

CHAPTER ONE

STUDENT LOANS IN THE TERTIARY EDUCATION SYSTEM

1.0 Tertiary education in a modern economy and society

Government's priorities

Government has outlined three themes that will shape its priorities for the next decade: economic transformation; families – young and old; and national identity. These themes aim to ensure that all New Zealanders enjoy prosperity and a good quality of life, and to make New Zealand the best place in the world for future generations of New Zealanders to live. Tertiary education contributes to these themes.

Economic transformation

Tertiary education equips New Zealanders with the skills and competencies needed for a productive, adaptable workforce. It helps to develop business leaders with the entrepreneurial and management capabilities to make New Zealand businesses grow and compete globally.

Tertiary organisations deliver research and knowledge that create commercial opportunities for New Zealand firms. In addition, tertiary organisations help develop international education as a sustainable high-value export sector and they will be increasingly required to perform and compete in a globally competitive market.

Families – young and old

Achievement in tertiary education has wide-ranging benefits for individuals, their families and the wider community. Educational success is not only related to economic success but to improved social outcomes, greater personal wellbeing and security, and improved outcomes for children. By ensuring all New Zealanders can achieve to their potential in tertiary education, the system contributes to our nation's social development and the health and security of New Zealand families.

National identity

Our tertiary education institutions are central to New Zealand's national identity. They act as custodians and interpreters of our culture, our history and our view of our place in the world. Teaching and research are central to the way in which we understand and connect with each other, our natural environment and the wider world.

Many New Zealanders learn about and participate in art and culture, sport and other aspects of national life while at tertiary education organisations. The broad skills and competencies developed in tertiary education enable New Zealanders to participate in society; to understand and appreciate diverse cultures; and to contribute to social and

cultural debate through the application of knowledge and understanding they have gained.

The Tertiary Education Strategy

The Tertiary Education Strategy (TES) 2002/07 set the government's goals and priorities for New Zealand's tertiary education system to 2007. It has six strategies:

- Raise foundation skills so all people can participate in our knowledge society.
- Develop the skills New Zealanders need for our knowledge society.
- Strengthen research, knowledge creation and uptake for our knowledge society.
- Te Rautaki Mātauranga Māori – contribute to the achievement of Māori development aspirations.
- Educate for Pasifika peoples' development and success.
- Strengthen system capability and quality.

A new TES for 2007/12 will be published in 2007. As well as the recently announced changes to aspects of tertiary education governance and funding policy, it's intended to continue the broad and inclusive direction of the TES 2002/07, but to provide a sharper focus on the shifts required in tertiary education to achieve greater quality, relevance and value for money.

1.1 Funding tertiary education

Sharing the costs

As tertiary education is one of the keys to development and growth, all countries want to expand their tertiary systems and to use tertiary education to raise the level of skills in their population. However, that costs a great deal. Most countries face a dilemma in meeting the increasing costs of an expanding system. In New Zealand, one way successive governments have approached this, is by sharing the costs.

Tuition subsidies ensure the cost of tertiary education is shared between government, students and their families. Subsidies enable government to provide funding for more students than would otherwise be possible, and therefore expand participation. In addition, subsidies acknowledge that the benefits of tertiary education are shared:

- A better educated workforce means our economy has greater skills to call on.
- Evidence indicates that tertiary education contributes to improved outcomes in health and social cohesion.
- Individuals with tertiary education earn more on average than others and are less likely to be unemployed.
- Individuals with tertiary education have higher levels of satisfaction with their lives.

Many individuals, however, do not have the money to meet their share of the cost until they experience the benefit several years into the future. The loan scheme enables these students to meet their share of tertiary education costs by allowing them to pay their share over time, as their earnings increase.

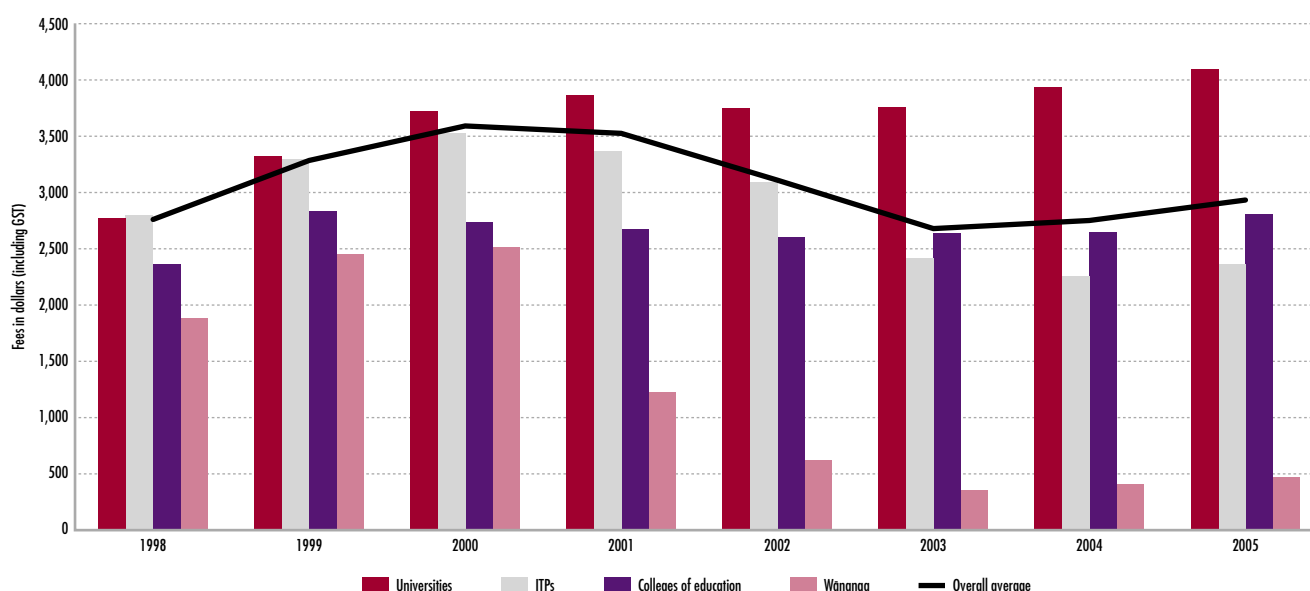
While the share of the total cost of tertiary education borne by students rose from 27 percent in 1998 to 33 percent in 2000, it fell back to 26 percent by 2005 due to fee stabilisation and rising subsidy rates.

Funding policy and its effect on tertiary fees

Between 1998 and 2000, government reduced the funding rates it paid to tertiary education providers. This led to providers increasing their fees; the average tuition fee per equivalent full-time student (EFTS) in public tertiary institutions increased by 29 percent during this period.

From 2001, government introduced policies aimed at stabilising fees and the average fee per EFTS fell by 24 percent¹ between 2001 and 2003. It then increased by 6.6 percent between 2004 and 2005. Some of this increase was due to a fall in the proportion of students in low-cost courses, especially in wānanga.

Figure 1 Domestic tuition fees per equivalent full-time student (EFTS) in tertiary education institutions (TEIs) by provider type 1998-2005



Notes:

1. Auckland University of Technology is treated as a university for the entire period.
2. Auckland College of Education merged with the University of Auckland on 1 September 2004, and Wellington College of Education with Victoria University of Wellington on 1 January 2005.
3. Fees include GST.
4. The trends in fees in the institutes of technology and polytechnics (ITPs) and wānanga in the period 2000-2004 are influenced by the number of courses with zero fees offered in those subsectors.

Source: Ministry of Education

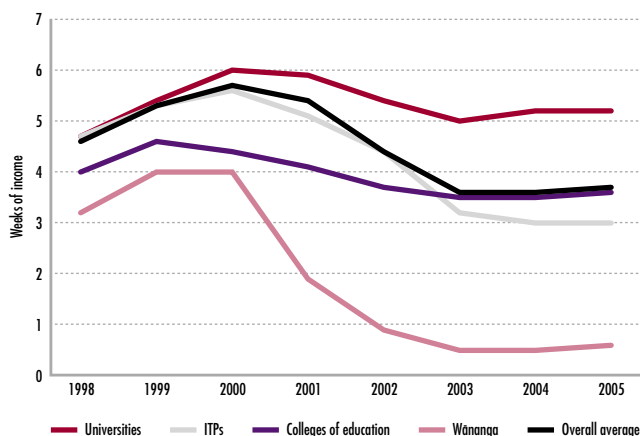
Tertiary education becomes more affordable

Fee stabilisation has meant that tertiary education has become more affordable since 2000:

- In 2000, the average full-year, full-time tuition fee at a tertiary institution was equivalent to nearly six weeks' gross income for a person employed on the average wage. By 2005, it was equivalent to less than four weeks'.
- In 2000, the average full-year, full-time tuition fee at a university was equivalent to six weeks' average weekly income for employed persons; by 2005 this had dropped to five weeks'.

¹ The extent of the fall in average fees from 2001 to 2004 was magnified by several polytechnics and wānanga reducing their fees for some qualifications to zero during this time.

Figure 2 Ratio of average domestic student fees at TELs to average weekly income for the employed 1998-2005



Source: Ministry of Education and Statistics New Zealand

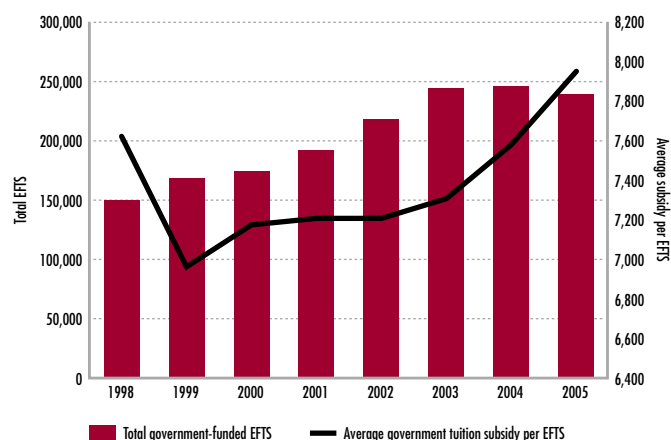
Increased spending on tuition subsidies

Government provides financial assistance to students participating in tertiary education by paying tuition subsidies² to tertiary education providers and providing student allowances and student loans³. Of this, tuition subsidies are the largest component.

Since 2000, government funding in the form of tuition subsidies has increased to tertiary education providers. In 2005/06, \$1,982 million in tuition subsidies was allocated to tertiary education providers, compared with \$1,202 million in 1999/2000. The increased funding is due to an increase in tertiary student numbers and in subsidy rates.

Between 2000 and 2005, the number of government-funded EFTS increased by 37 percent from 175,706 to 240,263. From 2000 to 2005, the tuition subsidy rate (the funding per EFTS) increased by 17 percent for public tertiary education institutions.

Figure 3 Total government-funded EFTS places and average funding per EFTS in public tertiary education organisations (TEOs) 1998-2005



Notes:

1. The rapid increase in participation in tertiary education that began in the late 1990s began to flatten in 2004. In 2005, there was a small reduction in total enrolments (on an EFTS basis). This was partly in response to government moves to strengthen the relevance and quality of tertiary provision at certificate and diploma level.
2. Tuition subsidy includes student component funding, base grants, clinical add-ons, fee stabilisation, Special Supplementary Grant, the strategic priorities fund and, in 2004 and 2005, Performance-Based Research Fund allocations.

Source: Ministry of Education and Tertiary Education Commission

Table 1 Government financial support for tertiary study 1997/98-2005/06

Fiscal year	Student allowances \$ million	Tuition subsidies \$ million	Student loans \$ million
1997/98	344	1,144	657
1998/99	378	1,167	624
1999/2000	376	1,262	701
2000/01	391	1,344	873
2001/02	401	1,551	934
2002/03	387	1,751	952
2003/04	380	1,907	997
2004/05	359	1,882	969
2005/06	354	1,982	1,046

Notes:

1. The figures for 2005/06 are provisional.
2. Student allowances amounts are before tax or gross amounts.
3. Tuition subsidies include appropriations to the Performance-Based Research Fund.
4. Student loan amounts are capital amounts.

Source: Annual reports of the Ministry of Education, Ministry of Social Development and Tertiary Education Commission

² Funding paid by government to tertiary education providers on the basis of the number of student enrolments is referred to as a 'tuition subsidy'. Funding allocated through the Performance-Based Research Fund is included in this category.

³ There are a number of other government awards or payments to students, which are not within the scope of this report, such as Step Up scholarships, Top Achiever Doctoral scholarships, the Prime Minister's scholarships, and Training Incentive Allowances.

Government expenditure on tuition subsidies, student allowances and student loans was 2.2 percent of the country's Gross Domestic Product (GDP) in the 2005/06 fiscal year, up slightly from 2.1 percent in 2004/05⁴.

1.2 The student support system

Introduction

The student support system aims to enhance access to tertiary education by reducing barriers to participation. It has two main components, the loan scheme and the Student Allowances Scheme⁵, both of which provide direct funding to students. All New Zealand students enrolled in approved qualifications⁶ can access the loan scheme, whereas student allowances are only available to students who meet income-based and age-related eligibility criteria. The government also gives financial support to some students through a range of scholarships.

Principles of the student support system

The government's 2003 discussion document *Student Support in New Zealand* introduced the following principles that underpin the student support system and reinforce the TES 2002/07:

- To maintain high levels of participation in, and completion of, tertiary education.
- To ensure that New Zealand's tertiary education system makes the best possible contribution to national development.
- To ensure equity and fairness.
- To ensure that government investment in student support and tertiary education is financially sustainable.
- To ensure that tertiary education is affordable for students.
- To ensure consistency with the wider income support system.

How the system compares internationally

New Zealand's student support system is in line with that of similar overseas countries. With the exception of a number of European countries that charge no fees or very low fees, the tuition fees charged for tertiary education in New Zealand are comparable with countries that belong to the Organisation for Economic Cooperation and Development.

In addition:

- income-tested allowances ensure that students in greatest need receive support
- the loan scheme offers more protection to lower income earners than many overseas loan schemes because it relates to income
- the new interest-free policy will mean the loans of borrowers living in New Zealand won't increase.

1.3 The Student Loan Scheme

The loan scheme contributes to the TES by helping to provide access to tertiary education for a large number of New Zealanders who would otherwise find it financially difficult to study:

- It allows government to share the costs of tertiary education with students and their families, without imposing constraints on participation in tertiary education. Government pays the tuition subsidy and students pay tuition fees.
- It helps to reduce barriers to study by providing money to enable people to pay fees and, for some students, to offset some of their living costs.
- It helps people to reach their potential by studying for qualifications that are of high quality, which improves people's employment opportunities, income prospects and consequently their quality of life.
- It protects those who do not benefit financially from their tertiary education. The amount a borrower has to repay in any year depends on their income. If very low, they may not have to make repayments. As a borrower's income increases and they can afford to repay more, their repayment obligation increases. This also ensures that people who benefit from their tertiary education pay for the costs of their studies.

Shared management

The loan scheme is managed jointly by three government agencies – the Ministry of Education, the Ministry of Social Development and Inland Revenue:

- The Ministry of Education provides advice to government on tertiary education strategy and policy, funding for tertiary education, and quality assurance and monitoring.
- The Ministry of Social Development provides information on student support entitlements, assesses applications for student support, and makes student support payments.
- Inland Revenue manages the collection of loan repayments, applies interest write-off policies, and provides information on loan repayments.

⁴ This expenditure excludes operational spending on student loan write-offs and provision for doubtful debts.

⁵ Information on student allowances is available on the StudyLink website at www.studylink.govt.nz.

⁶ This includes industry trainees undertaking courses at tertiary education providers if they meet the appropriate eligibility criteria.