

Department of Education, Employment and Workplace Relations

Submission to the Senate Rural and Regional Affairs and Transport References Committee

Inquiry into The Social Security and Other Legislation Amendment (Income Support for Students) Bill 2009

Background

The Department has made a wide-ranging submission to the Senate Rural and Regional Affairs and Transport References Committee's inquiry into "Rural and Regional Access to Secondary and Tertiary Education Opportunities".

The submission includes information on trends in educational participation by rural and regional students relative to their metropolitan counterparts. It also provides information on the student income support programs, including:

- the role and purpose of student income support, including in relation to the Government's target for educational attainment;
- the findings and recommendation of the Bradley Review of Australian Higher Education in relation to student income support;
- the proposed reforms to student income support announced in the 2009-10 Budget; and
- student income support benefits available to students who need to move away from the family home for study.

Since the submission was lodged, the Senate has referred the Social Security and Other Legislation Amendment (Income Support for Students) Bill 2009 to the Committee for inquiry. To assist the Committee in its consideration of the Bill, the Department is making a supplementary submission focusing specifically on the reforms to student income support that will be effected by the legislation.

Introduction

Student income support is intended to provide financial assistance to students from low income backgrounds to support their participation in education and training and assist them to acquire the skills and qualifications essential for sustainable employment. Since 1998, support for students has been provided through three programs, Youth Allowance, Austudy and ABSTUDY. These programs have a key role in facilitating education and training outcomes, including the achievement of the Government's targets for educational attainment. These are that:

- 90 per cent of young people in the 20-24 year old age range will have attained Year 12 or equivalent qualifications by the year 2015 (up from the 2007 Australian level of 83.5 percent)¹ ;

¹ This figure is derived from the ABS Survey of Education and Work. It is subject to error margins.

- 40 per cent of 25-34 year olds will have attained a bachelor level qualification by 2025 (this was 29 percent in 2006); and
- 20 per cent of undergraduate enrolments in higher education will be students from low socio-economic status backgrounds, including those from rural and regional areas by 2020 (up from 15 per cent in 2007).

The Bradley Review of Australian Higher Education found that the decline over the last decade in the number and proportion of full-time students able to access assistance through the student income support programs indicates that their scope and settings have lost relevance. The Review found that the student income support programs are failing to accurately target those students most in need of assistance to study. By contrast, and as an unintended effect, the Review found that Youth Allowance is being accessed by some students who are living at home in higher income households.

The Review recommended comprehensive reform of the student income support programs, including substantial retargeting of support to those students most in need of financial assistance (Recommendation 5). The Review considered such reform essential to ensuring adequate support for the educational participation of students from low socio-economic backgrounds.

The Reforms to Student Income Support

In the 2009-10 Budget, the Government announced a comprehensive package of reforms to student income support that respond, in full, to Recommendation 5 of the Bradley Review. The reforms align with Government's education and training participation targets. The Social Security and Other Legislation Amendment (Income Support for Students) Bill 2009 will give effect to the reforms announced in the May 2009 Budget.

The Bradley Review found that the coverage of Youth Allowance (and ABSTUDY) for dependent students had fallen steeply since the early 2000s, with the settings for the parental income test having fallen behind prevailing family incomes. Conversely, and as an unintended effect, the Review found that Youth Allowance is being accessed by some students who are living in the parental home in higher income households.

In response to this finding, the policy intention underlying the reforms is to create a fairer and more equitable system which increases access to, and better targets, income support for students. This is based on the principle that young people are dependent on their families, unless they have reached the age of independence or otherwise demonstrate genuine independence.

Relaxation of the parental income test

The relaxation of the parental income test for access to Youth Allowance or ABSTUDY is central to the reform package and has two components:

- an increase to the parental income test threshold for access to the maximum rate of Youth Allowance or ABSTUDY (currently \$32,800) to align with the Family Tax Benefit Part A (FTB) income test (currently \$44,165); and

- replacing the current 25 per cent per child taper rate with a softer 20 per cent per family taper from 1 January 2010.

At present, each dependent Youth Allowance recipient in the family loses 25 cents from their payment for every dollar of income over the parental income threshold (currently \$32,800). Following the introduction of the family taper, as with the arrangements under FTB, the 20 cents reduction in the dollar for every dollar of income over the new threshold (\$44,165) will be applied once only and apportioned across the number of Youth Allowance siblings in the family.

The anticipated effect of this reform will see Youth Allowance and ABSTUDY retargeted to students from low to middle-income backgrounds by removing financial barriers to their participation in education and training. Importantly, this reform will overcome an existing gap, where students whose families earn modest incomes but which are above the parental income threshold, say \$60,000 – \$100,000, are currently unable to access support. This particularly applies to students who have to move away from home to take up their chosen course of study. It means, for example, that students from families with two children in the Youth Allowance age range living away from home and with a combined income of up to \$140,729 would be eligible to receive a part rate of Youth Allowance.

In summary, this reform will ensure that families with modest incomes can access the most appropriate payment, either Youth Allowance or Family Tax Benefit (Part A) to assist them in supporting and educating their dependent children.

Reform of the parental income test is expected to allow an estimated 67,800 additional students to access payment and see an increase in payment for some 34,600 existing beneficiaries.

Changes to the criteria for independence under Youth Allowance and ABSTUDY

The Age of Independence

The age of independence for Youth Allowance and ABSTUDY has been set at 25 years since 1996. Prior to this it had been phased down to 22 years. Under the proposed reforms announced in the 2009-10 Budget, the age of independence will again be progressively phased down from 25 years in 2009 to 24 years in 2010, 23 years in 2011 and to 22 years in 2012. This recognises the increasing self-sufficiency of young people as they mature and will allow them to access student income support at the higher independent rate of payment without being subject to the parental income test, on the basis of their own capacity to support themselves, including personal and, where appropriate, partner's income. This reform will increase the number of young people eligible to receive payment and allow young people who have reached the age of independence to receive a higher rate of payment.

Changes to the Workforce Participation Criterion for Independence

While the Bradley Review found that the parental income test for Youth Allowance was too tightly targeted, so that access to payment had steadily declined since the early 2000s, it also found that young people from higher income families were able to access Youth Allowance by meeting the workforce participation criterion for independence. The Review

identified the need to tighten the rules that govern eligibility for independent status under the workforce participation criterion.

Drawing on research findings on household incomes², specifically those of students who qualified for income support through the workforce participation criterion for independence, the Review found that of independent students receiving Youth Allowance and living at home:

- approximately 36 per cent were from families with incomes above \$100,000, 18 per cent were from families with incomes above \$150,000 and 10 per cent were from families with incomes above \$200,000.

In line with the recommendation of the Review, the reform to the workforce participation criterion for independence will mean that from 1 January 2010, young people will not be able to qualify for Youth Allowance or ABSTUDY by:

- working part-time for at least 15 hours per week for at least 2 years since leaving school; or
- earning, in an 18-month period since leaving school, an amount equivalent to 75% of the maximum rate of pay under Wage Level A of the Australian Pay and Classification Scale generally applicable to trainees (in 2009 this requires earnings of \$19,532).

Under the proposed reform, employment of at least 30 hours per week for at least months during any period of two years will be retained as the only workforce participation criterion. This means that only those young people who have demonstrated that they are genuinely self-supporting will qualify for independence through workforce participation.

As a key component of the retargeting of Youth Allowance and ABSTUDY to students from low to middle-income backgrounds, this reform is complementary to the relaxation of the parental income test. At the same time as the settings for the parental income test increasingly fell behind prevailing family incomes, the perception developed among young people, particularly intending university students, that the only, perhaps 'default', way to access payment was by meeting the workforce participation criterion for independence.

As a result of this perception, considerable concern has been expressed about the changes to the independence criteria. Under the proposed changes students will no longer feel 'compelled' to take a gap year in order to become eligible for income support. Instead, many students will be able to access income support immediately as a result of the changes to the Parental Income Test.

Around 30 percent of students who formally defer a university offer to take a gap year never return to study.³

While many groups have welcomed the proposed changes, there has been concern from students who consider that they will be immediately affected by the transition to the new arrangements. Following discussion at a Student Roundtable convened in Canberra, on 26 August 2009 the Government recognised that some students have already made arrangements based on the independence criterion that will operate up to 31 December

² Source: The Review of Australian Higher Education Final Report, December 2008, page 54

³ Tertiary Admissions Centre data.

2009. As a result the Government has announced a set of transitional arrangements to accommodate current 'gap year students'.

Transitional Arrangements for 2009 Gap Year Students

The transitional arrangements recognise that some young people have based their plans for commencing university in 2010 around taking a working gap year in 2009 in order to meet the workforce participation criterion in 2010. Accordingly, these arrangements will allow young people, who completed Year 12 in 2008, took a gap year in 2009 and need to live away from home to undertake their chosen university course in 2010, until 30 June 2010 to be assessed under the current workforce participation criterion for independence.

The definition of 'need to live away from home' is based on 'reasonable distance', that is an assessment of whether the young person would need to travel by public transport for more than 90 minutes each way from their parental home to their educational institution. Time taken in travelling includes the walking and waiting times involved with using public transport. The absence of appropriate public transport is also taken into account.

The reference to a student's 'chosen' course will mean that the necessity to live away from home will not be assessed with reference to the university closest to the student's parental home (unless this is where the student has chosen to study). Instead, the relevant assessment will be the travel time required between the student's parental home and the institution at which they have taken up a place. This supports the policy objective to facilitate student choice and mobility.

New Scholarships for University Students receiving Student Income Support

The Bill provides for the introduction of two new scholarships as an entitlement for university students receiving student payments. These scholarships both replace and extend the Commonwealth Scholarships Program (except for Indigenous students, who will continue to receive Commonwealth Indigenous Scholarships). However, existing Commonwealth Scholarship recipients will be 'grandfathered'. The Higher Education Support Amendment (2009 Budget Measures) Bill 2009, which was passed by the Parliament on 24 September 2009, closes the Commonwealth Scholarships Program to new recipients. This means that any new scholarships will be provided under the reforms to student income support.

The reforms introduce a new annual ***Student Start-up Scholarship*** for all university students receiving payment under Youth Allowance, Austudy or ABSTUDY, except for those already receiving a Commonwealth Education Costs Scholarship (CECS), to assist with the costs of textbooks and specialised equipment even a part-rate of student income support. The Student Start-up Scholarship is valued at \$2,254 in 2010, equivalent to the value of the CECS, and will be CPI-indexed annually. Around 146,600 students are expected to receive a Student Start-up Scholarship in 2010, a 28-fold increase over the number of CECS awarded in 2007.

For students who need to move away from home for study, the reforms introduce a new ***Relocation Scholarship*** to provide assistance with the costs of relocating for study. Valued at \$4,000 in the first year and \$1,000 in later years in 2010, the Relocation Scholarship will

also be CPI-indexed in subsequent years. The Scholarship replaces the Commonwealth Accommodation Scholarship and, except for those already receiving a Commonwealth Accommodation Scholarship, will be provided as an entitlement to dependent university students who are eligible for Youth Allowance and ABSTUDY and have to move away from the family home for study.

The Relocation Scholarship will also be available to independent students disadvantaged by personal circumstances that primarily relate to an inability to live in the parental home. These bases include where a Youth Allowance or ABSTUDY recipient:

- is an orphan, refugee or in State care;
- has parents that are unable to exercise their parental responsibilities for a specified reason;
- has experienced circumstances that make it unreasonable to live at home;
- is specially disadvantaged; or
- is him/herself the parent of a dependent child.

An estimated 14,200 students are expected to receive the Relocation Scholarship in 2010.

Delivery of the Scholarships will be by Centrelink. As both Scholarships will be paid as an entitlement to students who meet the eligibility conditions, their payment will be more timely than payment of the Commonwealth Scholarships, which occurs after the university census date. In addition the scholarships will be paid in each year of the student's enrolment at university (provided they remain in receipt of student income support payments) and will not be time limited.

Benefits for university students living away from home

The combined benefits of the relaxation of the parental income test, with this being restored as the main criterion for access to Youth Allowance, and the provision of the Student Start-up Scholarship and Relocation Scholarship significantly increase the assistance available for young people and their families, particularly those who need to move away from home for study. Recognising that the reforms (and their interactions) are complex, an online Student Assistance Estimator has been developed to assist students and their families gain an indication of the level of support they might expect to receive under the proposed changes to Youth Allowance. The Estimator, together with a number of fact sheets on the proposed changes, can be accessed at: www.deewr.gov.au/youthallowance.

The estimator calculates, for instance, that a family with one dependent child aged 18 and over living away from home to study at university may be able to receive income support up to a parental income of around \$92 000 while two dependent children living away from home may be eligible for student income support up to parental income of almost \$141,000. These students will be eligible for the Relocation Scholarship of \$4000 in the first year of study and \$1000 each year following.

Moreover, eligible students who need to move away from home to study will be able to access support immediately rather than having to work 18 months, as is the case under the workforce independence criterion.

The increased access to Youth Allowance or ABSTUDY effected by the relaxation of the parental income threshold also affords access to a range of other benefits, including

Pharmaceutical Allowance. In addition, students living away from home may be eligible for Rent Assistance, Remote Area Allowance and Fares Allowance. Further detail on these benefits is included in the Department's submission to the Committee's inquiry into "Rural and Regional Access to Secondary and Tertiary Education Opportunities".

Other Reforms to Student Income Support

The reforms introduce a one-off increase to the ***personal income test*** threshold for Youth Allowance, Austudy and ABSTUDY, which applies to students' earnings from part-time work, from the current \$236 to \$400 per fortnight and introduces CPI indexation to the threshold. This will allow students to earn more from part-time work before their payments are reduced. The increase in the personal income threshold will allow students to work around 14 hours per week⁴ at the Federal Minimum Wage rate as determined by the Fair Pay Commission (compared to the current level of 8.75 hours) before their payment is affected.

Initially intended to commence on 1 January 2011, as a consequence of the announcement of the transitional arrangements for 2009 gap year student and in order to maintain the cost neutrality of the package of the student income support reforms, the change to the personal income threshold will now commence on 1 July 2012.

From 1 January 2012, student income support provided through Youth Allowance and Austudy will be extended to ***all masters by coursework programs***. This builds on the current situation where students enrolled in approved professionally-oriented coursework masters programs may be eligible for payment and ensures equitable treatment of students enrolled in all masters by coursework programs. It is expected to benefit some 6,250 students in 2012. The measure also recognises the increasing requirement for masters level qualifications for professional entry. It also removes the need for universities to apply individually for course approval.

A further reform is the relaxation of the ***means testing of equity and merit-based scholarships*** provided by universities and philanthropic organisations, up to the combined value of the Commonwealth Scholarships (\$6,762 in 2010 and indexed in following years) from 1 January 2010. This includes scholarships provided by universities and philanthropic bodies. Scholarship amounts in excess of the capped value would continue to be assessed as income against the existing criteria.

Currently, Commonwealth Scholarships are exempt from means testing, but equity and merit-based scholarships are treated as income. As a result of the proposed changes, scholarship income up to the threshold (\$6,762 in 2010) will not impact on student income support payments. The measure will encourage and assist students from low income backgrounds, including those from rural and regional areas, to participate in higher education. This will benefit an estimated 3,500 students who would have otherwise had their income support payments reduced as a result of receiving such scholarships.

⁴ Universities Australia's 2006 *Survey of Student Finances* found that full time undergraduates were working an average 14.8 hours per week in a typical week.

A retargeted package of reforms within existing resources

In the current economic climate, the Australian Government's proposed package of student income support reforms is designed to be budget-neutral over the forward estimates. The costs are fully offset by the improved targeting of Youth Allowance and ABSTUDY and the conversion of funding from other programs affected by the reforms, including the Commonwealth Scholarships Program and savings from Family Tax Benefit (Part A) due to the anticipated migration of some young people from Family Tax Benefit to Youth Allowance or ABSTUDY. As part of this, the savings from the tightening of the workforce participation criterion for independence will be reinvested to fund other elements of the reform package, particularly the changes to the parental income test.