Submission to the Senate
Education and Employment Legislation Committee

Inquiry into the
Education and Other Legislation Amendment
(VET Student Loan Debt Separation) Bill 2018
and
Student Loans (Overseas Debtors Repayment Levy)
Amendment Bill 2018.

by
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About the author

I was a Commonwealth Public Servant for around 32 years, including nearly 10 years as a Senior Executive Officer. I was the Principal Analyst for Universities Australia during 2015.

In the APS, I worked on higher education funding policy for around nine years, implementing many aspects of the 2009 *Transforming Australia's Higher Education System* policy statement and the earlier 'Higher Education at the Crossroads' Review, including the development of the current Higher Education Support Act 2003.

I currently work part time as a consultant on projects involving public policy and research on tertiary education and social services. I currently have an honorary appointment with the Melbourne Graduate School of Education, University of Melbourne.

Thank you for the opportunity to contribute to the inquiry into these two Bills.

The only matter on which I wish to comment is the principal purpose of the Education and Other Legislation Amendment (VET Student Loan Debt Separation) Bill 2018 (Bill), namely to separate VET student loan debts from other forms of Higher Education Loan Program debts (HELP debts) and establish VET student loans as a separate income contingent loan administered under the VET Student Loans Act 2016 (VSL Act).

The three major points I would like to make are:

1. The rationale for the proposal is to provide greater transparency of repayment rates for VET student loans and more accurate information to inform future policy decisions. I believe the proposal may make these objectives harder to achieve than if the debts remained combined. My reasons for believing this are discussed further below.
2. The Committee should seek expert advice on the best approaches to monitoring tertiary student debts and analysing repayment patterns, before these Bills proceed. Stating that an objective will be achieved is not evidence that it will be achieved. The Parliament should satisfy itself that it is not wasting the $2.1 billion required to implement these changes on an ill-conceived proposal.
3. The Committee should recommend the establishment of a longitudinal data set that contains information on the education and borrowings of students and their repayment patterns. This data should be available to the research community for analysis, with appropriate protection of privacy similar to the methods used by the ABS. Research findings should be publicly disseminated to support public policy development and accountability. The current once a year asset valuation by the Australian Government Actuary is not sufficient for these purposes.

Supporting arguments

The case for this Bill has not been made out.

There is considerable evidence that it is time to re-assess what Australia is doing in tertiary education and this Bill reminds us that an important part of that task is re-assessing what we are doing with income contingent loans.

It is nearly 30 years since the introduction of the HECS scheme in 1989. It facilitated an expansion of higher education opportunities by requiring a contribution to the cost of higher education from people expected to have above average incomes once they started working.

It helped finance more opportunities for people who in general would derive great benefits from access to a university education. It helped create these additional opportunities without compromising the Government's ability to direct resources to people who were less well off – people who may be unemployed, aged, have a disability or who need health care. It is worth remembering that even today 60 per cent of our young people will not go to university.

The Federal Government has increased its reliance on income contingent loans. It has made students pay more for tertiary education and has expanded loan programs into completely new domains. Over the years, there have been close to a dozen different income contingent loans schemes. There are currently 8 different active schemes, including the remnant VET FEE-HELP scheme.

Some of these schemes feed into a single 'HELP debt pot' but in recent years, new 'debt pots' have been created. This Bill is about creating yet another new debt pot. This will be the fifth separate debt pot to be created, proliferating the accounting task, proliferating legislative provisions, generally making the whole system more complicated and increasing the potential for error.

I challenge members of the committee to think about whether this has helped them understand how much students are borrowing from all these loan programs and how much might be paid back. The PBO has previously highlighted the lack of transparency of the costs of student loan programs.

It is worth having a closer look at how this '*make more debt pots*' approach works. It requires specific arrangements to be put in place to ensure that the overarching debt repayment arrangements remain reasonable for people.

- For each student loan scheme, the repayment threshold and the required rates of repayment (based on a person's income) are the same.
- To prevent a person being required to make multiple repayments (for example a $1,000 repayment of their HELP debt at the same time as being required to make a $1,000 repayment of their Student Start-up debt), an order of repayment of debts has been established.
- This order of repayment means a person is exempt from repayment of a debt in any other 'debt pot' until they have completely repaid their HELP debt. HELP debt is paid first, then it is to be VETSL debt, then (and I am not completely sure of the order) Student Start-up debt, TSL debt and finally IFSS debt.

The million-dollar question is does all of this help us to better understand the extent to which we can use income contingent loans to finance tertiary education, remembering of course that the point of all of this is to help people get the knowledge and skills they need to get a job in today's economy and otherwise contribute to society.

The creation and ordering of debt pots is likely to make it more difficult to understand what is going on because many people have debts in multiple pots. It would not be uncommon for a person to have a debt in the HELP pot, the VETSL pot and the pot for Student Start-up debt. In 2014, nearly 42,000 people who had a bachelor degree or higher qualification completed a VET qualification. There are also thousands of people who complete a VET qualification and subsequently enrol in a higher education course.

How much debt in any particular pot is repaid (or not repaid) depends on its position in the order of pots. If we decide that HELP debt is to be repaid before VETSL debt, then more debt in the VETSL pot will remain unpaid than if it was the other way around. If we simply reverse the order, the amount of Student Start up Debt that will not be repaid will go down and the amount of HELP debt that will not be repaid will go up. Why is this?

It is because one of the major determinants of whether debt is repaid is the total amount of debt a person accrues. The bigger the total debt, the less likely it is to be completely repaid. When we split student loan debts into different 'pots', all we are doing is making the 'bits that will never be repaid' end up in the pots that occur further down the repayment order.

The sustainability of our student loan schemes is more likely to depend on the total debt picture than the number of pots we store the debt in.

Lets look hypothetically at what happens when a government decides to increase the level of fees paid by students.

The DNER and concessional loan costs associated with increasing a student's debts by around $10,000 will differ depending on whether these students are currently starting their careers with a total debt of around $20,000 or $40,000. The costs associated with adding $10,000 to $40,000 will be much higher than adding it to $20,000. It will not matter whether the $40,000 is in one 'debt pot' or 10 'debt pots'.

If we decide to have lots of pots, then we need to understand the interactions between the pots. If the Government increases university fees by $10,000, this will increase HELP debt but it will also increase the amount of VSL debt not expected to be repaid. It may have an even bigger impact on the Student Start-up debt pool.

In considering the merits of a proposed change, the Government needs to look at its impact across all of the various loan programs that affected students are using. The Government needs to understand when it is no longer reasonable to pile more debt onto students.

In general, the higher the level of a person's education and training, the greater is their future income and the more likely it is they will repay any borrowings they have made along the way. The most important thing for the Government to understand may be the relations between total borrowings, future income and repayments.

It is not at all clear that increasing the number of pots in which student debt is stored will help the Government to understand these relationships. It is likely to require good data sets, constructed in the right way. It will require people with high level research skills to interrogate these data sets and get answers to the important questions for public policy.

There is a good case for enabling a range of researchers to interrogate these data sets and publicly debate the results while preserving student's privacy. This can and should be done.

Some concluding remarks

The Commonwealth's student loan programs are among the most complex administered by the Commonwealth and expose it to major financial risk. The fair value of the total student loan asset is estimated to be around $43.5 billion as at 30 June 2018. The value of this asset was written-down by in excess of $7.5 billion over the four years to 2016-17, on one occasion by $2 billion from modelling the VET FEE-HELP cohort separately.

Unfortunately, the Commonwealth's student loan programs are a site of ongoing governance failure.

This is not the fault of any one government. A suite of income contingent loan programs have been created across Australia's tertiary education sector, but successive governments have failed to:

- ensure these programs are managed in a strategic and coherent manner to maximise their long term beneficial impacts on sector financing;
- put in place structures that would ensure it receives quality advice on matters such as appropriate student contribution amounts and borrowing limits, and their implications for debt repayment patterns;
- establish an appropriate performance framework allowing it to monitor and refine the operation of these loan schemes; and
- ensure that these programs are not abused.

This collective failure dates back at least 15 years to the passage of the *Higher Education Support Act 2003* which signalled a wholesale expansion of student loans to full fee-paying places at public and private providers. This was the point in time when the basic model for the scheme was changed to facilitate moves towards a more deregulated system in which there was price competition. The model was used to create VET FEE-HELP and to then extend it in 2012, a move which was supported by both major political parties, as evidenced in the Parliamentary debates of the time.

The nature of the VET sector dramatically exposed the risks associated with these schemes and a failure to quickly take action resulted in a debacle. The debacle is not over.

It is hard to believe that there was not fraud but as far as I am aware nobody has been charged, despite three years passing. There appear to be several thousand genuinely aggrieved students and it is quite unclear how many will eventually have their grievance successfully remedied. The VET Student Loans Ombudsman is attempting to resolve these cases using the available options, but it is not clear these options will be sufficient.

The VET Student Loans scheme was rushed through to replace VET FEE-HELP. It appears to have been successful in reducing abuse, bit it is a poorly designed scheme. I believe that it will increasingly become evident that it is not fit for purpose. In my view, loan fees are currently being applied to VSL debts and students subjected to compulsory repayment of those loan fees without proper legal authority. I would be happy to provide the committee with further information on these matters.

Over the last 15 years there has been a continual succession of Bills before the Parliament producing great churn in policy and implementation – loan schemes come and go, so too does provider regulation. Fee levels, repayment thresholds, repayment rates, indexation arrangements are constantly being changed, as are the accompanying direct government subsidies. No parameter goes untouched!

Very little of this churn has occurred in a truly considered way or has been informed by the sort of expertise that it warrants. All this activity has done very little for the tertiary education sector. Higher education is in reasonable shape but the VET sector is currently in disarray.

It is time that the unnecessary and often silly tinkering with individual programs stopped and the Government focussed on the overall operation of the system.

A considerable amount of detailed costing and research is required to provide an appropriate evidence base on which to make decisions about the resourcing of tertiary education. This work should be undertaken by an independent authority making public recommendations on the reasonable cost of tuition and the appropriate level of student contributions. It should have tightly structured terms of reference for the scope of its work, but an unfettered power to publish its findings and recommendations.

The currently fragmented system of loans should be unified into a coherent single program of income contingent loans supporting the tertiary education of domestic students and enabling better monitoring and management of the associated costs to the Government.

The Government should retain final responsibility for decisions on resourcing and student contributions.