31 May 2018

The Secretary
Senate Education and Employment Legislation Committee
Parliament House
Canberra ACT 2600

Email: eec.sen@aph.gov.au

Dear Secretary

Re: Education and Other Legislation Amendment (VET Student Loan Debt Separation) Bill 2018 and Student Loans (Overseas Debtors Repayment Levy) Amendment Bill 2018

Open Colleges Submission

Open Colleges is a provider of distance and online training to adult learners across Australia, currently training more than 50,000 people across more than 100 nationally recognised qualifications. Programs range from individual units of competency, through skill sets all the way up to Advanced Diplomas, encompassing industry sectors including business, project management, construction, interior design, child care, beauty therapy, aged care, community services, and nursing.

Having trained more than 800,000 Australians over its 100+ year history, Open Colleges is one of the largest registered training organisations in the country. The organisation makes very little utilisation of public funding for its activities, with that being limited to its School of Health business delivering specialised blended mode learning from its campuses in Adelaide and Perth.

The vocational education and training (VET) sector is a complex combination of policies, governance, regulation and stakeholder needs. Where legislative changes are proposed or implemented, their impact is felt across the sector regardless of the element to which they might be specifically targeted. Open Colleges offers this submission from the perspective of a large provider keen to support continuous improvement of the sector, and the expansion of student choice and opportunity for all Australians to acquire the skills required by the changing national economy.

In considering the Bills before the Committee, Open Colleges wishes to make the following contribution to their review:

Education and Other Legislation Amendment (VET Student Loan Debt Separation) Bill 2018

On principle, the separation of VET Student Loans (VSL) from governance under the Higher Education Support Act (HESA) appears sound. To the extent this will support improved transparency, accountability, and performance monitoring of the VSL scheme, this is a positive step.

The question must be asked whether this mechanism is required to achieve the stated objectives of "greater transparency of repayment rates for VET student loans and more accurate information to inform future policy decisions" (Explanatory Memorandum p.2). If this objective is sought in relation to VSL, it appears logical that a similar objective would be valuable in relation to other forms of income contingent loans including HECS-HELP, FEE-HELP, SA-HELP, and OS-HELP.

Retaining all forms of such lending under the HESA but focusing on improved data management within and between the systems to deliver disaggregation capabilities would achieve the objective without need for legislative change. This would in turn improve public accountability of the other income contingent loan programs, which would benefit a wider range of stakeholders and better inform broader policy arenas.

<u>Recommendation 1:</u> investigate alternatives to legislative change to the VSL Act to deliver improved public accountability and transparency across all loan programs under HESA.

Open Colleges questions why a student must repay a VSL debt only after having repaid a HELP debt they may hold, and before repayments are assigned to other publicly funded support loans the student may have accessed. What is the rationale behind sequencing debt repayments in this manner?

It would be simpler in our view to assign repayments to debts in the order in which they had been incurred by the student, supported by identical repayment threshold and rate settings (as are proposed in the Bill) for loans taken under the HELP umbrella.

<u>Recommendation 2:</u> assign debt repayments to loan balances in line with the date order in which they were incurred by the student, regardless of the program under which the debt was incurred.

Students accessing VSL are currently levied a tax ("loan fee") equivalent to 20% of the value of the loan they access (Section 23BA (2) (a)), which inflates the cost of the loan and embeds that tax impost as subject to indexation for future repayments, especially for students who already carry a HELP liability.

Further, an opportunity exists to address a long-standing issue with respect to the 20% "loan fee" applied to users of the VSL program. This regressive and discriminatory fee, which amounts to a tax on education and skills, is inexplicably not applied to students undertaking tertiary education at public universities.

Consequently, it is simpler for a student to access and maintain use of an income contingent loan through enrolment at a public university than with a VET sector Registered Training Organisation (RTO) with VSL approval. Where the student's educational needs are better served by the VET sector, this distortion in funding access works against the student's needs, and the needs of the employer, industry and community into which that student would apply the skills acquired through a VET sector qualification.

The preservation of this tax places unjustifiable pressure on students requiring higher level VET sector qualifications, and Open Colleges strongly encourages the Committee to recommend removal of this tax.

***Recommendation 3:* remove the 20% "loan fee" from the VSL program. Alternatively, impose the same loan fee on sub-bachelor programs in the higher education sector such that loan access costs are equal across the VET and higher education sectors for these AQF levels of program, removing this driver of distortion to enrolment decisions.**

The Bill largely maintains the existing arrangements for the design and operation of VSL, including the loan fee tax and the controls on eligible courses, approved providers, and student progression and engagement for continued access to their loan. Whilst public universities retain the opportunity to design and offer sub-bachelor programs, accessible through non-VSL loan programs such as FEE-HELP, a competitive advantage is preserved for that category of tertiary education provider.

Open Colleges is not convinced such differential is in the best interests of students, or the national economy.

Students considering a qualification at the Australian Qualifications Framework (AQF) level 5 (Diploma) or 6 (Advanced Diploma) in the VET sector, are also presented with university alternative programs at the same or similar AQF level. These programs often differ between the VET and University sectors on factors which prospective students neither understand, nor appreciate, when choosing which program to undertake. Enrolment decisions are often made on the strength of provider marketing and institutional reputation, rather than on independent data about employment outcomes, skills development, relevance to current and future employer or industry needs, or fit to student requirements.

Further, the immediate affordability of a program plays an important role in decisions about enrolment, with access to and the overall cost of income contingent loans a key element in that decision. Open Colleges sees a level of risk to tertiary education stemming from entrenching sector differentials at this level of education through the separation of VSL from HESA and encourages the Committee to carefully consider mechanisms by which these differentials can be removed, or at least reduced.

***Recommendation 4:* improve the availability and awareness of independent data and information regarding tertiary education options across both VET and higher education.**

Student Loans (Overseas Debtors Repayment Levy) Amendment Bill 2018

Open Colleges recognises the importance of ensuring student loan programs are fiscally sustainable over time, and movement towards that goal is to be supported. As a VET sector provider, our comments are limited to that sector.

Reducing the minimum repayment threshold for loans under HESA will bring many graduates of higher level VET, who accessed VET FEE-HELP (VFH) or VET Student Loans (VSL) and who have a loan balance owing, into compulsory repayments. This will be an additional unplanned cost which for some will arrive right at the time they are building their careers using the skills gained through their training. This may have an unintended, and undesirable consequence of further reducing the participation rate in VET.

Open Colleges encourages the Committee to consider carefully the social impact this will have, particularly taking into account the nature of work that many VET graduates obtain after completing their training.

<u>Recommendation 5:</u> review data identifying the population who would be brought into compulsory repayments under the proposed new schedule, including the employment, social and other demographic characteristics in order to clearly identify where the impact will be most keenly felt, and investigate offsets that could be actioned to minimise the negative impact of this change. Offsets could include remitting all or a portion of the loan fee element of any VSL debt held by that population or applying a reduction in the overall VFH, VSL or HELP balance held by an amount equivalent to the new compulsory repayment amount for the transition year (FY18-19). This would make the reform initially cost-neutral overall for graduates whilst still delivering the accelerated repayment profile sought by the reform.

Notwithstanding the capture of a larger proportion of VET graduates through this threshold reduction, the spreading of repayment rates across more brackets appears a reasonable attempt to mitigate the imposition of compulsory repayments for more graduates and earlier than is currently the case.

Increasing the maximum rate from 8.0% to 10.0% will however also arrive as an unplanned cost increase for graduates who have accessed VFH or VSL to support their training. Open Colleges recommends that if this extension is to be implemented, a communications strategy be put in place to advise graduates of the change, particularly in advance of income tax season, to reduce the shock to working Australians of a tax liability they would otherwise not have expected.

<u>Recommendation 6:</u> proactively communicate to current holders of loan debts who would be captured by the proposed repayment schedule to inform them of the timing and amount of the impact on them individually.

Open Colleges thanks the Committee for consideration of this submission and welcomes any opportunity to discuss the matters raised in more detail.

www.opencolleges.edu.au