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Student Loan Debt

Student loan debt is increasing rapidly,¹ but not enough information is being collected about the operations of the Student Loan Scheme. One of the consequences of this lack of information is uncertainty about how much debt the Crown is likely to recover. Other consequences include the unknown impacts of the Scheme in terms of intended and unintended socio-economic outcomes.

- 3.601 In June this year we issued a report on *Student Loan Scheme – Publicly Available Accountability Information*.² In that report we expressed concern at the lack of information being collected and analysed about the operations of the Scheme.
- 3.602 Total student loans outstanding (including interest) at 30 June 2000 were \$4,004 million, against which a provision for doubtful debts of \$481 million was made.³ In our view, the asset for the outstanding debt would better be valued on a “fair value” basis – which is likely to be by way of actuarial valuation.
- 3.603 The methodology used to calculate the provision for doubtful debts contains separate components for *capital* and *interest*:
- a flat 10% on the *capital* portion of the outstanding debt; and
 - an amount representing write-offs of *interest* accrued in accordance with Government policy.⁴

1 See paragraphs 1.015-1.017 on page 14.

2 ISBN 0 477 02868 3.

3 *Financial Statements*, parliamentary paper B.11, 2000, page 63.

4 *Ibid.*



- 3.604 Our ability to form a view on the reasonableness of the amount brought to charge in 1999-2000 for the increase in the provision for doubtful debts (\$133 million) is affected by the limited availability of information that might help to corroborate the aggregate provision of \$481 million at 30 June 2000.
- 3.605 We made a number of key findings and recommendations in our June report, and we understand that officials are considering a Government response to them. We repeat those findings and recommendations here for further consideration and scrutiny by Parliament.

Key Findings

- 3.606 In our view, key stakeholders receive adequate information on the current financial position of the Scheme at an aggregate level. However, we think that there are the following shortcomings in public accountability information:
- limited information on the fiscal risks attached to the Scheme; and
 - lack of information on the impact of the Scheme on intended and unintended socio-economic outcomes.
- 3.607 The adequacy of valuation of the student loan debt also needs to be reviewed, especially in light of the expected move to a net present value (“fair value”) model for valuation.
- 3.608 In our opinion, the following related capability and accountability issues need to be addressed to provide better public accountability information:
- fragmented responsibility for the Scheme as a whole;
 - lack of focus of strategic policy advice and research;
 - shortcomings in data collection, analysis and exchange;
 - shortcomings in forecasting;
 - lack of the system’s responsiveness to change; and
 - gaps in service to borrowers.

Recommendations

3.609 We recommend that the financial reporting requirements for the Scheme be improved by:

- reporting more regularly – for example, reporting at the quarterly intervals stated in the original Government decision on reporting on the Scheme;
- having annual financial reports audited and presented to the House within the same time as departmental annual reports (sections 35-39 of the Public Finance Act 1989);
- developing an interim response (until fair value methodology is adopted) to the issue of lack of appropriation for debt write-offs;
- including in reports to Ministers and Parliament – especially the Ministry of Education’s *Student Loan Scheme Annual Report* – more information on financial projections, financial performance, fiscal risks, and more detailed analysis of past uptake and repayment patterns;
- including in financial forecasts for the Scheme assumptions and risk assessments;
- developing and reporting against a set of indicators for the financial performance of the Scheme; and
- developing and reporting against a set of coherent and assessable outcome indicators for the Scheme – including both intended outcomes and risks of unintended outcomes.

3.610 In order to clarify responsibilities and improve information availability, we also recommend that the related capability and accountability issues be addressed by:

- reviewing the current fragmentation of responsibilities for the Scheme;
- considering (as part of that review) the suggestion of establishing a separate agency (with the appropriate specialist skills) with overall responsibility for strategic risk management of the Scheme and for financial reporting on the Scheme;

- the agency responsible for managing the fiscal risks of the Scheme regularly reviewing the Crown’s credit risk from the Scheme;
- clarifying the responsibility of the Ministry of Education for strategic policy advice on the Scheme – including the purpose and role of research (and its adequate resourcing) and what reporting obligations are included;
- clarifying other agencies’ accountability for collecting and exchanging data for monitoring against socio-economic indicators – to ensure that those agencies supply the appropriate information in a timely manner;
- Statistics New Zealand undertaking a trial integration of selected datasets relating to the Scheme with a view to providing statistics to inform strategic policy, financial risk management, financial reporting, and forecasting;
- directing officials of the relevant agencies to resolve the data exchange issues hindering analysis of the impact of the Scheme;
- the Ministry of Education commissioning research on the areas of socio-economic impact where there is no information; and
- revising the information for students to ensure that they receive adequate information on repayment choices and the potential impact of having a student loan.

