

CHAPTERSIX

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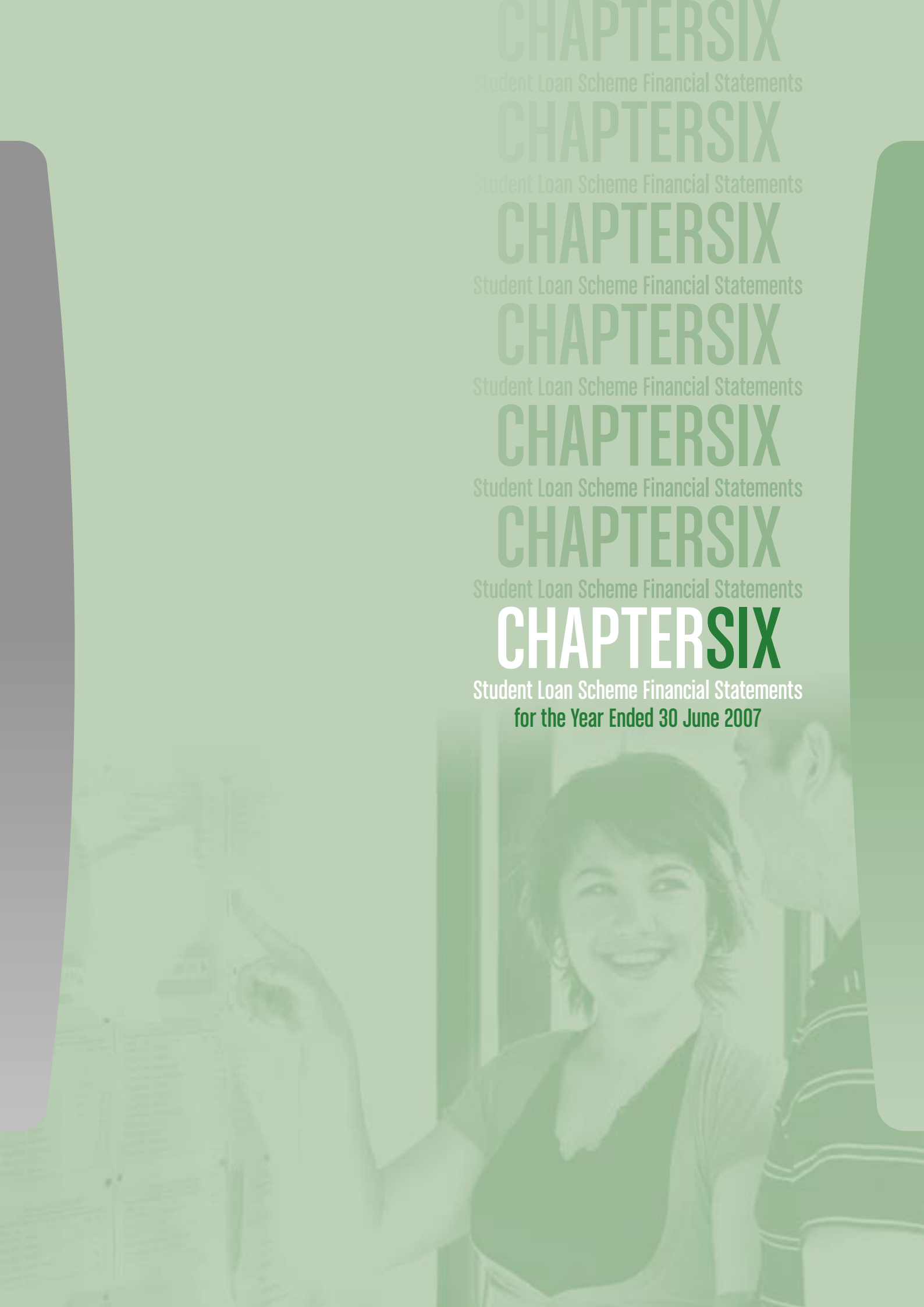
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Student Loan Scheme Financial Statements

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Student Loan Scheme Financial Statements

for the Year Ended 30 June 2007



6.0 Financial statements for the year ended 30 June 2007

The financial statements for the loan scheme comprise schedules of revenue and expenditure, assets and cash flows relating to student loans. The Ministry of Social Development and Inland Revenue administer student loans on an agency basis within policy parameters set by the Ministry of Education, on behalf of the Crown.

The financial information represents extracts from the financial statements of Crown activities carried out by the entities administering student loans to provide an overview of the loan scheme.

The schedule of assets shows a total asset value as at 30 June 2007 of \$6,011 million (\$5,569.2 million at June 2006).

6.1 Schedule of revenue and expenditure for the year ended 30 June 2007

Table 15 Schedule of revenue and expenditure for the year ended 30 June 2007

Actual 2006 \$ million		Actual 2007 \$ million	Main Estimates 2007 \$ million	Supp. Estimates 2007 \$ million
Revenue				
358.1	Interest unwind	359.5	270.9	374.0
0	Interest income	91.3	0	142.0
8.0	Administration fees Ministry of Social Development	8.7	8.5	9.0
366.1	Total revenue	459.5	279.4	525.0
Expenditure				
1,414.7	Initial fair value write-down	0	0	0
12.8	Impairment	151.1	15.5	393.0
328.4	Fair value write-down on new borrowings	487.5	347.6	519.4
1,755.9	Total expenditure	638.6	363.1	912.4
(1,389.8)	Net deficit	(179.1)	(83.7)	(387.4)

- The accompanying accounting policies and notes on pages 46 to 48 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 year, reference should be made to the consolidated audited financial statements of the Government, for the year ended 30 June 2007.
- Details of the consolidated movements schedule for the year ended June 2007 are shown in Note 1.
- Initial fair value write-down and subsequent impairment is disclosed net of release of opening bad debt provision.

6.2 Schedule of assets as at 30 June 2007

Table 16 Schedule of assets as at 30 June 2007

Actual 2006 \$ million		Actual 2007 \$ million	Main Estimates 2007 \$ million	Supp. Estimates 2007 \$ million
Current assets				
960.5	Student loans	1,129.3	1,059.5	966.5
960.5	Total current assets	1,129.3	1,059.5	966.5
Non-current assets				
4,608.7	Student loans	4,881.7	4,874.5	4,881.5
4,608.7	Total non-current assets	4,881.7	4,874.5	4,881.5
5,569.2	Total assets	6,011.0	5,934.0	5,848.0

- The accompanying accounting policies and notes on pages 46 to 48 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 year, reference should be made to the consolidated audited financial statements of the Government, for the year ended 30 June 2007.
- Details of the consolidated movements schedule for the year ended June 2007 are shown in Note 1.

6.3 Schedule of cash flows for the year ended 30 June 2007

Table 17 Schedule of cash flows for the year ended 30 June 2007

Actual 2006 \$ million		Actual 2007 \$ million	Main Estimates 2007 \$ million	Supp. Estimates 2007 \$ million
Cash flows - operating activities				
<i>Cash was provided from:</i>				
179.9	Interest repayments received	37.5	41.9	38.6
179.9	Net cash inflow from operating activities	37.5	41.9	38.6
Cash flows - investing activities				
<i>Cash was provided from:</i>				
371.1	Capital repayments received	517.9	591.9	520.7
<i>Cash disbursed for:</i>				
(1,045.5)	Amount borrowed in current year	(1,175.9)	(1,149.0)	(1,224.4)
(674.4)	Net cash outflow from investing activities	(658.0)	(557.1)	(703.7)
(494.5)	Net student loan cash outflow	(620.5)	(515.2)	(665.1)

- The accompanying accounting policies and notes on pages 46 to 48 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 year, reference should be made to the consolidated audited financial statements of the Government, for the year ended 30 June 2007.
- Details of the consolidated movements schedule for the year ended June 2007 are shown in Note 1.

6.4 Statement of accounting policies for the year ended 30 June 2007

Reporting entity

The loan scheme is a Crown activity that forms part of the consolidated financial statements of the government. The loan scheme has dimensions of revenue, expenditure, assets and cash flows within the overall financial statements of the government.

Statutory authority

The loan scheme is administered jointly by the Ministry of Education, Inland Revenue and the Ministry of Social Development, under the Student Loan Scheme Act 1992, the Credit Contracts and Consumer Finance Act 2003 and the Education Act 1989.

Budget figures

The budget figures are those presented as part of Budget 2007 (Main Estimates), those amended by the Supplementary Estimates, and any transfer made by Order in Council under section 26A of the Public Finance Act 1989. The budget figures provided are extracted from the details of the Estimates of Appropriation for Inland Revenue and the Ministry of Social Development, as applicable. The totals shown are the combined totals for the applicable agencies.

Financial instruments

Student loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method, less any impairment loss.

The effective interest rate discounts estimated future cash flows through the expected life of the loan to the net carrying amount of the loan, excluding future credit losses. Interest is recognised on the loan evenly in proportion to the amount outstanding over the period to repayment.

Allowances for impairment are recognised when there is objective evidence that the loan is impaired. Impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan, and a loss event (or events) has an impact on the estimated future cash flows of the student loan book that can be reliably measured.

Impairment losses can be reversed where there is evidence that the impaired value has increased.

Interest

Interest is calculated on the nominal student loan account balances on a daily basis at a rate determined by the government, currently 6.8 percent per annum. Interest is written off at 1 April each year where qualifying criteria are met.

Credit risk

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

The 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 loan scheme does not have any material individual concentrations of credit risk.

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

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in interest rates. Changes could affect 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.

Changes in accounting policies

There have been no changes in the student loan accounting policies applicable to the preparation of financial statements of Crown activities administered by the Ministry of Social Development and Inland Revenue for Crown consolidation, from those used in the previous year. All accounting policies have been applied on a basis consistent with the previous year.

6.5 Notes to the financial schedules for the year ended 30 June 2007

Note 1: Consolidated movements schedule for the year ended 30 June 2007

Table 18 Consolidated movements schedule for the year ended 30 June 2007

Consolidated Actual		Consolidated Actual	Inland Revenue	Ministry of Social Development
2006		2007	2007	2007
\$ million		\$ million	\$ million	\$ million
8,370.0	Nominal loan balance	9,412.7	8,403.8	1,008.9
(2,800.8)	Adjustment due to initial fair value recognition and impairment	(3,401.7)	(2,974.6)	(427.1)
5,569.2	Total student loans	6,011.0	5,429.2	581.8
6,464.5	Student loans opening balance	5,569.2	4,977.7	591.5
0	Borrowings transferred from Ministry of Social Development to Inland Revenue	0	1,003.5	(1,003.5)
0	Fair value write-down on borrowings transferred	0	(320.4)	320.4
1,045.5	Amount borrowed in current year	1,175.9	0.0	1,175.9
(328.4)	Fair value write-down on new borrowings	(487.5)	0.0	(487.5)
8.0	Administration fees on loans made in current year	8.7	0.0	8.7
(371.1)	Capital repayments made in current year	(517.9)	(448.9)	(69.0)
354		179.20	234.2	(55.0)
0	Accrued interest	91.3	91.3	0
358.1	Interest unwind	359.5	314.2	45.3
(179.9)	Interest repayments	(37.5)	(37.5)	0
0	Small balance write-offs	0.4	0.4	0
178.2	Net increase in interest receivable	413.7	368.4	45.3
(1,414.7)	Initial fair value write-down	0	0	0
(12.8)	Impairment	(151.1)	(151.1)	0
(1,427.5)	Net decrease in other movements	(151.1)	(151.1)	0
5,569.2	Student loans closing balance	6,011.0	5,429.2	581.8

Note 2: Recognition

Student loan book value

Student loans are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method less any impairment loss.

Fair value on initial recognition of student loans is determined by projecting forward contractually agreed (promised) repayments required under the scheme and discounting them back at an appropriate discount rate. The subsequent measurement at amortised cost is determined using the effective interest rate calculated at initial recognition. This rate is used to spread the interest income across the life of the loan and determines the loan's carrying value at each reporting date.

The valuation model has been adapted to reflect current student loans policy. As such, the carrying value is sensitive to changes in a number of underlying assumptions, including future income levels, repayment behaviour and macro-economic factors such as inflation and the discount rates used to determine the effective interest rate for new borrowers. The significant assumptions are shown below.

Table 19 Significant assumptions

	30 June 2007	30 June 2006
Effective interest rate for new borrowers	7.12%	6.63%
Interest rate applied to loans for overseas borrowers	6.7% - 7.2%	6.9% (6.7% outyears)
Cost of administration as a percentage of the average outstanding loan balance	0.15%	0.15%
Consumer price index	2.4% - 2.6%	3.2%
Future salary inflation	3.4% - 3.6%	3.6%

Source: Inland Revenue.

The data has been integrated from files provided by Inland Revenue, the Ministry of Social Development and the Ministry of Education. The current data is up to 31 March 2006 and contains information on borrowings, repayments, income, educational factors and socio-economic factors, amongst others, and has been analysed and incorporated into the valuation model.

Given the lead time required between analysing the raw data and its availability for use in the valuation model, it is expected that there will always be a 15-month lag between the available dataset and the valuation reported in the annual financial statements.

Student loan fair value

Fair value is the amount for which the loan book could be exchanged between knowledgeable, willing parties in an arm's-length transaction as at 30 June 2007. It is determined by discounting the estimated cash flows at an appropriate discount rate. The estimated fair value of student loans at 30 June 2007 has been determined to be \$5,443 million (\$5,538 million at 30 June 2006).

Fair values will differ from carrying values due to changes in market interest rates, as the carrying value is not adjusted for such changes. They will also differ in the treatment of credit losses, as carrying values adjust for credit losses that have been incurred, while fair values capture adjustments for expected future credit losses. The difference between fair value and carrying value does not represent an impairment of the asset.

The fair value calculated is sensitive to underlying assumptions. For example, a 1 percent increase in the discount rate would decrease fair value by approximately \$232 million, whereas a 1 percent decrease in the discount rate would increase fair value by approximately \$258 million.

Despite the increase in the nominal value of student loans outstanding, the fair value of the student loan portfolio is lower than that calculated last year (and lower than the carrying value) because of an increase in the risk-free discount rates used in the fair value calculation and an increase in expected future credit losses. The risk-free rates are determined by calculating forward rates from the yields and coupons of New Zealand Government Stock. Forward rate yield projections move from 7.7 percent in 2007 to 6.2 percent in 2016 and thereafter. (Projections at June 2006 were 6.9 percent in 2006 to 5.8 percent in 2016 and thereafter.)

Audit Opinion

To the readers of the Student Loan Scheme's financial statements for the year ended 30 June 2007

The Auditor-General is the auditor of the financial statements of the Student Loan Scheme. The Auditor-General has appointed me, H C Lim, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Student Loan Scheme, on his behalf, for the year ended 30 June 2007.

Unqualified opinion

In our opinion the financial statements of the Student Loan Scheme on pages 43 to 48:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - the assets as at 30 June 2007; and
 - the revenue and expenditure, and cashflows for the year ended on that date.

The audit was completed on 6 November 2007, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Chief Executive of the Ministry of Education and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Chief Executive in the preparation of the financial statements;
- confirming year-end balances;
- determining whether accounting policies are appropriate to the circumstances of the Student Loan Scheme and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Chief Executive of the Ministry of Education and the Auditor

The Chief Executive is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Student Loan Scheme as at 30 June 2007 and the results of its operations and cash flows for the year ended on that date.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit, we have no relationship with or interests in the Student Loan Scheme.



H C Lim

Audit New Zealand

On behalf of the Auditor-General

Wellington, New Zealand

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of the Student Loan Scheme for the year ended 30 June 2007 included on the Ministry of Education's web site. The Ministry of Education's Chief Executive is responsible for the maintenance and integrity of the Ministry of Education's web site. We have not been engaged to report on the integrity of the Ministry of Education's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 6 November 2007 to confirm the information included in the audited financial statements presented on this web site.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.