Research

NUS Submission To Senate Economics Legislation Committee

Inquiry Into Budget Savings (Omnibus) Bill 2016

Presented by NUS National President, Sinead Colee

Prepared by NUS Research Co-ordinator, Graham Hastings

Sept 2016

Introduction

NUS thanks the Senate Economics Legislation References Committee for this opportunity to present our views on four higher education measures contained in the Omnibus bill that will impact upon many of our members.

NUS has been the national peak student representative organisation in Australia since 1987. The 2016 President, Sinead Colee, was the President of Monash Students' Association in 2015.

The author has worked since the introduction of HECS in 1988-89 on analysing the impact of HECS and HELP loans in its various guises since then from a student perspective over the last three decades.

NUS is opposed to the four higher education measures (1, 2, 3 and 11).

Measure #1 - Lower Repayment Threshold For HELP Debts

Currently the minimum HECS-HELP income repayment level expressed in 2016-17 terms is $54,868 (4% rate). The Omnibus proposes a new minimum rate of 2% that would cut in $51,956 in 2018-19 dollars. The other rates would be adjusted so they would cut in about 2 and half percent lower. These changes would flow onto other loans schemes such as Trade Support, Start Up Scholarships and the old Student Financial Supplement Scheme debts.

The new HELP repayment rates that would commence in 2018-19 if the bill is passed.
$0 - $51,958 - 0%
$51,958 - $57,730 - 2%
$57,730 - $64,307 - 4%
$64,307 - $70,882 - 4.5%
$70,882 - $74,608 - 5%
$74,608 -$80,198 - 5.5%
$80,198 - $86.856 - 6%
$86,856 - $91,426 - 6.5%
$91,426 - $100,614 -7%
$100,614 - $107,214 - 7.5%
From $107,214 and above - 8%

HECS (HELP) repayment threshold rates (until this bill) were originally indexed at CPI but since 1993 have reflected movements in the average wage. There has been one big experiment previously with significantly lowering the repayment threshold.

This occurred after the 'emergency' first budget of the Howard Government. Differential HECS was introduced in the 1997 study year with substantially higher HECS and lower HECS repayment thresholds. In 1996 terms the minimum repayment threshold fell from $28,694 to $20,701, a 27% reduction. According to the a study by Chapman and Salvage the reduction meant that 94 % of full time working HECS debtors would be repaying HECS debts.[1] The political rhetoric at the time justifying the change shifted to graduates being privileged compared to school leavers if they had a job, even if the job was low paying and unrelated to their study.

[1] 1 Chapman B and Salvage T, "Changes in Costs for Australian Higher Education Students from the 1996/7 Budget", Higher Education Funding issue of the *Austrian Journal of Public Policy,* (4), 1998, pp. 71-90

The data pointed to a significant fall in mature age applications in 1997 and after: 18,000 or 8% of applications compared to what would have been expected (Deloitte Access Economics) [2] and "17,000 fewer mature age applications were lodged from 1997 onwards" (Aungles et al)[3]. The disaggregation of the impact of the HECS changes is complicated by other factors such as labour market trends that were applying a downward pressure on applications.

NUS advanced the argument that the impact of the HECS changes was hitting mature age student this time around because of the lowering of the repayment threshold[4]:

"The National Union of Students has suggested that the lowering of the income threshold had an adverse impact on mature age participation (NUS, 2001, p.77). First, the lower threshold meant that HECS was no longer a deferred fee for mature age students already in employment. Second, the lowering of the income threshold meant that many more mature age students, when faced with the prospect of combining study, part-time employment and HECS repayments, were unable to manage financially."[5]

The Department of Education (Aungles et al) drilled down into the data and found that older persons new to higher education were the more "elastic" in their response to the changes (ie, were more likely to be deterred) than school leavers. The most affected also tended to be part-time or external students.

The income threshold reduction was largely reversed as part of the outcomes of the Nelson Review of Higher Education in 2003 and the income thresholds currently used are derived from the 2004 thresholds (plus AWE indexation).

The minimum threshold in the proposed bill is $51,956 and the existing rate projected to 2018-19 is $57,730. The fall is about 10%. The smaller size of the drop in the threshold this time means that we would anticipate that the impact on student demand would be lesser than in the wake of 1996-7. However, due to the introduction of the demand driven system since then a drop in applications will have more consequences for university budgets as it will be a drop in actual enrolments rather than demand.

The government forecasted that the budgetary impact of this measure is neglible with assumptions that any negative impact on student enrolments as slight. The greater proportion of mature age students compared to twenty years ago is a complicating factor and may lead to the impact of a 10% reduction in the minimum threshold not being as neglible as expected.

The associated extension of this reduction in the minimum threshold for VET FEE-HELP may also lead to some unanticipated consequences on student equity as VET students seem to have lower repayment rates than university students (current repayment rates are just over 40%).

.

Measure #2 - Changed Indexation of Higher Education Support Amounts

---

[2] Deloitte Access Economics, *The impact of changes to student contribution levels and repayment thresholds on the demand for higher education*, commissioned by DEEWR, August 2011, pg 40

[3] Aungles P et al, "*HECS and Opportunities in Higher Education: A paper investigating the impact of the Higher Education Contribution Scheme (HECS) on the higher education system*", Department of Education, Research, Analysis and Evaluation Group, 2002

[4] National Union of Students, Submission No. 274 to the Senate Employment, Workplace Relations, Small Business and Education References Committee, *Inquiry into the Capacity of Public Universities to Meet Australia's Higher Education Needs*, 2001

[5] Aungles P et al, *op.cit.*

Since 2012 the main indexation used to index higher education amounts reflects movements in professional wages (the index was 25% CPI and 75% of the Professional, Scientific and Technical Services Labour Price Index (90% of the Index). This was sound policy as it reflects that about 75% of universities costs are tied to staff costs. The amalgamated wage index is called the Higher Education Grants Index.

Prior to 2012 the wage part of the higher education indexation from 1995 was based on the minimum wage which cut hundreds of millions from the university budgets and was widely perceived by the sector as leading to s funding crisis in the late 1990s and the early years of the century.

If the bill is passed from 1 January 2018 the Higher Education Grants Index will be replaced with CPI which will be used to index all commonwealth grants to universities and regulated student contribution amounts.

The CPI will in most circumstances be much lower than the Higher Education Grants Index. In the long run university budgets will face pressures while any gains in student debt levels will be off-set by the impact of lower repayment thresholds and higher fees. According to the Parliamentary Budget Office In just over a decade's time the reduction in higher education grants would amount to $917 million a year in 2026-27. The accumulated reduction in funding for the Commonwealth would amount to $3.7 billion over that decade.[6]

We anticipate that universities would try to make up for this loss of Commonwealth funding by further increases to student fees to stave off a funding crisis. It's a short term budget fix that will lead to a long term crisis or higher fees.

Measure #3 - Removal of HECS-HELP Benefit

Both the Howard and Rudd-Gillard governments used HECS-HELP discounts to improve enrolments in courses where there appeared to be national labour market shortages, eg teaching and nursing.

Under the latest incarnation of HECS-HELP benefits the discounts also apply to maths, science and early childhood education graduates who work in these occupations. The typical HECS-HELP discount is about $1700.

The 2014 Kemp-Norton paper on demand driven higher education argued that these discounts had done little to improve enrolment levels in these courses. [7] The uptake was modest with 7,220 HECS-HELP benefits granted in 2012-13. This outcome should not be a surprise to students as a modest discount in HECS is tiny when compared to long term career earnings.

The Omnibus Bill legislates that from July 2017 these HECS-HELP discounts will be abolished. The problem with this is that there is nothing proposed to substitute for the abolition of the HECS-HELP Benefit that will work more effectively. There will still be supply shortages in key industries in the demand driven higher education system.

We note that the ALP in the recent federal elections proposed measure to increase STEM enrolments. If the HECS-HELP Benefits are to be abolished there will need to be discussion with the sector the most effective measures over how to address skill shortages under a

---

[6] Parliamentary Budget Office, *Unlegislated measures carried forward in the budget estimates – June 2016 update*

[7] Kemp D and Norton A, *Review of the Demand Driven System, Final Report*, Department of Education, 2014, pp21-32

demand driven system. We expect that the replacement measures will have budget costs so any savings from this measure will be transient.

Measure #11 - Start Up Scholarships Transition Ended

Start Up Scholarship grants were introduced in 2010 by the Rudd Government to assist students with the up front costs of study such as textbooks and course equipments. It was a grant of around $2,250 to needy full-time students on student Centre-link payments (Youth Allowance, Abstudy and Austudy). It replaced the Commonwealth Education Costs Scholarships which was available on a more restricted basis. According to the department's 2009 Budget Papers:

"*This Scholarship is a centrepiece of the reforms that will promote an increase in participation by students from low socio-economic status (SES) backgrounds."*[8]

The Start Up Scholarship grants were reduced twice in order to cross-fund the extension of student benefits to regional students. In late 2015 the ALP agreed to Coalition plans to covert the grant into a voluntary loans scheme. This was passed as a budget savings measure in 2015 with no new students receiving the grant from January 1 2016. At the time the grant was converted into a loan students who had been on the grant prior to 2016 were to be grandfathered to the completion of their studies.

NUS opposes the conversion of equity scholarships into loans. We note that Universities Australia also continues to oppose the conversion of the scholarships into loans:

"Converting Commonwealth Student Start-Up Scholarships to loans goes against the fundamental policy assumptions and objectives of student income support, namely that income support to assist with living and relocation costs should primarily be funded through targeted, means-tested transfer payments to those students who need them most." [9]

Universities Australia points out that between 2008 and 2014 that the number of students from a low SES background grew by 45.7% compared to the growth in overall domestic undergraduates by 32.7%. The Bradley Review reforms around expanding participation, including the start up scholarships, were having a real impact in a sector that has been bogged for a long time with static low SES participation rates,

Under this new measure in the Omnibus Bill the grandfathering of students will come to an end prematurely in July 2017. Students will take out HELP loans if they want the financial support. The bill's explanatory memorandum estimates that in 2017 this measure will affect 80.000 students. Under normal grandfathering conditions most students from the 2015 first year cohort would have expected the grants to continue until at least the end of 2017 for three year programs and up to 2020 for longer degrees.

We expect that many students who would have received a grant will not take out yet another HELP loan but may face financial stress with dealing with the up front costs at the start of semester.

It has taken considerable trial and error over decades to find a mix of policies that is delivering postive results in improving the socio-economic mix of domestic students. The piece-meal unpicking of the Bradley reforms that have opened up domestic higher education to justify short term budget savings is not something that a governments of whatever political persuasion should take lightly.

---

[8] Student Income Support –The Start Up Scholarship, *Transforming Australia's Higher Education System*, Budget Fact Sheet, May 2009

[9] Universities Australia Submission to HEPPP Evaluation, September 2016