

TDA Submission

Legislative Change to VET Student Loans



SUBMISSION TO SENATE STANDING COMMITTEE ON EDUCATION AND EMPLOYMENT

May 2018

Introduction

On 10 May 2018, the Senate of the Australian Parliament referred the provisions of the *Education and Other Legislation Amendment (VET Student Loan Debt Separation) Bill 2018* and the *Student Loans (Overseas Debtors Repayment Levy) Amendment Bill 2018* to the Education and Employment Legislation Committee (the Committee) for inquiry and report by 15 June 2018.

This submission from TAFE Directors Australia (TDA) responds to the inquiry, with reference to the *Education and Other Legislation Amendment (VET Student Loan Debt Separation) Bill 2018* (the Bill), which sets out to separate VET student loan (VETSL) debts from other forms of Higher Education Loan Program (HELP) debts, establishing VETSL as a separate income contingent loan. TDA understands this will create the ability for the Commonwealth to separately report on VETSL, including providing taxation information to students that separately identifies their VETSL debt. The amendments also have other consequences, some of which TDA addresses in this submission.

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Nature of Work is Changing: Skills the Dominant Feature

Completing secondary schooling, while still valuable in itself, is no longer enough in a global and interconnected economy. Even if Australians never work overseas, they are more than likely going to be connected into global supply chains and be part of the global economy. Whether it's in agricultural exports, manufacturing components, across the full range of our increasingly service based economy, or building our digital economy and defending it from cyber-attacks.

Australians, like the citizens of all developed and developing countries, will increasingly need mid and higher-level skills to support their continued success in gaining work. The skills people, especially young people, acquire through tertiary education and training need to be aligned with the capabilities required to sustain our economy. Graduates engaged in economic activity also contribute to social cohesion.

Social inclusion and the social benefits derived from employment relies on the skills to be able to fully participate in a global and interconnected economy. More than ever, with continuing rates of high youth unemployment and unacceptably high rates of homelessness, skills acquisition, including basic education, is fundamental to success, irrespective of background.

The Organisation for Economic Co-operation and Development (OECD) reports from its survey of adult skills that adults with post-school qualifications and higher levels of basic skills, such as literacy and numeracy, benefit from higher rates of well-being, a basis for engaging in community and cultural activities, which are so important for a healthy society and as the underpinning of democracy.

This need was recognised in 2012, when all Australian governments through the Council of Australian Governments agreed to ambitious but achievable targets for qualification levels by which to lift the economic participation of individuals.

VETSL Loan Fee: A Tax on VET Students and on Skills

When the Government introduced VET FEE-HELP (VFH) it anticipated a high default rate and a low rate of VET graduates reaching the repayment income threshold. To an extent this may have been to address structural inadequacies of opening up VFH to the poor recruitment and teaching practices of some providers. As a result, students acquiring VFH debts incurred a 20 per cent loan fee, or tax, on their Commonwealth tuition loan to be collected through the taxation system.

However, when VFH was replaced with the much more restrained VET Student Loans Scheme (VETSL), graduates have a higher likelihood of repaying their loans due to legislated caps that limit the amount of VETSL to be accessed and caps on the amount a provider can claim through VETSL for their students, still the 20 per cent tax on VET students remained.

Even at this time, with the Parliament considering the *Higher Education Support Legislation Amendment (Student Loan Sustainability) Bill*, currently before the Senate, the 20 per cent tax on students' Commonwealth VET tuition loans, a tax on skill acquisition in the economy, remains.

In the amendments proposed through this *Education and Other Legislation Amendment (VET Student Loan Debt Separation) Bill 2018*, repayment thresholds for VETSL remain linked to those set out in the *Higher Education Support Act 2003*, which the *Higher Education Support Legislation Amendment (Student Loan Sustainability) Bill* seeks to amend.

These amendments, including for VETSL, provide a new minimum repayment income threshold of \$44 999 for the compulsory repayment of debts through the income-taxation system and introduce additional repayment thresholds as the recipients' income increases. Further, repayment indexation will be linked to the consumer price index instead of average weekly earnings.

Despite the urging of TDA in its submission to the Senate Committee in relation to that bill, it appears most likely the 20 per cent tax on VETSL students' Commonwealth tuition loans remains, which will act as a brake on the delivery of skills desperately needed by the economy.

A trained and qualified workforce does not happen by accident. To achieve a skilled workforce a substantial number of students need to invest their own money, and their time and effort, yet they are taxed to do so. It has also been recently reported that former prime minister John Howard was wondering where Australia will find all the skilled tradespeople for the welter of infrastructure projects.

The tax on training is openly unfair: it is a highly regressive tax, targeting those who seek training to pursue work in key jobs needed in our economy but with more modest wages compared to the expectations of university graduates.

HECS-HELP university students with Commonwealth supported places, however, are exempt from a tax on their university degree. With strong levels of labour market participation and high rates of job creation the need for VETSL to be taxed does not exist anymore than it does for these university students.

Removal of the 20 per cent tax on VETSL should lift the repayment rate for VETSL and give a strong price signal to VET students, especially at middle and lower income levels, to pursue training which ultimately brings new skills to the labour market and securer employment.

A typical domestic VET student studying in Australia today

VET student Kowshik Paul is paying \$7200 to get a graduate certificate in networking and cyber security at the Canberra Institute of Technology (CIT).

Mr Paul, who has a young family, works full-time and is studying part-time a Graduate Certificate in Networking and Cyber Security and is being taxed \$1,440 for his course, which will be added to his total repayments through the income-taxation system.

As with many VET students Mr Paul wasn't aware of the charge, as it's buried in the tax debt held by the Commonwealth for his studies. At the same time as supporting his young family and paying his mortgage, Mr Paul is going to start repaying this debt out of his wage as soon as his income reaches \$44,999 (should proposed changes pass through the Parliament).

TAFEs are making their Contribution to Skilling Australia

The VETSL loan cap for the Certificate in Networking and Cyber Security, under the Commonwealth legislated determination, is \$10,000. CIT, through the ACT Government, is supporting Mr Paul not through a territory subsidy system, but through a direct \$2,800 discount on the course fee, in part recognising the critical need for these skills in the economy. Without this discount to the course cost Mr Paul would be facing a taxation bill from the Commonwealth of \$2,000 at the same time he is supporting his young family.

It is time for a more equitable tertiary education system that at the same time will give a boost to the economy. These bills present the opportunity for substantial and meaningful action. The Parliament needs to decide with these bills if it is good for the economy and good for vocational education and training students for the 20 per cent tax on skill acquisition to remain.

Amendment is Sought to the Bill

TDA and TAFEs, on behalf of all VET students, seeks amendment to the *VET Student Loans Act 2016* through amending Clause 23BA (2)(a) of the *Education and Other Legislation Amendment (VET Student Loan Debt Separation) Bill 2018* from '120% of the loan amount' to '100% of the loan amount'.

TDA notes there will also be a requirement to make some minor consequential and contingent amendments to the *VET Student Loans Rules 2016*.

Subservience to HELP Debt will reduce compulsory repayments to VETSL

TDA recognises the Bill will place VETSL compulsory repayments as subservient to repayments for HELP debts (see section 13 of the Bill). Coupled with the amendments proposed through the Committee to the *Higher Education Support Legislation Amendment (Student Loan Sustainability) Bill*, still before the Senate, which will allow for further HELP debt borrowings where repayments have lowered a student's HELP debt to below the lifetime cap, the subservient nature of VETSL debt will impact the expected repayment rates of VETSL.

The result of these changes will show a higher rate of repayment of HELP debt simply as it is the first to be paid off. Injudicious comparison of repayment rates between HELP and VETSL risks having VETSL seen as a less effective scheme for repayment, which would be clearly false. This can lead to misinformation within the polity, which risks policy adjustments to the scheme that would not be justified. This also has an impact on the planned financial contribution from states and

territories for their contribution to the impairment associated with VETSL courses where they provide a subsidy. The higher and slower rate of repayment (after the HELP repayment) will lead to higher contribution costs to the Commonwealth.

We recommend the Committee make this clear in its report to the Senate so that this can be used as a clear reference point to refute any potential spurious claims about repayment rates for VETSL.

Tuition Assurance Exemption for Government Providers

Under Clause 19-40 of the *Higher Education Support Act 2003* (HESA) Table A universities are exempt from tuition assurance requirements. It is assumed the exemption is given due to their status as public institutions.

TAFEs are also public institutions and have greater levels of financial oversight by their state and territory than for universities. TAFEs should be exempted from tuition assurance requirements in the same way as universities.

Tuition assurance offers protection to students primarily in the case of provider closure and the loss of fees paid in advance, particularly when insolvency rules dictate that secured creditors are repaid before students. This clearly does not apply to a government backed university or TAFE.

An Amendment is Sought to the Bill

TDA, on behalf of all TAFEs, seeks equal treatment with universities through a further amendment to the *Education and Other Legislation Amendment (VET Student Loan Debt Separation) Bill 2018* to amend the *VET Student Loans Act 2016* (VETSL Act).

A new clause could be after Subsection 25(2) of the VETSL Act to the effect that the table of providers listed in the VETSL Act Subsection 6 Definitions are exempt and are not required to *'be a party to an approved tuition assurance arrangement'* and exempt from the requirement to *'be a member of an approved external dispute resolution scheme'*.

Similar to the list of Table A providers at clause 16-15 of HESA, the table to be inserted into Subsection 6 of the VETSL Act will list all government backed VET providers as a reference for the proposed new Subsection 25(2A).

About TAFE Directors Australia

TDA is the peak body incorporated to represent Australia's Technical and Further Education (TAFE) institutes and university TAFE divisions, and the Australian-Pacific Technical College (APTC).

TDA operates a National Secretariat and enjoys full membership of all TAFE Institutes in states and territories, including six dual sector universities. Eleven TAFE institutes are registered as Non-University Higher Education Providers (NUHEPs).

Each TAFE delivers an extensive range of technical and further education, designed to comply with national standards and respond to the local needs of industry and communities. TAFEs liaise with local industry and employers and the community to inform delivery.

TDA members enrolled over 800,000 students in 2016, and our institutes and dual sector universities enjoy a majority market share of government-funded training. TAFE remains the leading partner in vocational education and training (VET) across Australia and is key in training for the nation's core skilled occupations.

At a wider tertiary level, VET is a major component of Australia's tertiary education system; the National Centre for Vocational Education Research (NCVER) confirms VET engaged 4.2 million Australians in some form of training during 2016.