SENATE EDUCATION AND EMPLOYMENT LEGISLATION COMMITTEE

HIGHER EDUCATION AND RESEARCH REFORM BILL 2014

SUBMISSION BY

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The authors of this joint submission previously put in separate submissions to the Committee inquiry in relation to the original Higher Education and Research Reform Bill. We will not repeat that material here, but instead focus on some of the key differences in the current draft of the Bill: namely the restoration of CPI as the interest rate payable on HELP debts, a cap on domestic tuition fees linked, in effect, to the comparable international student fee, and the plausible impact of higher fee levels on typical student debts under the revised arrangements.

The Consumer Price Index

The abandonment of the proposal to charge HELP debtors the long-term Treasury bond rate is welcome in its own terms; particularly in relation to existing graduates. In its context, however, it may have major implications and subvert a central rationale for the reforms in the first place.

A fundamental feature of Australia's income-contingent loan scheme is that the Government advances the total tuition fee to the higher education provider and then recoups the student contribution over time. If fee flexibility is introduced, we believe the likely effect will be considerable increases in tuition fees. This is the international experience, and was in fact clearly in the mind of the National Commission of Audit in 2014 when it said that "a full review of the pros and cons around full or partial deregulation of university fees would greatly assist to inform future policy directions".

If tuition fees rise substantially, so do Government outlays. If the Government is borrowing at the long-term Bond rate (which, in the foreseeable future it will be) but it is only charging back debtors at CPI there will ordinarily be a short-fall. When coupled with a likely increase in "default" by graduate debtors, it seems to us quite possible that the proposed funding scheme will become more expensive to the taxpayer than the current one.

We put "default" in inverted commas because by virtue of the simple operation of the HELP charging rates the higher the amount of debt the less likely it is that as many debtors, with repayments of between 2% and 8% of income, will clear the amount owing across their working lives. In addition, one would expect some increase in the number of graduates who are motivated to work overseas so as to avoid repayments, in the knowledge the amount owing is not rising in real terms but merely indexed to CPI.

On NATSEM modelling, a doubling of HELP debt over 2014 figures, and an increase of bad debt from 17% to 30% - both of which we think are plausible - would lead to an annual HELP budget of around $5 billion compared to $2 billion today, thus erasing future savings from lower Commonwealth grants to universities[1].

More profound consequences are possible. Because tertiary education fees are part of the basket that makes up the CPI, increases in fees will increase inflation as defined by this index. And because many Government payments are linked in some way to CPI, the indirect effect on the budget could be substantial. We estimate that if tertiary education fees double in real terms this would drive the CPI up by 1.4 per cent and the consequential implications for fiscal outlays are significant and sustained: $2.1 billion a year on the above example. Aged pensioners will receive more pension because student fees are going up.

The Ceiling on Domestic Tuition Fees

The revised proposals do not allow a provider to charge a domestic student more than the amount charged to an international student (or Australian full-fee student) for the same or comparable unit, after deducting the Commonwealth contribution. Put the other way round, the provider cannot receive more in relation to a domestic student than it does for an international student.

We think the basis for this proposal is perverse, and there may be perverse consequences in practice.

International student fees are affected by various factors not applicable to domestic fees, such as the exchange rate, trends in student mobility and shifting global competition between universities. The current evidence suggests that in postgraduate courses, where Australian students can be charged full fees, many institutions continue to charge higher rates to international students because the two markets are not particularly connected to each other and have different dynamics.

If now the Australian Government is willing to advance larger sums to universities for domestic undergraduate students, and those students are not price-sensitive due to the blunting effect of HECS, we think that domestic fees will tend to rise to the international fee level. And if a university senses that it could command still higher domestic fees, it can raise the international fee to provide the headroom. It then becomes a calculation of how many international students are lost as prices rise compared with how much more domestic student revenue can be brought in.

The Likely Effect on Graduates

NATSEM has revised earlier modelling in line with the adjusted parameters of the Higher Education Reform Bill. NATSEM has considered the typical repayment profiles for low, middle and high income graduates from 23 popular university courses. These repayment profiles were categorised by gender and provide analysis of expected prices under the existing policy and prices under the proposed

[1] The current HELP debt costs for 2014-15 are estimated in the 2014-15 Federal Budget to be $1.38 billion. Our calculations are based on the assumption of the long-run bond rate of 5 per cent and CPI of 2.5 per cent which we estimate pushes this estimate up to around $2 billion.

legislation at 'cost recovery'[2] and 'international fees'[3] after the reduced government subsidy is accounted for.

With the return to concessional interest rates NATSEM does find that graduate repayments are reduced in real terms, as one would expect. The extent of the reduction varies depending on course, gender and income level. As an example, for a female teacher on a typical income her repayments are reduced from around $34,500 to $25,800 under a 'cost recovery' scenario, compared with $22,700 under the existing policy. Her repayment period is reduced from 13.2 years to 10.9 years, by virtue of the reversion to CPI, compared with 9.4 years under the existing policy. Under the 'international fee' scenario her repayments are significantly reduced from $60,700 to $43,000 and her repayment time is reduced from 21.5 years to 16.8 years

NATSEM has undertaken additional modelling on lower income (bottom 25th percentile) graduates. For lower paid occupations such as nursing or education the reduction in interest rates makes little difference to females as they rarely earn enough to reach the HELP thresholds. The lower interest rate does impact on lower income males where moderate savings are made.

Where graduates pay back only a small proportion of their HELP debt the impost falls on the government, and thus the taxpayer. The extent of that impost relative to the current fee scenario depends on the extent of price increases. NATSEM does not take a view on exactly where prices will fall but suggests somewhere between a cost recovery fee and international fee is at least initially likely. QUT and UWA prices are set for 2016 and these are suggestive of significant price increases that fall within that band. In the case of UWA they are towards the upper limit.

With regard to worst case scenarios the example of Veterinary Studies is worth noting. Concessional interest rates (CPI) reduce the expected repayments for female graduates (in 2014 terms) from $102,400 to $65,100 under a cost recovery scenario. Under the international fee scenario repayments are reduced from $152,000 to $120,900. Under the existing legislation repayments are around $49,400. The male results are not greatly different. For low income graduates, females do not make any repayments whereas males make similar repayments to median income male graduates.

A continued concern with or without concessional interest rates is the extended period of repayment for women. Under the current capped system most women would be expected to repay their HELP debt prior to having children (if that were to happen in their early 30s). Under higher fee scenarios this period of time extends well into their 30s and 40s and pushes up their already very high effective marginal tax rates where the impacts of personal income taxation, child care costs, and reduced family payments interact with increased working hours to severely diminish the incentive to return to work.

Conclusion

The conclusion we reach in this submission is that the revised proposals are better than the original ones for students, but they remain worse than the status quo for students. However, the revised proposals are worse for the taxpayer, not only than the original proposals but also than the status quo. Doing nothing would be better than plunging into the unknowable.

[2] That is, where the University increases tuition fees to make up for the lost Commonwealth revenue.
[3] That is, where the University goes as high as it can legally go, but on the assumption that international student fees are not deliberately raised so as to create further legal headroom.

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