



MINISTRY OF EDUCATION

Te Tāhuhu o te Mātauranga

1 May 2012

National Office

45-47 Pipitea Street
PO Box 1666
Wellington
New Zealand

Phone: 04 463 8000
Fax: 0-4-463 8001
www.minedu.govt.nz

Alex Harris
requests@fyi.org.nz

Dear Alex Harris

Thank you for your letter of 29 March 2012 requesting information regarding the Government's announcement that the student allowance parental income threshold will not be increased this year. Specifically, you requested:

- any estimate of the effects of this on the number of future student allowance recipients over the next five years
- any estimate of the amount of money expected to be saved by this measure over the next five years
- the primary advice document (cabinet paper, briefing to the Minister etc) relating to the decision to freeze the parental income threshold.

Your request has been considered under the Official Information Act 1982.

The document you requested is enclosed. Deletions have been made under the following sections of the Official Information Act:

- 9(2)(f)(iv) to maintain constitutional conventions which protect the confidentiality of advice tendered by Ministers of the Crown and officials
- 9(2)(g)(i) to maintain the effective conduct of public affairs through the free and frank expression of opinions.

There do not appear to be overriding public interest reasons that support the release of the information withheld.

The information you requested is provided in the tables below. This information differs from that contained in the released document, because the released document contains the impact of a freeze for one year only.

Table 1: Number of students who would be impacted by no longer receiving any allowance

Year	2012	2013	2014	2015	2016
No. of students impacted	140	230	300	380	450

Table 2: Estimated fiscal implications

	2011/12	2012/13	2013/14	2014/15	4 year total
Estimated net savings, including loan offset	0.473	2.221	3.542	4.750	10.985

Please note that the fiscal impacts provided are over four years; the information over five years does not exist.

Under sections 19 and 28(3) of the Official Information Act 1982 you have the right to ask an Ombudsman to review this decision.

Yours sincerely



Ben O'Meara
Acting Group Manager, Tertiary Education
Ministry of Education

10 February 2012

Tertiary Education Report: Adjusting student allowances thresholds

Recommended actions

We recommend that the Minister for Tertiary Education, Skills and Employment:

- a. **note** that, by convention, student allowance parental income thresholds are adjusted annually as part of a 1 April Annual General Adjustment that includes student loan and other benefit and social assistance rates and thresholds [CAB Min (04) 11/9 refers]
- b. **note** that the Ministry of Social Development has provided joint Ministers with advice on the 2012 Annual General Adjustment which requests decisions by early in the week of 13 February, to begin work on Orders in Council or regulation changes to be in place for 1 April, and to enable its payment systems to be updated for the changes [MSD report of 9 February 2012 refers]
- c. **note** the following impacts of the proposed 2012 adjustment to student allowance parental income thresholds:
 - i. a parental income thresholds increase by 1.77 percent from 1 April 2012, taking the full allowance threshold to \$56,002.44 and the partial allowance threshold to \$91,529.22 (each per annum)
 - ii. a cost of approximately \$5.6 million over four years, from a provision within the existing baseline for CPI adjustments
 - iii. increased student allowance for approximately 14,500 students who currently receive partial student allowances and approximately 100 students who currently receive no student allowance
- d. **agree** to recommend to joint Ministers to:

EITHER

 - i. continue with the 2012 adjustment to student allowance parental income thresholds (recommended)
AGREE/DISAGREE

OR

 - ii. stop the 2012 adjustment to student allowance parental income thresholds
AGREE/DISAGREE

- e. **agree** to explore the following options for future adjustment for the student allowance parental income thresholds:
 - i. continue with the annual adjustments
AGREE/DISAGREE
 - ii. consider stopping adjustments in future
Withheld under section 9(2)(g)(i) and section 9(2)(f)(iv).
AGREE/DISAGREE
- f. **discuss** your preferred options with the Minister for Social Development.

Dr Andrea Schöllmann
Group Manager
Tertiary Education
Ministry of Education

NOTED / APPROVED

Hon Steven Joyce
Minister for Tertiary Education, Skills and Employment

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

Tertiary Education Report: Adjusting student allowances thresholds

Purpose of report

1. You have asked officials about the implications of maintaining the current student allowance parental income thresholds at 2011/12 levels. This report responds to your request.

Background

Student allowance thresholds and adjustments

2. Student allowance eligibility, for students aged under 24 without dependants, is determined in part by parental annual income.
3. In Budget 2004, Cabinet agreed that student allowances parental income thresholds take account of inflation through the Consumers' Price Index (CPI) annually with effect from 1 April 2005 [CAB Min (04) 11/9 refers]. Budget 2004 also increased these thresholds by 20 percent, then Budgets 2006 to 2008 provided three further ten percent increases. The result is that parental income thresholds are now thirty percent higher than they would have been through CPI adjustment alone. The parental income thresholds are currently:
 - a. \$55,025.88 per annum for a full allowance.
 - b. \$89,156.60 per annum, the cut-off point for any allowance.
4. In addition to parental income thresholds, personal and couple income thresholds are also adjusted by CPI annually. These thresholds are for the student's and spouse's weekly income, and affect eligibility for students of all ages. In Budget 2007, Cabinet agreed to adjust the personal and couple income thresholds annually for inflation [CAB Min (07) 12/1(42) refers]. In Budget 2005, the personal income threshold was significantly increased from \$135.13 gross per week to \$180 per week, the first increase since 1991. The previous "cliff-face" income limit was replaced by dollar for dollar abatement once earnings exceed the threshold and couple income thresholds were also increased. These changes took effect from 1 January 2006. The personal income threshold is now \$203.13 per week, and couple income thresholds are \$406.26 (for a dependent spouse: rates abate from that point) and \$846.29 (for an earning spouse: the level at which allowance eligibility stops).
5. The increases to income thresholds have contributed to an increase in the number of eligible full-time students receiving an allowance (and a full allowance). Overall:
 - a. Government expenditure on student allowances has increased from \$385 million in 2007/08 to \$620 million in 2010/11: a 62% increase.
 - b. Over 95,000 students received an allowance in 2010, up by 50% since 2004. Numbers are forecast to reduce slightly in out-years due to flattening numbers of school leavers and economic recovery.

The Annual General Adjustment process

6. The Ministry of Social Development manages an annual process for inflation adjustment to rates and thresholds of benefits, social assistance and student support. Some benefit rates, and student allowance rates, are required by law to be adjusted. Student allowance thresholds and student loan living costs are adjusted based on Cabinet decision and convention.

7. On 9 February your office received a paper from the Ministry of Social Development seeking your agreement to the 2012 adjustment, alongside the agreement of the Ministers of Finance, Health, Social Development and Veterans' Affairs. This paper set out the parameters and process of the Annual General Adjustment in more detail. The Ministry of Social Development requests decisions before 13 February, to begin work on Orders in Council and regulation changes to be in place for 1 April, and to enable its payment systems to be updated for the changes. StudyLink advice is that 27 February is the last possible date for it to make systems changes in relation to the parental income threshold for 2012/13.
8. We have been consulted on the Ministry of Social Development paper and are comfortable with the costings for student loan and allowance changes.

Impacts of the 2012 adjustment to parental income thresholds

9. The 2012 adjustment would increase student allowance payments for approximately 14,500 students who currently receive partial student allowances (including around 600 who would receive a full allowance as a result of the change) and approximately 100 students who currently receive no student allowance. It would not affect around 80,000 students who receive a full allowance now.

Table 1: Number of recipients affected by 1 April 2012 threshold adjustment

	%	Number and proportion of recipients			
		2012	2013	2014	2015
Abated allowance, newly eligible for a full allowance	1.3%	650	570	530	510
Increased rate of abated allowance	26.7%	13,820	12,150	11,230	10,760
Newly eligible for an abated allowance	0.3%	140	120	110	110
Total increased allowances	28.3%	14,610	12,840	11,870	11,380

Note: Based on PREFU 11 forecasts

10. The impact on the parental income thresholds would be:

Table 2: Impact of the 1 April 2012 adjustment on parental income thresholds

Threshold	until 1 April 2012	CPI adjusted thresholds from 1 April 2012 (1.77%)	increase
Parental income	\$55,027.96 gross	\$56,002.44, gross	\$974.48
(at home cut-off point)	\$82,953.82 gross	\$84,423.49 gross	\$1,469.67
(away from home cut-off point)	\$89,936.68 gross	\$91,529.22 gross	\$1,592.54

11. The legislated CPI adjustment to student allowance rates, combined with dollar-for-dollar abatement of student allowances, means that cut-off points for allowance eligibility increase on 1 April regardless of whether the parental income thresholds are adjusted. The 'at home' cut-off point would increase to \$83,499.01 and the 'away from home' cut-off point increase to \$90,544.74.

12. The cost of the 2012 CPI adjustment to parental income thresholds is estimated to be around \$5.6 million over 4 years. These costings are preliminary and would require some refinement if you wish to progress them.

Table 3: Cost of increasing the parental income thresholds from 1 April 2012 (\$m)

	2011/12	2012/13	2013/14	2014/15	4 year total
Student Allowances costs	0.563	2.131	1.945	1.862	6.501
Loan off-set savings	(0.090)	(0.320)	(0.260)	(0.220)	(0.890)
Total	0.473	1.811	1.685	1.642	5.611

13. Funding for student allowances personal and parental income threshold increases is built into student allowance baselines.

14.

Withheld under section 9(2)(g)(i) and section 9(2)(f)(iv).

Comment

15.

Withheld under section 9(2)(g)(i) and section 9(2)(f)(iv).

16. The Annual General Adjustment of the full range of benefits and social assistance is taken and announced ahead of Budget decisions, and takes effect on 1 April annually. Stopping the adjustment for 2012 would be a relatively modest although potentially symbolic step towards targeting to need, and would realise modest savings. It would be unlikely to have any widespread impact on access to tertiary education, as it would only moderately affect students from families with incomes between \$55,000 and \$90,000.

Withheld under section 9(2)(g)(i) and section 9(2)(f)(iv).

17. On balance, considering the small impact of the change, we recommend continuing with the Annual General Adjustment process for student allowance thresholds for 1 April 2012, and considering the future of the student support inflation adjustments (including those for personal income) alongside Budget 2012 decisions on student loans and allowances.