Senate Inquiry into *Higher Education Support Legislation Amendment (Student Loan Sustainability) Bill*

Submission to the Standing Committee on Education and Employment

27 February 2018

Executive Summary

The University of Melbourne welcomes the opportunity to make a submission to the Committee's Inquiry into the *Higher Education Support Legislation Amendment (Student Loan Sustainability) Bill*.

The Income contingent loans scheme has been one of Australia's significant public policy successes since its inception in 1989. The University supports the policy objective of ensuring the long-term sustainability of the HELP loans system. We recognise that the Government is seeking to adjust the split between public and private contribution towards higher education. However, some of the proposed changes will have undesirable consequences and should be amended.

Our primary concern relates to proposed changes to the HELP lending limit. These changes will not significantly reduce the costs of the loans program. The changes will, however, generate a set of undesirable outcomes. The new lending limit will restrict opportunities for lifelong learning, when the future workforce generates a greater need for re-training and continued professional development. It will have a detrimental effect on diversity in Australia's higher education sector, by encouraging students to think 'short-term' and to focus on professional qualifications, be they undergraduate degrees or specialised diplomas.

The proposed changes to borrowing eligibility reduces the viability of combining generalist degrees in science and the arts with professional pathway programs, a combination that supports strong graduate outcomes and generates skilled and reflective citizens. Importantly, the changes will undermine the STEM agenda and the broader aspiration for a highly skilled workforce.

The proposed amendments to HELP lending eligibility will primarily impact postgraduate feepaying students. Feepaying students make up more than half of all domestic postgraduate coursework students. These students do not represent a major impost on the taxpayer. Comprising only eight per cent of all (non-research) domestic students,[1] postgraduate feepaying students receive no direct public subsidy for their studies, and demonstrate high levels of debt repayment.[2] Typically, these students are seeking to add to their skills through professional Masters programs that are highly regarded on the job market. Many of these degrees are required to enter a profession such as architecture, law and engineering.

Under the changes foreshadowed, loans limits previously confined to Fee-HELP will now also include HECS-HELP. While this will limit all students' capacity to refresh and update their skills without financial barriers to access, the changes to the calculation of a student's lending limit will push many more postgraduate feepaying students close to or above the lifetime lending cap during their foundation period of study. For people needing to retrain mid-career (a reality for the next generation as the world of work changes), the proposed changes will all but ensure they will face upfront fees at a time which often coincides with pivotal phases in their personal lives (for example, becoming partnered, starting a family, purchasing a house).

This undermines the policy rationale of the income contingent loans program. The impact of the change may be lower demand for postgraduate study and, in time, re-training for new careers. This will result in skills needs going unmet in key areas, such as Engineering, where Masters programs are an important part of the skills framework and are critical to Australia's economic performance.

We note also that the curriculum model offered at the University of Melbourne is especially vulnerable to the proposed changes to HELP lending eligibility. The 'Melbourne Model' is defined by generalist bachelor degrees that are combined with specialised Masters programs, many of which are required for entry into the professions. The curriculum model is largely unique within Australia –

[1] U-Cube, Department of Education and Training, 2016 Higher Education Statistics. Note EFTSL measure used.

[2] ANAO (2016), *Administration of Higher Education Loan Program Debt and Repayments*, see p.59. Between 2011-12 and 2012-13, a higher proportion of FEE-HELP lenders were making compulsory repayments than lenders in other HELP sub-programs.

with only the University of Western Australia adopting a similar approach – and therefore contributes diversity to what is largely homogenous higher education sector.

The value generated by this approach is clearly demonstrated by the employment outcomes of our graduates (ranked 7th worldwide for graduate employability), by their levels of community engagement (two out of five University of Melbourne graduates volunteer), and by the generalist skills they acquire through their studies (87% of graduates developed analytic problem-solving skills).[3]

Because professional entry programs within the Melbourne Model are located at the postgraduate level, our students will be disproportionately impacted by the new HELP lending limit. Other recent policy changes – relating to the allocation of postgraduate Commonwealth Supported Places, and to the eligibility settings for social security payments for Masters students – are combining to undermine the integrity and viability of the Melbourne Model. The proposed changes to HELP lending will further contribute to this pressure. The University is committed to continuing to offer students a curriculum model that has proven successful in delivering quality outcomes for students. Our capacity to sustain the model is, however, largely dependent upon policy settings.

Finally, this submission supports the collation and publication of more comprehensive HELP lending and repayment pattern data. Presently, the publicly available HELP information is poor. There is no routine reporting, for example, on the amount of loans made within a given year across each of the sub-programs (i.e. HECS-HELP, VET Loans etc.), nor on the amount of debt recovered each year. This prevents a clear understanding of the program's performance and makes it difficult to form a view on the merit of potential policy changes. The Amendment Bill represents opportunity for the Senate to pursue improvements in the public reporting on the loans program.

The submission provides:

(1) more detailed arguments regarding the long-term impacts of this proposal on students' access to professional education and lifelong learning, and the potential impacts on equality of access to ongoing education;

(2) a detailed analysis of its impacts on the model pioneered and successfully implemented in Australia by the University of Melbourne; and

(3) recommendations and supporting argument.

For further information, or to discuss this submission, please contact Dr Julie Wells, Vice-Principal Policy and Projects

[3] https://about.unimelb.edu.au/facts-and-figures

Summary of Recommendations

HELP lending limit (Schedule 3)

The University of Melbourne recommends that:

- the Senate reject the proposed changes to the HELP lending limit because of the:
  - impact that the change will have on sectoral diversity and lifelong learning and on the publicly subsidised provision of postgraduate education;
  - implications of the change for equity and access by introducing financial barriers at the point of accessing higher education; and
  - impact of the change on the development of high level skills necessary for future employment and economic development.
- *if* HECS-HELP lending is to be included in the limit, then the Senate should seek amendments to the proposed Bill, including:
  - significantly increasing the lending limit for all courses;
  - consider circumstances under which the lending limit would not apply (for example long-term unemployment or return to the workforce post family responsibilities); and
  - allowing students to refresh the lending eligibility by making debt repayments.

Changes to HELP repayment thresholds (Schedule 1)

The University of Melbourne recommends that:

- the Senate consider any changes to the repayment thresholds in the context of the equity principles that inform the design of HELP.

Order of repayment (Schedule 2)

The University of Melbourne recommends that:

- the Senate support the proposed ordering of student debt repayment.

Transparency and reporting on HELP

The University of Melbourne recommends that:

- the Senate seek improvements in the collation and publication of HELP-related data, to enable a clearer understanding of the program and to provide an evidence base to inform future improvements over time.

Impacts of proposed changes on lifelong learning, graduate education and The Melbourne Model

The growing importance of lifelong learning has major implications for Australia's post-secondary education system. While there is considerable uncertainty concerning what the future workforce will look like, we can be confident that there will be a greater need for workers to continuously update their skills to keep pace with the demands of a changing workforce. Workers in the future will enjoy lower levels of job security than those in the past, and will need the adaptive skills to cope with a changing labour market. Advances in automation in the workplace is predicted to bring large shifts in labour composition and demand overtime, and an increased need for workers to upgrade skills to support changing occupations. Globally, it is estimated that anywhere between 75M-375M people will need to switch occupational categories by 2030.[4] This will intensify for those workers (particularly women) who absent themselves from the labour market for family reasons for periods of time who will need to re-training to re-enter the workforce in new fields.

Engagement with tertiary education will increasingly become the norm throughout one's adult life, rather than something limited to the beginning of it. In a recent report, the OECD underscored the importance of policies that "give all workers the opportunity to continuously maintain their skills, upskill and/or reskill throughout their working lives."[5] It is essential, therefore, that students do not face unreasonable financial barriers at the point of access to education and training. HECS-HELP and Fee-HELP have operated effectively to mitigate this risk. Capping students' access to an income contingent loan – particularly at a level which will affect some students' first professional entry study – will make have the reverse effect.

Government has long called on universities to diversify and innovate in their curriculum offerings. The changing nature of work underscores the importance of there being a diverse range of educational offerings that meet these needs, and the importance of higher-level graduate qualifications. These programs are cost-effective, offering specialist training targeted at particular professional areas that builds upon the generic skills students have already acquired through a broad-based undergraduate education.

In this context, a recognition of the value of a broad undergraduate education coupled with focused professional education at Masters level was one of the primary motives for our adoption of the Melbourne Model in 2008. The Melbourne Model is reflective of a global trend towards broad-based undergraduate degrees leading to specialised, professional graduate programs, offering breadth and depth. The Model was introduced in 2008 with the support of the then Commonwealth Government, which committed to funding arrangements needed to accommodate the model – primarily to ongoing access to postgraduate CSPs. These arrangements were offset by the University giving up undergraduate for postgraduate places, and subsequently, by the University's exclusion from the demand driven system. These trade-offs have resulted in the University's domestic undergraduate EFTSL growing much slower than the rest of the sector (2.1% growth between 2012-2016 compared to the sector's 11.5% growth).

The Melbourne Model is a distinctive approach to university education, providing students with choice in what is a largely homogenous Australian higher education sector. It provides our students with a degree of flexibility, allowing them time to consider their preferred career direction during their undergraduate studies.

[4] *McKinsey Global Institute, Jobs lost, Jobs gained: Workforce transitions in a time of automation. Dec 2017*
[5] OECD (2017), "Future of Work and Skills", p.20
http://www.oecd.org/els/emp/wcms_556984.pdf

The evidence suggests that the model is delivering the intended learning outcomes. We have the highest retention rates for commencing bachelor students in the country,[6] places are in heavy demand both domestically and internationally, and over 93% of our postgraduate coursework students are employed four months after graduation.[7]

The policy and funding environment has become less predictable due to a series of separate Government decisions across several Departments, with the collective impact posing a serious threat to the integrity and viability of the Melbourne Model. Proposed changes to the allocation of postgraduate Commonwealth Supported Places risk disrupting the graduate pathway that is a key part of the Melbourne Model, where students who enter a generalist undergraduate program and achieve the requisite results are eligible for a Commonwealth supported place in one of our professional entry Masters programs. Revised eligibility settings for social security payments for postgraduate students – resulting in 30 Masters programs at the University of Melbourne becoming ineligible – represents a barrier to postgraduate study for many students, and a further threat to the Melbourne Model.

The proposed HELP lending limit will further impact the Melbourne Model by introducing significant upfront costs for many students, thus generating a disincentive for them to undertake a Masters program. The combined impact of these changes on the University of Melbourne's curriculum model is presumably not what is intended. Minister Simon Birmingham has made clear his commitment to "a system would offer students a wide range of course options and *differing modes of teaching from diverse institutions to meet their* – the students' – particular needs, aspirations, and circumstances."[8] The Minister also provided a statement of support for the Model to the University in a letter late in 2017.

Therefore, it is important that the effect of policy changes such as those proposed in the Amendment Bill are carefully considered, so that damaging and possibly unintended consequences for various parts of the sector are avoided.

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6 Department of Education and Training (2017), "2016 Higher Education Statistics" (See Appendix 4).

7 QILT (2017). Original source: Graduate Destination Survey (GDS) and Graduate Outcomes Survey (GOS) Note: The figure is a three-year average based survey responses from 2015, 2016 and 2017.
https://www.qilt.edu.au/institutions/list/institution/the-university-of-melbourne?ca=overall-employment

8 Birmingham, Simon (2015), "Keynote Address, Times Higher Education World Academic Summit". (emphasis added).
https://ministers.education.gov.au/birmingham/keynote-address-times-higher-education-world-academic-summit

Comment on proposed amendments

HELP lending limit (Schedule 3)

The Bill proposes to amend the HELP lending limit, introducing a combined lifetime limit for all HELP lending. Currently, the limit applies only to debts incurred through FEE-HELP. Under the proposal, debts incurred by Commonwealth Supported students under HECS-HELP will also be included in the lending limit.

Postgraduate feepaying students

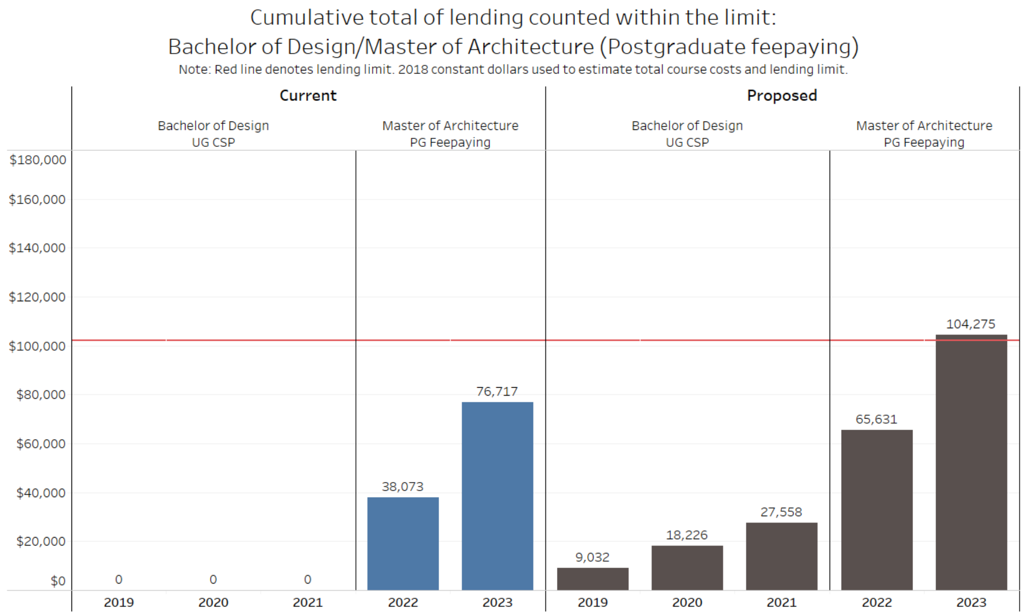
Postgraduate feepaying students will be most affected by the proposed amendments. While feepaying students are already subject to a lending limit, the effect of the change is that new lending to these students will now be added to the HECS debts they have incurred during their undergraduate studies, thus significantly diminishing their borrowing eligibility. With Government reducing the number of Commonwealth Supported Places for graduate education across the sector in the 2017 MYEFO Statement, fee-paying places represent the only avenue for growth in opportunities.

Many postgraduate feepaying students will be pushed beyond the lending limit

An internal review indicates that many postgraduate feepaying students at the University of Melbourne will be pushed beyond the lending limit as a result of the change, forcing them to pay fees upfront in order to undertake a program. For example, students undertaking a Bachelor of Design/Master of Architecture combination do not exceed the limit under the current arrangements, as their borrowing under HECS-HELP is excluded from the lending limit. These students will exceed the limit if HECS-HELP lending is included as proposed (See Figure 1). In other cases, feepaying students who already exceed the limit will do so by a far greater margin. For example, students who undertake a Juris Doctor having completed a Bachelor of Commerce will need to contend with significantly higher upfront costs under the proposed changes.

Note that the figures below understate the impact for many students. They assume that students have undertaken only a three-year bachelor program prior to commencing a Masters degree. The impact will be greater for students who have also completed an Honours year or a Diploma of Language, or who earlier transferred from another (partially completed) Bachelor program.

Figure 1: Impact on students undertaking a Bachelor of Design/Master of Architecture combination



Impact on equity and fairness

The new lending limit has troubling implications relating to equity and fairness. In effect, the change would introduce upfront fees for many students, if not at the beginning at some point in their program. Some students will be prevented from undertaking a Masters program simply because they lack the means to cover the newly introduced upfront costs. This undermines the equity principles that underpin the income contingent loan scheme.

We are particularly concerned about the impact that the change will have on students coming from disadvantaged backgrounds and under-represented schools at the University of Melbourne. In 2017, 32% of the undergraduate domestic commencing cohort were admitted through 'Access Melbourne', our pathway program for students from equity groups. The ongoing support we provide to these students is reflected in the retention and success rates for Low SES and Indigenous students, all of which are significantly above the state average and the average for Table A providers.[9] The changes to HELP lending may increase financial pressure on those without support, and thus jeopardise the study outcomes for these students.

Reduced demand for postgraduate study in critical STEM skills

The proposed change will also inhibit the extent to which the university sector responds to the skills needs of Australia's labour market. The changes will potentially dampen demand for postgraduate study among domestic students. Importantly, the courses impacted include those in strategically important areas that already suffer skills shortages, such as expensive-to-run Engineering programs. In 2016, 56 per cent of domestic postgraduate coursework students in STEM fields were feepaying.[10] While the high-level skills delivered by Masters programs in these fields are crucial to Australia's economic development, the new lending limit may impact the uptake of these program.

Jeopardise program viability

Postgraduate programs operate at a relatively small scale: these programs rely upon a mix of Commonwealth supported and feepaying students. Where demand for these courses weakens – as it will if the proposed amendments are enacted – some courses may become financially unviable.

Inconsistent approach to setting limits

The Bill would increase the lending limit for some courses (medicine, dentistry and veterinary sciences) to allow for the inclusion of HECS lending, but maintain the same limit for all other courses.

If the changes were to be adopted, they should at the very least be modified and the limits increased across the board. A conservative way of re-setting lending limits would be to raise them by the amount of HECS debt students are likely to incur during their undergraduate studies. A further option is to maintain the current arrangements in which only FEE-HELP lending counts towards the limit, and to consider a time-based limit for HECS-HELP lending.

The point that needs to be emphasised is that the proposed amendments will lock in constraints to students' lifetime lending eligibility. Any changes need to be carefully considered so that they promote the intended outcomes without undermining the basic aims of the loan program. The University of Melbourne would welcome the opportunity to discuss alternatives to those contained in the Amendment Bill.

[9] Department of Education and Training (2017), "2016 Higher Education Statistics" (See Appendix 5).
[10] Department of Education and Training (2017), "2016 Higher Education Statistics".

Other concerns with the proposed lending limit

Questionable policy justification

The policy intent (indicated by Assistant Minister Andrews in the Second Reading speech) is to reduce costs by preventing so-called 'career students' from indefinitely undertaking undergraduate study at the taxpayer's expense. While it is reasonable that policy settings encourage students to complete their studies in a timely fashion, the actual number of long-term students is very small - less than 0.5 per cent of HELP debtors currently have an outstanding debt above $100,000.[11] The proposed measure therefore represents a blunt instrument that will do little to deliver savings, but will have a major impact on students who are legitimately seeking to add to their knowledge and skills and to retrain in the years ahead.

Lifetime lending limit should be refreshed when debt is paid down

The design of a lifetime limit that does not allow students to refresh their lending eligibility by paying down previous incurred debts is a further issue. Students with a history of repaying HELP debts have demonstrated their likelihood of also repaying new loans. There is no policy basis for preventing such students from continuing to access the loan program.

Recommendations:

The University of Melbourne recommends that:

- the Senate reject the proposed changes to the HELP lending limit because of the:
  - impact that the change will have on sectoral diversity and lifelong learning, and on the publicly subsidised provision of postgraduate education;
  - implications of the change for equity and access by introducing financial barriers at the point of accessing higher education; and
  - impact of the change on the development of high level skills necessary for future employment and economic development.
- *if* HECS-HELP lending is to be included in the limit, then the Senate should seek amendments to the proposed Bill, including:
  - significantly increasing the lending limit for all courses; and
  - consider circumstances under which the lending limit would not apply (for example long term unemployment or return to the workforce post family responsibilities)
  - allowing students to refresh the lending eligibility by making debt repayments.

[11] ATO Statistics, 2015-16.
https://data.gov.au/dataset/taxation-statistics-2014-15/resource/3b9de177-6e17-480e-bc32-dc5b80b050ae

Changes to HELP threshold changes (Schedule 1)

The Amendment Bill proposes changes to the repayment threshold schedule, which include a lower initial repayment threshold, new additional thresholds for higher income earners, and tying future threshold increases to CPI rather than to average weekly earnings.

The University of Melbourne supports changes that add to the sustainability of HELP. Any changes, however, need to be carefully considered, so that they do not undermine the equity principles that are part of the design of HELP. The intent of the program has always been to ensure that lower income earners do not find themselves in financial hardship as a result of HELP repayment obligations. It is important that proposed changes to the repayment threshold schedule do not have this outcome.

Recommendation:

The University of Melbourne recommends that:

- the Senate consider any changes to the repayment thresholds in the context of the equity principles that inform the design of HELP.

Order of repayment (Schedule 2)

The Amendment Bill proposes to amend the order of repayment of student loan debts by loan type. From 2019/20, the HELP repayment threshold schedule will apply to all student debts, including Student Start-up Loans and loans made under the Student Finance Supplement Scheme. Under the proposal, HELP loans will take priority for students who also have debts from those other programs.

The University of Melbourne supports the proposed measure. The measure adds clarity to loan repayment obligations, and ensures that those with debts across multiple programs are not burdened with excessive repayment liabilities.

Recommendation:

The University of Melbourne recommends that:

- the Senate support the proposed ordering of student debt repayment.

Transparency and reporting on HELP

The absence of comprehensive data relating to the performance of the loan program undermines the evidence base for Government decision-making and impedes an informed assessment of proposed changes to the program's design. Very high-level data is published annually in the Budget Papers, including the total amount of Advances Paid (i.e. outstanding debt) and the total program expenses, made up of a doubtful debt estimate and concessional interest costs.

The following is **not** routinely published, but is needed for a clear view of borrowing/repayment patterns:

- Total amount of new lending for each of the sub-programs within HELP (i.e. HECS-HELP, FEE-HELP, VET FEE-HELP etc.)
- Average number of years in which debt is expected to be repaid for each sub-program
- Percentage of debt not expected to be repaid for each sub-program
- Number of persons with an outstanding HELP debt
- Total amount of HELP debt repaid in a given year
- Total number of debtors making repayments in a given year
- Total number of debtors across income brackets

Transparency around the operation of the program is key to supporting good policy design, and to constraining overall costs. It is difficult for the Senate, for the tertiary education sector and for the community to assess the merit of proposed changes to HELP when the impact of those changes is largely opaque. The proposed Bill represents an opportunity for the Senate to seek improvements in the provision of data to support informed decision making.

Recommendation:

The University of Melbourne recommends that:

- the Senate seek improvements in the collation and publication of HELP-related data, to enable a clearer understanding of the program and to provide an evidence base to inform future improvements over time.