

Key Government Priorities Category – TBS Briefing Note

Ministry: Advanced Education, Skills and Training (AEST)
& Finance (FIN)

TBS Ref. #:A1-1

Title: Eliminating interest on BC student loans

Ministry Priority: s.12,s.13,s.17

Summary of Request:

- Ministry of Advanced Education, Skills and Training (AEST) is requesting approval to eliminate interest on BC Student Loans.
 - AEST is requesting a base budget lift of s.12,s.13, on behalf of the Ministry of Finance (who holds the budget for the program) to cover costs associated with the BC Student Loan program, which were formerly funded through revenue collected.
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Government Commitment:

1. July 18, 2017, Mandate Letter to the Honorable Melanie Mark, "Reduce the financial burden on students by eliminating interest on BC government student loans".
2. April 2017, Election Platform, "making all current, future and outstanding BC student loans interest-free".
3. May 2017, Confidence and Supply Agreement, "Implement an agreed upon approach to improving access and reducing the cost of post-secondary education for students".

Meets Government Priority Criteria: Yes

TBS Recommendation & Rationale:

TBS recommends s.12,s.13,s.17

s.12,s.13,s.17

In August 2017, Government took the first step to make post-secondary education more affordable by reducing student loan interest rates to prime at a cost of approximately \$17 million per year.

s.12,s.13,s.17

s.12,s.13,s.17

Discussion:

- AEST manages the student financial assistance program including student assistance policy, the assessment and approval of assistance and grants to students.
- FIN manages the disbursement of funds and debt repayment, including responsibility for collection on defaulted loans. As such, the StudentAidBC program budget and the associated allowance for doubtful account and bad debt provision (to cover the risk of loss from borrowers who may not pay back) is FIN's responsibility.
- In August 2017, government announced reducing Student Loan interest rates from 5.2% (prime + 2.5%) to prime (2.7%; *as at January 2017*). The change reduced student loan interest revenue by an estimated \$11.3M in 2017/18, \$17.0M in 2018/19, and \$17.0M in 2019/20. By *Budget 2019*, the Student Loan program will have one full year data to inform future policy decisions.
- s.12,s.13,s.17

Financial Impact:

MINISTRY INCREMENTAL FUNDING REQUEST:	2017/18	2018/19	2019/20	2020/21
Operating (\$ millions)	-	s.12,s.13,s.17		
CRF Capital (\$ millions)	-	-	-	-
FTEs	-	-	-	-

Options:

s.12,s.13,s.17

s.12,s.13,s.17

s.12,s.13,s.17 TBS recommends s.12,s.13,s.17

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s.12,s.13,s.17 Government took the first step to make post-secondary education more affordable by reducing student loan interest rates to prime at a cost of approximately \$17 million per year.s.12,s.13,s.17

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Appendix A – Repayment schedule based on \$4,400, \$10,000, \$25,000 loan

s.12,s.13,s.17

Appendix A – Budget 2018 Key Priorities Ministry Request

BUDGET 2018 KEY PRIORITY PAPER #2

MINISTRY: Ministry of Advanced Education Skills and Training

TITLE: Reduce the financial burden on students by eliminating interest on B.C. government student loans.

SUMMARY OF REQUEST:

RANK: s.12,s.13,s.17

TABLE 1: INCREMENTAL FUNDING REQUEST	2018/19	2019/20	2020/21
Operating (\$ millions)	s.12,s.13,s.17		
New FTEs	0	0	0
CRF Capital (\$ millions)	0.000	0.000	0.000

s.12,s.13,s.17

The commitment to eliminate interest on B.C. student loans appears in Government's Platform for the May 9th, 2017 election, and in the 2017 Mandate Letter for the Honorable Melanie Mark.
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RECOMMENDATION: s.12,s.13,s.17
s.12,s.13,s.17

CONTEXT:

StudentAid BC delivers the provincial and the federal components of the student financial assistance program. Loans to students are based on an approximately 60/40 split between federal and provincial funding, respectively.

Approximately one third of students in B.C. receive government student loans. B.C. students accessed nearly \$663 million in federal and provincial student financial assistance in 2016-17, including approximately \$185 million in provincial loan funding and \$57 million in provincial grant funding.

A 2016 survey data indicates that graduates of bachelor programs that have government loans have a median debt of \$25,000. Diploma, associate degree and certificate program graduates with government loans reported a median debt of \$11,000.

Both provincial and federal portions of a government student loan are interest free while the borrower is in study. Interest begins to accrue once students conclude their studies. Six months after their studies end, the interest from this period is either added to the borrower's outstanding balance or can be paid in full by the borrower at that time and the 114 month (9.5 year) repayment schedule begins.

Prior to the August 1, 2017 rate reduction, along with the federal government and the province of New Brunswick, B.C. had one of the highest student loan interest rates in Canada at 5.45% for a variable repayment term rate (prime plus 2.5%).

s.12,s.13,s.17

The administration of the accounts receivable, including the bad debt expense, salaries for program staff and the delivery of services through the B.C. Canada Integration Agreement is funded entirely from interest recoveries, s.12,s.13,s.17
s.12,s.13,s.17

CROSS MINISTRY / JOINT MINISTRY INITIATIVES:

This initiative is of a cross-ministry nature and involves the Ministry of Advanced Education, Skills and Training and the Ministry of Finance.

- Ministry of Advanced Education, Skills and Training: Manages the assessment of student financial assistance, communicates policy and process regarding loans and grants to students, and is the lead program area.
- Ministry of Finance: Manages the disbursement and debt repayment, including responsibility for collection on defaulted loans through Revenue Services BC. The student financial aid budget and associated allowance for doubtful account and bad debt expense is within the Responsibility Centre of the Ministry of Finance.

Table 2: Operating Budget Request (\$ millions)	18/19	19/20	20/21
Ministry A Request (AEST)	0	0	0
Ministry B Request (FIN)	s.12,s.13,s.17		
Total Cross-Ministry Funding Request			

RATIONALE FOR THE REQUEST:

- *Source of the Commitment:*
 - The NDP party's election platform included a commitment to "mak[ing] life more affordable for people just starting their careers by making all current, future and outstanding BC student loans interest-free".
 - The 2017 Mandate Letter for the Honourable Minister Melanie Mark included a commitment to "reduce the financial burden on students by eliminating interest on B.C. government student loans" The first step in implementing this commitment took place effective August 1, 2017, when interest rates were reduced from Prime plus 2.5% to Prime.

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- Reduction of the provincial interest rate for B.C. student loans will benefit approximately 200,000 people currently in-study or in repayment, as well as future borrowers by reducing the amount of their monthly payments.
- An earlier reduction in the interest charged from Prime plus 2.5% to Prime represented approximately \$12 million dollars in interest relief to students; a full elimination of the interest on B.C. loans would yield an aggregated interest relief of approximately ^{s.12,s.13,s.17} Each time the Prime rate increases, interest relief to students will also increase.

s.12,s.13,s.17

FISCAL PLAN IMPACTS AND RISKS:

- Annually the province engages the Chief Actuary of Canada to produce estimates for doubtful accounts and bad debt expense for the student financial aid program which the province records in our financial statements. As a result, our funding needs must be caveated as they are subject to the actuary's evaluation and have fluctuated in the past.
^{s.13,s.17}

^{s.1} ³ The actuary's interim assessment will be available mid-December 2017 and finalized in May 2018.

- Interest recoveries also currently fund the salaries of program staff who manage the account receivable and the annual amount for the B.C./ Canada Integration Agreement.
^{s.12,s.13,s.17}

Table 3: Estimated Operating Costs (\$M)	17/18	18/19	19/20	20/21
Existing Base Budget for the Core Business Area that would administer the Initiative				
Existing Base Budget for the Program Area* (net of any recoveries) that would administer the Initiative (A)				
Gross Incremental Funding Request for Initiative **(B)	s.12,s.13,s.17			
Less any recoveries (C)	0	0	0	0
Less any internal funding to be reallocated (D)	0	0	0	0
Revised Budget if Proposal Approved (A+B-C-D)				
Net Incremental Funding Request (B-C-D)	s.12,s.13,s.17			

* Program area is defined as the lowest-level "business unit" in your ministry's organizational hierarchy to which the additional funding would flow.

Table 4: FTEs (#)	17/18	18/19	19/20	20/21
Existing Base FTEs for Program Area (FIN)	s.12,s.13,s.17			
Incremental FTE Request	0	0	0	0
Revised FTEs if Proposal Approved	s.12,s.13,s.17			
Table 5: Estimated CRF Capital Costs (if applicable)	17/18	18/19	19/20	20/21
Existing Base Capital Budget for Program Area	0	0	0	0
Incremental Capital Request	0	0	0	0
Revised Capital Budget if Proposal Approved	0	0	0	0

CONSULTATIONS:

s.12,s.13,s.17

- ***Inter-Ministry, Inter-Agency and Inter-governmental Consultation:***

- Annual engagement with the Chief Actuary of Canada to produce estimates for doubtful accounts and bad debt expense for the student financial aid program.
- The Ministry of Advanced Education, Skills and Training and the Ministry of Finance engage regularly with the provincial and federal organizations of institution financial assistance officers and with other higher education administrator groups, and also sit on pan-Canadian consultative committees and related working groups on student financial assistance and debt repayment to consult on loan and debt repayment policy with federal and provincial counterparts.

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OTHER IMPLICATIONS:

s.12,s.13,s.17

OPTIONS:

s.12,s.13,s.17

s.12,s.13,s.17

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RECOMMENDATION:

s.12,s.13,s.17

MINISTER'S SIGNATURE & DATE:

MINISTER: 

DATE: October 30, 2017

KEY CONTACTS:

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