



INFORMATION, ANALYSIS
AND ADVICE FOR THE PARLIAMENT

INFORMATION AND RESEARCH SERVICES

Bills Digest
No. 27 2003–04

Family and Community Services (Closure of Student Financial Supplement Scheme) Bill 2003

ISSN 1328-8091

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Published by the Department of the Parliamentary Library, 2003

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Family and Community Services (Closure of Student
Financial Supplement Scheme) Bill 2003

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10 September 2003

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Family and Community Services (Closure of Student Financial Supplement Scheme) Bill 2003

Date Introduced: 26 June 2003

House: House of Representatives

Portfolio: Family and Community Services

Commencement: Royal Assent

Purpose

To close the Student Financial Supplement Scheme to new loans from 1 January 2004.

Background

The Student Financial Supplement Scheme was introduced from January 1993. It was initially referred to as the AUSTUDY/ABSTUDY Supplement. The supplement had its origins in a proposal contained in the 'Chapman Report' into Austudy released in January 1992. Opposition from student unions, parent organisations and academics was fairly strong due to fears that loans would eventually replace Austudy payments and that students would be increasingly loaded down with debt. A fuller coverage of the origins of the scheme can be found in the Bills Digest for the legislation introducing the supplement: the Student Assistance Amendment Bill 1992.¹

The supplement and Austudy were administered as part of the education portfolio until the introduction of Youth Allowance in July 1998. At that time responsibility for the supplement passed to the Department of Family and Community Services (Department of Social Security until October 1998) and it was renamed the Student Financial Supplement Scheme (SFSS).

Currently the scheme offers loans of between \$5000 and \$7000 per annum to Youth Allowance, Pensioner Education Supplement, Austudy Payment and ABSTUDY recipients who trade in one dollar of their income support entitlement for every two dollars of loan received. Other students can qualify for a loan of up to \$2000 if they are a dependent tertiary student who is not eligible for income support, but would have been if not for the Parental Income or Family Actual Means Test and the adjusted parental income and family actual means is below \$64 500.

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2 Family and Community Services (Closure of Student Financial Supplement Scheme) Bill 2003

The Commonwealth Bank of Australia provides funds for the loans, through an agreement with the Commonwealth Government. Repayments do not have to commence until five years after the loan was taken out when the loan contract period with the bank ends. Voluntary repayments made during the contract period attract a 15 per cent bonus. When, after five years, the contract period has expired, the Government pays the bank the amount the student still owes and collects the debt through a HECS style arrangement administered by the Tax Office. Repayments only start when the student's taxable income reaches the minimum threshold (\$34 494 for 2002-2003).

The table below provides the number of loan acceptances since the Scheme's inception in 1993 and the total loan acceptance amount across all payment types. It was provided by FACS to the Senate Community Affairs Committee.²

Year	AUSTUDY	Austudy Payment	YA	PES	ABSTUDY	ABSTUDY PES	Total acceptance amount
1993	41,507	N/A	N/A	N/A	2,865	N/A	\$132,188,034
1994	51,861	N/A	N/A	N/A	4,849	N/A	\$230,069,133
1995	53,291	N/A	N/A	N/A	6,461	N/A	\$284,537,961
1996	56,474	N/A	N/A	N/A	8,142	N/A	\$314,425,957
1997	53,252	N/A	N/A	N/A	7,353	N/A	\$293,583,431
1998	14,376	15,989	21,651	N/A	8,586	N/A	\$292,068,551
1999	N/A	15,231	25,455	9,909	9,529	N/A	\$290,678,618
2000	N/A	13,161	23,030	10,238	6,243	2,765	\$261,211,152
2001	N/A	10,713	17,216	7,557	4,898	1,963	\$206,297,705
2002	N/A	9,074	15,300	9,057	4,546	1,852	\$184,607,708

Notes

1. N/A – Not applicable.
2. The Department of Family and Community Services administers Austudy Payment, Youth Allowance (YA) and Pensioner Education Supplement (PES).
3. The Department of Education, Science and Training (DEST) administers ABSTUDY and ABSTUDY PES and administered AUSTUDY until 1998.
4. AUSTUDY was replaced with Austudy Payment in 1998.
5. Youth Allowance was introduced in July 1998.

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The Government announced its intention to end the SFSS on 24 April 2003.³

Basis of decision

Minister Anthony puts forward the following reasons for ending the scheme in his 24 April press release and the Second Reading Speech:

- the scheme is administratively cumbersome and poorly targeted
- the mechanism where income support entitlement is traded in for a loan operates effectively as a hidden interest charge
- the scheme is creating high levels of student debt
- up to 50% of loans are unlikely to be repaid according to an unpublished report from the Australian Government Actuary
- in 1993 there were few commercial loans available to students and interest rates were high, but now commercial loans at competitive rates and campus loans are available, and
- Youth Allowance now provides flexible benefits so take up rates for the loans have declined by one third.

Financial Impact

The closure of the scheme results in added expenses over the next four years due to increased expenditure on Youth Allowance, Austudy Payment, Abstudy and Pensioner Education Supplement. An estimated \$166.4 million will be spent because students who cannot take out loans will not be trading in part of their income support entitlement to access loans. A small saving against forward estimates over four years of \$7.1 million will be made due to indexation of a lower level of outstanding loans than if the scheme had continued.⁴

The money that would have been lent under the scheme if it were to continue does not show up as a saving against the forward estimates. This is because loans are not expended money. They are assets.

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Reaction to the closure announcement

Position of interest groups

The Australian Vice-Chancellors' Committee (AVCC) responded to the Minister's April announcement by calling for an overhaul of student income support. AVCC CEO John Mullarvey was quoted as saying:

...it needs to be reformed in such a way that it is effective in reducing the need for students to work excessive hours and so avert the detrimental effect on academic performance of heavy work commitments promoted by economic necessity.

The concept of providing those students, who are eligible for income support with subsidised loans, is a useful one that deserves a better scheme, rather than total removal.

In our comprehensive package of reform measures put to the Federal Government, the AVCC has argued that the Government needs to consider alternative systems of financial support that allow access to payments at the time of need, while studying, perhaps in exchange for repayment or lower repayment at periods in the future.

This might have the effect of breaking through the negative impact of the present income tests and thresholds, which we have also argued must be increased.⁵

National Union of Students (NUS) President Daniel Kyriacou welcomed the end of the scheme which his organisation had opposed from its inception.⁶ Sarah McDowell, the National Welfare Officer for the NUS wrote in the Swinburne Student Union newspaper (*The Swine*) as follows:

The loan scheme was always a recognition by the government that students were struggling to survive on Centrelink payments. The scheme was introduced as an attempt to fix this problem. It was a complete failure. The government now must commit to increasing youth allowances and austudy payments. Students can not be expected to work in their part time jobs and attend full time university study while living more than 30% below the poverty line.⁷

Student opinion was however divided on the issue with a follow up article in the next issue of *The Swine* attacking the NUS officers for welcoming the demise of the 'much needed' loan scheme when they had not been able to convince the Government to improve levels of student income support.⁸

ALP policy position

Shadow Minister Macklin responded to the announcement of the end of the scheme as follows:

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The Howard Government says it is axing the Student Financial Supplement Scheme because the scheme is “creating high levels of student debts, many of which are not repaid.” But it is increases in students fees that accounts for the vast majority of Australian student debt. If the Howard Government genuinely wants to reduce student debt it must rule out any new increases to student fees.⁹

The policy position of the ALP has been made clearer with the release of the “Aim Higher” education policy document on 23 July 2003.¹⁰ Proposed student income support initiatives included the following:

- retention of the Student Financial Supplement Scheme¹¹
- extension of rent assistance eligibility to Austudy Payment recipients,¹² and
- the reduction of age of independence for students on Youth Allowance to 24 in 2005 and 23 in 2007.¹³

Australian Democrat position

The Democrats position as stated by Australian Democrats' Higher Education Spokesperson, Senator Natasha Stott Despoja is as follows:

The Democrats have expressed concerns about this scheme previously because of its inequitable nature; it is a poorly designed policy that increases debt of students in the worst financial position.

Many students were forced to take out these loans because student income support is too low and access is highly restricted.

If the Government is genuinely concerned about student debt, it will not burden students further by deregulating fees.

The answer to student support has never been loans, it is about providing meaningful income support that's above the poverty line.¹⁴

Comments

The Government has argued that the scheme should go because of its flawed structure, declining take up rate, high level of unrecoverable debt and lack of relevance to post Youth Allowance student income support arrangements. The reactions to the closure of the scheme cited above vary on the value of the scheme itself but generally support the need for enhancements to student income support especially if the scheme is closed. In the absence of any enhancements those students who still use the scheme will have one less income support option available to them. Students who cannot readily access part-time work may be particularly affected. They may be parents, people with disabilities, those living in regions of low employment opportunities or those studying courses with high

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levels of contact hours. The proportion of students receiving Austudy Payment, Pensioner Education Supplement or Abstudy who take out loans appears to be rather higher than is the case for recipients of Youth Allowance. These students are more likely to be parents (sole or partnered), people with disabilities or indigenous people than are Youth Allowance students.

Main Provisions

Item 2 of Schedule 1 inserts **new Part 2B.1A** into Chapter 2B of the *Social Security Act 1991*. The object of the new Part is to close the SFSS to applicants from 1 January 2004 (**proposed section 1061ZWA**). **Proposed section 1061ZWB** has the effect of preventing eligibility for a supplement for a period beginning on or after 1 January 2004.

Endnotes

- 1 For digest see:
http://parlinfoweb.parl.net/parlinfo/view_document.aspx?ID=1375&TABLE=BILLSDGS
- 2 Senate Community Affairs Committee, *Answers to Estimates Questions on Notice: Family and Community Services Portfolio, 2003-04 Budget Estimates*, 4-5 June 2003, Question No. 49.
- 3 Hon. L Anthony MP, 'Poorly targeted loan scheme to end', *Media Release*, 24 April 2003. Full text at:
<http://www.facs.gov.au/internet/MinCS.nsf/b9bf24f0f06605bdca2567140011b79c/62c95325389950f7ca256d120015e8a4?OpenDocument>
- 4 See the Explanatory Memorandum to the Bill. The figures given in the table vary somewhat from those given at the time of the Budget.
- 5 Australian Vice-Chancellors' Committee, 'Student income support must be reformed', *Media Release*, 24 April 2003. Full text at:
http://www.avcc.edu.au/news/public_statements/media_releases/2003/avcc_media_11_03.htm
- 6 'Loan scheme scrapped but fears remain', *Australian*, 30 April 2003.
- 7 Daniel Kyriacou, National President, NUS and Sarah McDowell, National Welfare Officer, NUS, 'NUS lands first punch in battle against student debt', *The Swine*, 5 May 2003. Full text of front page at:
<http://www.ssu.swin.edu.au/media/swine03/03ed9/sw9pg1.pdf>
- 8 Vicky Kasidis, NUS delegate for Swinburne, 'Swinburne students shafted by National Union of Students', *The Swine*, 12 May 2003. Full text of front page at:
<http://www.ssu.swin.edu.au/media/swine03/03ed10/sw10pg1.pdf>

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- 9 Jenny Macklin MP, 'Howard tinkers at edges of student debt', *Media Release*, 24 April 2003. Full text at:
<http://www.jennymacklin.net.au/infocentre.asp?data=4808000403074F5851515E587E45555F48454B4E>
- 10 Simon Crean MP, Leader of the Opposition, Jenny Macklin MP Shadow Minister for Employment, Education and Training, *Aim Higher: Learning, training and better jobs for more Australians*, 23 July 2003. Full text at:
http://www.alp.org.au/dload/federal/media/education_policy.pdf
- 11 *ibid.*, p. 26.
- 12 *ibid.*, p. 15.
- 13 *ibid.*, p. 15.
- 14 Personal communication with Senator Stott Despoja's office, 29 July 2003.

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