

CHAPTER 2

Schedule 6 – Student start-up loans

Introduction

2.1 The key purpose of Schedule 6 of the bill is to convert the current student start-up scholarship payments into income-contingent loan payments. These loans will be repayable under similar arrangements to HELP debts and will only be required to be repaid after their HELP debt has been settled.¹

2.2 The committee received submissions from three higher education stakeholders: the National Tertiary Education Union (NTEU), the Council of Australian Postgraduate Associations (CAPA) and the National Union of Students (NUS).

2.3 The three submitters were broadly critical of the bill on the grounds that it would increase student debt, and as a consequence, increase the barriers to further education for students.² They argued that the impact would be most keenly felt by students from low socio-economic backgrounds.

Legislation and Policy Background

2.4 The previous government introduced student start-up scholarships in 2010 through the *Social Security and Other Legislation Amendment (Income Support for Students) Act 2010* as part of the implementation of the Bradley Review.³ The Bradley Review recommended that Commonwealth Government 'Continue and enhance the Commonwealth Scholarships program by providing benefits to all eligible students on Austudy or Youth Allowance for education costs'.⁴

2.5 The eligibility criteria for accessing a Student Start-up Scholarship set out by the Department of Human Services is that the student must be:

- studying full-time in an approved scholarship course
- receiving ABSTUDY Living Allowance, Austudy, or Youth Allowance as a full-time student

1 Revised Explanatory Memorandum, p. 26.

2 See for example: National Tertiary Education Union, *Submission 1*; Council of Australian Postgraduate Associations, *Submission 3*.

3 A Biggs, L Buckmaster, C Ey and M Klapdour, *Social Services and Other Legislation Amendment Bill 2013*, Bills digest, 29, 2013–14, Parliamentary Library, Canberra, 10 December 2013, p. 24, accessed November 2013.

4 Bradley Review, *Recommendation 5*, p. xix, available at: http://www.innovation.gov.au/HigherEducation/Documents/Review/PDF/Higher%20Education%20Review_Executive%20summary%20Recommendations%20and%20findings.pdf accessed 10 December 2013.

- receiving at least \$1 of Youth Allowance or Austudy basic benefit or ABSTUDY Living Allowance in the fortnight in which a scholarship is payable, i.e. you must be receiving more than just the Pharmaceutical Allowance and Rent Assistance component of Youth Allowance, Austudy or ABSTUDY⁵

2.6 The NUS contended that the scholarships had made a tangible difference to those on benefits and that the conversion to a loan system would cause difficulties for them:

Many students on income support face the dilemma of either living in poverty or doing excessive paid work during the semester that affects their study and may lead to eventual preclusion or withdrawal. In these circumstances the start up scholarships have provided an important circuit breaker at the start of each semester so that students do not skimp on essential study costs.⁶

2.7 In evidence to the committee the Department of Social Security pointed out that the policy decision to convert the scholarships to loans was in train before the election and included in the 2013-14 Budget. A statement from the then Minister for Tertiary Education, Skills, Science and Research, announced the conversion of this scholarship to a loan as part of a suite of efficiency measures across the higher education portfolio:

Conversion of student start-up scholarships into a loan, repayable along with students' university fees after students are earning a specified level of income.⁷

2.8 The Department of Social Security also emphasised that current recipients of the scholarships would not be disadvantaged by this measure because the bill provides for:

grandfathering arrangements so that recipients who received a student start-up scholarship or Commonwealth Education Costs Scholarship prior to 1 January 2014, and have remained continuously on student payments, will continue to be eligible to receive the student start-up scholarship, as a grant, until coming off student payments.⁸

Budget savings

2.9 The government Financial Impact Statement identifies savings of \$1,214 million over five years.⁹ This comprises savings to expenditure through the removal of payments to students. However there are other costs which may impact of this

5 Department of Human Services website, *Student Start-up Scholarship*, <http://www.humanservices.gov.au/customer/services/centrelink/student-start-up-scholarship#a5> accessed 10 December 2013.

6 National Union of Students, *Submission 4*, p. 2.

7 Emerson, C. (Minister for Tertiary Education, Skills, Science and Research), *Statement*, media release, 13 April 2013, accessed 10 December 2013.

8 Revised Explanatory Memorandum, p. 25.

9 Revised Explanatory Memorandum, p. 5.

figure such as the non-repayment of HELP debt and discrepancies between how the HELP debt is indexed and the cost of the government bond rate:

The outstanding loan amounts that will replace the outlays are shown as assets in the Government's financial statements, but the stated asset value does not reflect its true value. Firstly, the Government estimates that by 2016–17, 22 per cent of new HELP debt is not expected to be repaid. Given that debtors will not begin to repay the new SSL debt until after they have paid off their HELP debt, the default rates for these new loans would be expected to be even higher.

In addition, the SSL debt is indexed in line with the CPI, which is lower than the notional cost of government borrowing—the bond rate. The estimated average time for repayment of HELP debt is currently 8.6 years and expected to rise to 9.1 years for new debt in 2016–17. Therefore, the SSL debt will not begin to be repaid for an average of around nine years and is expected to take about two years to be repaid. At present, the CPI is 2.2 per cent per annum, while government 10 year bonds have an interest rate around 4.0 per cent. If these rates continued over a ten year period, the result is a difference in the loan repayment amount of nearly 20 per cent, which effectively represents lost government revenue.¹⁰

2.10 The NUS also claimed that the Bradley Review, commissioned by the previous government, had recommended that the introduction of the scholarships was to be paid for through other budget savings, so the conversion of them to loans is a further cut to student income support:

The Start Up Scholarships were not the product of increased Commonwealth funding for student income support. The Bradley Review, which developed the proposal had been instructed that the changes had to be budget neutral. The funding for the Start Up scholarships came from cutbacks to other parts of the student income support program, most notably restrictions to students qualifying for income support through working in a gap year. The conversion of the scholarships to loans is in effect a double cut to student income support.¹¹

Impact on different groups

2.11 The Explanatory Memorandum states that to qualify for a student start-up loan, each of the following must occur at the same time:

- the person is qualified for youth allowance or austudy payment;
- youth allowance or austudy payment is payable to the person;
- the person is receiving youth allowance or austudy payment;

10 A Biggs, L Buckmaster, C Ey and M Klapdour, *Social Services and Other Legislation Amendment Bill 2013*, Bills digest, 29, 2013–14, Parliamentary Library, Canberra, 10 December 2013, p. 25, accessed November 2013.

11 National Union of Students, *Submission 4*, p. 2.

- the person is receiving part of the basic rate component of youth allowance or austudy payment, or youth disability supplement (that is, the person is not receiving only that component of youth allowance or austudy payment that consists of pharmaceutical allowance and rent assistance);
- the person is receiving youth allowance or austudy payment because the person is enrolled in an approved scholarship course;
- the Secretary is satisfied that the person is not likely to receive the amount or value of a Commonwealth Education Costs Scholarship in the period of six months starting immediately after the time: and
- at the time of qualification, the person has notified their tax file number to the Secretary and the Secretary has verified the person's tax file number or obtained the correct tax file number.¹²

2.12 Submitters expressed concerns about the increased indebtedness of students as a result of the changes proposed in this bill. The NTEU contend that this will have a disproportionate impact of students from disadvantaged backgrounds as they are largely eligible under the criteria:

By definition, the only students eligible to convert Student Start-up Scholarships to loans are those eligible for some form of student income support in the form of *Youth Allowance*, *Austudy* or *ABSTUDY*, and as such are students who are already financially disadvantaged....

The result will be that the students from the most disadvantaged backgrounds, who are reliant on the start-up funds in order to be able to study, will graduate with a higher level of debt than students whose families are in a position to support them financially while they study. It is difficult to rationalise how burdening our most disadvantaged students with additional debt will act as anything but a disincentive to participate in higher education.¹³

2.13 The committee notes that applications for higher education places continue to rise. Universities Australia reports that as of 22 February 2013, 'there were 273 878 applications made through Tertiary Admissions Centres (TACs), an increase of 0.5% compared with the same time in 2012. This follows an increase of 2.7% between 2011 and 2012'.¹⁴ The committee received no evidence to suggest that this measure will negatively impact that trend.

12 Revised Explanatory Memorandum, p. 29.

13 National Tertiary Education Union, *Submission 1*, p. 2.

14 Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education, *The Demand Driven System: Undergraduate Applications and Offers, February 2013*, p. 4. Available at: <http://www.innovation.gov.au/highereducation/ResourcesAndPublications/HigherEducationPublications/HigherEducationReports/Documents/UndergraduateApplicationsOffers2013.pdf>, accessed 11 December 2013.

Committee view

2.14 The committee considered many of the points submitted to it and accepts that student indebtedness is an issue that requires continual oversight. However the committee did not receive any evidence to suggest that university, or other higher education enrolments would be adversely affected by the measures introduced in this bill.

2.15 Moreover the fact that these measures were introduced by the previous government and the savings foreshadowed in the 2013-14 budget documents is strong evidence that savings to the budget as a whole, while ensuring a strong and viable further education sector, is crucial in maintaining world class higher education in Australia.

Schedule 9 – Indexation

Community Affairs Legislation Committee inquiry

2.16 On 5 December 2013 the Senate referred Schedules 1, 3 to 5, 7 to 8 and 10 to 12 of the Social Services and Other Legislation Amendment Bill 2013 for inquiry and report to the Community Affairs Legislation Committee.¹⁵ That committee conducted public hearings on 9 and 10 December 2013 and a report into those Schedules may be of interest to readers.

Legislative and Policy History

2.17 Family Tax Benefits A and B upper-income limits have not been adjusted since July 2008.¹⁶ The Family Tax Benefit (FTB) Supplements were frozen for three years from 2011-2012.¹⁷ The Child Care Rebate (CCR) cap was reduced from \$7 941 to \$7 500 in 2011-2012.¹⁸

2.18 Schedule 9 affects eligibility for the primary earner income limit for family tax benefits Parts A and B, parental leave and dad and partner pay. The Schedule also proposes to maintain the annual child care rebate at \$7 500 for an additional three income years starting from 1 July 2014.¹⁹

15 *Journals of the Senate*, 2013, pp 245–246.

16 A Biggs, L Buckmaster, C Ey and M Klapdour, *Social Services and Other Legislation Amendment Bill 2013*, Bills digest, 29, 2013–14, Parliamentary Library, Canberra, 10 December 2013, p. 31, accessed November 2013.

17 A Biggs, L Buckmaster, C Ey and M Klapdour, *Social Services and Other Legislation Amendment Bill 2013*, Bills digest, 29, 2013–14, Parliamentary Library, Canberra, 10 December 2013, p. 31, accessed November 2013.

18 A Biggs, L Buckmaster, C Ey and M Klapdour, *Social Services and Other Legislation Amendment Bill 2013*, Bills digest, 29, 2013–14, Parliamentary Library, Canberra, 10 December 2013, p. 31, accessed November 2013.

19 Revised Explanatory Memorandum, p. 63.

Modelling

2.19 The Department of Education provided information about the modelling used for many years to estimate the impact on families and the savings from the proposed extension of the CCR Limit.

The Legislative Outyears Customisable Model of Child Care (LOCMOCC) is a micro-simulation model that is based on unit record data of child care attendance records. LOCMOCC models expenditure for Child Care Benefit (CCB) and Child Care Rebate (CCR). Based on a range of inputs, the model forecasts expenditure for future years. The various model parameters, methodology and assumptions are agreed with the Department of Finance and the Treasury.²⁰

LOCMOCC is based on a unit record level dataset of family/child information, a set of policy parameters including the CCR limit, and growth parameters for the out years.²¹

2.20 The Department of Education provided a table showing the parameters and estimated growth factors for all care types used at the 2013-14 Budget:²²

| Parameter/growth factor includes | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|----------------------------------|---------|---------|---------|---------|
| Child care rebate limit | \$7,500 | \$7,500 | \$7,500 | \$7,500 |
| Growth of children in care | 0.9% | 0.8% | 0.8% | 0.9% |
| Growth in fees | 8.6% | 9.0% | 7.5% | 7.8% |

Source: Department of Education, Employment and Workplace Relations - Budget 2013-14

Note: LOCMOCC does not provide estimates for vacation care.

2.21 The Department of Education provided a table showing the estimated parameter and growth factors in relation to Long Day Care services:²³

| Parameter/growth factor includes | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|----------------------------------|---------|---------|---------|---------|
| Child care rebate limit | \$7,500 | \$7,500 | \$7,500 | \$7,500 |
| Growth of | 0.5% | 0.2% | 0.5% | 0.8% |

20 Department of Education, answer to questions on notice, 9 December 2013 (received 10 December 2013)

21 Department of Education, answer to questions on notice, 9 December 2013 (received 10 December 2013)

22 Department of Education, answer to questions on notice, 9 December 2013 (received 10 December 2013)

23 Department of Education, answer to questions on notice, 9 December 2013 (received 10 December 2013)

| | | | | |
|------------------|------|------|------|------|
| children in care | | | | |
| Growth in fees | 8.9% | 8.9% | 7.6% | 8.1% |

Source: Department of Education, Employment and Workplace Relations - Budget 2013-14

Reported savings from freeze

2.22 The continued freeze on indexation will result in significant savings to the Budget as families gradually earn more income and move above the limits, at which time they either lose eligibility or receive a lower rate of payment. It is anticipated that the freeze will affect mainly those with higher incomes or those who spend large amounts of child care fees.

2.23 Officers from the Department of Education, provided evidence that freezing of indexation on the FTB income threshold would result in an overall saving of \$1.2 billion over four years, with \$396 million in savings from capping of indexation on the FTB A and B end of year supplements.²⁴ Paid Parental Leave would save an additional \$22.033 million over four years.²⁵

Impacts on families

2.24 The committee considered evidence regarding the impact that the freeze on indexation would likely have on families. Witnesses indicated that impacts potentially included parents finding it more difficult to manage increasing child care costs and that debt may be an unintended result of the freeze. However, the committee noted that these impacts are largely speculative.

2.25 The Department of Education indicated that an estimated 100 000 families will be affected by the previous government's continued freeze on indexation and provided a breakdown of estimated income distribution of those families impacted in 2014-15:²⁶

| Family Income | Number of families |
|-----------------------|--------------------|
| Under \$50,000 | 1,035 |
| \$50,001 - \$100,000 | 5,701 |
| \$100,001 - \$150,000 | 34,370 |
| \$150,001 - \$200,000 | 36,406 |
| \$200,001 - \$250,000 | 12,973 |
| \$250,001 - \$300,000 | 5,689 |

24 Ms Diana Lindenmeyer, Acting Branch Manager, Department of Social Services, *Proof Committee Hansard*, 9 December 2013, p. 17.

25 Mr Philip Brown, Branch Manager, Department of Social Services, *Proof Committee Hansard*, 9 December 2013, p. 17.

26 Department of Education, answer to questions on notice, 9 December 2013 (received 10 December 2013)

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|----------------|----------------|
| Over \$300,000 | 3,905 |
| Total | 100,079 |

Source: Department of Education, Employment and Workplace Relations, Budget 2013-14.

2.26 The Department of Education advised that the average impact on families affected by a freeze on the CCR limit is estimated to be around \$5 per week in 2014-15.²⁷ Thus, in real terms, the effect of these measures is likely to be minimal.

Committee view

2.27 The committee notes a number of concerns raised by submitters and witnesses. The committee also notes Schedule 9 reflects the previous government's savings measures contained in the 2013-14 Budget.

2.28 The Committee accepts the long standing modelling undertaken by the Department of Education that indicates minimal additional costs to parents as opposed to significant savings to the Budget. The committee is of the view that in an effort to address current budget constraints, a continuation of the freeze on indexation and an extension to the annual child care rebate limit is appropriate and reasonable.

Recommendation 1

2.29 The committee recommends that the Senate pass the measures contained in Schedules 6 and 9 of the bill.

Senator Bridget McKenzie
Chair, Legislation

Senator Helen Kroger

Senator Anne Ruston

27 Department of Education, answer to questions on notice, 9 December 2013 (received 10 December 2013)