The Student Loan Scheme is a significant government asset. The portfolio is forecast to grow to \$14.4 billion by the year 2014/15 (refer Table 2). The costs of the scheme are shared between the students and the government in the following manner:

- Borrowers meet a share of the government's estimated cost of capital through interest payments.
- Administration costs are met by borrowers through a one-off administration fee of \$50 for each loan and a

0.5% margin added to the interest rate⁹. The interest rate also includes a 0.3% margin to cover the costs of future death and bankruptcy write-offs.

- The government meets the costs resulting from fluctuations in uptake and transactions. It also covers the cost of system changes to implement new policies or improve delivery which are not covered by the administration fee or the 0.5% part of the interest rate margin.

The government writes off the following sums, which represent a cost to the Crown:

- all or part of the base interest charge for borrowers who meet eligibility criteria;
- full interest for borrowers who were studying during the year and meet certain criteria;
- debt from deceased or bankrupt borrowers¹⁰; and
- small balances.

Calculating the cost of the Student Loan Scheme

The Ministry of Education developed the Tertiary Education Student Loan Analysis (TESLA) model to forecast student loan debt and repayment periods and to assist with the evaluation of policy options. The TESLA model generates a representative student population from a profile of borrower characteristics. The profile is based on demographic statistics and historic aggregate Student Loan Scheme data obtained from the agencies administering the scheme. Each individual in this model population has student loan characteristics which are accumulated to give an overall annual estimate of debt, repayments, interest and write-offs.

The Doubtful Debt Provision

The Doubtful Debt Provision (DDP) is a provision for write-offs due to death¹¹ and loans discharged due to bankruptcy. It provides for all debt that will not be collected due to borrowers not reaching the repayment threshold because of retirement, child-rearing or disability. The provision was set at 15% in 1992 when the Student Loan Scheme was first incorporated into the Crown Financial Statements and revised to 10% from 1996 until 2001. The Ministry of Education has recently revised the DDP in consultation with Treasury and Inland Revenue. The provision was set at 11.4% for 2001/02¹². At 30 June 2002, the DDP stood at \$637 million. The provision is sensitive to the assumptions on borrowing characteristics and income growth profiles, and so will be regularly

⁹ From 1 April 2001 the interest rate was capped at 7%

¹⁰ Only those drawdowns that occurred prior to the date of adjudication of the bankruptcy are categorised as an unsecured credit by the Official Assignee. Any drawdowns after this date (due to timing issues) are held by StudyLink and collected via their debt collection processes.

¹¹ There is no write-off for “defaulters” but debt that accumulates due to people not meeting their repayment obligations is written off as a death write-off when the person dies.

¹² The DDP is sensitive to assumptions around the level of debt that will be repaid by those in arrears, and also the future real income growth of borrowers. The DDP is estimated to be within the range of 10.4% to 12.4%, with a best estimate of 11.4%.

reassessed as new information becomes available. A 1% shift will impact on the provision level by around \$50 million.

The economic cost to the Crown

The economic cost of the scheme to the Crown is equivalent to the resources the Crown foregoes by lending money under the scheme. It incorporates the cost of loans written off due to death and bankruptcy and accounts for the timing of loan repayments discounted by 6.2%, the long-term 10-year bond rate¹³. Using the updated model from the doubtful debt provision analysis, the marginal economic cost¹⁴ is estimated to be 23%, i.e. each dollar drawn down by students from 2002 onwards will cost the Crown 23 cents. The economic cost is sensitive to assumptions about borrowers’ income. If borrowers’ real income growth is increased by 0.2% per annum, for example, the economic cost would be 22%, i.e. if borrowers have higher income, repayments are higher and capital is recovered earlier.

The effective interest rate

The full interest rate for income year 2002/03 is 7.0%, comprising 5.1% base interest and 1.9% for the inflation component. Not all borrowers face the full interest rate because many are eligible for an interest write-off or interest reduction. The effective interest rate is estimated¹⁵ to be 2.7% for 2002/03. It represents the average interest rate charged per borrower, calculated as the total net interest for all borrowers as a percentage of total debt. An estimated 57% of interest accrued during 2002/03 will be written off.

Overall student loan debt projection

The following long-term debt projection from the TESLA model, with updated demographic and income assumptions, shows the estimated overall gross student loan debt at the end of each fiscal year.

Table 2 Forecast Gross Debt Levels¹⁶

Fiscal year	2009/10 \$m	2014/15 \$m	2019/20 \$m
Latest debt projection update	11,200	14,400	17,000

These figures show an increase in overall student debt of around \$0.9 billion by 2019/20 compared with the 2001 debt projection in the annual report. This is due to changes in the income and demographic assumptions in the model.

Estimates of overall student debt level are very sensitive to assumptions on participation. Reasonable variations in participation projections produce a range of \$16.5 billion to \$19.0 billion, for overall debt by 2019/20. Projections of overall debt are less sensitive to variations in income

¹³ The 10-year bond rate reflects the Crown cost of borrowing. See “Cost of borrowing” in the glossary.

¹⁴ The marginal economic cost measures the cost of lending and associated repayments from 2001 onwards. The average economic cost measures the economic cost of all actual borrowing and estimated future borrowing since the start of the Scheme in 1992. The marginal and average economic costs are estimated at 23.1% and 22.9% respectively.

¹⁵ All estimates are derived from the TESLA model.

¹⁶ Amounts in Table 2 are nominal dollars.

assumptions. If the real income growth of borrowers is adjusted by 0.2% per annum, the uncertainty for 2019/20 is \$0.4 billion.

Average student loan debt repayment periods¹⁷ by gender and ethnicity

Males and European/Pākehā borrowers have the shortest repayment times while women have longer repayment times due to different income projections in the model for these groups. Repayment times are sensitive to changes in the income assumptions used in the TESLA model. A reasonable annual increase in borrowers' real income growth of 0.2% results in repayment times that are shorter by up to half a year. This pattern has not changed since the scheme was established.

Table 3 Estimated Average Repayment Times by Gender and Ethnicity

Average repayment times in years	Males	Females	Overall
European/Pākehā	7.5	11.6	9.7
Māori	8.0	11.6	10.1
Other ¹⁸	9.7	13.9	12.0
All groups	8.0	12.0	10.3

General Student Loan Scheme Statistics¹⁹

Uptake of student loans²⁰

Since the inception of the Student Loan Scheme, the number of students borrowing has continued to increase. The only exception was 1999, when policies aimed at curbing unnecessary borrowing were introduced. In 1992, the first year of operation of the scheme, there were 44,202 borrowers²¹. By 2001²² this had increased to 148,174 students. This increase is mainly due to a greater proportion of students taking out loans, although some of the increase can be attributed to growing student numbers.

¹⁷ The number of "repayment years" for each individual in the model is the number of years, prior to the final year of borrowing, when a repayment is made without borrowing, plus every year, after the final year of borrowing, until the debt is paid off.

¹⁸ Other includes Asian, Pasifika peoples and other ethnic groups.

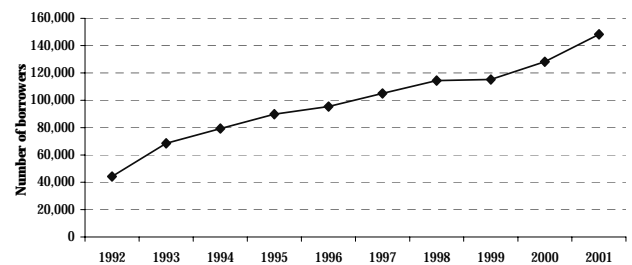
¹⁹ Statistics in this section are expressed in terms of academic year unless otherwise stated.

²⁰ The provisional 2000 figures printed in last year's report have been revised. The 2000 figures in this report are not provisional.

²¹ The definition of a student loan borrower from 2000 is a student whose loan account was established and activated for study that commenced between 1 January and 31 December of the applicable year. The loan account will run for a maximum of 52 weeks (in most cases).

²² With the transfer of the delivery of student loans to the Ministry of Social Development from 1 January 2000, the collection and storage of the loan data, and the assumptions used to extract it, have changed. This means that some of the data from 2000 onwards in the following tables and figures are not exactly comparable to the corresponding figures for 1999 and earlier. In most cases this has not resulted in a material difference. Where differences have been identified, a note has been included under the table to explain the change.

Fig 5 (Table 16) Loans Taken out in Each Academic Year [1992-2001]



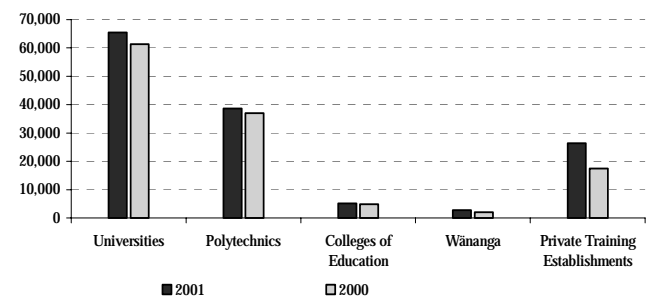
The proportion of students that are eligible to draw down a student loan and have chosen to do so has increased over recent years. In 1999 it was 50%, while in 2000 the proportion was 55%. In 2001, 56% of eligible students drew down a student loan.

Table 4 Student Loan Uptake

Academic year	Formal students ²³	Eligible students ²⁴	Eligibility %	Borrowers	Uptake rate ²⁵
1999	319,841	229,301	72%	115,142	50%
2000	346,455	232,534	67%	128,107	55%
2001	393,209	265,300	67%	148,174	56%

Students who borrowed fees by provider type (see also Table 17)

Fig 6 (Table 17) Students who Borrowed Fees²⁶ by Provider Type



²³ Those enrolled in an approved qualification at a recognised tertiary education provider at any time during the year.

²⁴ Eligible students are New Zealand citizens or permanent residents taking courses which have been approved for student loans. They must be studying full-time or part-time for a full academic year. The number of students eligible for loans is estimated according to their nature of attendance & source of funding.

²⁵ Of those eligible.

²⁶ Only students who borrowed fees have been included in 2000 and 2001 because the other components are not recorded by provider

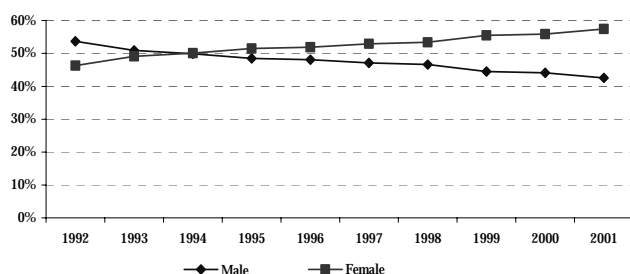
Table 5 Percentage of Students who Borrowed Fees by Provider Type²⁷

Education Sector	1992 %	1993 %	1994 %	1995 %	1996 %	1997 %	1998 %	1999 %	2000 %	2001 %
Polytechnics	36.7	41.1	39.1	39.3	39.1	39.6	39.8	40.6	30.1	27.9
CoEs	5.5	5.2	4.9	5.4	5.5	5.6	4.3	4.5	4.0	3.7
Universities	56.3	51.4	53.0	50.8	49.6	46.8	45.4	42.2	50.0	47.3
Wānanga	0.1	0.1	0.3	0.4	0.5	0.7	0.9	1.2	1.7	2.0
PTEs	1.4	2.2	2.7	4.1	5.3	7.3	9.6	11.5	14.2	19.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Information in this report that is provided by provider type should be used with care, as there have been a number of changes in the providers that make up each sector. For example, there have been increases in the number of Wānanga and Private Training Establishments. In 1998 there was a merger between Palmerston North College of Education and Massey University, in 1999 Wellington Polytechnic was taken over by Massey University and in 2000 Auckland Institute of Technology became the Auckland University of Technology. The effect of these developments is reflected particularly in Table 5 above.

Student loan borrowers by gender

Fig 7 (Table 18) Percentage of Borrowers by Gender



While there are more females borrowing and there are significantly more females enrolled in tertiary education, they tend to borrow less than males (see Fig 14 and Tables 13, 18 and 20).

Student loan borrowers by ethnicity²⁸

The proportion of Māori borrowers increased steadily from 13% of borrowers with a declared ethnicity in 1992, to a peak of 20% in 1999, before falling back to 15% in 2000. The proportion of borrowers who were Māori was 16% in 2001 whereas 19% of all domestic students on 31 July 2001 were Māori. A similar trend can be observed in the borrowing of Pasifika peoples. The proportion rose from 5% in 1992 to a peak of 8% in 1999. The proportion of Pasifika borrowers stood at 6% in 2001 (see also Tables 19 and 20).

Fig 8 (Table 20) Female Borrowers by Ethnicity

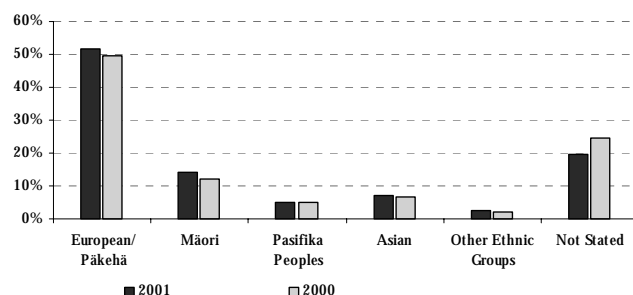


Fig 9 (Table 20) Male Borrowers by Ethnicity

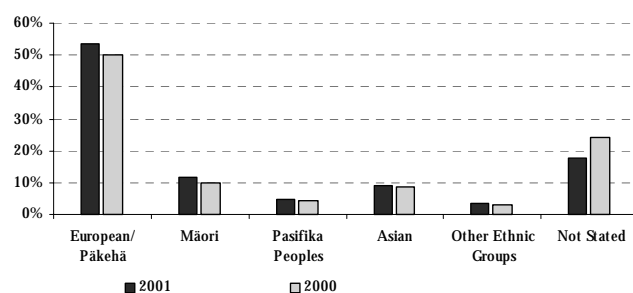
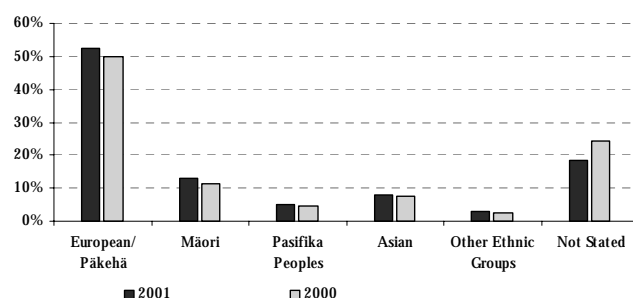


Fig 10 (Table 20) All Borrowers by Ethnicity



Student loan borrowers by age band

The following graphs show the profile of all student loan borrowers by age band at the time when the loan was advanced. Sixty-seven percent of all current student loan borrowers are under the age of 30 and 1.27% are over the age of 55 (see Table 21).

²⁷ Only students who borrowed fees are included in 2000 and 2001.

²⁸ The ethnicity question is optional for students. They can choose multiple ethnic groups. The one recorded first has been used in these graphs and the corresponding tables.

Fig 11 (Table 21) Female Borrowers by Age

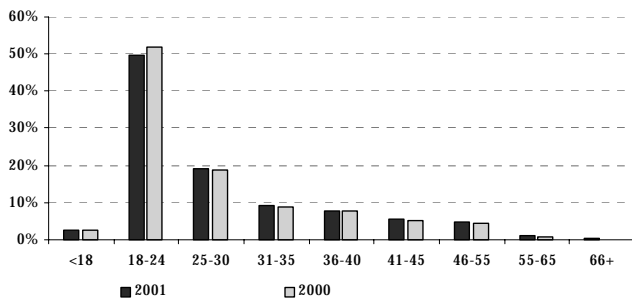


Fig 12 (Table 21) Male Borrowers by Age

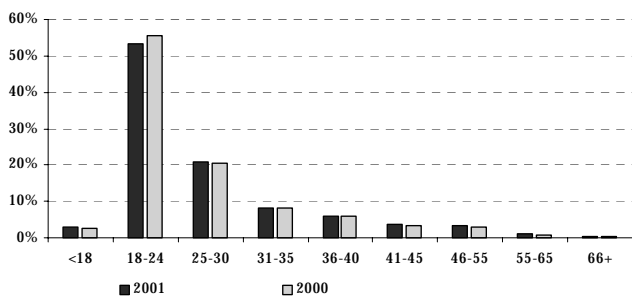
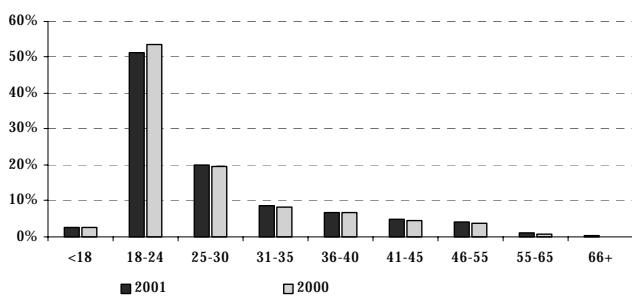


Fig 13 (Table 21) All Borrowers by Age



The majority of borrowers are in the 18-24 age group but adult students make significant use of student loans.

Student loan borrowers by attendance status

Statistics on borrowers by attendance status (full-time/part-time) were not available at the time the report was finalised due to the need to revise the business rules for determining study status. These statistics will be available on the StudyLink website (www.studylink.govt.nz) once the revision of the business rules is completed.

Table 6 Average Amount²⁹ Borrowed

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Total	3,628	3,979	4,309	4,432	4,649	5,494	5,714	4,917	6,058	6,135

The average amount borrowed includes all amounts paid from a loan account (but does not include the \$50

²⁹ All financial data is expressed in nominal dollars without adjustment for inflation.

administration fee and the interest charged) and is calculated by dividing the amount borrowed by the number of students. The \$50 administration fee and interest are not included as they are not linked to any particular period of study, but are charged to the loan account as a whole. The increase in borrowing in 2000 can be attributed to the change in the interest write-off policy, which reduces the cost of borrowing.

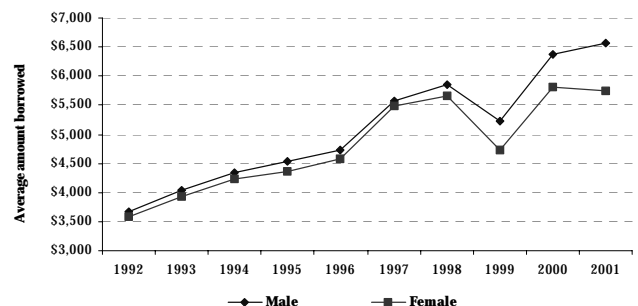
Students studying with private providers borrow more on average than students studying in the public sector, possibly because tuition fees tend to be higher for study with private providers. University students borrow more than students in other public institutions.

The average amount borrowed showed a steady increase between 1992 and 1998 in part reflecting increases in student fees. The decrease in average borrowing for 1999 was due to the decrease in the maximum course cost entitlement from \$1,000 in 1998 to \$500 in 1999³⁰ and to other changes which encouraged students to use finance from the scheme for purposes related to study³¹.

Average borrowing increased again in 2000 when some of the changes made in 1999 were rescinded, notably the reduction in course-related costs entitlement, and the “full interest write-off while studying” policy was introduced.

The fee stabilisation policy implemented in 2001 reduced the fee increase for that year. The fee stabilisation offer was accepted by all TEIs and most PTEs with meant that fees did not change for most courses.

Fig 14 (Table 20) Average Amount Borrowed by Gender



Females tend to borrow less than males.

³⁰ The entitlement was changed back to \$1,000 in 2000.

³¹ Living costs were paid in fortnightly instalments instead of lump sums and students’ association fees were no longer payable from the Scheme. (This last change was rescinded in 2000.)

Table 7 Average Annual Borrowed by Ethnicity³²

Ethnicity	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
European/Pākehā	3,767	4,111	4,450	4,577	4,811	5,704	5,889	5,048	6,136	6,215
Māori	3,122	3,461	3,837	3,994	4,325	5,338	5,557	4,613	5,777	5,802
Pasifika Peoples	3,168	3,734	4,157	4,376	4,841	5,836	6,298	5,278	6,387	6,143
Asian	3,573	4,023	4,269	4,145	3,996	4,490	4,875	4,645	5,842	6,174
Other	3,064	3,801	4,105	3,690	3,993	4,807	5,252	4,909	5,955	5,927

On average, Māori borrowed less than other ethnic groups in 2001.

Loans by component in 2001

The following table shows the total amount borrowed each month by component, and the total amount of administration fees and interest charged, repayments received, together with the amounts transferred to Inland Revenue, for all student loans administered by the Ministry of Social Development.

Table 8 Loans by Component in 2001

	Course Fees	Course-related Costs	Living Costs	Admin fee	Interest	Repaid	To IRD
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
January	28,437	2,793	2,941	422	4,044	1,047	138
February	151,527	13,034	9,289	2,368	5,109	1,961	5
March	174,322	27,007	29,586	2,297	2,749	3,604	691,087
April	31,931	7,585	25,813	385	2,801	3,352	3,290
May	28,086	7,142	32,708	325	3,278	4,362	303
June	20,179	4,895	26,175	220	4,472	3,174	90
July	35,217	6,499	27,643	412	3,894	2,550	63
August	29,548	7,446	32,039	374	4,227	5,461	113
September	14,774	4,506	27,570	180	5,650	4,989	136
October	13,323	3,593	29,547	140	4,759	4,321	410
November	13,942	2,658	19,701	111	3,361	3,905	370
December	10,306	1,360	4,945	93	7,992	3,423	134

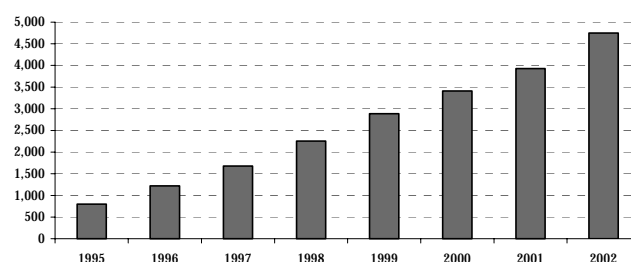
- High levels of borrowing for fees and course-related costs in February and March reflect the start of the academic year for most students.
- The majority of loans are transferred to Inland Revenue in March.
- The repaid figures include refunds made by institutions to students' loan accounts, where students change their study course resulting in changes to the fees charged.
- The amounts transferred to Inland Revenue include balances for deceased and bankrupt students which are transferred once this status is confirmed and not as part of the yearly transfer in February and March (following the year of study).

³² Excluding "not known".

Student loan debt

At 30 June 2002 the total balance of student loans was \$4.75 billion³³, after the provision for doubtful debts is subtracted.

Fig 15 (Table 25) Student Loan Debt with Inland Revenue at 30 June

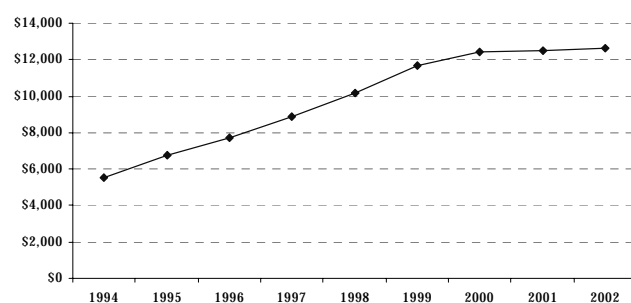


Average student loan balance

The average student loan balance has increased to \$12,643. This is an increase of 1.17% on the previous year's average.

The rate of increase in the average loan balance has significantly reduced over the last two years. Factors contributing to this trend are likely to be the increasing maturity of the scheme, the fees stabilisation policy and the interest write-off provisions introduced in 2000.

Fig 16 (Table 26) Average Student Loan Balance at 30 June



Range of student loan balances

Although the overall average loan balance at 30 June 2002 was \$12,643, nearly two-thirds (64%) of all borrowers actually had a loan balance of less than this figure and half of all borrowers had a loan of less than \$9,069. Less than 5% of all student loans currently held by Inland Revenue are for more than \$40,000.

³³ This amount includes student loans held by the Ministry of Social Development as well as \$4.04 billion net with Inland Revenue.

The following table shows the number and percentage of borrowers by student loan balances held by Inland Revenue as at 30 June 2002.

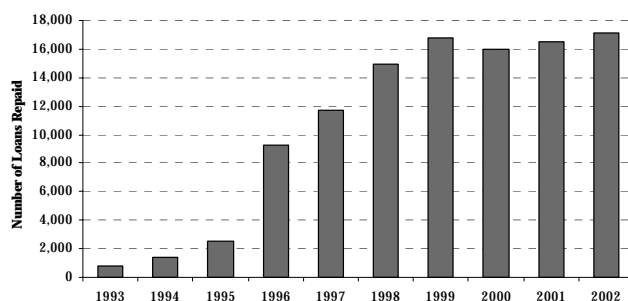
Table 9 Range of Loan Balances

Range of loan balances	Number of borrowers	Percentage %	Cumulative percentage %
\$ 1 - \$ 1,999	39,036	10.8	10.8
\$ 2,000 - \$ 3,999	41,875	11.6	22.4
\$ 4,000 - \$ 5,999	45,556	12.6	35.0
\$ 6,000 - \$ 7,999	37,011	10.3	45.3
\$ 8,000 - \$ 9,999	31,657	8.8	54.1
\$ 10,000 - \$ 14,999	56,396	15.6	69.7
\$ 15,000 - \$ 19,999	32,896	9.1	78.8
\$ 20,000 - \$ 24,999	24,213	6.7	85.5
\$ 25,000 - \$ 29,999	15,586	4.3	89.8
\$ 30,000 - \$ 34,999	11,388	3.2	93.0
\$ 35,000 - \$ 39,999	7,944	2.2	95.2
\$ 40,000 - \$ 44,999	5,751	1.6	96.8
\$ 45,000 - \$ 49,999	3,785	1.1	97.9
\$ 50,000 - \$ 54,999	2,598	0.7	98.6
\$ 55,000 - \$ 59,999	1,721	0.5	99.1
\$ 60,000 - \$ 79,999	2,538	0.7	99.8
\$ 80,000 - \$ 99,999	527	0.2	100.0
Over \$99,999	134	0.0	100.0
TOTAL	360,612	100.0	100.0

Loan payments

The number of loans fully repaid has continued to increase in each of the last three years and more loans were fully repaid in 2001/02 than in any other year to date. The number of loans that were fully repaid in the 2001/02 fiscal year was 17,085 (Table 28).

Fig 17 (Table 28) Number of Loans Repaid



The total value of loan repayments collected by Inland Revenue since the scheme began was just over \$1,483.3 million; \$793.5 million has been collected via employers through the PAYE system with the balance of \$689.8 million coming directly from the borrower (Table 24). A portion of the repayments made directly by the borrower

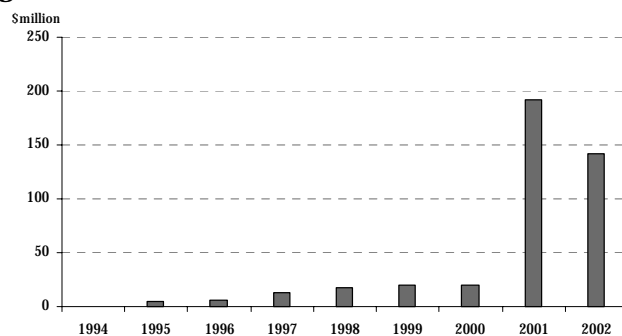
has been made on a voluntary basis while the remainder comprises compulsory repayments³⁴.

The level of overdue loan repayments as at 30 June 2002 was \$74.42 million of which 44.6% (\$33.2 million) was under instalment arrangement for payment.

Write-offs

Since the beginning of the scheme, a total of \$413.83 million has been written off (Table 22). Of that sum, 80.6% has been written off in the 2001/02 fiscal year.

Fig 18 (Table 22) Interest Write-offs³⁵ at 30 June

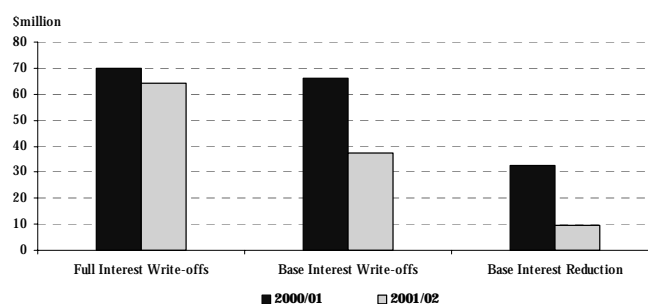


Interest write-offs by type

Interest write-offs are calculated on an income year basis (i.e. 31 March of each year). Interest write-offs can be applied retrospectively and, as most interest write-offs are income contingent, the timing of when an interest write-off is applied to loan accounts can vary. The following graph shows the trends of interest write-offs by type and by income year as at 30 June 2002 (Table 29).

There are three different types of interest write-offs: full interest write-offs, base interest write-offs and base interest reduction. (See Appendices 1 and 4 for details.)

Fig 19 (Table 29) Interest Write-offs by Type



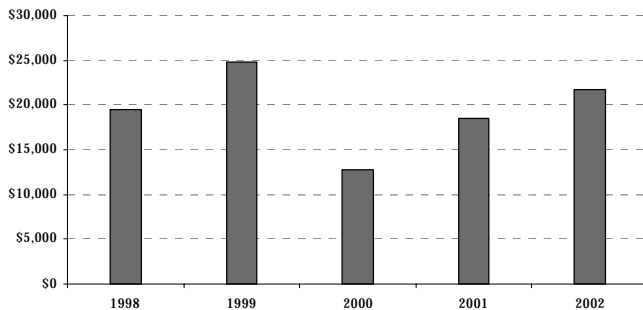
³⁴ It is not possible to identify exactly the proportion of repayments made on a voluntary basis.

³⁵ The majority of interest write-offs for the 1999/2000 income year were credited to borrowers' loan accounts in October 2000. This means the values in the above table are understated for 1999/2000 and overstated for 2000/01.

Small balance write-offs

Small balance write-offs occur where a person has repaid the loan but the last few dollars of the loan are still outstanding. These amounts are written off in accordance with sections 51 and 60 of the Student Loan Scheme Act 1992. The total value of small balance write-offs since the scheme began is \$115,767.

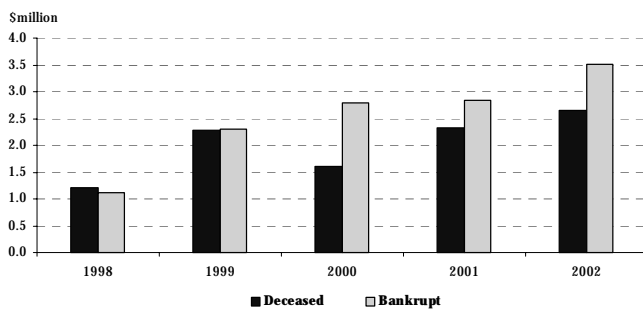
Fig 20 (Table 30) Small Balance Write-offs



Deceased and bankruptcy write-offs

In case of death or if the borrower is declared bankrupt, the balance owing on the student loan is written off. The total amount written off for deceased and bankrupt borrowers since the scheme began is \$26.09 million (Table 23).

Fig 21 (Table 23) Deceased and Bankrupt Borrowers - Loan Write-offs



Student Loan Scheme

Financial Statements

for the Year Ended 30 June 2002

Financial Statements

for the Year Ended 30 June 2002

The financial report for the Student Loan Scheme comprises schedules of income, expenditure and assets and details of Crown cash flow items relating to student loans. The Ministry of Social Development (MSD) and Inland Revenue (IRD) administer government revenue and expenditure, assets and liabilities on an agency basis on behalf of the Crown, within policy parameters set by the Ministry of Education.

The financial report represents extracts of the financial statements of the Crown activities carried out by the entities administering student loans to provide an overview of the Student Loan Scheme.

The scheme value as at 30 June 2002 was \$4.749 billion. This is after the doubtful debt provision of \$637 million.

Statement of Accounting Policies **for the Year Ended 30 June 2002**

Reporting entity

The scheme is a Crown activity which forms part of the consolidated financial statements of the government of New Zealand. The scheme has dimensions of income, expenditure, assets and cash flows within the overall Crown accounts. Crown financial information relating to student loans is extracted from the administering agencies' accounts to present a separate financial overview of the scheme.

Statutory authority

The Student Loan Scheme is administered jointly by the Ministry of Education, Inland Revenue Department and the Ministry of Social Development, under the Student Loan Scheme Act 1992, the Credit Contracts Act 1981 and the Education Act 1989.

Measurement system

The financial statements have been prepared on a historical cost basis.

Accounting policies

The following accounting policies, which materially affect the measurement of financial results and financial position, have been applied:

Budget figures

The budget figures are those presented in the Budget Night Estimates (Main Estimates) and those amended by the Supplementary Estimates (Supp. Estimates) and any transfer made by Order in Council under Section 5 of the Public Finance Act 1989. The budget figures provided are extracted from the details of the Estimates of Appropriations for the Ministry of Education, Inland Revenue and the Ministry of Social Development, as applicable. The totals shown are the combined totals for the applicable agencies.

Interest

Interest is calculated on the student loan account balances as at 1 April each year on a daily basis at a rate determined by the government, currently 7% (2001 7%). Interest is written off where qualifying criteria are met.

Advances

Advances are financial instruments and are recorded at the amounts expected to be ultimately collected in cash. Forecast repayments for the next year are used to calculate the current portion of advances.

Provision for doubtful debts

Doubtful debts are provided for as follows:

Capital provision	11.4% (2001 10%)
Interest write-off provision	57.0% (2001 78%).

Changes in accounting policies

There have been no changes in accounting policies as this is the first year audited financial statements have been prepared.

Schedule of Revenue and Expenditure

for the Year Ended 30 June 2002

Actual		Note	Actual	Main	Supp.
2001			2002	Estimates	Estimates
\$M			\$M	\$M	\$M
Revenue					
47.8	Interest income MSD		53.1	40.7	42.4
241.8	Interest and penalty income IRD		282.2	289.9	289.9
7.1	Administration fees MSD		7.4	8.1	7.9
296.7	Total Revenue		342.7	338.7	340.2
Expenditure					
192.1	Interest and small balance write-offs IRD/MSD		141.4	187.0	187.0
4.9	Deceased and bankruptcy write-offs IRD		6.2	7.3	7.3
17.1	Increase/(Decrease) in provision for doubtful debts MSD	1	18.2	6.0	17.9
13.2	Increase/(Decrease) in provision for doubtful debts IRD	1	107.3	40.9	40.9
227.3	Total Expenditure		273.1	241.2	253.1
69.4	Net Surplus		69.6	97.5	87.1

- *The accompanying accounting policies and notes form part of these financial statements.*
- *Budget figures represent the combined total for the applicable agencies.*
- *For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated audited Crown Financial Statements of the Government of New Zealand for the year ended 30 June 2002.*
- *Details of the Consolidated Movements Schedule for the year ended 30 June 2002 are shown in Note 1.*

Schedule of Assets

as at 30 June 2002

Actual		Note	Actual	Main	Supp.
2001			2002	Estimates	Estimates
\$M			\$M	\$M	\$M
Current Assets					
1,086.3	Student loan advances		1,219.1	1,111.0	1,192.1
(126.7)	Less provision for doubtful debts	2	(152.9)	(182.7)	(194.5)
959.6	Total Current Assets		1,066.2	928.3	997.6
Non-Current Assets					
3,567.5	Student loan advances		4,167.3	4,176.2	4,176.3
(384.5)	Less provision for doubtful debts	2	(483.8)	(375.6)	(375.6)
3,183.0	Total Non-Current Assets		3,683.5	3,800.6	3,800.7
4,142.6	TOTAL ASSETS		4,749.7	4,728.9	4,798.3

- *The accompanying accounting policies and notes form part of these financial statements.*
- *Budget figures represent the combined total for the applicable agencies.*
- *For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated audited Crown Financial Statements of the Government of New Zealand for the year ended 30 June 2002.*
- *Details of the Consolidated Movements Schedule for the year ended 30 June 2002 are shown in Note 1.*

Schedule of Cash Flows

for the Year Ended 30 June 2002

Actual	Note	Actual	Main	Supp.
2001		2002	Estimates	Estimates
\$M		\$M	\$M	\$M
Cash Flows - Operating Activities				
	Cash was provided from:			
122.7	Interest payments received	149.4	148.1	148.1
122.7	Net Cash Inflow (Outflow) from Operating Activities	149.4	148.1	148.1
Cash Flows - Investing Activities				
	Cash was provided from:			
198.5	Capital repayments received	245.6	240.7	242.7
	Cash disbursed for:			
(866.1)	Loan advances	(934.8)	(962.8)	(959.6)
(7.1)	Administration fees	(7.4)	(8.1)	(7.9)
(674.7)	Net Cash Inflow (Outflow) from Investing Activities	(696.6)	(730.2)	(724.8)
(552.0)	Net Student Loan Cash Inflow (Outflow)	(547.2)	(582.1)	(576.7)

- *The accompanying accounting policies and notes form part of these financial statements.*
- *Budget figures represent the combined total for the applicable agencies.*
- *For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated audited Crown Financial Statements of the Government of New Zealand for the year ended 30 June 2002.*
- *Details of the Consolidated Movements Schedule for the year ended 30 June 2002 are shown in Note 1.*

Notes to the Financial Statements

for the Year Ended 30 June 2002

Note 1: Consolidated Movements Schedule for the year ended 30 June 2002

Consol- idated Actual		Consolida ted Actual	Inland Revenue (IRD)	Ministry of Social Developm ent (MSD)
2001 \$M		2002 \$M	2002 \$M	2002 \$M
3,522.9	Student Loans Opening Balance	4,142.6	3,507.6	635.0
0	Loans transferred from MSD to IRD	0	857.5	(857.5)
866.1	Loans advanced	934.8	0	934.8
7.1	Administration fees	7.4	0	7.4
(198.5)	Less capital repayments made in the current year	(245.6)	(197.5)	(48.1)
674.7	Net Change in Student Loan Capital	696.6	660.0	36.6
289.3	Accrued interest	335.3	282.2	53.1
(122.6)	Interest repayments	(149.4)	(149.4)	0
(197.5)	Interest, small balance, deceased and bankrupt write-offs	(147.6)	(147.6)	0
(30.8)	Net increase (decrease) in interest receivable	38.3	(14.8)	53.1
(30.3)	Change in provision for doubtful debts	(125.5)	(107.3)	(18.2)
6.1	Other movements	(2.3)	(2.7)	0.4
4,142.6	Student Loans Closing Balance	4,749.7	4,042.8	706.9

Note 2: Provision for Doubtful Debts

Actual		Actual
2001		2002
\$M		\$M
	<u><i>Current</i></u>	
87.5	Provision for doubtful debts - MSD	105.8
39.2	Provision for doubtful debts - IRD	47.1
<u>126.7</u>	Total Current Provision	<u>152.9</u>
	<u><i>Non Current</i></u>	
384.5	Provision for doubtful debts - IRD	483.8
<u>384.5</u>	Total Non Current Provision	<u>483.8</u>
<u>511.2</u>	<u><i>Total Provision for Doubtful Debts</i></u>	<u>636.7</u>

The split of provision between interest and principal amounts is set out below:

Actual		Actual
2001		2002
\$M		\$M
70.1	Provision for doubtful debts principal - MSD	89.2
372.3	Provision for doubtful debts principal - IRD	488.5
17.4	Provision for doubtful debts interest - MSD	16.5
51.4	Provision for doubtful debts interest - IRD	42.5
<u>511.2</u>	Total Provision for Doubtful Debts	<u>636.7</u>

The methodology used to provide for student loans contains a capital and an interest component. These provisions are periodically reviewed for appropriateness and the methodologies updated where necessary.

The calculation methodology that has been used to calculate the provision for doubtful debt is:

Capital provision

The provision on the outstanding capital issued is 11.4% (this was revised from the 10% used in previous years). The impact of the increase in the capital provision rate has been to increase the provision (and therefore expense) by approximately \$75 million in 2001/02. This revision follows a comprehensive review of the underlying assumptions used to derive the proportion of current borrowing that is not expected to be repaid. The key variables that impact on the expected level of write-off relate to death and bankruptcy write-offs. The underlying assumptions regarding the borrowing characteristics and income growth profiles of borrowers and the expected level of defaulters are based on the most current information. The provision is sensitive to the assumptions on borrowing characteristics and income growth profiles, and so will be regularly reassessed as new information becomes available. A 1% shift will impact on the provision level by around \$50 million.

Interest write-off provision

The provision for interest write-offs on interest accrued after 31 December 1999 was reviewed in light of changes to government policy, resulting in a substantial increase in the provision level to 70% (from 17%). This reflected changes to the student loan scheme allowing the full write-off of interest while students continue to study, along with the increased income thresholds used to determine repayments through the income tax system. The effective provision for interest write-offs from 1 January 2001 was approximately 78% and from 1 January 2002 it was approximately 57%. The interest rate provision is reviewed annually.

Note 3 Financial Instruments

Financial instruments arrangements occur as part of the everyday operations of the scheme, through the provision of loan advances.

Credit Risk

For the Student Loan Scheme, credit risk is the risk that borrowers will default on their obligations to repay their loans or die before their loan is repaid, causing the scheme to incur a loss.

The Student Loan Scheme policy does not require borrowers to provide any collateral or security to support advances made. As the total sum advanced is widely dispersed over a large number of borrowers, the Student Loan Scheme does not have any material individual concentrations of credit risk.

The credit risk is reduced by collection of compulsory repayments via the tax system.

Fair Value

The nature of the scheme is that advances are made at a variety of interest rates, generally below market rates for unsecured loans, based on government policy. Procedures are currently being developed which will allow the fair value of the scheme to be determined in 2003.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in interest rates. Changes could impact on the government's return on loans advanced. The interest rate and the interest write-off provisions attached to student loans are set by the government.



REPORT OF THE AUDITOR-GENERAL

TO THE READERS OF THE FINANCIAL STATEMENTS OF THE STUDENT LOAN SCHEME FOR THE YEAR ENDED 30 JUNE 2002

We have audited the financial statements on pages 17 to 23. The financial statements consist of components of the revenue and expenditure and cash flows of the Student Loan Scheme and its assets as at 30 June 2002. This information is stated in accordance with the accounting policies set out on page 17.

Responsibilities of the Chief Executives of the Ministry of Education, Inland Revenue Department and Ministry of Social Development

The Chief Executives of the Ministry of Education, Inland Revenue Department and Ministry of Social Development have prepared financial statements to show the assets of the Student Loan Scheme as at 30 June 2002 and components of its revenue and expenditure and cash flows for the year ended on that date. The components of the financial statements have been reported with regard to generally accepted accounting practice in New Zealand.

Auditor's responsibilities

Section 15 of the Public Audit Act 2001 requires the Auditor-General to audit the financial statements presented by the Chief Executives. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report that opinion to you.

The Auditor-General has appointed John O'Connell, of Audit New Zealand, to undertake the audit.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- ▲ the significant estimates and judgements made by the Chief Executives in the preparation of the financial statements; and
- ▲ whether the accounting policies are appropriate to the circumstances of the Student Loan Scheme, consistently applied and adequately disclosed.

We conducted our audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with or interests in the Student Loan Scheme.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion the components of the financial statements of the Student Loan Scheme on pages 17 to 23 have been reported with regard to generally accepted accounting practice in New Zealand and fairly reflect:

- ▲ the assets as at 30 June 2002; and
- ▲ the revenue and expenditure and cash flows for the year ended on that date.

Our audit was completed on 25 September 2002 and our unqualified opinion is expressed as at that date.



John O'Connell
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Appendix 1 The Student Loan Scheme – Administration

The administration of the scheme

The Ministry of Education's role

From the inception of the Student Loan Scheme in 1992 until the end of 1999, the Ministry of Education was responsible for managing both the policy aspects and the operation of the scheme³⁶. Although the operation of the scheme was transferred to Work and Income NZ (now the Ministry of Social Development) as of 1 January 2000, the Ministry of Education has retained the strategic policy responsibilities for the scheme.

The Ministry of Social Development's role

StudyLink³⁷ (a service of the Ministry of Social Development) is responsible for the delivery and administration of the payment of student loans. This involves the receipt and assessment of applications from students, together with the administration of the payment of compulsory fees to providers, and living costs and course-related costs to students. Individual loan accounts are managed on a yearly cycle, with the loan balance being transferred each year to Inland Revenue for collection.

The delivery and administration of student loans is integrated with other support provided to students: Student Allowances, Training Incentive Allowance and Unemployment Benefit (Student Hardship).

StudyLink delivers student financial support using centralised processing, complemented by regional service centres. StudyLink makes significant use of call centre and Internet technology to communicate and interact with students and education providers.

Inland Revenue's role

Inland Revenue is responsible for the assessment and collection of student loan repayments once loans have been transferred to them for collection. Inland Revenue also determines entitlement to a full interest write-off for full-time, full-year students and low-income students, and a base interest write-off or reduction for other eligible borrowers.

In addition, Inland Revenue is responsible for the Student Loan Scheme Act 1992, and the annual regulations made under that Act which set the interest rates, the full interest write-off threshold for low-income students and the repayment threshold.

Further information on the scheme and the responsibilities of each of the agencies can be found at their respective websites:

Ministry of Education - www.minedu.govt.nz

StudyLink - www.studylink.govt.nz

Inland Revenue - www.ird.govt.nz/studentloans

The elements of the Student Loan Scheme

Eligibility

As a prerequisite to borrowing under the Student Loan Scheme, borrowers must sign a loan contract with the Crown. Students aged under 18 years need parental consent before they can borrow. Undischarged bankrupts are not eligible to apply for a student loan. To be eligible for a loan a student must:

- be a New Zealand citizen or have been granted permanent residence in New Zealand; and
- be enrolled in an approved qualification at a recognised tertiary provider; and
- be studying full-time for not less than 12 weeks, or part-time for a full year.

³⁶ This included advancing funds to students, monitoring the scheme, and providing advice on the scheme's policy. Tertiary providers (under contract to the Ministry of Education) received and processed loan applications and monitored compliance with course requirements. In addition, the Student Loan Accounts Manager (EDS Ltd, under contract to the Ministry from 1995) established loan accounts and handled loan transactions during the period of study.

³⁷ StudyLink is the new name for Student Services in the Ministry of Social Development. This new name is being progressively introduced during 2002.

Further information about entitlements and how to apply for student financial support can be found on the StudyLink website at www.studylink.govt.nz.

What can be borrowed?

A student loan is made up of four components. The four components and their maximum entitlements are as follows:

Compulsory fees or tuition fees

Students at public tertiary education institutions³⁸ can borrow the full amount of their compulsory tuition fees, while students at private training establishments can borrow up to a maximum of \$6,500 for their fees in each year of study.

Student loan compulsory fee entitlements are directly credited to the borrower's chosen tertiary education provider. Where compulsory, students' association fees can be borrowed as part of the compulsory tuition fee loan entitlement. Otherwise, students' association fees can be borrowed as part of a student's course-related costs component.

Course-related costs

Students can borrow up to \$1,000 each year to help cover expenses related to their studies, such as equipment, textbooks, and field trips. To access this entitlement, students are required to provide documented justification of their expenditure, which can be either a statement from their education provider giving details of the items needed for their course plus an estimate of the expected cost, or receipts for expenses incurred.

Living costs

Full-time students studying for 12 weeks or more can access a living costs entitlement of \$150 per week for each week of the course, less any net entitlement to student allowances³⁹. The living costs entitlement is made available in weekly instalments in arrears.

Students nominate the amount they wish to draw each week up to the maximum entitlement. If they nominate less than their full entitlement, any remaining entitlement that is unused each week cannot be claimed at a later date.

Administration fee

Each time a new loan account is established, an administration fee of \$50 is charged. This is added to the student's loan balance when the student first draws from the loan account, or when fees are transferred to the provider (on the student's instructions). If a student cancels the loan within seven days of the loan account being established, and repays any money that has been drawn down, the \$50 administration fee (and any interest on it) will be waived. Otherwise, the administration fee is always included in the loan balance.

Transfer of closed loan accounts to Inland Revenue

On or after 28 February each year, every loan account which closed before 1 January (because the course end date had been reached) is transferred to Inland Revenue for collection. In January a final statement is issued to borrowers which identifies the loan balance that will be transferred, and provides an opportunity for borrowers to object to the loan balance. The loan accounts are then transferred to Inland Revenue in either March or early April, provided any outstanding objections have been resolved.

Loan repayments

Under the Student Loan Scheme Act 1992, the collection of loan repayments is done through the taxation system. The amount a resident borrower is required to repay is based on his or her income. Any borrower earning over the repayment threshold during an income year is required to make repayments towards the loan.

Borrowers who earn more than the repayment threshold through salary, wages, a student allowance, or income support, are required to advise their employers that they have a student loan. Repayment deductions are then made from their income by their employers, along with other PAYE deductions. Employers forward the repayment deductions to Inland Revenue together with their regular PAYE deductions.

Borrowers with self-employment income who are earning over the repayment threshold are generally required to make repayments directly to Inland Revenue in three instalments, if their repayment obligation for the previous year, less any repayment deductions made by employers, was more than \$1,000.

Collection of overdue loan repayments is done through the systems in place for the collection of overdue taxes.

³⁸ These are the Universities, Colleges of Education, Polytechnics, and the three Wānanga that are recognised under the Education Act 1989.

³⁹ Information on student allowances is available on the StudyLink web site – www.studylink.govt.nz – or via the StudyLink freephone, 0800 88 99 00.

Interest

As loan drawings are made, interest on the outstanding balance accumulates on a daily basis.

On 28 February each year, loan balances (including interest that has accrued) for loan accounts closed in the previous calendar year are transferred to Inland Revenue. Interest continues to accrue on the transferred balance until it is compounded at 31 March and added to the loan balance. Interest then starts to accrue on the new loan balance from 1 April.

Interest is made up of two components – the base interest rate and an interest adjustment rate. Although the overall interest rate has been remained at 7% since 1 April 1999, the base interest and interest adjustment rates have changed each year.

The table below shows the interest rates in recent years.

Table 10 Student Loan Interest Rates

Income year	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Base interest rate	5.9%	6.2%	5.3%	6.1%	3.1%	5.1%
Interest adjustment rate	2.3%	1.8%	1.7%	0.9%	3.9%	1.9%
Total interest rate	8.2%	8.0%	7.0%	7.0%	7.0%	7.0%

Interest write-offs

Depending on their circumstances, borrowers may be eligible to have all or some of their interest written off after the end of the income year. A borrower may be entitled to a full interest write-off, a base interest write-off or a base interest reduction.

Full interest write-off

Borrowers who studied for at least 32 weeks in any 52-week period that ended during the income year and whose study was at least 80% of equivalent full-time study (i.e. they are enrolled in courses totalling 0.8 EFTS) are eligible to have all of the interest charged on their loan for the previous year written off.

Borrowers who undertook approved study during the year, but did not meet the full-time, full-year criteria above are still eligible to have all of the interest charged on their loan for the previous year written off as long as their total net income is below the income threshold. For the 2001/02 year the income threshold was \$25,073. This has been increased to \$25,378 for the 2002/03 income year.

Base interest write-off

Borrowers whose net income is equal to or less than the repayment threshold in any income year qualify for a full base interest write-off. This ensures that the loan balances for these borrowers can never increase by more than the rate of inflation.

Base interest reduction

The base interest reduction provision limits the amount of base interest charged on a loan to 50% of the repayment obligation for that year. Where a borrower's base interest charge in respect of any income year exceeds 50% of the repayment obligation, the base interest charge is reduced to that amount. This effectively means that at least 50% of all repayments are credited firstly to the interest adjustment rate and secondly to the loan principal.

Additional criteria for all interest write-offs

Eligibility for all interest write-offs is limited to the period for which the borrower is or was a resident.

All income-contingent write-offs (i.e. full interest write-off for part-time students, base interest write-offs and base interest reductions) are subject to a borrower confirming their income with Inland Revenue. This is done either by a borrower filing an IR3 tax return or Inland Revenue issuing a Personal Tax Summary.

Full interest write-offs for full-time students are credited to eligible borrowers' loan accounts after the end of the income year during which they studied and after Inland Revenue has received study status confirmation from the Ministry of Education. Most full-time students will receive their full interest write-off in May each year.

All other interest write-offs are income contingent and cannot be calculated until eligible borrowers' income is confirmed. For borrowers who are required to file an IR3 tax return, their interest write-off/reduction will be calculated after they file their return. All other eligible borrowers will receive their interest write-off/reduction after they receive their Personal Tax Summary in June each year.

Non-resident interest write-offs

Non-resident borrowers can qualify for either a base interest write-off or a base interest reduction. However, the criteria are different from those for residents. To qualify, non-residents must have:

- re-negotiated all or part of their assessed repayment obligation for a year; and
- satisfied the Commissioner of Inland Revenue that:
 - i. they have been engaged in full-time study outside New Zealand; and
 - ii. payment of the base interest charged for the period during the income year in which they were engaged in full-time study outside New Zealand would cause serious hardship.

A non-resident borrower who meets the criteria must apply in writing to the Commissioner to have their base interest written off after the end of the income year(s) in which they studied outside New Zealand.

Appendix 2 The Administration Costs

The costs of administering the Student Loan Scheme vary from year to year, depending on the number of borrowers, the number of transactions and any system changes required to implement new policies. In 1998, for example, system changes were needed to implement the reduction of the course-related costs entitlement and the requirement for evidence of course-related costs in the 1999 academic year. Inland Revenue has had to make significant system changes in order to implement changes to repayment and interest write-off regimes. The transfer of loan administration to the Ministry of Social Development, with the introduction of centralised application processing and weekly living costs instalments, required major development of new systems and support services.

Table 11 Administration Costs

	1997/98 (Smillion)	1998/99 (Smillion)	1999/00 (Smillion)	2000/01 (Smillion)	2001/02 (Smillion)
Ministry of Education	1.5	1.7	1.0	-	-
Tertiary institutions	5.0	5.2	2.8	-	-
Loan Accounts Manager	3.1	4.6	1.9	-	-
Administration cost (Ministry of Social Development)	-	-	36.8	18.9	13.9
Administration Costs (MOE/MSD)	9.6	11.5	42.5	18.9	13.9
Inland Revenue	8.3	9.0	7.5	7.9	8.6
Total Administration Costs	17.9	20.5	50.0	26.8	22.5
Less loan administration fee revenue	(5.5)	(5.6)	(6.6)	(7.1)	(7.4)
Net Administration Costs	12.4	14.9	43.4	19.7	15.1

Notes:

1. The administration cost (Ministry of Social Development) for 1999/2000 includes the delivery of Loans, Allowances, and Community Wage Student, and a number of start-up costs, as these costs were not separately identified at that time.
2. Ministry of Education costs prior to 2000 include the costs associated with the transfer of the student loans function to the Ministry of Social Development.
3. Loan Accounts Manager costs reflect costs associated with the changes made in 1998/99 to the Student Loan Scheme.
4. Loan accounts established in 1999 but which continued to operate in the 2000 year were also administered by the Loan Accounts Manager (EDS Ltd) under contract to the Ministry of Social Development. Costs associated with this contract were covered under the administration costs of the Ministry of Social Development.
5. All figures exclude GST.
6. Caution should be exercised in making direct comparisons from year to year, due to changes in delivery and the volume of loans being managed.

Appendix 3 Statistical Tables

Table 12 (Fig 1) Formal Enrolments in Tertiary Education Institutions at 31 July [1989-2001]

Year	Full-time	Part-time
1989	86,494	59,126
1990	68,144	67,546
1991	78,781	78,261
1992	97,917	104,226
1993	99,160	97,974
1994	100,634	96,347
1995	106,247	104,688
1996	111,655	101,980
1997	118,352	99,654
1998	125,710	96,607
1999	127,653	93,056
2000	129,189	95,991
2001	132,774	102,803

Table 13 (Fig 2) Formal Enrolments in Tertiary Education Institutions by Gender at 31 July [1994-2001]

Year	Female	Male
1994	104,358	92,623
1995	112,588	98,347
1996	116,144	97,491
1997	120,006	98,000
1998	124,462	97,855
1999	125,429	95,280
2000	127,974	97,206
2001	134,489	101,088

Table 14 (Fig 3) Formal Enrolments in Tertiary Education Institutions by Ethnicity [excluding European/Pākehā] at 31 July [1994-2001]

Year	Māori	Pasifika Peoples	Asian	Other/Unknown
1994	20,201	5,900	8,779	14,114
1995	22,709	6,802	10,488	19,262
1996	23,450	7,386	14,523	18,320
1997	24,561	7,388	17,623	18,433
1998	27,133	8,119	19,476	18,940
1999	27,837	8,241	19,994	19,411
2000	29,513	8,645	20,628	20,471
2001	36,016	9,274	20,802	26,396

Table 16 (Fig 5) Loans Taken out in Each Academic Year [1992-2001]

Year	Number of borrowers
1992	44,202
1993	68,411
1994	79,338
1995	89,817
1996	95,411
1997	105,038
1998	114,387
1999	115,142
2000	128,107
2001	148,174

Table 15 (Fig 4) OECD [1999] Comparison of Expenditure on Education

Country	% of GDP spent on Tertiary Education	% of govt exp. spent on Tertiary Education
OECD Average	0.96	3.20
New Zealand	1.00	4.80
Australia	0.98	3.53
Canada	1.19	3.97
France	0.99	1.98
Germany	0.99	2.32
Ireland	0.99	3.76
Japan	0.47	1.31
Korea	0.54	2.06
Switzerland	1.14	3.16
United Kingdom	0.69	2.70
USA	1.36	4.79

Table 17 (Fig 6) Students who Borrowed Fees* by Provider Type in 2000 & 2001

Provider type	Number of (fees) borrowers			Total amount borrowed [\$000's]		
	2001	2000	Incr [%] [2001/2000]	2001	2000	Incr [%] [2001/2000]
Universities	65,507	61,380	6.7%	260,583	240,371	8.4%
Polytechnics	38,605	36,996	4.3%	126,175	117,838	7.1%
Colleges of Education	5,139	4,910	4.7%	13,496	13,294	1.5%
Wānanga	2,782	2,054	35.4%	11,563	8,090	42.9%
PTE	26,358	17,493	50.7%	139,778	89,267	56.6%
Total	138,391	122,833	12.7%	551,595	468,860	17.6%

*From 2000, only fees borrowed are recorded by provider. Totals differ from Table 16 because not all students borrow fees.

Table 18 (Fig 7) Percentage of Borrowers by Gender

Gender	1992 %	1993 %	1994 %	1995 %	1996 %	1997 %	1998 %	1999 %	2000 %	2001 %
Males	53.7	50.9	49.9	48.5	48.1	47.1	46.6	44.5	44.2	43.4
Females	46.3	49.1	50.1	51.5	51.9	52.9	53.4	55.5	55.8	56.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 19 (Fig 10) Percentage of Borrowers by Ethnicity

Ethnicity	1992 %	1993 %	1994 %	1995 %	1996 %	1997 %	1998 %	1999 %	2000 %	2001 %
European*/Pākehā	76.4	72.5	69.6	71.7	65.4	61.7	59.1	56.6	49.7	52.4
Māori	12.8	15.0	15.6	16.0	16.2	16.4	17.1	19.0	11.2	13.1
Pasifika Peoples	5.4	5.6	5.5	5.6	5.8	6.2	6.6	7.4	4.7	5.0
Asian	2.4	2.6	3.0	4.0	5.8	6.8	6.8	6.1	7.4	8.1
Other	2.1	3.2	0.8	2.7	3.9	4.8	5.4	5.8	2.5	2.8
Not known	0.9	1.1	5.5	0.0	2.9	4.1	5.0	5.1	24.5	18.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: The ethnicity question has always been optional for students. Multiple ethnic groups can be selected but only the first recorded has been used in this table.

*European/Pākehā includes students of unknown ethnicity in 1995.

Fig 22 Percentage of Students who Borrowed Fees by Provider Type in 2000 and 2001

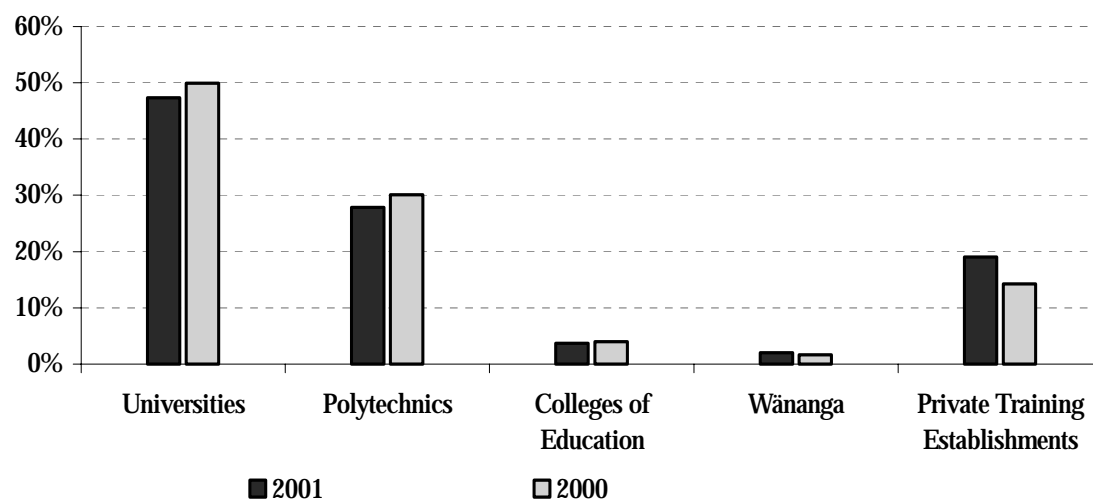


Table 20 (Figs 8-10) Borrowers and Amount Borrowed by Ethnicity and Gender in 2000 and 2001

Ethnicity	Number of borrowers			Amount borrowed [\$000's]		
	2001	2000	Incr [%] [2001/2000]	2001	2000	Incr [%] [2001/2000]
European/Pākehā	77,586	63,708	21.8%	482,193	390,930	23.3%
Female	43,218	35,473	21.8%	255,476	208,410	22.6%
Male	34,368	28,235	21.7%	226,717	182,520	24.2%
Māori	19,442	14,349	35.5%	112,804	82,893	36.1%
Female	11,908	8,704	36.8%	66,173	47,523	39.2%
Male	7,534	5,645	33.5%	46,631	35,370	31.8%
Pasifika Peoples	7,349	6,041	21.7%	45,144	38,584	17.0%
Female	4,363	3,605	21.0%	26,084	22,932	13.7%
Male	2,986	2,436	22.6%	19,060	15,652	21.8%
Asian	12,038	9,504	26.7%	74,325	55,521	33.9%
Female	6,085	4,677	30.1%	36,132	26,097	38.5%
Male	5,953	4,827	23.3%	38,193	29,424	29.8%
Other ethnic groups	4,131	3,178	30.0%	24,486	18,927	29.4%
Female	1,929	1,440	34.0%	11,255	8,281	35.9%
Male	2,202	1,738	26.7%	13,231	10,646	24.3%
Not stated	27,628	31,327	-11.8%	170,038	189,160	-10.1%
Female	16,313	17,627	-7.5%	93,779	102,223	-8.3%
Male	11,315	13,700	-17.4%	76,259	86,938	-12.3%
Total	148,174	128,107	15.7%	908,990	776,015	17.1%

The ethnicity question has always been optional for students. Multiple ethnic groups could be selected but only the first recorded has been used in this table

Table 21 (Figs 11-13) Borrowers and Amount Borrowed by Age in 2000 and 2001

Age group	Number of borrowers			Amount borrowed [\$000's]		
	2001	2000	Incr [%] [2001/2000]	2001	2000	Incr [%] [2001/2000]
Under 18	4,129	3,189	29.5%	28,146	21,702	29.7%
Female	2,218	1,749	26.8%	15,963	12,694	25.8%
Male	1,911	1,440	32.7%	12,183	9,008	35.2%
18 - 24	76,086	68,529	11.0%	523,060	463,667	12.8%
Female	41,741	37,143	12.4%	278,584	246,274	13.1%
Male	34,345	31,386	9.4%	244,476	217,393	12.5%
24 - 30	29,449	25,191	16.9%	164,447	139,253	18.1%
Female	16,042	13,505	18.8%	82,129	68,687	19.6%
Male	13,407	11,686	14.7%	82,318	70,566	16.7%
31 - 35	12,964	10,797	20.1%	67,017	53,389	25.5%
Female	7,604	6,230	22.1%	35,930	28,423	26.4%
Male	5,360	4,567	17.4%	31,087	24,966	24.5%
36 - 40	10,317	8,808	17.1%	49,921	41,868	19.2%
Female	6,433	5,410	18.9%	29,342	24,435	20.1%
Male	3,884	3,398	14.3%	20,579	17,433	18.1%
41 - 45	7,035	5,705	23.3%	33,154	27,013	22.7%
Female	4,601	3,772	22.0%	20,825	17,276	20.5%
Male	2,434	1,933	25.9%	12,329	9,737	26.6%
46 - 55	6,211	4,752	30.7%	30,058	22,859	31.5%
Female	4,085	3,103	31.6%	19,319	14,450	33.7%
Male	2,126	1,649	28.9%	10,739	8,409	27.7%
55 - 65	1,572	948	65.8%	10,161	5,139	97.7%
Female	930	533	74.5%	5,760	2,792	106.3%
Male	642	415	54.7%	4,400	2,347	87.5%
66 +	411	188	118.6%	3,023	1,128	168.0%
Female	162	81	100.0%	1,046	436	140.1%
Male	249	107	132.7%	1,977	692	185.6%
Total	148,174	128,107	15.7%	908,987	776,018	17.1%
Female	83,816	71,526	17.2%	488,899	415,466	17.7%
Male	64,358	56,581	13.7%	420,090	360,550	16.5%

Table 22 (Fig 18) Interest Write-offs at 30 June

Year	Interest write-offs \$m
1994	\$0.5
1995	\$4.3
1996	\$5.5
1997	\$12.6
1998	\$16.9
1999	\$20.3
2000	\$20.3
2001	\$192.1
2002	\$141.4

Table 23 (Fig 21) Deceased and Bankruptcy Write-offs at 30 June

Year	Deceased \$m	Bankrupt \$m
1998	\$1.20	\$1.11
1999	\$2.29	\$2.30
2000	\$1.60	\$2.79
2001	\$2.33	\$2.83
2002	\$2.64	\$3.51

Table 24 Student Loan Payments Received by Inland Revenue – Borrower/Employer Split

Fiscal year	Borrower \$million	Employer (PAYE) \$million	Total interest & principal repayments
			\$million
92/93	1.99	0.42	2.41
93/94	8.68	10.37	19.05
94/95	16.18	24.87	41.05
95/96	28.86	43.46	72.32
96/97	41.36	65.41	106.77
97/98	64.18	83.18	147.36
98/99	115.84	97.39	213.23
99/00	115.59	133.91	249.50
00/01	128.13	156.55	284.68
01/02	168.97	177.91	346.88
Total	689.78	793.47	1,483.25

Table 25 (Fig 15) Student Loan Debt with Inland Revenue at 30 June

Year	Total debt
1995	\$799,155,618
1996	\$1,221,546,927
1997	\$1,676,337,210
1998	\$2,254,803,172
1999	\$2,885,542,989
2000	\$3,412,349,928
2001	\$3,927,522,895
2002	\$4,559,362,310

Note: Employer repayments are those paid by borrowers' employers to Inland Revenue by way of deduction from borrowers' income. Borrower repayments are those made to Inland Revenue directly by the borrower. A share of the borrower repayments relates to voluntary repayments. Borrowers are able to make voluntary repayments to Inland Revenue of any amount at any time.

Table 26 (Fig 16) Average Student Loan Balance with Inland Revenue

Year	Average student loan balance
1994	\$5,525
1995	\$6,765
1996	\$7,734
1997	\$8,854
1998	\$10,207
1999	\$11,665
2000	\$12,413
2001	\$12,497
2002	\$12,643

Table 27 (Fig 13) Borrowers by Age

Age band	No. of borrowers
<18	1,653
18-20	43,650
21-23	74,190
24-26	68,099
27-29	53,788
30-32	32,925
33-35	20,180
36-38	16,631
39-41	14,377
42-44	10,558
45-47	8,168
48-50	5,858
51-55	5,948
56-60	2,174
60+	2,413

Note: The definition of "Borrowers" in this table means the number of people with outstanding loan balances.

Table 28 (Fig 17) Number of Loans Repaid to Inland Revenue at 30 June

Year	No. of loans repaid
1993	826
1994	1,374
1995	2,496
1996	9,234
1997	11,689
1998	14,933
1999	16,794
2000	15,948
2001	16,539
2002	17,085

Table 29 (Fig 19) Interest Write-offs by Type

	2000/01 \$m	2001/02 \$m
Full interest write-offs	\$69.95	\$64.23
Base interest write-offs	\$66.16	\$37.52
Base interest reduction	\$32.34	\$9.82

Note: The figures in this table are calculated on an income year basis, i.e. 31 March of each year. They are different from the figures shown in Table 22 which have been calculated on a fiscal year basis.

Table 30 (Fig 20) Small Balance Write-offs (Inland Revenue only)

Year	Small balance write-offs
1998	\$19,480
1999	\$24,877
2000	\$12,796
2001	\$18,473
2002	\$21,774

Appendix 4 Glossary of Terms

Academic year: January - December (calendar year).

Approved qualification: A formally assessed qualification of study that has been approved by the New Zealand Vice Chancellors' Committee (NZVCC), or the New Zealand Qualifications Authority (NZQA) or its agents (NZPPC and NZCTE). Also includes qualifications leading to an award issued by a local tertiary institution which has the approval of the Council or, where delegated, the internal academic board of that institution.

Base interest (rate): The interest charge which reflects how much it costs the government to borrow for the Student Loan Scheme. From 1 April 2002 the base interest rate is 5.1%. (See also Interest adjustment rate and Interest rate setting)

Base interest reduction: The amount by which a borrower's base interest is reduced and capped at 50% of their annual minimum repayment obligation. In effect, this means that at least 50% of any payments made are credited against the loan principal and CPI interest components of the loan.

Base interest write-off: All base interest charged is written off in the event that earnings do not exceed the repayment threshold in an income year. The repayment threshold was \$15,132 for the year ended 31 March 2002 and is currently \$15,496.

Borrower: (See Student loan borrower)

Client: (See Student loan borrower)

College of Education (CoE): A public tertiary institution that provides teacher education training.

Compulsory fees: (See Tuition fees)

Cost of borrowing: This refers to the amount of money the Crown borrows to finance student loans. It should be noted that the Crown doesn't specifically borrow for student loans. The Crown's borrowing programme funds the net impact of the government's operating, investing (including student loans) and financing activity. The Crown cost of borrowing rate is currently based on the average 10-year bond rate over the previous 12 months to December.

Course: A component of education. A paper/module/unit standard may all be different types of courses. A course or collection of courses form a programme of study which, if completed successfully, results in the award of a qualification.

Course-related costs: These are the additional expenses associated with tertiary study that are not compulsory for all students. These can include such costs as equipment, textbooks, field trips, and transport to and from study.

Drawdown(s) or Drawings: The amount of money drawn down by a student from their loan account, as either tuition fees, course-related costs or living costs.

EFTS (Equivalent full-time student): The EFTS system is a method of counting tertiary student numbers. The basis of the EFTS system is that a student taking a normal year's full-time study equals 1.0 EFTS unit and the courses taken by part-time students are fractions of one EFTS unit.

Fiscal year: July - June (government accounting year).

Formal students: For statistical purposes, a tertiary student is considered to be a formal student when enrolled in a formal programme of study at a tertiary education provider with an aggregated EFTS consumption value greater than 0.03 (i.e. more than one week's full-time duration).

Full interest write-off: All interest charges are written off if a borrower is a full-time, full-year student or a part-year or part-time student and earned less than the interest write-off threshold (\$25,073 for the year ended 31 March 2002).

Full-time: For student loan and allowances eligibility purposes full-time means any period in excess of 12 weeks (0.3 EFTS), i.e. **full-time/part-year**. Another definition used for statistical purposes by the Ministry applies to any course over 32 weeks (0.8 EFTS), i.e. **full-time/full-year**. This is the definition of full-time for the student loan full interest write-off.

Income year: Tax year as appropriate for taxpayer.

Interest adjustment rate: This rate is set based on the Consumer Price Index (or the cost of living) from the December quarter in the previous income year. From 1 April 2002 the interest adjustment rate is 1.9%. (See also Base interest rate and Interest setting)

Interest rate(s): (See Base interest, Interest adjustment rate, Full interest write-off, Base interest write-off and Base interest reduction)

Interest (rate) setting: This describes the process by which the student loan scheme interest rate is set annually by Order in Council. There are two components to the total interest rate - the interest adjustment rate and the base interest rate.

Interest write-off(s): (See Base interest write-off, Full interest write-off, Partial base interest write-off and Base interest reduction).

Interest write-off threshold: The level of income below which a part-time or part-year borrower must earn to qualify for a full interest write-off. For the year ended 31 March 2002 the interest write-off threshold was \$25,073.

Knowledge society: The government's vision for a New Zealand knowledge society is that New Zealand will be, according to the Tertiary Education Strategy 2002/07:

- a birthplace of world-changing people and ideas;
- a land where diversity is valued and reflected in New Zealand's national identity;
- a great place to live, learn, work and do business; and
- a place where people invest in the future.

Loan Accounts Manager: Any person (currently the Operations Manager (Processing Centre) at StudyLink) who is appointed by the lender from time to time to establish and administer loan balances under the Student Loan Scheme (other than any such loan balances that have been transferred to the Commissioner for collection). See section 2 of the Student Loan Scheme Act 1992.

Loan balance: Means the total amount outstanding under all loans obtained by the borrower under the Student Loan Scheme.

Loan clients: (See Student loan borrowers)

Loan contract: Means any loan agreement or contract entered into by the lender and the borrower under the Student Loan Scheme.

Non-resident borrower: Means a borrower who is not resident in New Zealand in terms of section OE 1 of the Income Tax Act 1994.

Non-resident repayment obligations: A repayment obligation imposed under part 3 of the Student Loan Scheme Act 1992 for borrowers who are deemed to be non-resident.

Partial base interest write-off: (See Base interest reduction)

Part-time: An expression which can apply to either the qualification or the student. A qualification offered part time has the same EFTS value but is studied over a longer period of time than its full-time equivalent. A student may elect to study a full-time qualification on a part-time basis, by enrolling in fewer courses than the normal student full-time work load. For the purposes of a student loan full interest write-off, part-time means any course that is not full time (i.e. less than 0.8 EFTS).

Pasifika peoples: A diverse range of peoples from the South Pacific region or people within this country who have strong family and cultural connections to Pacific Island countries. Pasifika peoples are not homogenous and include those who have been born in New Zealand or overseas. It is a collective term used to refer to men, women and children of Samoan, Cook Islands, Tongan, Niuean, Tokelauan, Fijian and other Pasifika or mixed heritages. It includes a variety of combinations of ethnicities, recent migrants or third/fourth/fifth generation New Zealand-born.

Polytechnic: A public tertiary education institution that is characterised by a wide diversity of vocational and professional programmes.

Private Training Establishments (PTEs): These are private institutions registered with the New Zealand Qualifications Authority.

Programme: A programme of study is a collection of courses, classes, or work in which a student enrolls which contributes to meeting the requirements for the award of a qualification.

Qualification: An official award given in recognition of the successful completion of a programme of study, which has been quality assured by a recognised quality assurance agency. All recognised qualifications must be registered on the Qualifications register.

Recognised (accredited) tertiary provider: An institution or private provider that proposes to provide an approved course of study must apply to the New Zealand Qualifications Authority (NZQA) in order for it to be recognised as having the expertise appropriate to the course of study.

Recognised course/programme/qualification: A quality assured course/programme/qualification which has been entered on the Ministry of Education's Qualifications register with the necessary approvals.

Repayment deductions: Amounts deducted by employers from a borrower's salary or wages when a borrower's income exceeds the repayment threshold and where a borrower has notified their employer of their student loan repayment obligation.

Repayment obligation: The amount a borrower is required to repay toward their loan in any given income year. For resident borrowers, this is calculated as the amount by which the borrower's net income exceeds the repayment threshold, multiplied by 10%.

Repayment threshold: The amount a person can earn in a year before they have to start paying back their loan. The amount is currently set at \$15,496

before tax. Once a person earns more than this they will have to pay 10 cents for every dollar earned over this amount.

Resident borrower: A person who is resident in New Zealand in terms of section OE 1 of the Income Tax Act 1994.

Small balance write-offs: In the event that a borrower has a loan balance of less than \$10 as at the last day of any income year, the loan balance is reduced to zero.

Strategic policy (student loans): This means the parameters of the scheme within the government's income support framework. The parameters define why student support is provided, who is eligible, and what they are entitled to.

Student allowances: Student allowances are income-tested grants designed to provide assistance to those students who are unable to support themselves or do not have access to alternative sources of support while undertaking full-time study.

Student loan borrower: A borrower means any person who has received a student loan. A person is still referred to as a borrower whilst they have an outstanding debt balance.

Study status: This refers to whether a person is studying full time or part time.

StudyLink: StudyLink (a service of the Ministry of Social Development) is responsible for the delivery and administration of the payment of student loans, student allowances and the unemployment benefit (student hardship).

Tax year: Tax year as appropriate for taxpayer.

Tertiary education: Tertiary education comprises all involvement in post-school learning activities and includes industry training and community education.

Tertiary Education Institutions (TEIs): Tertiary Education Institutions are publicly funded universities, polytechnics, technical institutes, colleges of education and wānanga.

Tertiary education providers: Tertiary education providers are all the institutions and organisations that provide tertiary education. These include public tertiary education institutions (TEIs), private training establishments (PTEs), other providers (OTEPs) and government training establishments (GTEs).

Tertiary sector: (See Tertiary education providers)

TESLA: Tertiary Education Student Loans Analysis model (see page 7 for more detail)

Total interest rate: This means the sum of the base interest rate and the interest adjustment rate.

Transferred balance: The total loan balance including interest that is transferred from StudyLink to Inland Revenue for collection.

Tuition fees: Fees charged for tuition by public and private tertiary education providers.

Tuition subsidies: Money that is appropriated by the government for Vote Education that is used to provide EFTS-based tuition subsidies for valid student enrolments offered by recognised providers.

Undischarged Bankrupt: A person who has been officially declared bankrupt and who hasn't yet been discharged under the Insolvency Act 1967.

University: A public tertiary education institution that is primarily concerned with advanced learning and knowledge, research and teaching to a postgraduate level.

Voluntary repayments: Any additional student loan repayment that is made over and above the compulsory

repayment obligation, or is made prior to the loan being transferred to IRD. This payment goes directly to the principal.

Wānanga: A public tertiary education institution that provides programmes with an emphasis on the application of knowledge regarding ahuatanga Māori (Māori traditions) according to tikanga Māori (Māori custom).