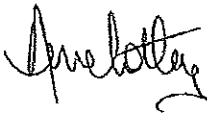


10 March 2009

ED 30 19 15 2

Recommended Action

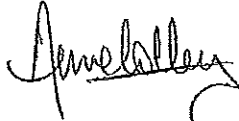
It is recommended that the Minister for Tertiary Education and Minister of Social Development:

- a. note that on 3 March 2009 the Expenditure Control Committee (ECC) disestablished the Bonded Merit and Step Up scholarships by approving changes to appropriations to cease funding for these programmes from 2010;
 - b. note that the *Unwinding Unfunded Budget 2008 Commitments for ET: Innovation* paper noted that officials would offer further advice to the Minister for Tertiary Education and Minister of Social Development about ways to reduce the administration costs associated with grand-parenting and bonding scholarship recipients;
 - c. note that officials have fully reviewed StudyLink administration baselines and, as a result, have identified additional administration savings;
 - d. note that the administration savings from the disestablishment of these scholarships are now expected to be \$4.378 million over four years (without changing scholarship conditions), up from \$2.302 million over four years as stated in the Cabinet paper;
 - e. note that, in addition to the \$4.378 million, administration savings could be made by removing the bonding requirement of these scholarships and relaxing other conditions, and that these savings consist of:
 - a. a \$0.228 million decrease in administration costs over the four year budget cycle; and
 - b. a saving of \$0.651 million beyond the current budget cycle because the length of time required to administer the scholarship would reduce by four years;
 - f. note that removing the bonding obligation from these scholarships would allow some graduates to leave New Zealand without penalty but that the numbers affected are anticipated to be small relative to the ongoing cost of administering the bonding requirement;
 - g. note that interest free student loans remain an incentive for students to remain in New Zealand;
 - h. agree to remove the bonding requirement;
- AGREE/DISAGREE 
- i. note that relaxing of requirements for transfers of scholarships to other qualifications and one year postponement of scholarships and removing financial penalties for breaching other terms and conditions of the scholarships would further simplify the unwind process, align the two scholarships and remove the

need for complex decision-making, thereby reducing risks associated with the loss of institutional knowledge;

- j. agree to relax regulations for transfers of qualifications, one year postponements and remove penalties for breaches of other terms and conditions;

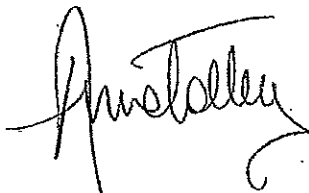
AGREE/DISAGREE



- k. note we will work with Treasury to make the necessary changes to administration savings, either as Technical Adjustments (included as part of the October Baseline Update) or as part of the Budget 2009 process (if they can be included as a late amendment) which will be submitted to Cabinet for approval in April 2009.



Dr Andrea Schöllmann
Group Manager
Tertiary Education
and on behalf of the Ministry of Social Development



Hon Anne Tolley
Minister for Tertiary Education

10/3/09



Hon Paula Bennett
Minister for Social Development and Employment

1/1

Tertiary Education Report: Additional administration savings from disestablishment of Step Up and Bonded Merit

Purpose of Report

1. On 3 March 2009 the Expenditure Control Committee (ECC) considered the "Unwinding Unfunded Budget 2008 Commitments for ET: Innovation" paper. ECC disestablished the Bonded Merit and Step Up scholarships by approving changes to appropriations to cease funding for these programmes from 2010 [ECC Min (09) 3/3 refers].
2. ECC noted that officials would offer further advice to the Minister for Tertiary Education and Minister of Social Development about ways to reduce the administration cost associated with grand-parenting and bonding scholarship recipients. This report fulfils that requirement.

Additional administration savings based on review of baselines

3. The Budget unwind Cabinet paper proposed that no applications be considered for the award of Bonded Merit and Step Up scholarships after 2009. This will save \$70 million over four years (with associated capital costs of \$17 million). Included in these savings were \$2.302 million of administration cost savings.
4. While preparing the further advice on savings for joint Ministers, officials have undertaken a full review of StudyLink administration baselines and the savings that could be made as a result of disestablishing the scholarships. It is now estimated that administration savings of \$4.378 million over four years, will be made as a result of the disestablishment of the Step Up and Bonded Merit scholarships. This is an increase of \$2.076 million over previous estimates of the savings.

Additional administration savings from relaxing scholarship conditions

5. Further savings could be made on administration if arrangements were relaxed for existing recipients.
6. Officials have identified four ways to simplify the process to reduce administration costs and generate greater savings:
 - a. Remove the bonding obligation which requires scholarship recipients to remain in New Zealand after graduation for the number of years equivalent to the length of their scholarship up to a maximum of four years;
 - b. Remove any financial penalties (but not the loss of a scholarship) associated with the student breaching any of the other terms and conditions of their scholarship (which will align Bonded Merit scholarship with Step Up);
 - c. Allow a recipient to transfer their scholarship to any bachelor degree (or in the case of Bonded Merit any bachelor or post-graduate degree) that is approved for student loans and allowances; and
 - d. Allow Bonded Merit scholarship recipients to have a one year postponement of their scholarship for any reason rather than StudyLink determining that special reasons exist (which will align Bonded Merit with Step Up).

7. Relaxing requirements for recipients (b, c and d above) would simplify the unwind process and remove the need for complex decision-making, thereby reducing risks associated with the loss of institutional knowledge.
8. If bonding is retained, students will be bonded for a maximum of four years. In effect this means that although there will be no new scholarship recipients after 2009, the scheme would not be fully wound up until 2019/20 when the bonding period for the last cohort of students ends.
9. Administration savings (within 2009 budget cycle) with and without these changes are presented in the following table. The maximum saving amount is forecast to stabilise from 2012/13.

Savings with current regulations (within 2009 budget cycle)

(\$000)	2009/10	2010/11	2011/12	2012/13	Total
Current administration baseline	1,317	1,381	1,426	1,426	5,550
Savings already approved [ECC Min (09) 3/3]	376	571	653	702	2,302
Estimated savings with current regulations (up to 2019/20)	816	1,089	1,201	1,272	4,378
Estimated savings of managing returning students with relaxed regulations (up to 2015/16)	935	1,131	1,254	1,286	4,606
Extra savings gained from relaxed regulations	119	42	53	14	228

10. Relaxing conditions on scholarships (including removing bonding) would increase savings by \$0.228 million over the four year budget cycle.
11. A further \$0.651 million would be saved by removing bonding, principally because the end date for administration would be brought forward four years to 31 December 2015.

Risks

12. One of the key intentions of the schemes was to retain recipients in New Zealand after graduation. This is why they were bonded. Removing the bonding requirement would allow some graduates to leave, who otherwise would have been required to stay. The numbers affected, however, would be small relative to the ongoing cost of administering the bonding requirement.
13. Interest free student loans are a strong incentive to remain in New Zealand after graduation and will remain a strong signal that preferential treatment will be given to New Zealand-resident graduates.

Limited Full Time Status for Bonded Merit scholarships

14. Students are required to be studying full time or limited full time to receive a Bonded Merit scholarship. Students can be granted limited full time status if they cannot complete a full time course of study for reasons beyond their control such as illness or disability. In these cases it may take students longer than the maximum tenure for Bonded Merit scholarships.

15. Bonded Merit scholarships usually have a maximum tenure of four years and maximum value of \$3,000 for each of those years. If students receive the scholarship on a limited full time basis the maximum yearly payment no longer applies and is replaced by a \$12,000 maximum value for the duration of their scholarship.
16. The effect of limited full time status is that some Bonded Merit scholarship recipients will receive payments beyond the 2015 end point mentioned above. This is likely to affect only a very small number of recipients as, to date, only 76 students (two percent of the total 3,700 recipients) have received Bonded Merit scholarship payments for limited full time study and many of these students would not be limited full time for the entirety of their tenure.
17. The financial impact of this is small because StudyLink will absorb any additional administration costs and each scholarship is capped at \$12,000, regardless of the length of tenure so additional scholarship funding for these recipients will not be necessary.
18. There is no such risk for Step Up scholarships because tenure is limited to the number of years it would take to complete the qualification on a full time basis. Limited full time students would simply lose their scholarship before completing their qualification.

Effect of limited full-time students on scholarship baselines

19. Further scrutiny of the administration savings from the disestablishment of the scholarships identified that the agreed level of savings for the Bonded Merit scholarships for 2012/13 did not take into account the impact of limited full-time students and those who defer their scholarship for a year. These students will continue to receive scholarship payments after the end of the budget cycle. We have reduced the 2012/13 savings marginally to take into account limited full-time students. The fiscal impact of this is more than offset by the increased administration savings identified in this paper.

Next Steps

20. As you are aware, the Minister of Finance is to begin the process of Budget bilateral meetings with vote Ministers from later this week. Note that the bilateral meeting between the Minister of Finance and the Minister for Tertiary Education is scheduled to take place this coming Monday. This report, in particular the additional savings proposed, will be useful to inform this process.
21. The updated figures will be included in the amended Cabinet paper "Unwinding unfunded Budget 2008 Commitments for Economic Transformation: Innovation."

Consultation

22. The Ministry of Social Development agree with the recommendations in this paper.

