Submission on the Universities Accord bill on HELP indexation and other matters – September 2024

Senate Education and Employment Legislation Committee inquiry into the *Universities Accord (Student Support and Other Measures) Bill 2024*

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- A CPI or a fixed maximum indexation rate would be simpler and provide more reassurance about possible future indexation
- The current indexation formula uses a complex method incorporating two years of CPI data; the bill proposes retaining that and calculating WPI by the same method. Using the annual CPI and WPI data published by the ABS would be simpler.

FEE-FREE Uni Ready places

- The FEE-FREE Uni Ready places have some benefits, for funding cluster 1 disciplines, students wanting more generic preparatory courses, and possibly ending the practice of allocating enabling places on historical grounds. However
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The Commonwealth Prac Payment

- While the Commonwealth Prac Payment is a good idea in principle, this bill does not give it a secure or satisfactory legal basis
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- Universities have an extensive set of legal obligations around non-academic services
- The proposal to allocate at least 40% of amenities fee revenue to student-led organisations needs further scrutiny to ensure that universities can fund their legal obligations

1. HELP indexation

This section of my submission focuses on two aspects of HELP indexation reform – the lower of CPI and WPI formulation and the method of calculating indexation.

The bill as it stands is better than the status quo. It could however be improved in two respects, by including a fixed maximum indexation rate and simplifying the formula for calculating indexation.

The lower of CPI or WPI or lower of CPI and a fixed maximum rate

Unexpected issues

The 2022-2024 student debt indexation surge uncovered issues that had sat latent through many years of low inflation.

During those low inflation years the student debtor population increased significantly, as did average HELP debt.

As a result, several years of high CPI affected more than 3 million student debtors and escalated the already significant HELP balances of some debtors.

Concern about indexation causing HELP debt to escalate unpredictably could also affect the educational decisions of potential students.

The small policy community around Australia's higher education student funding system was not alert to the potential impact of high inflation. I share blame in that respect.

Minimising the risks of future unexpected economic changes

The bill's lower-of the CPI or the WPI indexation system repeats the previous mistake of not thinking through how possible future economic scenarios would affect HELP and HELP debtors – in particular a period when CPI and WPI are both high.

The bill's lower-of-CPI-or-WPI method will deliver relief in 2023 and 2024 because of a prior period of unusually low wage growth and because CPI influences WPI but only with a delay.

High inflation encourages workers to seek compensating wage increases, but these happen after prices start increasing. Firms often only renegotiate wages once a year, or less often for multi-year enterprise agreements. The minimum wage review is annual and normally results in increases around the CPI level. But as r shows, catch-up is now underway. More recent data in Table 1 shows that the WPI is now, as it is normally, above the CPI.

While we do not currently seem headed to a 1970s-style period of simultaneously very high inflation and high wage increases (although both are moderately high compared to the pre-COVID years), the bill would be stronger if it provided protection against that scenario as well.

Figure 1: CPI and WPI historical trends

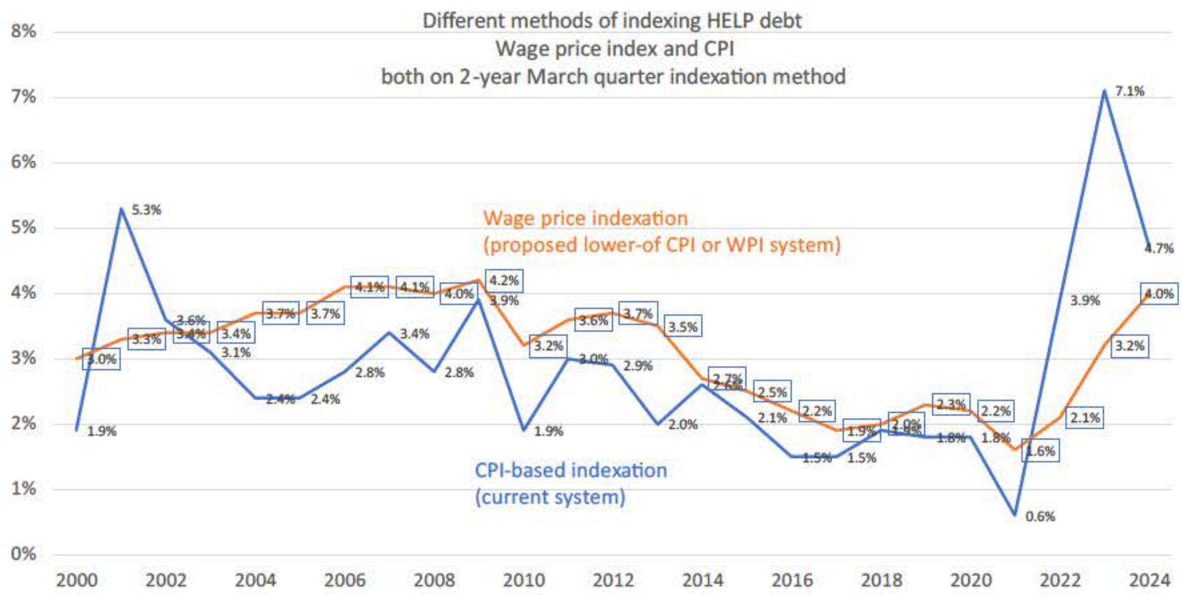


Table 1: Recent CPI versus WPI on a quarterly year-to-year basis

	Percentage Change from Corresponding Quarter of Previous Year; All groups CPI ; Australia	Percentage Change From Corresponding Quarter of Previous Year; Australia; Total hourly rates of pay excluding bonuses; Private and Public; All industries WPI	CPI less WPI
Jun-2022	6.1%	2.7%	3.4%
Sep-2022	7.3%	3.2%	4.1%
Dec-2022	7.8%	3.4%	4.4%
Mar-2023	7.0%	3.7%	3.3%
Jun-2023	6.0%	3.6%	2.4%
Sep-2023	5.4%	4.0%	1.4%
Dec-2023	4.1%	4.2%	-0.1%
Mar-2024	3.6%	4.1%	-0.5%
Jun-2024	3.8%	4.1%	-0.3%

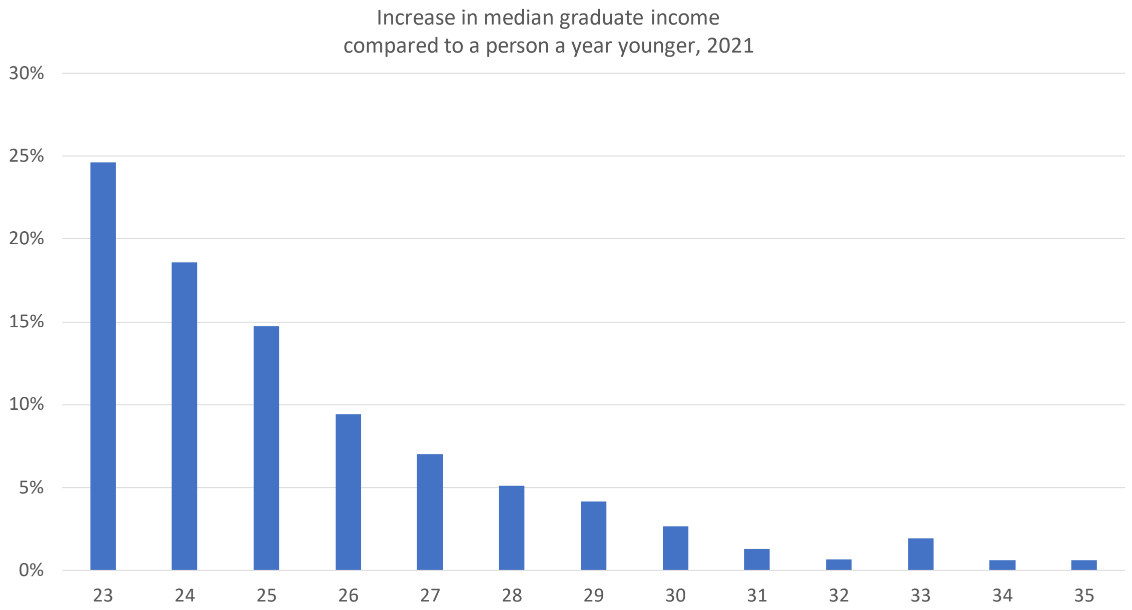
The logic of alternative indicators

The Accord final report argument for choosing WPI was that it would 'ensure that the indexation of HELP debts no longer outstrips the growth in wages and the servicing capacity of debtors does not go backwards overall'.[1]

However, as Figure 1 and Table 1 show, CPI outstripping WPI is likely to be only a temporary phenomenon. Over the long run, WPI is higher as it includes both CPI-compensating and real wage increases. In the 2000-2024 period, WPI has been lower than CPI only 5 times – early in the century due to post-GST inflation, and in the last few years due to post-COVID inflation.

WPI is also not a realistic measure of wage increase for the early career graduates most likely to have HELP debt. WPI measures changes in hourly rates of pay for the same occupation. Going to university typically leads to a better-paid occupation and more hours at work. The effects of these transitions are shown in Figure 2, with median income increasing with age, especially for people in their 20s.

Figure 2: Early career graduate annual income increases by age



Source: ABS, Census TableBuilder Pro, administrative data, persons with no match excluded (2.9%). People with no income included. Australian citizens only.

[1] Australian Government, *Australian Universities Accord final report* (Department of Education, 2024), p. 162.

Like the WPI, other alternative economic indicators to CPI previously suggested, such as the government bond rate or the RBA cash rate, have a relationship to to CPI inflation.[2] This also makes these indicators unreliably lower than CPI.

A flat rate maximum

A flat maximum indexation rate – so lower of the CPI or the fixed maximum – would avoid the interdependencies between CPI and other economic indicators.

A flat maximum indexation rate also has the benefits of simplicity and reassurance. When current or potential students are thinking about taking out a HELP loan, they can be told that indexation will never be more than X% and will usually be less.

I have previously suggested a flat maximum rate of 4%, intended to reassure borrowers while not typically being a significant cost to the Commonwealth.[3] However, others could reasonably decide on a different balance between these two policy considerations.

For the retrospective aspect of this bill, a 4% rate would match the revised 2024 indexation but is above WPI 2023 indexation of 3.2%. If a flat rate was set at a level over 3.2%, the 2023 revision should remain at 3.2% as promised by the government.

The method for calculating CPI or WPI

The formula used for calculating CPI, and if this bill passes the WPI, makes it hard to understand what is going on. Instead of using the simple annual statistics published by the ABS, the formula stretches back over the previous two years.

This is the ATO's official calculation of the 1 June 2024 CPI Indexation, from a Government Gazette notification dated 7 May 2024:

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[2] A. Norton, 'Should HELP debt be indexed to the lesser of CPI or another economic indicator?', *Andrew Norton blog*, 21 March 2023.

[3] A. Norton, 'HELP debt indexation at the lower of CPI or a fixed maximum rate – giving HELP borrowers more certainty than the Universities Accord final report lower of CPI or WPI recommendation', *Andrew Norton blog*, 4 March 2024.

$$\text{Indexation factor for 1 June 2024} = \frac{\text{Mar24+Dec23+Sep23+Jun23}}{\text{Mar23+Dec22+Sep22+Jun22}}$$

$$= \frac{137.4+136.1+135.3+133.7}{132.6+130.8+128.4+126.1}$$

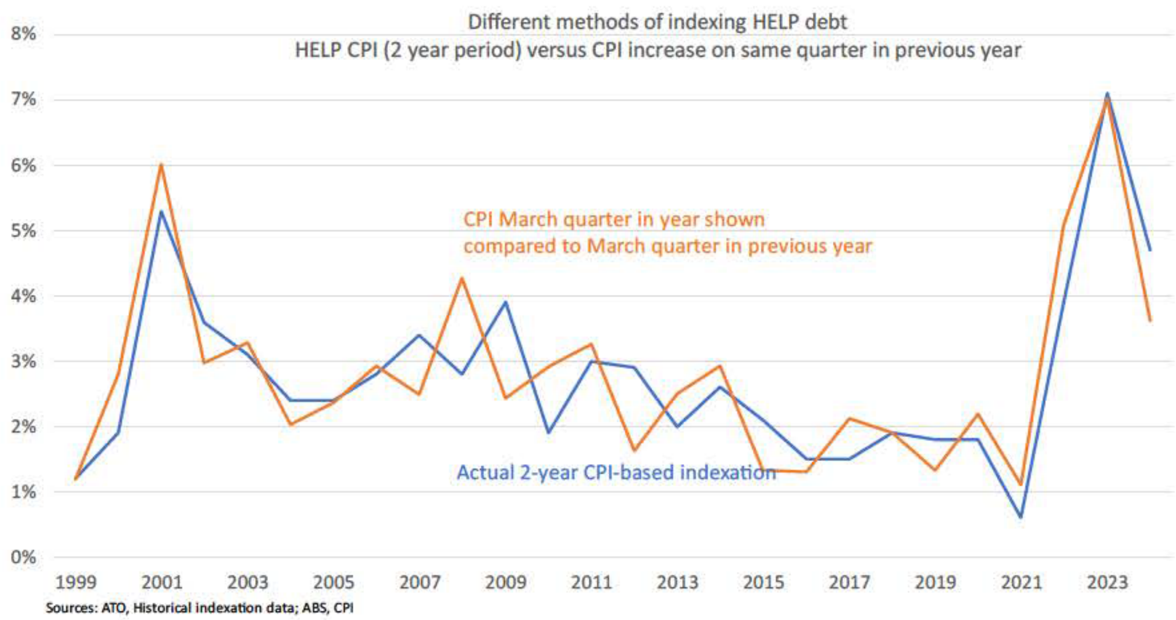
$$= 542.5 \text{ divided by } 517.9$$

$$= 1.047 \text{ (to three decimal places)}$$

The indexation factor is 1.047 and the effective percentage increase is 4.7%.

If indexation was based on the way the ABS normally presents inflation data, the March quarter 2024 compared to the same quarter in 2023, indexation would have been 3.6% (see **Table 1**) instead of 4.7%. The two-year formula used has a smoothing effect – it slowed the flow of rising CPI into indexation in 2022, but in 2024 it slowed the flow of declining CPI into indexation. Figure 3 compares the two systems.

Figure 3: Current indexation system versus usual annual CPI



For long-term debtors the results are similar either way. A person who owed $10,000 in 1999 and never made any repayments would by 1 June 2024 owe $20,318 under the current system and $20,508 using year-on-year CPI indexation. This small gap is a by-product of the recent inflationary period, with year-on-year CPI flowing through more quickly to indexation levels. In 2019 the debt difference between the two systems was $1.30.

In the shorter term the effects are random. The current system helped students who began their studies in the early 2020s, by reducing indexation of their early HELP borrowing, but hurts more recent borrowers whose earlier borrowings will be indexed at a higher rate than year-on-year CPI calculations would require.

I am not aware of the history of the two-year formula. But aligning CPI indexation with standard ABS calculations would simplify the HELP system. Year-on-year CPI changes are well publicised on release and can be found quickly on the ABS website.

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2. FREE-FEE Uni Ready places

For Commonwealth supported students, FEE-FREE Uni Ready places would replace the existing enabling course program.

While the FEE-FREE Uni Ready places would significantly improve funding for some preparatory courses, this is not always the case. Some disciplines would receive lower funding.

The FEE-FREE Uni Ready program would also standardise preparatory courses in ways that would not benefit all students.

Funding rates

Enabling courses are funded at the relevant Commonwealth contribution rate for the subject's discipline plus a loading in lieu of the student contribution. Without policy change, the enabling loading in 2025 would be around $4,045, less than the lowest student contribution of $4,627.

The FEE-FREE Uni Ready places would be funded at a flat Commonwealth contribution rate, $18,278 for 2025.

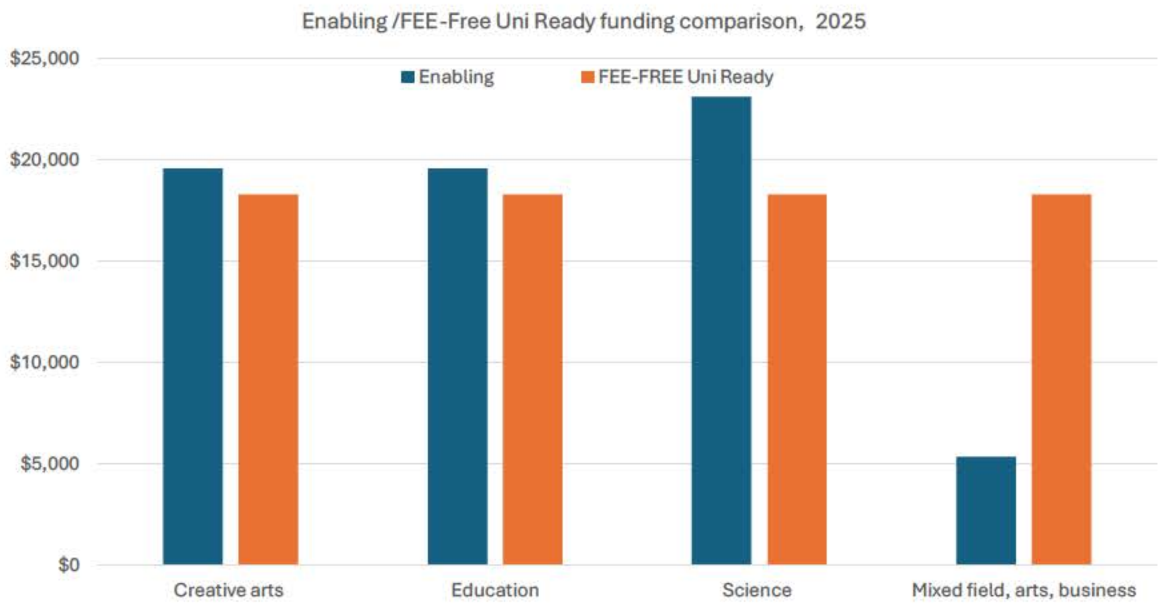
The FEE-FREE Uni Ready rate will make a big positive difference for subjects with funding cluster 1 Commonwealth contributions, which includes business, mixed field (common for enabling), communications, and arts other than languages. With a Commonwealth contribution of $1,286 total funding for an enabling place would be only $5,331.

While funding cluster 1 subjects would receive a major funding boost, as Figure 4 shows the FEE-FREE Uni Ready rate will be lower than for enabling courses in other fields, although the differences are only large for science subjects. Science is the largest broad field for enabling enrolments, with 30% of full-time equivalent enrolments in 2022.[4] However the number of affected EFTSL may be lower. Maths is counted in science for field of education purposes, but for funding purposes maths is in funding cluster 2. Enabling maths units would be in the same funding situation as education subjects.

For science enabling places, universities would be better off taking the normal Commonwealth contribution rate ($19,041 in 2025) and forgoing the student contribution. For this and another reason outlined below, there are grounds for retaining enabling places as a separate CSP category alongside the FEE-FREE Uni Ready places.

[4] DofE, *Student load time pivot table 2022* (Department of Education, 2023).

Figure 4: Funding by field, enabling compared to FEE-FREE Uni Ready



At a sector level, the FEE-FREE Uni Ready places rates will deliver more funding for preparatory courses than the existing enabling system. However, the reduced total funding rates in some fields may have negative effects for some fields and institutions.

Distribution of funding

A significant flaw of the existing enabling loading system is that funding is allocated on an historical basis. This makes it difficult for some universities to operate enabling courses or to increase enrolments in existing programs. As I regularly point out, bureaucratic allocation of places can result in some places going unused despite demand for them elsewhere.

In 2022 enabling enrolments fell, resulting in 18 universities delivering fewer enabling places than implied by their funding allocation (Table 2). Nine universities delivered more places than they were funded for, and another two delivered CSP enabling places despite no loading funding. Two more public universities delivered small numbers of full-fee enabling places. The remaining seven public universities did not offer any enabling courses.

Table 2: Enabling places under- and over-enrolment

Enabling places 2022	**Implied allocation**	**Delivered**	**Under/over-enrolment**
University of Canberra	182	132	-50
Charles Sturt University	199	312	113
Southern Cross University	416	287	-129
The University of New England	273	184	-89
The University of Newcastle	1,615	1,229	-385
University of New South Wales	130	95	-35
University of Technology Sydney	0	12	12
University of Wollongong	57	74	17
Western Sydney University	191	234	43
Charles Darwin University	564	370	-194
CQUniversity	843	634	-209
James Cook University	96	113	17
The University of Queensland	79	76	-3
University of Southern Queensland	739	710	-29
University of the Sunshine Coast	506	402	-104
Flinders University	340	260	-80
The University of Adelaide	89	57	-32
University of South Australia	353	397	44
University of Tasmania	480	129	-351
Federation University Australia	150	116	-34
La Trobe University	72	63	-9
Monash University	3	14	11
RMIT University	0	8	8
Victoria University	291	43	-248
Curtin University	687	850	163
Edith Cowan University	606	700	94
Murdoch University	217	403	186
The University of Notre Dame Australia	416	242	-174
The University of Western Australia	64	37	-27
Total	**9,689**	**8,182**	**-1,507**

The structure of the FEE-FREE Uni Ready amendments in the *Universities Accord (Student Support and Other Measures) Bill 2024* does not inherently place limits on the number of places. However, it does include an amendment that could allow limits to be placed (to section 30-25(3)(a)(iv)). The Department's webpage on FEE-FREE Uni Ready places also includes the statement that 'the Department will determine allocations of additional FEE-FREE Uni Ready course places for 2025'.[5]

[5] https://www.education.gov.au/higher-education/feefree-uni-ready-courses

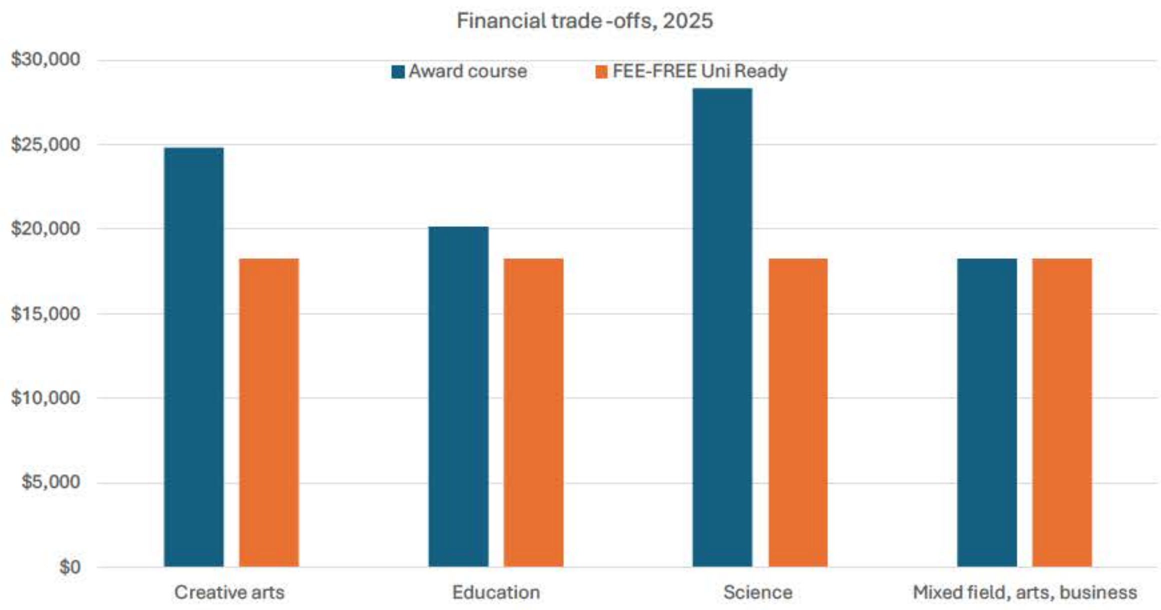
A transition arrangement is needed in 2025, as otherwise the FEE-FREE Uni Ready places could, for some institutions, consume more of their maximum basic grant amount (MBGA) than the previous enabling places. A hundred enabling places classified by discipline as business or arts would consume $128,600 of a university's MBGA under the current system, but $1,287,800 under the FEE-FREE Uni Ready rate. That would reduce the university's capacity to take other students.

However, for the Department to allocate FEE-FREE Uni Ready places risks replicating the problems of the enabling place system.

Broader incentives to start students in FEE-FREE Uni Ready places

Universities also needed to consider the trade-off between enrolling a student in a FEE-FREE Uni Ready place versus an award course such as a diploma. As **Figure 5** shows, for arts or business fields there is no financial reason to choose one or the other enrolment basis. But for the other courses, it is more financially attractive to offer an award course place.

Figure 5: FEE-FREE Uni Ready places compared to award course places



Award courses have better funding than enabling courses now, so we know that universities do not simply follow the funding logic. But as the FEE-FREE Uni Ready policy only improves overall funding for arts, business and mixed field subjects the government's aspiration of a 40% increase in FEE-FREE Uni Ready enrolments by 2030 may be optimistic.

Greater standardisation of courses

The government also says that it will 'work with providers to professionalise and increase the quality and consistency of FEE-FREE Uni Ready courses, and seek to increase portability of credentials for students'.[6]

This statement refers to the varied nature of enabling courses and their alignment with award courses at the same institution. A mid-2010s analysis of enabling programs found a wide variety of enabling course lengths, from four weeks to 18 months.[7]

Greater standardisation could have benefits for providers, in reducing curriculum development costs while increasing quality, and for students if they want a flexible course that can give them a choice of subsequent study options.

However, this approach also has risks. Varying course lengths reflect different levels of academic preparation. Some students may need to fill a few gaps in their readiness to undertake a bachelor degree, while others need a comprehensive preparatory program.

Students who have a specific target course would be better off with a preparatory program clearly tied to it, rather than a more generic course. That is one of the strengths of the existing pathway colleges offering diploma programs based on the first-year curriculum of a target degree at a specific university.

From a university perspective, the institution may put up with the unfavourable funding rates discussed above as a 'loss leader' into one of their award courses, but not for a generic program that is flexible for the student.

For these reasons, along with the funding issues discussed earlier, it may be better to have two different products in the market – a set of generic preparatory courses under the FEE-FREE Uni Ready brand, and enabling courses that are more tailored to the specific student and/or course.

Academic independence

While there is nothing inherently wrong with developing more standardised preparatory programs, the Department's desire for involvement in the 'quality' and 'consistency' of courses needs boundary setting.

On several occasions in the last year, the government has sought to displace the arms-length regulatory model established in the TEQSA legislation and interfere

[6] https://www.education.gov.au/higher-education/feefree-uni-ready-courses
[7] T. Pitman and S. Trinidad, *Pathways to higher education: The efficacy of enabling and sub-bachelor pathways for disadvantaged students* (National Centre for Student Equity in Higher Education, Curtin University, 2016), Appendix B.

directly in matters that historically would have been left to academic judgment.[8] After sector protest the government backed off from some measures relating to the support for students policy. But the guidelines for STARTUP-HELP specify course content. While the content in this case is innocuous, making funding conditional on government-controlled course content sets a dangerous precedent.

Given that the government has form on this issue, safeguards should be built into the legislation. The government can specify in broad terms what the FEE-FREE Uni Ready courses should deliver, but the detailed content should be worked out by appropriately qualified, experienced and independent persons.

[8] A. Norton, 'The growing threats to academic decision making', *Andrew Norton blog*, 28 November 2023.

3. Commonwealth Prac Payments

The Commonwealth Prac Payment is a good idea in principle. However, unlike the FEE-FREE Uni Ready places, the Prac Payments are not being given a secure legal foundation.

The *Universities Accord (Student Support and Other Measures) Bill 2024* just allows the Commonwealth to fund Prac Payments via a legislative instrument relying on the Other Grants provisions of the *Higher Education Support Act 2003*. This government or a future government could decide not to use this power.

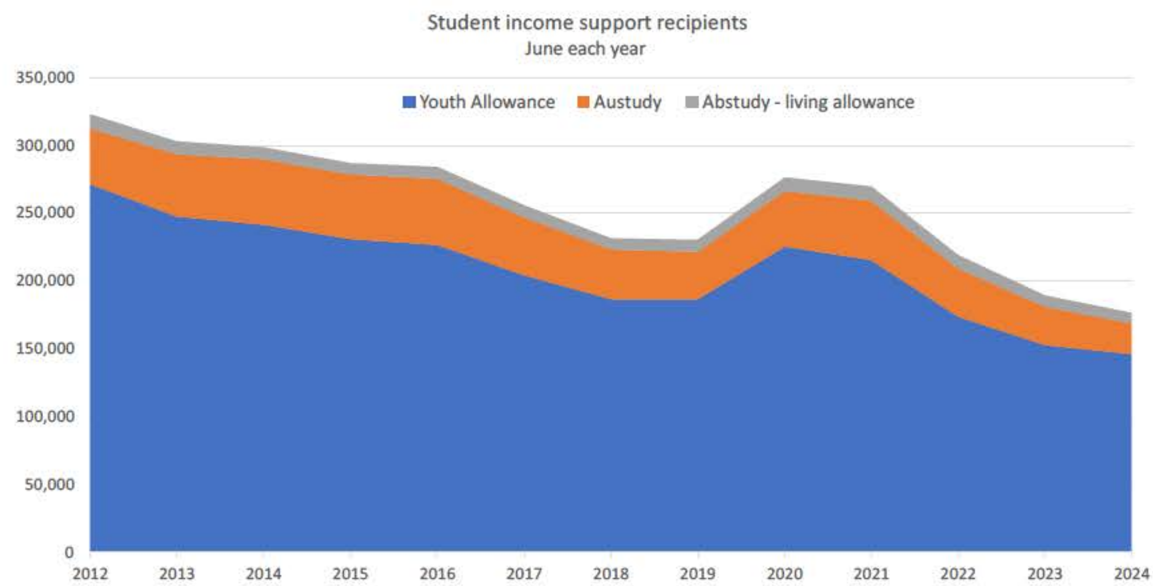
Apart from the Prac Payment's insecure legal foundations, the decision to base the program on a legislative instrument rather than legislation means less debate about how the Prac Payment will work.

The government says that the Prac Payment will be benchmarked to the single Austudy rate, but nothing in this bill requires that rate.

The government says that the Prac Payment will be means tested, but neither this bill nor the government's public statements explain say what 'means' will disqualify students or cause their payments to be reduced.

As **Figure 6** shows that, apart from a temporary increase during COVID, the number of people receiving Austudy and other student income support is in structural decline. The reasons for this have not been properly explored, but fewer people satisfying the personal, parental or partner income means tests is likely to be one factor.

Figure 6: Student income support recipients



Sources: APH Library, Student income support: a chronology. DSS, DSS Payment demographic data

The government expects universities to administer the means test, a task that they are not equipped to carry out. Students should not be required to give their university sensitive information about their own personal finances or those of their families.

The government has not explained whether the Prac payment will be an entitlement for students who meet its criteria, or whether meeting the criteria will just establish eligibility. The use of the other grants provision suggests that universities will receive a fixed grant, which they will then allocate to their students. The amount universities receive may or may not be enough to support all the students who meet the criteria.

Schedule 4 of the *Universities Accord (Student Support and Other Measures) Bill 2024* should be removed, and the government told to come back to the Parliament with a bill that can answer basic questions about how the Prac payment will operate, and that will give students confidence about whether they can receive the payment.

4. Allocation of student amenities fee revenue

Schedule 2 of the *Universities Accord (Student Support and Other Measures) Bill 2024* would require that universities allocate at least 40% of student services and amenities fee money to student-led organisations. It includes provisions for transition arrangements towards this level.

Information of current funding arrangements

According to a Budget information sheet, around 40% of providers would be compliant with this requirement.[9] But there is no more detail on the impact of these changes.

As part of the Senate inquiry, the Department of Education should be asked to provide detailed information on the changes this spending allocation rule would require. The information should be available from the Student Services and Amenities Fee Allocation Report that providers are required to produce annually. These are on university websites but, so far as I am aware, no public document collates the information they contain.

Interaction with university responsibilities

The general issue raised by a fixed allocation of funds to third-party organisations is how this intersects with the legal obligations of universities regarding services of a non-academic nature. Specifically, if the university relies on student-run organisations over which it has limited direct control, is it risking non-compliance with other statutory requirements?

Under section 19-38 of the *Higher Education Support Act 2003*, the student amenities fee can be spent on services including:

- Health and welfare services
- Advice on careers and employment
- Advice on accommodation
- Legal services
- Orientation.

The TEQSA-regulated *Higher Education Standards Framework (Threshold Standards) 2021* require universities to provide accurate advice on how to access:

- Health services

[9] DofE, *Student Services and Amenities Fee (SSAF) Revenue Allocation to Student-led Organisations* (Department of Education, 2024).

- Counselling
- Legal advice
- Accommodation
- Support services informed by needs of student cohorts, including mental health and disability

The *Support for Students* policy introduced in 2024 requires universities to have policies that explain how universities deliver, and students are able to access, non-academic support including:

- Mental health and well-being support
- Support for students who have experienced family and domestic violence, harassment, sexual harm or other traumatic events
- Career planning and employability support[10]

The *Student Services, Amenities, Representation and Advocacy Guidelines 2022* require:

- An orientation program that covers non-academic matters including how to access services
- At minimum information on how to access health services, welfare services including help finding accommodation, and job search activities
- Generally provide students with a 'reasonable and appropriate level of services that are not of an academic nature'

The *National Code of Practice for Providers of Education and Training to Overseas Students 2018* also includes overlapping requirements regarding:

- Support services to assist overseas students to adjust to study and life in Australia
- Emergency and health services

Universities can use sources other than the student and amenities fee to fund these services. For full-fee students all charges can be incorporated into a single amount, although student unions often oppose this practice. For Commonwealth-supported students, however, the costing studies behind the current funding rates only include support services related to teaching. The amenities fee is a necessary source of revenue.

Universities can contract with student-run organisations to provide services. However, universities are still obliged to ensure that when services are provided by

[10] *Higher Education Provider Guidelines,* Chapter 10A.

a third party that the 'third party engages trained and qualified staff to provide these services and meets the needs of students' (*Student Services, Amenities, Representation and Advocacy Guidelines*, Part 2, Clause 9).

Student-led organisations inevitably experience a high turnover of elected staff, with consequent lack of experience in service delivery. Sometimes these organisations become dysfunctional.

The 40% of universities that apparently are already compliant with the rules may have lessons for others in how to make these arrangements work. But the increased regulation of non-academic services requires a coherent overall approach. Universities must have the revenue to fund these services. Universities mut have the power to ensure that services are delivered in a way that meet student needs and satisfy legal obligations.

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