



Australian Government

Australian Government response to the
Red Tape Committee report:

Effect of red tape on private education – Interim report

November 2019

Introduction

The Australian Government welcomes the interim report on the effect of red tape on private education by the Senate Select Committee of Red Tape Committee (the Committee), which was tabled on 29 November 2018. The report makes seven recommendations. This response addresses the recommendations of the Committee.

Overview

The Department of Education takes a national leadership role in ‘whole of life’ education opportunities from early childhood education through to tertiary and higher education. The department also promotes world-class research and innovation which in turn plays a critical role in achieving Australia’s economic and productivity objectives.

While responsibility of regulatory burden of private education is shared between the Australian Government and state and territory regulatory authorities, the Government recognises the need to reduce unnecessary red tape and administrative burden and contributes to the Australian Government’s Deregulation Agenda which is administered by the Department of the Prime Minister and Cabinet.

The department works closely with state and territory governments and education portfolio entities to deliver key national policies and programs across all areas of education. Our policies, regulatory frameworks, funding programs and stakeholder engagement strategies reflect this environment.

Recommendation 1

2.27 The Committee recommends that the Australian Government, through the Council of Australian Governments, initiate a review of Commonwealth and state-based regulation affecting the private education sector, to identify opportunities for regulation and red tape reductions.

The Australian Government (the Government) notes, in principle Recommendation 1.

The Government is committed to reducing regulatory burden and red tape and has undertaken reviews as recommended to identify further opportunities.

Schools sector

Under the Constitution of Australia, state and territory governments have primary responsibility for the provision of schooling to all school-aged children within their jurisdiction. This responsibility includes registration of government and non-government schools, and teachers. State and territory governments are the majority public funder for government schools, and contribute supplementary funds to non-government schools. Conversely, the Australian Government is the majority public funder of non-government schools and provides supplementary funding to government schools.

With constitutional responsibility for schooling sitting with state and territory governments, the Australian Government's funding for non-government schools is paid to state and territory governments under Section 96 of the Constitution. States and territories then distribute funding to their government schools and to non-government schools on behalf of the Australian Government in accordance with the Australian Government's funding formula.

The Australian Government and state and territory governments share an interest in monitoring the governance and financial arrangements in schools to ensure public funding from both Commonwealth and states and territories, is used for the purpose of education and for the benefit of students. This interest also intersects with the Australian Charities and Not-for-profit Commission (ACNC) due to its legislative responsibilities for the not-for-profit and charity sector.

The department recognises the co-regulatory nature of the schooling space and is working collaboratively with jurisdictions and regulatory bodies to reduce administrative burden and duplicative reporting.

To minimise the reporting burden on the non-government schooling sector, the department and the ACNC have worked together to refine financial data collection arrangements so that a single approach will satisfy both the department's and the ACNC's reporting requirements. In 2017, for the first time, a single data collection for both organisations was conducted using the department's financial questionnaire (2016 data) in a 'report once, use often' approach.

The department is also currently progressing a bilateral pilot with the New South Wales Department of Education to harmonise legislation and regulatory arrangements. Alignment of regulatory arrangements is expected to occur in 2020 and will see a consistency in the type of information collected from New South Wales non-government schools and reduced reporting as the same data sets can be used for multiple purposes. The department will use this pilot as a test case prior to opening this option to other jurisdictions.

Higher education sector

The Tertiary Education Quality and Standards Agency (TEQSA) was established as Australia's independent national quality assurance and regulatory agency for higher education by the *Tertiary Education Quality and Standards Agency Act 2011* (TEQSA Act). It commenced its regulatory function on 29 January 2012, replacing a system of separate regulation by each state and territory, coordinated through national protocols.

All organisations that offer higher education qualifications in or from Australia, must be registered by TEQSA and must be assessed as meeting the requirements of the *Higher Education Standards Framework (Threshold Standards) 2015* (the Standards) before they commence operations.

The Standards ensure that the barrier to entry into the higher education sector is set high enough to both underpin and protect the quality and reputation of the sector as a whole. The Standards establish a baseline for operational quality and integrity from which all providers can continue to build. Importantly, the Standards apply to all types of higher education provider equally, whether a university or non-university provider, public institution, not-for-profit organisation or privately owned business. Equity in the application of the Standards is critical to give assurance to prospective students in Australia or overseas that they will receive a quality higher education experience in Australia,

Higher education providers that have not been granted self-accrediting authority (which is almost all of the non-university providers) must also have each of their courses of study accredited by TEQSA against the Standards.

Since TEQSA's establishment, two independent reviews of higher education regulation in Australia: the 2013 *Review of Higher Education Regulation* conducted by Professor Kwong Lee Dow AO and Professor Valerie Braithwaite (<https://www.education.gov.au/review-higher-education-regulation-1>); and the 2016-17 *Review of the Impact of the TEQSA Act on the Higher Education Sector*, undertaken by Deloitte Access Economics (<https://www.education.gov.au/review-impact-teqsa-act-higher-education-sector>), in accordance with section 203 of the TEQSA Act.

- The Dow-Braithwaite review found that, whilst there was wide and continued support for a single national regulator, there were concerns about TEQSA's quality assurance role and the resource impacts that quality audits had on the regulatory enforcement role. The review's recommendations focused on ensuring TEQSA concentrated on its core provider registration and course accreditation functions; and how TEQSA and the Government could reduce the regulatory burden on the higher education sector.
- The Deloitte review, released by the Government in November 2018, was positive about the establishment of TEQSA as the national regulator in 2012, noted that the higher education sector has positive views of both the regulatory system established by the Act, and TEQSA as the regulator, and further noted that the TEQSA Act is broadly operating effectively and as intended. It recommend a number of relatively minor changes to the TEQSA Act and associated administrative arrangements to enhance the effectiveness of the regulatory system. The Government has provided detailed responses to each of the review's recommendations, and introduced the Tertiary Education Quality and Standards Agency Amendment Bill 2018 on 5 December 2018 to give effect to those recommendations requiring a legislative response.

TEQSA actively engages with the sector in a collaborative and transparent manner to build open and respectful working relationships. Feedback from the sector, including through annual stakeholder surveys, one-on-one meetings, a case manager approach, round-tables, forums and conferences, assist TEQSA to reflect on its approach and to take action where appropriate.

TEQSA has acknowledged that there are lower perceptions of its performance by some parts of the sector, particularly for-profit providers. It does not agree that it does not understand their business or that it takes a harsher line with them, though this is their perception. However, it is proactively engaging with private providers to raise the level of mutual understanding.

The Government is determined, however, not to reduce the level of scrutiny placed on education providers of any type. In the wake of the problems that emerged in the private vocational education and training market, including unconscionable exploitation of vulnerable students by some private for-profit operators, TEQSA must remain vigilant to ensure that such practices do not emerge in the higher education sector and that, where such practices are observed, they are promptly dealt with.

The Minister for Education and Commonwealth officials engage with state and territory colleagues on a range of higher education-related policy matters through the Council of Australian Governments Education Council and related forums. However, the Australian Government does not see a role for the states and territories to review the operation of the Commonwealth-legislated higher education regulatory framework – either in whole or for private providers in isolation.

Given both the extent and recency of examination of higher education regulation through two independent reviews, the Australian Government sees no reason to pursue a further formal review at this time.

Vocational Education and Training Sector

In 2017, an independent review of the *National Vocational Education and Training Regulator Act 2011* (NVETR Act) was undertaken to determine if the Australian Skills Quality Authority (ASQA) had the appropriate legislative capacity to regulate the sector efficiently and effectively. The Hon Karen Andrews MP, former Assistant Minister for Vocational Education and Skills, released the “All eyes on quality: Review of the *National Vocational Education and Training Regulator Act 2011* report” by Professor Valerie Braithwaite on 22 June 2018 along with the Australian Government Response.

The review was informed by 68 public submissions, over 50 stakeholder consultations and national and international research.

Overall, the review found that ASQA had sufficient powers under the NVETR legislation to perform its regulatory functions. However, it suggested amendments to the legislation and VET Quality Framework could be made to further encourage a positive culture of cooperation, reward excellence and embrace innovation, while also curbing unacceptable conduct by registered training organisations (RTOs) through a system of controls and sanctions.

Key recommendations in the report demonstrated a clear need for improvements to ASQA’s engagement with the sector, an expansion of its educative role to ensure registered training organisations are supported to understand compliance requirements, and stronger transparency around regulatory decisions. These key themes were also reflected in the *Strengthening Skills: Expert Review of Australia’s Vocational Education and Training System* undertaken by the Hon Steven Joyce.

On 30 October 2019, the Government announced a future reform approach for ASQA to adopt a more educative role to lift quality in the delivery of VET. These reforms will improve confidence in the regulator and ensure the sector's regulatory environment is reasonable, transparent and effective.

The Government is also pursuing legislative amendments to the NVETR Act and subordinate legislation to implement further changes as recommendation by Professor Braithwaite. These reforms are designed to improve the efficiency and effectiveness of ASQA's regulation of the VET sector.

In 2016, the COAG Industry and Skills Council agreed to develop the Performance Information for VET (PIVET) program to transform the data available to consumers, government and regulators. Work on the roadmap is progressing, which includes the VET data collection streamlining project to allow easy, flexible, event-based collection (and correction) of VET activity data from RTOs and state training authorities.

In 2018 the former Department Of Education and Training commissioned a Review of Financial Suitability Requirements for the approval of VET Student Loans approved course providers.

The review proposed a number of changes, some of which provide opportunities for regulation and red tape reductions. Relevant proposed administrative changes have been progressed, e.g. the acceptance of unaudited financial statements with provider applications. Relevant proposed changes requiring legislative change are still in course, e.g. removal of the absolute, disqualifying restriction on dividends not being greater than after tax profit for previous financial year.

(Note that publicly owned VET providers, which are generally lower risk, are already exempt from financial performance requirements when seeking approval as VET Student Loans approved course providers.)

Recommendation 2

2.28 In conjunction with Recommendation 1, the committee recommends that the Department of Education and Training review the findings and recommendations of the 2013 Review of Higher Education Regulation Report, to assist in the identification of deregulation opportunities for the higher education sector.

The Government does not accept this recommendation.

The recommendations of the 2013 Dow-Braithwaite review related to the circumstances and context that applied at that time, however, both the higher education sector and the higher education regulatory landscape have evolved significantly since then. The Government does not see value in revisiting the recommendations.

An updated Higher Education Standards Framework came into effect from 1 January 2017. The 2015 standards instrument was developed following a comprehensive review of the initial (2011) standards by the Higher Education Standards Panel over three years from 2012-2014. The new Standards removed a significant amount of duplication in the initial standards. They use language that is familiar to higher education providers and are structured to reflect the operational lifecycle of a typical higher education provider. Adoption of the new standards by providers as a framework for their own management and governance processes enables them to use reports and evidence produced for day-to-day internal use as evidence of compliance with the standards for TEQSA assessments, reducing the need for bespoke or tailored reports to support provider reregistration and course accreditation. This approach was assessed by the Office of Best Practice Regulation in 2015 as leading to a reduction in regulatory burden of more than \$2.5 million a year.

The report of the recently released *Review of the Impact of the TEQSA Act on the Higher Education Sector*, undertaken by Deloitte Access Economics, noted that the early problems of regulatory over-reach by TEQSA, are now seen to have been remedied. In TEQSA, the sector now sees a regulator that is seeking to reduce the burden imposed by its activities, tailoring its requirements to meet individual features of providers, and seeking to engage more fully with the sector.

TEQSA, the Higher Education Standards Panel, and the Department of Education will continue to work together to identify opportunities to reduce the regulatory burden on higher education providers, whilst maintaining the quality of the educational experience of higher education students.

The 2013 Review of Higher Education Regulation Report

The 2013 *Review of Higher Education Regulation*, was released to the public in August 2013. In October 2013, the Government accepted all of the review's recommendations. The Government's responses to the recommendations included the following actions:

- *Ministerial Direction No. 2 of 2013* was made under the TEQSA Act, which directed TEQSA's Chief Executive Officer to consult and seek advice on a range of matters and to detail deregulatory initiatives undertaken to improve the efficiency and timeliness of TEQSA's core compliance activities. This includes limiting sectoral quality assessment activities only if TEQSA has surplus resources after "fully achieving" its core regulatory functions. The Government's response to the *Review of the Impact of the TEQSA Act on the Higher Education Sector* includes that the Direction will be repealed following passage of the *TEQSA Amendment Act 2018*, as it is no longer necessary for this restriction to apply to TEQSA's quality assessment activities.

- Amendments were made to the TEQSA Act (through the *TEQSA Amendment Act 2014*) which enhanced TEQSA's ability to delegate functions and powers to enable more efficient decision making processes, permitted TEQSA to extend registration and accreditation periods, provided greater flexibility for the Minister to determine the number of Commissioners appointed and the mix of full-time and part-time appointments, and separated the roles and responsibilities of the Chief Commissioner and the Chief Executive Officer, in line with good governance principles.
- The establishment of the TEQSA Advisory Council, to provide advice on TEQSA's strategic objectives and plans, approaches to deregulation, and approaches to streamline re-registration and re-accreditation processes. This advisory role subsequently passed to the Higher Education Standards Panel, when the two bodies were amalgamated in 2015.
- Streamlining of data collection from higher education providers. TEQSA's annual Provider Information Request data collection is now managed on TEQSA's behalf by the Department of Education utilising an approach consistent with the existing Higher Education Information Management System collection. This is more streamlined and less burdensome for providers than the previous arrangement.

Since the release of the Dow-Braithwaite review, TEQSA has implemented a range of strategies aimed specifically at reducing the regulatory burden on providers, which also address a number of the Dow-Braithwaite recommendations.

- Development of a stakeholder engagement strategy – stakeholder engagement provides TEQSA with a greater understanding of the key issues in the higher education sector and helps to build stakeholder capacity to meet regulatory requirements.
- Improved focus on a standards-based, risk-reflective and transparent approach to regulation of the sector. This has seen the development of annual risk assessments of providers using the TEQSA Risk Assessment Framework and adoption of the 'Core Plus' risk-based model of provider assessment (outlined further under Recommendation 3).
- Development of resources and support mechanisms, including application guides for provider registration, renewal of registration, course accreditation and renewal of accreditation, publication of guidance notes that provide greater clarity on TEQSA's interpretation of selected areas of the Standards, a strong case manager approach to establish and maintain ongoing provider engagement, dissemination of data on sector performance, and conducting consultation forums for providers and other stakeholders.
- Development of Memoranda of Understanding with key stakeholder groups, including the Independent Tertiary Education Council Australia and the Independent Higher Education Australia, which facilitate better dialogue, collaboration and sharing of information.

Recommendation 3

2.30 In conjunction with Recommendation 1, the committee recommends that Australian governments consider the effectiveness of a 'one-size-fits-all' approach to the regulation and explore options to implement better risk-based regulation.

The Government supports, in principle, Recommendation 3.

Schools sector

The department has recently developed and published a Schools Funding Assurance Framework (the Framework) that outlines a risk-based approach to monitoring compliance for funding provided under the *Australian Education Act 2013* (Education Act) and the *Australian Education Regulation 2013* (Education Regulation). The Framework is an overarching document that sets out how assurance is practically undertaken by the department to make sure:

- Australian Government funding for schools is being appropriately spent, in accordance with the requirements of the Education Act and the Education Regulation
- Approved Authorities are assisted and encouraged to become compliant and stay compliant
- non-compliance is identified and addressed
- Approved Authorities are not unreasonably burdened by compliance, or forced to bear an unreasonable cost of compliance
- systemic compliance issues are identified, so that policies and processes can be amended to remedy issues.

The Framework is based on principles of effective risk management outlined in the International Organization for Standardization's standard ISO 31000:2018: Risk Management, the Department of Finance's Commonwealth Risk Management Policy, and the department's risk tolerance documents.

A core reflection of the department's approach to risk-based compliance is recognition that the operating environment of the schooling sector is not-for-profit (Section 75 of the Education Act), and stable and mature.

Whilst they still present some attendant risks, there are characteristics of not-for-profit entities that make the schooling sector different to other for-profit sectors. Not-for-profit entities are unable to distribute profits (either directly or indirectly) to individuals. The inability for individuals to directly profit from these entities' operations reduces the risks in respect of the deliberate misuse or misappropriation of funding.

The state and territory governments are the primary managers of government (or 'public') schools in Australia. They are responsible for assuring both state and Australian Government funding sources are provided to appropriately fund government schools. State and territory governments are responsible for monitoring the compliance of the government schools in their jurisdiction but they also co-regulate the non-government schooling sector with the Australian Government.

Due to the coregulatory environment, the department is working to regulate smarter and moving towards targeted capability building for the schooling sector. The capability focus is on implementing actions to support the sector's compliance with requirements that are

preventative, rather than regressive or punitive in nature. The department intends to make greater use of education/information to achieve compliance, recognising that errors are largely unintentional and due to a genuine lack of understanding of what is required.

The department acknowledges the role of states and territories does not, of itself, eliminate all risks related to the expenditure of Australian Government funding, however it does considerably reduce the risks of non-compliance and fraud.

The Framework recognises the schools sector profile outlined above, and the impact that this has on compliance risk and guides the department's approach to assurance and monitoring.

Higher education sector

The TEQSA Act requires TEQSA to apply a standards-based quality framework using a risk-based approach to assessment, in order to protect and promote the interests of higher education students and the reputation of the higher education sector. TEQSA's approach to regulation of the higher education sector is not 'one-size-fits-all'. Rather, TEQSA exercises discretion in its application of the Standards for individual providers according to the circumstances and regulatory standing of the provider, an analysis of risks, and the maturity and effectiveness of the provider's internal quality assurance and monitoring processes.

TEQSA applies a systematic, structured and consistent approach to assessing compliance risk across all providers, using a standard set of risk indicators corresponding to primary areas of institutional practice and performance. This approach, outlined in TEQSA's Risk Assessment Framework, is critical in delivering efficient and effective risk-based quality assurance and regulatory activities.

While the Risk Assessment Framework is consistently applied, TEQSA recognises the diversity—in terms of sizes, missions and student cohorts—in the sector, and the importance of a provider's context in assessing potential risks. To support this view, TEQSA's risk assessment process takes account of a provider's history, sector context and the provider's own risk management practices.

TEQSA's approach to cyclical assessments of providers and courses of study is varied and tailored to the circumstances of the provider. For established providers, TEQSA applies its "Core Plus" model, which aims to reduce administrative costs to providers in meeting evidence requirements. Under this model, all applicants are required to submit a minimum set of evidence relating to an identified set of "core" Standards in the Higher Education Standards Framework (i.e. core evidence). These relate principally to administrative and academic governance, student performance, student experience and student wellbeing and safety. Some providers will be required to submit additional evidence (i.e. the "plus" in "Core Plus") against other selected standards on a case-by-case basis, as determined by the provider's risk profile, track record and demonstrated capacity for self-assurance.

In the context of regulation of the vocational education and training (VET) sector, the Australian Government has implemented a risk-based approach to regulation under the *National Vocational Education and Training Regulator Act 2011* (NVETR Act).

Vocational Education and Training sector

As the national VET regulator, the Australian Skills Quality Authority (ASQA) takes a risk-based approach to regulation that seeks to make an efficient use of resources to effectively identify and target the most serious risks and patterns of systemic non-compliance, while minimising costs on regulated entities. In doing so ASQA focuses regulatory action on providers that are considered higher risk. The Risk Assessment Framework under section 190 of the NVETR Act sets out:

- a suggested process for ASQA to monitor, and where necessary respond to, risks of non-compliance with the VET Quality Framework
- processes that can be used to determine arrangements for assessing registration applications
- how registered training organisations (RTOs) may be individually measured for risk exposure; and
- an approach where RTOs that either present a low risk of non-compliance or consistently deliver high-quality training and assessment services will receive minimal regulatory scrutiny. RTOs that are assessed as higher risk in terms of the likelihood of adverse impacts on quality outcomes receive more regular monitoring.

In July 2018, ASQA amended its fees and charges so that providers requiring greater levels of regulatory attention and oversight are likely to pay higher costs for their regulation.

In its administration of the VET Student Loans program the Department of Education takes a risk-based approach to the management of key integrity controls, with a view to supporting compliant providers that achieve good student outcomes. These controls particularly relate to courses for which an approved provider may offer loans, and the maximum value of loans that will be approved in relation to a provider (referred to as the provider fee limit).

Approved providers that have demonstrated by their behaviour that they are low risk have now had course controls removed entirely, and a more open approach taken in relation to the setting of provider fee limits. Risk differentiation approaches are expected to be enhanced, as the program matures (it commenced only in 2017) and the department's longitudinal monitoring improves its capacity to assess and differentiate on a risk-basis.

Recommendation 4

2.32 The committee recommends that the Department of Education and Training, in conjunction with the Office of Best Practice Regulation, review its Regulatory Impact Statement processes, to improve identification and quantification of regulatory compliance costs in the private education sector.

The Government supports this recommendation.

The Office of Best Practice Regulation (OBPR) notes that the former Department of Education and Training developed two Standard Form Regulation Impact Statements to inform significant changes to the VET FEE-HELP Scheme. The OBPR and the Department of Education will continue to work together to ensure decisions are informed by analysis of the regulatory impacts on business, individuals and community organisations.

Recommendation 5

2.55 The committee recommends that the Department of Education and Training schedule a two-year review of the Nationally Consistent Collection of Data on School Students with Disability, including audit options to ensure the consistency of quality data collection.

The Government notes this recommendation.

From 2018, the Nationally Consistent Collection of Data on School Students with a Disability (NCCD) has included in the Australian Government schools census collection and is part of an established annual data validation processes (including the Census post enumeration process) for non-government schools.

Approved authorities and schools also engage in a range of assurance and moderation activities, including cross-sectoral moderation, to support the quality and consistency of the collection.

Since 2013, the Department has worked closely with the sector through the Joint Working Group to Provide Advice on Reform for Students with Disability, a sub group of the Education Council, on a range of capacity building and assurance projects to improve the quality and consistency of the NCCD. In 2017-18, the Australian Government committed \$20 million over four years to augment ongoing continuous improvement activities.

One of the most significant projects to date is the development of the NCCD Portal which was launched in February 2019 (<https://www.nccd.edu.au/>). The NCCD Portal is an interactive platform housing nationally consistent information and training materials and resources for school leaders, teachers, support staff, parents and carers. The Portal has been well received by the sector and is now the primary source of NCCD information used by schools.

Another project was recently commissioned to validate the accuracy of 2018 NCCD data reported by selected non-governments schools. The project also provided capacity building support to those schools which will contribute to improved data quality and consistency.'

This and other research shows the sector is rapidly maturing. There remains work to be done to build school capacity, but the focus for the Department is shifting to assurance.

Future assurance activities will take account of findings from commissioned research as well as recommendations from the National School Resourcing Board's review of the student with disability loading, due in December 2019.

Recommendation 6

2.65 The committee recommends that the Australian Government initiate a five-year review of the Regulator Performance Framework, to identify opportunities to improve Commonwealth regulators' performance.

The Government does not support this recommendation.

The Government commissioned an independent review of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), published in September 2018, which recommended that stand-alone Regulator Performance Framework self-assessment reporting should be discontinued and integrated into the performance reporting requirements of the PGPA Act. The Government will deal with the issue in the context of responding to the PGPA Act review.

The Department of Education agrees that there are opportunities to minimise duplicative reporting and adopt a report once use often approach. The department will continue working with Australian Charities and Not-for-profits Commission and state and territory education departments, to identify and implement ways in which to improve information and data sharing and align legislative requirements without increasing regulatory reporting or compromising public transparency and accountability.

Recommendation 7

2.75 The committee recommends that the Australian Government review the assumptions underpinning the 25 per cent loan fee and if they are not substantiated with statistical information, take action to abolish this fee.

The Government will review and consider this Recommendation.

Background

- Under current arrangements, the Government applies a 25 per cent loan fee on FEE-HELP loans related to undergraduate study, with the exception of Table B providers where students taking out FEE-HELP loans are exempt from the loan fee
- There is also a 20 per cent loan fee on all VET FEE-HELP and VET Student Loans students in full fee-paying places
- Broadly speaking, the FEE-HELP loan fee is designed to recoup some of the costs the Government bears in facilitating FEE-HELP loans for undergraduate places. FEE-HELP loans are on average higher than HECS-HELP loans as they are not capped and they are not accompanied by a Commonwealth Government contribution (unlike HECS-HELP).
- The most significant costs for the Government relating to HELP are:
 - debt not expected to be repaid (DNER)
 - the concessional loan discount, that is, the cost that arises through the Government borrowing at commercial interest rates to facilitate the scheme, while students who take out loans only pay interest at the Consumer Price Index (CPI) to the Government.

Analysis***Comparison between the cost to the Government and the cost to the student in providing FEE-HELP loans***

- According to the Australian Government Actuary, the rate of DNER on new HELP loans (excluding those with a VET component) in 2018-19 is 12.9 per cent. The concessional loan discount rate (or deferral cost) on new HELP loans (excluding those with a VET component) in 2018-19 is 4.7 per cent. The estimated total cost to Government in issuing HELP loans within higher education is 17.6 per cent.
- Students accessing FEE-HELP loans in undergraduate places (excluding those at Table B providers) pay a 25 per cent loan fee. The average fee borne by students is effectively lower than this, as loan fees themselves also involve losses associated with DNER and deferral costs.
- If the 25 per cent loan fee is deflated by multiplying both the above DNER and deferral cost rates by fee, then deducting these products from the fee, this results in an effective loan fee borne by the student of 20.2 per cent, as not all loan fees are repaid.
- In the absence of authoritative data estimating the rates of DNER and deferral costs only for loans that attract a loan fee, the department has used relative attrition rates to provide possible estimates.

- The new adjusted attrition rate¹ for all commencing higher education students is estimated at 16.2 per cent. The new adjusted attrition rate for commencing bachelor students at non-university higher education providers (used as a proxy for those commencing students eligible for the FEE-HELP loan fee) is estimated at 26.6 per cent². This results in an estimated attrition rate for FEE-HELP loan fee recipients as 64.7 per cent higher than higher education students in general.
- This could be the result of some positive correlation between the level of attrition for a particular group of students and the cost the Government will incur in issuing loans that group. Therefore, one could potentially inflate the above estimates of DNER and deferral costs by the proportional difference in attrition rates between all commencing higher education students and commencing students eligible for the FEE-HELP loan fee (64.7 per cent).
- This would result in an estimated rate of DNER on new debt for FEE-HELP loan fee recipients of 21.2 per cent, and an estimated deferral cost rate on new debt for FEE-HELP loan fee recipients of 7.6 per cent.
- Summing these rates together results in an estimated total cost to Government of 28.8 per cent, and an adjusted estimate of the effective loan fee borne by the student of 17.8 per cent.

Converting the 25 per cent loan fee into an annualised interest rate

- The 25 per cent loan fee paid by students accessing FEE-HELP loans, when converted into an annualised interest rate, is much lower than the market interest rate for an unsecured personal loan.
- The department has modelled the debt and repayment profile for a typical FEE-HELP undergraduate student.
- As a number of assumptions have been made, the example below is for illustrative purposes only:
 - A student undertakes full-time study for three years (beginning in 2019) and is charged a typical tuition fee for a FEE-HELP undergraduate student. The student takes eleven years from graduation to repay their debt
 - This student begins full-time employment in the year following graduation, with their income in line with a median salary for graduates who have undertaken an undergraduate degree (sourced from the Graduate Outcomes Survey).
 - The 25 per cent loan fee is converted to an effective interest rate with an added component representing indexation of debt at CPI (estimated at around 2.45 per cent).
 - This modelling results in the 25 per cent loan fee paid by the student accessing FEE-HELP being equivalent to charging this student a variable interest rate between approximately 4.5 per cent and 5.5 per cent.

¹ The New Adjusted Attrition rate for year(x) is the proportion of students who commenced a course in year(x) who neither complete in year(x) or year(x + 1) nor return in year(x + 1).

² Estimates based on data from the department's Higher Education Statistics collection.

- For comparison, as at January 2019, a market rate of interest for an unsecured personal loan of \$10,000 over a repayment term of three years ranges from 6.99 to 15.99 per cent.

Conclusion

- Maintaining the loan fee allows the Government to cover a portion of the significant costs it bears in facilitating FEE-HELP loans for undergraduates
- Drawing on the earlier analysis, the Government bears a cost of 28.8 per cent of the value of a FEE-HELP undergraduate loan (which is the result of estimated rate of DNER on new debt for FEE-HELP loan fee recipients of 21.2 per cent and the estimated deferral cost rate on new debt for FEE-HELP loan fee recipients of 7.6 per cent). The cost to Government is higher than the estimated cost of 17.8 per cent borne by the student;
 - The costs to Government associated with DNER and deferral costs are together estimated at 17.6 per cent of new loans, lower than the estimated cost borne by the student in taking out a FEE-HELP loan in an undergraduate place (20.2 per cent).
 - This figure does not take into account the higher rates of DNER and deferral costs that would likely apply when isolating FEE-HELP loans eligible for a loan fee. These costs would only need to be 15.3 per cent higher to result in an even share of costs between the Government and students.
- For students who fully repay their debts, the 25 per cent loan fee applied to their debts by the Government would be equivalent to being charged an annual interest rate of approximately 5 per cent, which is considerably lower than the market interest rate for an unsecured personal loan.

