Higher Education Support Amendment Bill (No. 2) 2011

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Higher Education Support Amendment Bill (No. 2) 2011

Date introduced: 21 September 2011

House: Representatives

Portfolio: Tertiary Education, Skills, Jobs and Workplace Relations

Commencement: Sections 1 to 3 and Schedule 1 on Royal Assent; Schedules 2 to 4 the later of 1 January 2012 and Royal Assent.

Links: The links to the Bill, its Explanatory Memorandum and second reading speech can be found on the Bill's home page, or through http://www.aph.gov.au/bills/. When Bills have been passed and have received Royal Assent, they become Acts, which can be found at the ComLaw website at http://www.comlaw.gov.au/.

Purpose

The purpose of the Higher Education Support Amendment Bill (No. 2) 2011 (the Bill) is to amend the Higher Education Support Act 2003 (the Act) to:

• increase the maximum grant amount for the Commonwealth Grant Scheme for 2011
• increase the maximum grant amount for Other Grants and Commonwealth Scholarships for the 2012-14 calendar years and to include the 2015 calendar year
• reduce the HECS-HELP up-front discount from 20 per cent to 10 per cent
• reduce the voluntary repayment bonus for HELP debts from 10 per cent to 5 per cent and
• clarify that students of higher education providers who are studying primarily at an overseas campus of the provider are not entitled to Commonwealth support.

Background

Basis of policy commitment

The Act provides for funding of higher education providers and the Government’s income contingent student loans program: Higher Education Loan Program (HELP).
The Bill will implement 2011–12 Budget measures to reduce discounts for up-front HELP payments (from 20 to 10 per cent) and the bonus for voluntary repayments (from 10 to 5 per cent) made under HELP and the former Higher Education Contribution Scheme (HECS).

The Government also announced changes to a range of programs administered under the Other Grants provisions of the Act. These changes include funding for the Promotion of Excellence in Learning and Teaching, decreased performance funding, the cessation of the Capital Development Pool and discontinuation of the Australian Learning and Teaching Council. These changes affect the maximum amounts for Other Grants.

Committee consideration

The Bill has been referred (along with other education Bills) to the House of Representatives Standing Committee on Education and Employment, Inquiry into Bills referred on 22 September 2011, for inquiry and report.

Financial implications

The Bill provides an additional $1.13 billion over four years to 2015 to fund Grants made under the Act. Some of this additional funding comes from savings and redirections announced in the 2011–12 Budget.

Key provisions and issues

Schedule 1—Maximum grants and payments

The Act provides for maximum amounts for annual funding of Commonwealth Scholarships and Other Grants. The maximum amounts are amended on an annual basis to provide for variations, indexation and to add an additional funding year.

The Bill increases the maximum amounts for Other Grants under section 41-45, and Commonwealth Scholarships under section 46-40 of the Act to provide for indexation and other variations affecting


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the 2012-14 years and to include the 2015 funding year. Item 1 clarifies that despite an earlier repeal of section 30-5 of the Act that section applies in respect of 2011.

The variations to the maximum amounts for Other Grants are affected by decisions announced in the 2011–12 Budget including:

• the discontinuation of the Australian Learning and Teaching Council of $87.7 million over four years. Initially all this funding was to go to the National Disaster Recovery and Rebuilding measure, however, the Government has reduced this to $37.7 million and will redirect $50.0 million to funding for the Promotion of Excellence in Learning and Teaching.\(^5\)

• the cessation of the Capital Development Pool with savings of $298.0 million over four years to be used for the National Disaster Recovery and Rebuilding measure.\(^6\) Other than base funding, the source of infrastructure funding will now be the Education Investment Fund and

• the delay of $95.0 million over two years (2011–12 and 2012–13) in reward funding from the Higher Education Performance Funding.\(^7\)

**Schedule 2—Up-front payments**

**Schedule 2** deals with provisions to reduce the HECS-HELP up-front discount from 20 per cent to 10 per cent. The items are mechanical and adjust various references to how the discount is reduced.

Under present arrangements students receive a 20 per cent discount on their HECS liability if they pay up-front rather than deferring their loan. The discount aims to offset the implicit loan subsidy gained when a student defers the HECS-HELP liability.\(^8\)

The discount on up-front payments was a feature of HECS when it was introduced in 1989 and it was set at 15 per cent. It was increased to 25 per cent in 1993 and the percentage of students paying up-front also increased from 20.3 per cent in 1990 to 28.5 per cent in 1997 then gradually declined after 1998 to about 21 per cent.\(^9\)

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6. Ibid.
7. Ibid., p. 164.
8. If students elect to defer payments under HECS, the charge becomes a debt which is owed to the Government. The debt is indexed to the inflation rate, so that its real value is maintained over time. No explicit interest rate charges are applied to the debt. This arrangement provides an implicit loan subsidy to students that elect to defer their HECS payments. The implicit loan subsidy arises because graduates are not required to contribute to the full costs incurred by the Government in providing the loan, including administration costs, default costs and the financing costs.

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In 2005 the bonus was reduced from 25 per cent to the current 20 per cent. This reduction did not further reduce the overall percentage of students paying up-front.\textsuperscript{10} However, analysis of the data for equivalent full-time student places, rather than for all students, does show a decline from 21 per cent in 2005 to 17.5 per cent in 2009.\textsuperscript{11}

By reducing the discount the Government estimates savings of $229.5 million over four years will be made from reductions in the amount the Government will need to pay universities for the equivalent amount of the up-front discount. This amount counts as an expense to the Government and appears as expenditure in the Budget.\textsuperscript{12}

The Government has explained this measure on equity grounds claiming that ‘discounts advantage those with the capacity to pay their fees upfront. Analysis of the upfront discounts provided in 2009 showed that only around 12 per cent of these students came from low-SES postcodes’.\textsuperscript{13} The Government will use savings to fund the commitment to a demand driven supply of undergraduate places and ‘ensure low income people get the opportunity of higher education’.\textsuperscript{14}

The Government expects that the number of students paying up-front will halve.\textsuperscript{15} Budget figures predict a saving of $29.4 million in 2011–12 rising to $62.5 million in 2012–13. Savings will depend on the number of students who continue to pay up-front with the discount halved to 10 per cent: the fewer numbers who pay up-front, the greater the savings to Government as their HECS liability will be deferred and not counted as an expense.\textsuperscript{16}

\begin{thebibliography}{9}
\bibitem{12} Australian Government, \textit{Budget measures: budget paper no. 2, 2011–12}, Commonwealth of Australia, Canberra, 2011, pp. 163–4. In contrast HECS that is deferred is regarded as a loan to the student and does not count as expenditure.
\end{thebibliography}

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In the longer term there may be a cost to Government if more students defer their liability. Some HELP debt is never repaid due to a range of circumstances including the death of the debtor, the income threshold for repayment not being met or the debtor moving overseas. The Government predicts this doubtful debt in annual reporting of HELP. On 30 June 2009, the accumulated HELP debt was $17.82 billion of which $4.25 billion (nearly 24 per cent) was not expected to be paid.\textsuperscript{17}

Furthermore there are costs associated with deferral which ‘arise due to the income contingent nature of the repayment arrangement ... resulting from payments being received over an extended period’.\textsuperscript{18} The 2010-11 estimate for deferral costs is $735.00 million.\textsuperscript{19}

\textbf{Schedule 3–Voluntary repayment bonus}

\textit{Schedule 3} deals with reducing the voluntary repayment bonus for HECS-HELP debts from 10 per cent to 5 per cent. The items are mechanical in nature and adjust various references to how the bonus will be reduced.

Currently voluntary repayments of $500 or more of HECS-HELP debt results in a 10 per cent bonus. Thus a student’s account (maintained by the Australian Taxation Office) is credited with an additional 10 per cent of the payment thus reducing the debt to the Commonwealth. Like the reduction in the up-front payment discount this measure is designed to reduce expenditure. The Government estimates that $63.9 million will come from this measure over four years and be returned to funding the commitments made to the demand driven system of undergraduate places.

\textbf{Schedule 4–Overseas campuses}

Provisions in \textit{Schedule 4} clarify that Australian citizens (domestic students) enrolled for the majority of their course at offshore (overseas) campuses of Australian providers are not entitled to Commonwealth supported places (previously called HECS places), HECS-HELP, FEE-HELP or VET-HELP loans.

The Government has not provided data on how many students are affected. The second reading speech states that the ambiguity in the Act ‘has resulted in a small number of Commonwealth supported places being offered by Australian universities to Australian citizens studying at overseas...’

\textsuperscript{17} Department of Education, Employment and Workplace Relations, \textit{Annual report 2008–09}, p. 82, Canberra, DEEWR, 2009.


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20. In 2008 only 568 students (0.7 per cent) enrolled offshore were domestic students. Furthermore the numbers seem to be falling; in 2004 there were 904.

21. Despite the small number of enrolments at offshore campuses the Government is concerned that students may not return to Australia and therefore are not required to repay HECS-HELP debts. The second reading speech states ‘As students are only required to pay back their HECS-HELP debt if they file an Australian tax return, there is a higher risk that HECS-HELP debts incurred offshore will not be repaid, or not repaid for a longer period of time’.

22. Delaying or non-repayment of debt is a cost to the Government and concerns have periodically been raised regarding the amount of HECS HELP debt that remains unpaid due to the debtor living overseas. However there are no precise figures reported by the Government. As at 30 June 2009 1.37 million persons had a HELP debt of whom 31 428 (2.3 per cent) were listed in the ‘Other’ category defined as ‘those overseas or with an invalid or incomplete postcode’. The total debt for ‘Other’ was $313 million, out of a total of $17.8 billion.

Concluding comments

The Bill appropriates $1.13 billion in additional funding to provide for Commonwealth supported places and Other Grants made under the Act. Some of the funding comes from savings and redirections including savings through reduced discounts and bonuses in the HELP scheme. This measure provides an immediate saving to Government but in the longer term there may be a cost. As economist Bruce Chapman commented ‘while the measure would probably raise money for the Government in the short term, it was poor economics ... the 20 per cent discount represented the right "implied" interest rate cost on HECS loans, and that reducing it effectively increased the taxpayer subsidy to students’. If so the provisions to reduce the discount and bonus seem at odds with the clarification on study at overseas campuses aimed at avoiding additional costly doubtful debt.

22. P Garrett, op.cit.
23. See for example: ‘HECS should be paid from abroad’, The Age, 12 December 2007, p. 8, viewed 31 October 2011, http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpresseclp%2F5k7p6%22

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