



Australian Government
Department of Education and Training

***Education and Other Legislation
Amendment (VET Student Loan Debt
Separation) Bill 2018 and Student
Loans (Overseas Debtors Repayment
Levy) Amendment Bill 2018***

Submission from the Department of Education and Training
to the Education and Employment Legislation Committee

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

Introduction

The Department of Education and Training (the department) welcomes the opportunity to make a submission to the Education and Employment Legislation Committee on the Education and Other Legislation Amendment (VET Student Loan Debt Separation) Bill 2018 and the Student Loans (Overseas Debtors Repayment Levy) Amendment Bill 2018.

The VET Student Loans program commenced on 1 January 2017, replacing the VET FEE-HELP scheme, which closed to new students on 31 December 2016.

The *Redesigning VET FEE-HELP Discussion Paper* set out the issues associated with the VET FEE-HELP scheme. In particular, VET FEE-HELP experienced exponential growth from 2012 when course articulation requirements were removed, and saw student take-up grow from around 55,000 students in 2012 to more than 272,000 in 2015. Over this period, loan amounts also increased, growing from \$323 million in 2012 to \$2.9 billion in 2015. The average loan per student more than doubled from \$7,575 in 2009 and \$9,092 in 2012, to \$14,866 in 2015, resulting in higher debts for many students¹.

During 2015, the Government announced changes to the way the scheme was administered. The reforms included banned inducements, tightened marketing and recruitment practices, strengthened legislation and payment processes, and a scheme cap to 2015 levels. These reforms addressed the most egregious issues within the scheme. For example, the average loan per student decreased to \$12,774 in 2016.

VET FEE-HELP was a demand driven measure with limited policy levers and administrative controls. The ready availability of those loans, while an important enabler of education and skills development, dampened price sensitivity among potential students in the sector. This, combined with opportunistic behaviour by some operators, led to unethical, aggressive, profit-driven student recruitment with rapid, unanticipated growth in enrolments at those providers. This in turn led to a rapid increase in both student take up and debt accrual. Subsequently, the Australian Government

¹ Department of Education and Training, 2016 VET FEE-HELP Statistical Report, tables 1.2 & 2.11(a)

Actuary has assessed approximately \$1.2 billion of debt as being potentially irrecoverable as a result of issues in the sector².

VET Student Loans has arrested the unsustainable growth of VET FEE-HELP with around \$200 million paid in VET Student Loans in 2017³. In contrast to VET FEE-HELP, the VET Student Loans program provides capped, income contingent loans to eligible students undertaking vocational education and training (VET) in eligible courses. The program is guided by six key principles:

- fiscally sustainable and contributes to national economic growth
- removes financial barriers to training and improves equity of access to higher level VET
- promotes the delivery of quality and affordable training for students
- balances industry needs, employment outcomes and student choice
- is student centred through adequate protection for students and access to information that enables informed decision making
- has program integrity, manages risk and promotes confidence in the regulated VET market.

The VET Student Loans program delivers on the Government's commitment to redesign VET FEE-HELP so that it is student centred, delivers high quality training, is fiscally sustainable, and holds providers to account. VET Student Loans provides protection for students and stops the unscrupulous behaviour by some providers under the VET FEE-HELP scheme.

Key features of the program include:

- course eligibility that aligns with industry needs and employment outcomes.
- loan caps on all eligible courses based on cost of delivery, putting downward pressure on fees and addressing cost blowouts.
- a student engagement requirement, where students must log in to an online IT system to demonstrate their continued engagement in their course.
- a new outcomes-focussed application process for providers to access the program, including an application fee and time limited approvals.
- a strengthened legislative, compliance and payment framework, including the ability to impose loan caps on providers.
- banning brokers and restricting third party training.

Why VET Student Loans debt needs to be administratively separated from other Higher Education Loan Program (HELP) debts

Better information for Government and individuals

The failures of the VET FEE-HELP scheme reinforce the need for Government to better understand the student cohort using a taxpayer funded loan to study a VET qualification, and any differences between that cohort and those accessing other types of HELP loans.

² Australian National Audit Office, Administration of the VET FEE-HELP Scheme, 2016, page 7

³ VET Student Loans Six-monthly reports, Jan-Jun 2017 & Jul-Dec 2017

Separating VET Student Loans debt from other HELP debts will provide greater transparency of repayment rates for VET students and better information for government to inform policy decisions and the public. It will enable more timely, transparent and accurate reporting on the fiscal sustainability of the VET Student Loans program, and support greater public accountability reporting on the program.

VET Student Loans debts are a type of Higher Education Loan Program (HELP) debt. Therefore, VET student loan debts are captured and reported under the broader HELP account. This account also includes HECS-HELP, FEE-HELP, SA-HELP, OS-HELP and VET FEE-HELP. As such, repayments for debtors with different HELP loans (for example a HECS-HELP loan and a VET Student Loan) cannot be apportioned to a single element within HELP. As a consequence, it is also not possible to determine the value of outstanding VET Student Loans debt or separate existing debts.

Separating out VET Student Loans debt from HELP debt is necessary so that the effectiveness of the new program can be assessed by measuring its fiscal sustainability. This will enable better understanding of the capacity of the VET Student Loans cohort to repay their loans, and to more accurately assess government borrowings.

Only new VET Student Loan debt incurred on 1 July 2019 will be separately reported under a VET Student Loans account. Debts incurred before this date will continue to be reported under the HELP account.

Implementation

The Australian Taxation Office (ATO) manage income-contingent loan repayments through the tax system. As such, the department worked closely with the ATO on this measure. In particular, the ATO were consulted on implementation, the timeframe and costs of this measure, to ensure necessary IT systems changes were taken into account, as well as other considerations including the a financial year start due to personal tax impacts.

Accumulation of VET Student Loan debt data will take time

The ability for the Australian Government Actuary to quantify debt and repayment data and generate a VET Student Loans model for financial statements and other reporting purposes will be limited until enough post-completion income and repayment data is available. The Australian Government Actuary has previously advised that around five years of data is preferable to be confident in modelling repayment prospects into the future, independently of the experience of other income contingent loan programs.

Due to the requirement that repayments be made once a person with a HELP debt, including a VET Student Loans debt, earns above the minimum repayment income, it is likely that repayments will not be made until after course completion when employment benefits can be realised. For example, for students taking on a new VET Student Loan debt on 1 July 2019, the course is unlikely to be finished before 2020, with income thresholds unlikely to be reached before the second half of 2021.

Impact on HELP repayment policies

These bills do not change existing HELP lifetime limits, repayment thresholds, repayment rates, indexation, taxation treatment or the loan fee for VET Student Loans. These will remain the same as

the repayment thresholds, repayment rates and indexation for HELP debts. For this reason, relevant new arrangements for the administration of the VET Student Loan debts under the *VET Student Loans Act 2016* will refer back or replicate existing provisions in the *Higher Education Support Act 2003* that relate to these matters.

The bills also operate to ensure repayment obligations will apply to overseas debtors. That is, consistent with existing arrangements for HELP debtors residing overseas (including previous VET FEE-HELP and current VET Student Loans debtors), the bills ensure that persons residing overseas who have a VET Student Loans debt are required to repay those debts.

Impact on students

From 1 July 2019, individuals with new VET Student Loans debt will access a separate Statement of Account for their VET Student Loans debt and their Notice of Assessment will display VET Student Loans repayment details from 1 July 2020. These students will have greater visibility of their VET Student Loans debt.

Impact on providers and employers

These changes will not impact VET Student Loan providers. The separation will have minimal impact on employers' data collection and reporting requirements with the Australian Taxation Office and employers will not be required to make any additional withholding.

Why amend section 16 of the VET Student Loans Act 2016

The Education and Other Legislation Amendment (VET Student Loans Debt Separation) Bill 2018 also amends section 16 of the *VET Student Loans Act 2016*. The Bill makes amendments to enable the courses and loan caps determination (currently, the *VET Student Loans (Course and Loan Caps) Determination 2016*) to incorporate, by reference, any matter contained in an instrument or other writing as in force from time to time. This lays the groundwork for the Determination to be amended, to refer to listed courses and new courses that replace those that become superseded or reaccredited, as specified on the National Register of VET.

The Determination allows the Minister to determine courses of study for which VET Student Loans may be approved and the corresponding maximum loan amounts for those courses.

Loans are only available for the courses listed on the Determination, which is updated twice each year. For a course to be added to the Determination it must meet a defined methodology: that the course must be current, and be subsidised by two or more state or territory governments, or be a science, technology, engineering or mathematics course, or be required for a licensed occupation. This methodology ensures courses are targeted to high national priority, linked to industry needs, address skill shortages, and lead to strong employment outcomes.

Once the Determination is made, VET Student Loans can only be approved for the courses specified on the Determination. If a course becomes non-current or superseded and is replaced in between the twice yearly updates, loans cannot be approved for the replacement course until the next update to the Determination (when the Determination is amended relevant courses are replaced with their more current version).

It is proposed to address this problem by enabling the Determination to refer to the National Register of VET. Presently subsection 14(2) of the Legislation Act 2003 prevents the Determination from referencing another instrument or document. Making this connection with the National Register will mean that students can access loans when a course on the Determination is replaced without having to wait for the Determination to be updated.

The National Register is defined in section 3 of the *National Education and Training Regulator Act 2011* and it is the authoritative source of information on nationally recognised VET courses and their status. The National Register is publicly available at www.training.gov.au.

Impacts

Students will be able to seek a VET Student Loan for the most current version of the course if offered by a VET Student Loans provider. VET Student Loans providers will be able to offer loans for the most current version of the course.