Higher Education Support Amendment (Savings and Other Measures) Bill 2013

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Date introduced: 21 November 2013
House: House of Representatives
Portfolio: Education
Commencement: Schedules 1 and 3 commence on the day after Royal Assent. Schedules 2 and 4 commence on 1 January 2014.

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/Parliamentary_Business/Bills_Legislation

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 of the Bill

The purpose of the Higher Education Support Amendment (Savings and Other Measures) Bill 2013 (the Bill) is to amend the *Higher Education Support Act 2003 (HESA)* to:

- remove the Higher Education Contribution Scheme – Higher Education Loan Program (HECS-HELP) up-front payment discount
- remove the HELP voluntary repayment bonus
- apply an efficiency dividend to Commonwealth contribution amounts under the Commonwealth Grants Scheme (CGS) and
- reflect the change of name of the University of Ballarat to Federation University Australia.

Structure of the Bill

Schedule 1 of the Bill removes the HECS-HELP up-front payment discount of ten per cent for payments of $500 or more, while Schedule 2 removes the HELP voluntary repayment bonus of an additional five per cent on voluntary repayments of $500 or more.

Schedule 3 applies an efficiency dividend of two per cent in 2014 and 1.25 per cent in 2015 to Commonwealth contribution amounts under the CGS.

Schedule 4 makes minor amendments to the HESA to reflect the change of name of the University of Ballarat.

Background

The measures in Schedules 1, 2 and 3 were foreshadowed in the Labor Government’s *Statement on Higher Education* on 13 April 2013. Then Minister for Tertiary Education, Skills, Science and Research, Craig Emerson, announced savings of $2.3 billion over four years consisting of:

- an efficiency dividend for university funding, of two per cent in 2014 and 1.25 per cent in 2015, expected to save $300 million per annum
- removal of the ten per cent discount on paying university fees up-front and the five per cent bonus received for voluntary repayment of HELP debts and
- conversion of student start-up scholarships into a loan, repayable along with students’ university fees after students are earning a specified level of income.

The Minister stated the savings ‘will contribute to the funding of school education reforms designed to ensure that all Australian school children get a flying start in life.’ The details of the savings and their redirection to the *National Plan for School Improvement* (the Government’s response to the Gonski Review) were formalised in the 2013–2014 Budget.

Although these measures were included in the 2013–14 Budget, legislation to give them effect was not introduced during the 43rd Parliament. The changes to Student Start-up Scholarships are included in the Social Services and Other Legislation Amendment Bill 2013.

In introducing this Bill, Minister Pyne stated:

> These are Labor’s cuts. These cuts of April come on top of repeated attacks by Labor on support for universities, for students, and for research. These cuts show just how damaging to the University sector the previous government was. They clearly show that Labor is no friend to universities. They show that Labor is no friend of students or higher education.”

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However, although the Government decided not to proceed with other cuts, such as introducing a cap on the tax deductibility of self-education expenses:

... given the fiscal mess we have inherited from Labor as a result of their incompetence and wasteful spending, we have no responsible choice but to proceed with the other measures announced by Labor in April.  

**Changes to HECS-HELP upfront discount and voluntary HELP repayment bonus**

From 1 January 2014, this measure will: remove the discount of ten per cent offered to students enrolled in Commonwealth-supported places who pay their student contribution up-front; and remove the voluntary HELP repayment bonus of five per cent. It is expected to achieve savings of $276.7 million over four years in fiscal balance and $228.3 million over four years in underlying cash terms.

**Up-front payment discount**

The up-front discount aims to offset the implicit loan subsidy gained when a student defers the HECS-HELP liability. When HECS was first introduced in 1989 a 15 per cent discount was available on up-front payment. The discount was increased to 25 per cent in 1993, reduced to 20 per cent in 2005 and reduced again to ten per cent from 1 January 2012.

By removing the discount the Government makes savings because there will be no 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.

**Voluntary repayment bonus**

In 1995 the Government introduced a bonus for voluntary repayment (of $500 or more) of HELP debt. The voluntary repayment bonus was initially set at 15 per cent, reduced to ten per cent in 2005 and reduced again to five per cent from 1 January 2012. Currently voluntary repayments of $500 or more of HELP debt results in a five per cent bonus. Thus a student’s account (maintained by the Australian Taxation Office) is credited with an additional five per cent of the payment, which reduces the debt to the Commonwealth. Like the removal in the up-front payment discount, this measure will reduce expenditure relating to the HELP program.

**Changes to university funding arrangements in 2014 and 2015**

This measure applies an efficiency dividend of two per cent in 2014 and 1.25 per cent in 2015 to all grants under the HESA, excluding Australian Postgraduate Awards.

At the time of the initial announcement in April, stakeholders, led by Universities Australia, the national representative body for universities, waged a campaign against the cuts claiming ‘Universities have been hit with the biggest reductions in funding to the university system and student support since 1996’; that they would ‘place severe strain on a sector that has been encouraged to expand enrolments to enable greater access to higher education’ and would ‘challenge the ability of universities to continue to meet the high standards of educational quality expected of them’.

Then Universities Australia Chair, Glyn Davis, claimed the efficiency dividends cuts ‘don’t go to volume, they go to quality. They actually cut the amount of money available to support each student in the system, about $901.3

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6. Ibid., p. 19.
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 CPI, 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 who elect to defer their HECS payments. The implicit loan subsidy arises because students 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.
million out of the system over the next four years. ... It means, in very approximate terms, what is currently $9,400 becomes $9,200 to support each student on average’.  

His successor, Sandra Harding, continued the campaign in May:

Despite the impression given that they are temporary and only in effect for two years, these are cuts that just keep cutting. There is no suggestion that the start-up scholarships will be reintroduced as a grant in 2016. There is no suggestion that the discounts for upfront HECS/HELP payments will be reinstated in two years. But there is the fact that after two years of “efficiency dividends”, any indexation of university funding will be from a much lower base. The pipeline effects of these cuts are huge. The Government expects the loss to be about $300 million per annum for students. When you throw in the cuts to student support, Universities Australia estimates the combined effect on universities and students is a loss of around $1 billion per annum at 2017. That’s about a seven per cent reduction on what it would’ve been otherwise.  

More recently, some in the university sector have suggested that the cuts could lead to falls in the global rankings of Australia’s universities. In a recent article in Campus Review, Professor Ed Byrne, vice-chancellor of Monash University, is quoted as saying:

The full force of these cuts won’t be felt until a few years from now...That’s when you’ll see a reduction in academic quality and the possibility of researchers leaving the profession. 

The article notes that in the latest Times Higher Education (THE) world rankings index, seven Australian universities lost ground while five advanced. Australia’s highest ranked university, Melbourne, dropped from 28 to 34. It goes on to quote Glyn Davis, vice-chancellor of the University of Melbourne:

The rankings are largely based on peer perceptions of academics from around the world...It’s possible that international peers have marked Australia’s universities down to reflect the reduced government support for higher education.

It’s not always easy to predict movements in rankings, given the interplay of research, reputation and confidence...But the THE editor has also argued that the disappointing outcome for Australia reflects an international view that the quality of Australia’s universities is suffering under reduced government support. 

At the time the Labor Government announced the cuts, the Nationals also expressed concern about the potential impact of these cuts on regional universities.

On the other hand, when the cuts were first announced, the then Government noted that Commonwealth funding for university places had increased by more than 50 per cent between 2007 and 2012, more than compensating for the increase of 34 per cent in Commonwealth-supported university student places from 2007 to 2013. Hence, while the efficiency dividend would slightly reduce funding in future years, universities would still be funded at a higher level than had the 2007 levels of funding been maintained.

Federation University Australia

Federation University Australia (FedUni) is a new university created by the amalgamation of the University of Ballarat and the Gippsland campus of Monash University. The University will officially commence on 1 January 2014. The University of Ballarat is being renamed to reflect the change. The Victorian Parliament passed the University of Ballarat Amendment (Federation University Australia) Act 2013 to give effect to this change.

16. Ibid.
17. See for example, F Nash, Labor cuts uni funding without proper analysis, media release, 4 June 2013, accessed 28 November 2013.
18. C Emerson, op. cit.
The University of Ballarat was created in 1994 from the former Ballarat College of Advanced Education, and has developed from a small, single site provider to a multi-sector, multi-location institution. The Gippsland campus of Monash originated as Yallourn Technical School, before becoming Gippsland Institute of Advanced Education, and became part of Monash University in 1990.

The Bill will change the name of the university in the list of Table A providers—that is, public universities.

**Policy position of non-government parties/independents**

The Greens have consistently opposed all three elements of the higher education cuts on the grounds they will ‘further exacerbate declining education quality and already struggling student welfare schemes’.

Shortly before the Bill was debated in the House of Representatives, the Labor Party issued a media release stating that it would not support the legislation. As noted above, the savings were included as part of the 2013–14 Budget measures ‘for the very specific purpose of funding Labor’s $11.5 billion Better Schools Plan.’ Labor is rejecting the cuts now on the grounds that ‘The Abbott Government has abandoned proper funding and a meaningful six year reform program’.

**Position of major interest groups**

In addition to the views expressed by university administrators as noted above, others in the sector have also expressed concern about the impact of the cuts to higher education funding. Following the introduction of the legislation, Jeannie Rea, National Tertiary Education Union President, said ‘I find it extraordinary that the Minister would introduce legislation into Parliament which he openly acknowledges, in his second reading speech, will be damaging to our universities and their students.’ Similarly, Jade Tyrrell, President of the National Union of Students, has said ‘We have grave concerns about what these cuts will mean for courses, for students and [for] quality at our universities at a time when public funding to universities is in desperate need of an increase.’

**Financial implications**

Schedules 1 and 2, which contain the changes to HELP repayment arrangements, are estimated to provide savings of $276.7 million over the four years to 2016–17. However, there are hidden costs associated with these measures. Removal of these discounts is likely to result in an increase in the HELP debt liability as fewer students will pay their contributions up-front, or make voluntary early repayments. As it is estimated that some 19 per cent of new debt issued in 2013–14 will not be repaid, rising to 22 per cent in 2016–17, increasing the debt size will mean a larger default value.

In addition, increasing the value of the average debt will also increase the length of time taken to repay it (currently 8.6 years for 2013–14). As the debt is indexed to the Consumer Price Index (CPI), which is typically considerably lower than the Government bond rate, there is a cost to Government through notional lost earnings for each year the debt is not paid off.

The efficiency dividend is estimated to provide savings of $902.7 million over the forward estimates.

**Statement of Compatibility with Human Rights**

The Statement of Compatibility with Human Rights can be found at pages 3 and 4 of the Explanatory Memorandum to the Bill. As required under Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011 (Cth),

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23. Ibid.
the Government has assessed the Bill’s compatibility with the human rights and freedoms recognised or
declared in the international instruments listed in section 3 of that Act. The Government considers that the Bill is
compatible.

**Schedules 1 to 3 engage the right to education. Schedules 1 and 2 remove financial incentives for the early
payment of HELP debts, but do not affect the student’s right to access HELP arrangements to pay for tuition fees.
The efficiency dividend measures in Schedule 3 will not reduce student contribution amounts and is therefore
not expected to reduce the number of student places available, although some institutions may change course
offerings**

**Key issues and provisions**

**Schedule 1** removes references from the HESA to up-front discounts for the payment of student contributions.
Students will still be able to pay their student contributions up-front and hence avoid acquiring a HELP debt, but
they will now have to pay 100 per cent of the contribution instead of 90 per cent (with the Government
previously making up the difference). This will apply to the contributions for all payments made after the
commencement of this Schedule in relation to a course of study with a census date on or after 1 January 2014.

Similarly, **Schedule 2** removes all references to the voluntary repayment bonus. Debtors will still be able to make
voluntary repayments in addition to their compulsory ones, but will not receive a bonus for any payments made
after 1 January 2014.

**Items 2 to 5 of Schedule 2** update a sample calculation contained in the legislation to refer to more recent years
and remove a reference to the repayment bonus.

Payments made under the CGS are indexed by a factor which is a combination of the CPI and the Professional,
Scientific and Technical Services Labour Price Index. In the event that this produces an indexation factor of one
or less (that is, that these prices fall during the year), subsection 198-10(2) of the HESA states that the indexation
factor will be one, to ensure that institutions do not receive a reduction in funding levels.

**Item 1 in Schedule 3** proposes a new section 198-7 which reduces payments made under the CGS by two per
cent in 2014 and 1.25 per cent in 2015. **Proposed subsection 198-7(3)** provides that if the indexation factor for
2015 is less than one, payments for 2015 will only be reduced by 1.25 per cent, and not further reduced by
indexation. A similar provision is not required for 2014 as it is known that the indexation factor will be greater
than one.

**Schedule 4** deletes the University of Ballarat from the list of Table A providers and adds in Federation University
Australia. This name change has already been effected by Victorian legislation. Therefore under **section 25B(1A)**
of the Acts Interpretation Act 1901, any references to the University of Ballarat in the HESA will already be
construed as referring to Federation University Australia, so this proposed change does not have any funding
implications, it is merely for clarity.

**Concluding comments**

Implementation of the measures relating to HELP and applying an efficiency dividend to university funding will
provide significant budgetary savings both over the forward estimates and into the future. The former will shift
costs to students, through increased student contributions or loan debts. It remains to be seen whether these
changes will deter students from participating in higher education, but more likely they will result in increases in
HELP debts. Although this does not cost Government directly, loan defaults and the subsidisation of HELP debt
interest rates do reduce the notional value of this debt asset. The impact of the efficiency dividend is also
difficult to predict—whether, as critics suggest, this will lead to reductions in the quality of higher education
provision, or whether it will encourage universities to seek out alternative sources of funding and reduce
inefficient practices.