

# Chapter 1

## Introduction and background to the inquiry

1.1 The Senate referred this inquiry into student income support to the Employment, Workplace Relations and Education References Committee on 11 March 2004 with a reporting date of 25 November 2004. The committee tabled an interim report on 20 October 2004, following the prorogation of Parliament, advising of a new reporting date, probably in May 2005, subject to the committee being reconstituted in the 41<sup>st</sup> parliament. On 8 December 2004, the reporting date was extended to 16 June 2005.

1.2 The committee was asked to examine and report on the following matters:

- current measures for student income support, including Youth Allowance, Austudy and ABSTUDY, with particular reference to the adequacy of these payments, the age of independence, the parental income test threshold, and the ineligibility of Austudy recipients for Rent Assistance;
- the effect of income support measures on students and their families, with reference to the increasing cost of higher education, students being forced to work longer hours to support themselves, and the closure of the Student Financial Supplement Scheme;
- the importance of adequate income support measures in achieving equitable access to education, especially for students from disadvantaged backgrounds, and improving access to education; and
- alternative student income support measures.

### Conduct of the inquiry

1.3 The inquiry was advertised in the *Australian*, and submissions were invited from a wide range of interest groups, organisations and individuals with an interest in student income support issues. Relevant Commonwealth and state and territory ministers were also invited to make submissions. A total of 140 submissions were received, predominantly from student organisations, vice-chancellors and other senior university administrators, academics and individual students. Submissions were received from the Department of Family and Community Service (FaCS) and the Department of Education, Science and Training (DEST). The South Australian and Queensland governments also made submissions.

1.4 The committee conducted public hearings in Melbourne, Adelaide and Canberra in April and May 2005. The committee notes that mid-way through the inquiry, in late October 2004, responsibility for income support programs, including Youth Allowance, Austudy and other minor payments to students, moved from FaCS to DEST. Responsibility for Rent Assistance and the Family Tax Benefit stayed with

FaCS. All income support payments to students continued to be delivered by Centrelink. In light of this administrative change, and to avoid any confusion, officers from DEST, FaCS and Centrelink agreed to appear together before the committee at the public hearing in Canberra.

### **Policy neglect**

1.5 Most of the evidence to this inquiry showed conclusively that the student income support system has operated in a policy vacuum for too long, and is showing clear signs of policy neglect and poor service delivery. Many witnesses conveyed a strong view that the drift in student income support policy is not only unacceptable but has become an important factor contributing to the financial hardship of many students. A consistent theme in the submissions is that the income support system has remained largely unchanged during a period which has seen a radical shift in the way higher education is delivered across Australia's university sector. One of the consequences of this neglect is that the increasing financial hardship among the student population is not included on the national policy agenda. Students and their representative bodies have struggled to have their voices heard and their worsening financial situation accepted as a serious public policy issue, but to no avail.

1.6 The past decade has seen a major shift in the profile of students, to the extent that the level of income support does not even come close to providing students with a decent living wage to cover the basic cost of rent, food, bills and transport. The level of support provided by Youth Allowance, Austudy and ABSTUDY has been outstripped by rising living costs and the cost of higher education more generally, as well as by spiralling student debt. Many students receive a level of income support which leaves them between 30 and 50 per cent below the poverty line. How students are meant to survive each week on such a 'pittance', as academics have described it,<sup>1</sup> was a question which students raised with the committee at every available opportunity. The committee finds that their evidence, and that of many university administrators, amounted to a collective plea for the government to reform the income support system to relieve the increasing financial strain on students.

1.7 The committee was struck by the consistency and force of the recommendations made by student associations and university administrators across the range of issues addressed in its terms of reference. The committee interprets this response as conclusive evidence that the income support system is in a serious state of disrepair and that nothing short of a major policy review and overhaul of the system is required. There was broad agreement among the witnesses that the base rate of payment should be increased to a level which is at least comparable with the Henderson poverty line. The committee accepts that the Henderson poverty line was raised in evidence most often as a benchmark to demonstrate the low level of financial support which students receive compared with other categories of social security

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1 Bob Birrell, Ian R. Dobson, Virginia Rapson and T. Fred Smith, *Higher Education at the Crossroads*, Centre for Population and Urban Research, Monash University, 1993, p.6

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support. The committee notes that a renewed commitment by the Government to adequately fund the student income support system, unlikely though this may seem in the current political climate, would require a significant and sustained financial commitment by the Commonwealth. The committee accepts that a strong case was made for the level of financial assistance for students to be increased to an acceptable level, yet it believes that any proposals to substantially increase Commonwealth expenditure in this area should be fully costed and assessed for their financial impact.

1.8 The committee accepts the argument of the Student Financial Advisers Network that the various income support schemes are of diminishing relevance to changing student and institutional profiles. The committee heard from a number of witnesses that the Department of Family and Community Services and Centrelink have become obsessed with demonstrating administrative efficiency and improving client-customer service instead of monitoring and investigating the effectiveness of the various income support schemes. It was as if student income support had disappeared down a black policy hole. Yet the committee received almost no evidence on why the Government has ignored student income support. It is left to the committee to speculate in this area. The committee believes that the decline in funding for students over the past decade can be attributed principally to changes to funding arrangements for higher education and the advent of the 'entrepreneurial' university and the development of a culture and ethos of managerialism. The effect of these changes on students was examined by the committee in its 2001 report, *Universities in Crisis*. The report found that students were paying more for their education at the same time that the level of financial support that they were being offered had declined. This had resulted in the increasing debt burden and paid work commitments of full-time students.<sup>2</sup>

1.9 While the income support system underwent significant change in 1998 with the introduction of Youth Allowance, more stringent eligibility criteria, harsher parental means testing and an increase in the age of independence to 25 years, the evidence strongly suggests that these and other changes have not kept pace with the fluidity of university structures and the changing profile of students. It was pointed out that many of the regulations governing income support schemes have become increasingly irrelevant and confusing to students.<sup>3</sup> One submission noted that, despite its supposed simplicity, Youth Allowance is one of the most complex payment structures in the social security system, resulting in a high level of confusion among students.<sup>4</sup> A consistent theme raised in evidence was that while the income support schemes run with relative efficiency from the point of view of public administration, students experience a range of difficulties in their dealings with Centrelink. This has

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2 These themes are examined in the Senate Employment, Workplace Relations, Small Business and Education References Committee's report, *Universities in Crisis*, September 2001, pp.282-88

3 Student Financial Advisers Network, *Submission 116*, p.2

4 National Welfare Rights Network, *Submission 134*, p.8

resulted in added frustration, financial inconvenience and students under the age of 25 accounting for an unusually high percentage of all administrative and activity breaches imposed by Centrelink.

1.10 It is significant that a House of Representatives committee inquiry into student financial assistance in 1991 found that it was difficult to measure the effectiveness and efficiency of the Austudy program. The report of that inquiry, which became known as the Price Report, was unable to accept the then Department of Employment, Education and Training's (DEET) subjective assessment of Austudy. The data required for the committee to form an objective assessment of the program was not available. Nor could it accept that the Parliament had been allocating hundreds of millions of dollars each year to a program for which few objective measures of effectiveness were available.<sup>5</sup> The report recommended that the government develop clear policy objectives for student financial assistance programs and that DEET develop performance indicators consistent with these objectives and use them to assess the overall effectiveness of the programs.<sup>6</sup> The committee notes that the recommendations from this report have never been implemented or even responded to by Government.

### **Major issues**

1.11 The committee believes that the concerns aired more than a decade ago apply with equal force to current circumstances. It became clear during the inquiry that missing from the current debate on student finances is a sense of what the purpose of the income support system is, and how its performance and effectiveness are measured and reviewed by the Department of Family and Community Services and Centrelink. Part of the problem relates to the absence of disaggregated data on the proportion of students receiving less than the full amount of the Youth Allowance and the number of students receiving Youth Allowance who were assessed as either dependent or independent. It has been left to Dr Bob Birrell and others at the Centre for Population and Urban Research at Monash University to analyse data made available to them by the department and Centrelink. The committee notes that their research findings led them to publicly advocate reform of the Youth Allowance eligibility criteria to improve access to higher education amongst lower middle and working class families. Their findings have been studiously ignored by the Government.

1.12 A critical factor in the government's continuing neglect of the student income support system is the shift away from public funding of higher education and the introduction of policies which reflect a 'user-pays' philosophy. The committee had to look no further than the closure of the Student Financial Supplement and Educational Textbook Subsidy Schemes and voluntary student unionism (VSU) legislation for

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5 *Student Financial Assistance*, Report of the House of Representatives Standing Committee on Employment, Education and Training, Canberra, 1991, p.22

6 *ibid.*

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evidence that Government cost-shifting has resulted in students bearing more of the cost of their education than before. Although the VSU legislation was introduced in the Parliament mid-way through the inquiry, witnesses raised concerns about its likely adverse effect on student finances. There was widespread concern that the legislation will erode the capacity of universities and student bodies to deliver essential services to financially struggling students.

1.13 The extent of student financial hardship is apparent by the number of students forced to work long hours who become trapped in cycles of financial insecurity and poverty. Anecdotal and empirical evidence shows that the level of payment under Youth Allowance, Austudy and ABSTUDY is inadequate and that the system operates with various disincentives, inconsistencies and anomalies which penalise students who are most in need of financial assistance. Students from households with low to modest incomes, from regional and remote areas and indigenous students are hardest hit by these systemic failings. The committee believes that while poorer students are the most deserving of Commonwealth financial support, the current system conspires against them. The committee is particularly concerned by evidence that the current system discourages young people from entering university at a time when the government is trying to maximise the skill level of the workforce.

1.14 The harshness of the eligibility criteria relating to the age of independence, the parental income test threshold and the ineligibility of recipients of Austudy for Rent Assistance are of greatest concern to students. Anomalies regarding the treatment of scholarships as taxable income and the level of income support available for postgraduate students are also a concern. Student bodies told the committee that Centrelink officers are unable to exercise discretion to ensure fair outcomes for students who face exceptional circumstances. This often results in unintended consequences for students and their families. The committee is concerned that students are penalised if they have to move away from home to study a particular course which is not available at their local university because their Youth Allowance payment is means tested. Similar financial penalties apply to students who, as a result of an illness or injury, cross over an arbitrary age threshold and are moved from Youth Allowance to Austudy, resulting in the loss of Rent Assistance.

1.15 The committee accepts, and Government senators emphasise, that there has been a significant rise in the number of people participating in non-compulsory education and combining work with study. The Department of Family and Community Services submission emphasised that young people who combine work with study are contributing to a more educated and skilled workforce.<sup>7</sup> Yet other evidence mounted a serious challenge to the official line. This is because changes to the higher education system introduced by the Coalition Government have made it harder for many school leavers to gain access to financial assistance while studying.

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7 Department of Family and Community Services, *Submission 110*, p.6

They have also produced disincentives for young people who are contemplating enrolling in a university.<sup>8</sup>

1.16 The committee finds that the rules governing the receipt of Youth Allowance and Austudy produce strong disincentives for students who want to work more than one day a week. The income students receive from the limited part-time work they can undertake before they encounter these disincentives leaves them financially vulnerable.<sup>9</sup> A survey of undergraduate student finances in 2000 by the Australian Vice-Chancellors' Committee found that the income support system places students in a difficult financial bind. The system forces students into more hours of paid employment because the level of income support is inadequate, yet the amount of money which students can earn before their Centrelink payment is reduced does not meet the financial shortfall created by the low level of income support. Students have been protesting against the effect of this anomaly for many years and have been advocating major reform of the system. Yet the Government seems oblivious to their concerns. It has not made any attempts to introduce reforms which students and universities have viewed as necessary. While the topic of student financial assistance is revisited occasionally by governments, little has ever been done to improve the lot of 'financially strapped' students.<sup>10</sup>

1.17 The low level of income support forces students to work longer hours to survive. Full-time students now resemble part-time students in their study habits and how they interact with students and teaching staff. There is general agreement among students and academic experts that Government measures are needed to arrest the deteriorating state of student finances. Without Government intervention, a combined weekly total of 60 hours of full-time study and part-time work will soon become the norm for a majority of students. The committee believes this is an unacceptable scenario for students to have to face. Working long hours not only has a detrimental effect on students' academic results and reduces their level of engagement with university life. It also has an economic effect because it delays course completion and entry of skilled young people into the workforce. The committee believes that the evidence presents a clear policy challenge for the government. The income support system should be reformed to reverse the trend of full-time students working longer hours in part-time work.

1.18 The committee does not doubt, and Government senators strongly believe, that many students who increasingly combine work with study are able to strike a balance between the two activities. Students can reap financial and social benefits through paid employment and perhaps lay the groundwork for a smooth transition

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8 Bob Birrell, Ian R. Dobson, Virginia Rapson and T. Fred Smith, *Higher Education at the Crossroads*, Centre for Population and Urban Research, Monash University, 1993, p.1

9 Michael Long and Martin Hayden, *Paying Their Way: A Survey of Australian Undergraduate University Student Finances, 2000*, Australian Vice-Chancellors' Committee, October 2001, p.45

10 Ian R. Dobson, 'Youth Allowance: More Please!', *People and Place*, vol.12, no.3, 2004, p.52

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from university to full-time employment upon the completion of their course. Full-time students who successfully negotiate work and study are in the minority, however, and generally come from more affluent families. The committee is mainly concerned by mounting evidence that students from households with low to modest incomes experience some form of financial hardship whilst at university. Students from the most financially disadvantaged backgrounds are almost certain to experience extreme hardship. The committee concludes that the relationship between paid employment and study is one of the most important policy issues facing the higher education sector. Providing adequate income support will ensure that work does not interfere unduly with attendance at lectures and tutorials, good study habits and academic performance.

## **Chapter summaries**

1.19 The report deals with these main themes in the following three chapters:

- Chapter 2 provides an overview of current income support arrangements and examines wider concerns regarding the policy framework which underpins the income support system. Issues considered include the collection and analysis of official data on the effectiveness of income support payments, Centrelink's service delivery and customer relations, and the extent to which current income support measures encourage access to higher education, especially for students from disadvantaged backgrounds and indigenous students;
- Chapter 3 addresses the adequacy of student income support measures against a background of rising student poverty; critically evaluates the main eligibility criteria which apply to Youth Allowance, Austudy and ABSTUDY payments; and examines issues affecting postgraduate students and other anomalies in the system. It also examines briefly alternative measures for student income support, including proposals to reform the system to enable students to receive a higher level of financial support for the duration of their studies; and
- Chapter 4 examines the effect of income support measures on students and their families. It looks closely at the trend of students spending more time in paid employment and how this adversely affects academic achievement and student engagement with university. It also looks at the impact on students of the rising cost of higher education and the extra financial burden resulting from the closure of certain financial assistance schemes and the Government's proposed voluntary student unionism legislation.

