Submission to the Inquiry into the provisions of the *Higher Education Support Legislation Amendment (Student Loan Sustainability) Bill 2018*

Senate Education and Employment Committee

February 2018

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TAFE Directors Australia (TDA) welcomes the opportunity to comment on the *Higher Education Support Legislation Amendment (Student Loan Sustainability) Bill 2018*.

TAFE institutes and TAFE divisions of dual sector universities across Australia deliver the skills and training our nation's employers need to remain competitive, and for citizens to navigate the increasingly complex world of work.

TDA members, operating as Non-University Higher Education Providers, rely on FEE-HELP loans to assist students enrolled in higher education programs, given TAFEs do not have access to Commonwealth Supported Places and HECS-HELP. Members also utilise VET Student Loans to support students engaging in designated VET sector Diplomas and Advanced Diplomas. Apprentices enrolled in TAFEs also access Trade Support Loans that help alleviate the expenses of undertaking a trade apprenticeship.

The core purpose of the bill is to reduce the repayment threshold for earlier repayment for student debt acquired through HECS-HELP, FEE-HELP, VET FEE-HELP, VET Student Loans, Trade Support Loans and scholarships to improve the financial sustainability of the Commonwealth student loan book. The Bill also prescribes for universities conditions for recredit of loans in special circumstance claims from students.

Whilst we acknowledge that the proposed lowering of the repayment threshold is accompanied by an increase in the number of payment brackets, and lower repayment rates at the lower end of the scale, TDA believes the former this will nevertheless have a negative impact on lower-income graduates, who already face increasing costs of living. Instead, TDA would support the introduction of the new brackets with the current repayment threshold, and with higher repayment rates in the top brackets.

Access and take-up of these loans by prospective students are impacted by the repayment provisions. It is valid, therefore, to consider whether early repayments require any flow-on to the schemes which give rise to the debt.

Earlier repayments for all HELP debts means that the loan fee for FEE-HELP, VET FEE-HELP and VET Student Loans is no longer justified

Students accessing FEE-HELP or VET Student Loans incur a loan fee of 25 per cent or 20 per cent (respectively) at the point of acquiring the loan. The justification at the time of introduction of these measures appears to have been an anticipated higher rate of default on loan repayment, due primarily to graduates not reaching the repayment threshold, principally by exiting the labour market. With strong levels of labour market participation and high rates of full-time employment the need for the loan fee does not exist anymore than for university students.

Failure to remove the loan fee as part of the passage of this Bill means that the loan fee acts as a tax on non-university students to effectively subsidise university student debt default. And as the socio-economic background of TAFE students is generally lower than for university students the loan fee could be regarded as little else than a regressive tax measure.

Retaining the loan fee of 20 per cent for VET Student Loan is even less justifiable. The Government has made much of the changes to student loans for the VET sector, tightly prescribing the qualifications eligible for loans justified on skills demand in the labour market and then capping the loan indexed amounts of $5,000, $10,000 or $15,000 depending on costs of courses derived from subsidy rates from state and territory VET funding systems. This effectively 'securitises' the loan more than the financing for HECS-HELP or FEE-HELP.

Improved repayments frees the way for more realistic VET Student Loans

Earlier repayments resulting from this Bill also effectively recalibrates the 'price' signals to students in engaging in higher level tertiary education, from the VET Diploma level. Earlier repayment therefore gives the Government leeway to relax the more restrictive elements of VET Student Loans.

Given the earlier repayment, students may be more sensitive to the likelihood of improved earnings from education and training in making decisions on courses and loan amounts. While this has tended not to be a sensitivity for first time university students, it is likely to be different for those seeking to access VET Student Loan.

VET Student Loans send mixed signals. It is hard to see how diplomas and advanced diplomas capped at $5 000 or even $10 000 of the three bands represents value for improving earnings. Courses at these rates could run for little more than six months, which is insufficient time to develop attributes and knowledge to improve earning potential.

Prospective students are also entitled to greater assurance of higher earning potential from these qualifications, yet this is not clear for many VET qualifications even though information on job openings and earnings is available on the Commonwealth's *MySkills* website.

The combination of these factors acts to inhibit take-up of VET Student Loans. Consideration should be given to opening-up the qualifications and loan caps to improve the value proposition to students.

In addition to opening the full suite of VET Diploma and Advanced Diploma qualifications to student loans, TDA's pre-budget submission recommended that application be allowed for bespoke high-quality qualifications needed for emerging industries and to support innovation. Reliance on centrally defined qualifications is the antithesis of the innovation and flexibility the Government is seeking and will limit Australia's ability to move up the value-chain. TAFEs are ideally suited to develop and deploy these new qualifications.

This would be a simple and affordable adjustment for the Government. The tight rules for loans is significantly dampening take-up of loans so there is capacity within the legislated annual loan cap of $2bn to expand.

TDA has also noted that the proposed amendments recommend changing the indexing method of the repayment from average weekly earnings (AWE) to the consumer price index (CPI). Whilst this approach is understandable, given the government's desire for loans to be repaid quickly, it ignores the fact that CPI is reflective of cost of living imposed on working Australians. Changes in AWE, on the other hand, reflect the ability of working Australians to repay their loans out of additional earnings.

TDA recommends the government maintain indexing to the AWE.

Re-crediting of HELP balances in relation to HECS-HELP assistance

TDA notes the new Division to be added in relation to re-crediting of a person's HELP balance for debts incurred through HECS-HELP. This new division makes recrediting consistent with FEE-HELP and VET FEE-HELP. The new division appears to make explicit the requirements on providers, in this case universities, as they are the only recipients of HECS-HELP student loans, to consider special circumstances up to 12 months past the point of Census for the unit or withdrawal from the unit for students who were not able to complete the unit(s) of study associated with the debt.

While TDA welcomes the protection offered to students, caution is required in specifying special circumstances as students also carry responsibilities in return for taking out loans and special circumstances should not be a means of students abrogating their responsibilities.

Our reading of Clause 96-1 of the current Act indicates that for the benefit of the student the Commonwealth is obligated to discharge loan funds to the provider. In return, the student has undertakings to consume the education services for unit(s) of study over the designated period the provider is required to deliver those services. This is made clear in clause 97-42 (1)(b) of the bill, i.e. special circumstances can only be considered if:

> *the person has not completed the requirements for the unit* ***during the period during which the person undertook****, or was to undertake, the unit*

The period for a student to complete a unit of study is not open-ended and there are provisions which set out a reasonable time period in which students need to complete their unit of study.

Students fail to complete units of study for a range of reasons. This includes students who disengage with their unit of study after the census date and fail to complete the unit of study in the designated period of time. These do not constitute special circumstances.

Special circumstances should only be allowed if they occurred within the designated period of the unit for which the debt is being recredited. And it is only in designated special circumstances post

Census date, when the debt is incurred, that this principle should be waived. These would be clear in cases of illness and accident, or unavoidable travel due to family circumstances for instance, but should not be a means for forgiving debt where the student has not upheld his or her obligations.

This issue is particularly relevant for on-line delivery of tertiary education. For educational purposes, a student may be offered self-paced on-line education which may be longer than the 'designated period' under HECS-HELP during which a provider is obligated to deliver the education service. Claims of special circumstances post Census should only be allowed if the circumstance occurred within the designated period. Anything outside of this makes it impossible for a provider to manage costs. Alternatively, in line with the provision of Clause 67(1) of Schedule 1A of the Act for VET FEE-HELP, a separate unit for the period of on-line study would be required.

TDA notes the prescribing of what constitutes special circumstances will be set out in administrative guidelines (proposed clause 97-30(2)). These should be tightly prescribed to avoid mis-use of the provision by students who have failed to meet their obligations under the loan arrangement with the provider.

The Bill also states that the Secretary may act in the place of the higher education provider in re-crediting a student's HELP balance, if the provider is unable to act. While this may be for administrative ease, it is unclear whether the Secretary has power to take this step without the agreement of the provider given the financial relationship for the loan is between the provider and the student and the provider is the one to make a decision on special circumstance. There may be potential for the Secretary to act improperly against the spirit of the loan arrangement if the decision is unilateral and against the wishes of the provider.

TDA considers the period for application for special circumstances is disproportionate to the specified time period for a student to complete the requirements of a HECS-HELP assisted unit of study. To extend the application period for special circumstances to 12 months after the student's requirement to complete the unit of study places undue regulatory burden on providers and makes it difficult to manage their financial position. More importantly, such an extended period only serves to reinforce the widely-held perception that students have little to no responsibility or obligations in relation to taxpayer supported study.

A period of six months seems a reasonable period during which a student can apply for special circumstance. This should also be extended to FEE-HELP and VET FEE-HELP (to the extent these provisions would apply to remaining VET FEE-HELP enrolled students).

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.