



## Higher Education Support Amendment (FEE-HELP Loan Fee) Bill 2010

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## Higher Education Support Amendment (FEE-HELP Loan Fee) Bill 2010

**Date introduced:** 10 February 2010

**House:** House of Representatives

**Portfolio:** Education

**Commencement:** On Royal Assent

**Links:** The [relevant links](#) to the Bill, Explanatory Memorandum and second reading speech can be accessed via BillsNet, which is at <http://www.aph.gov.au/bills/>. When Bills have been passed they can be found at ComLaw, which is at <http://www.comlaw.gov.au/>.

### Purpose

The Higher Education Support Amendment (FEE-HELP Loan Fee) Bill 2010 (the Bill) will amend the *Higher Education Support Act 2003* (the Act) to increase the amount of the FEE-HELP debt to 125 per cent of the FEE-HELP loan.

The effect will be to increase the loan fee (sometimes called the administration fee) for undergraduate students accessing FEE-HELP from the current 20 per cent to 25 per cent.

### Background

#### Higher Education Loan Program (HELP)

From 1989, undergraduate students were required to pay a contribution towards the cost of their courses under the Higher Education Contribution Scheme (HECS). Those that did not wish to pay upfront and receive a discount could elect to have the Commonwealth pay the amount and repay the loan through the taxation system at an income threshold.

In 2005, the Higher Education Loan Program (HELP) replaced HECS. HELP was expanded to include FEE-HELP for fee paying undergraduate and postgraduate domestic students and OS-HELP for Commonwealth supported students who complete part of their course overseas. In 2007, VET FEE-HELP was introduced for students enrolled in full-fee Diploma and Advanced Diploma courses in the Vocational Education and Training (VET) sector. As in the original HECS scheme all HELP assistance is in the form of an income contingent loan and all outstanding debts are indexed annually according to the Consumer Price Index.

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The FEE-HELP scheme is administered by Part 3-3 of the Act. It allows a domestic student enrolled in a full fee paying course to FEE-HELP assistance of up to \$80,000 to pay tuition fees (or \$100,000 for medicine, dentistry and veterinary science courses that lead to registration as practitioners in those fields).<sup>1</sup>

Part 4-1 of the Act deals with HELP debt and Section 137-10 specifically with FEE-HELP debt. The amount of the FEE-HELP debt is an amount equal to 120 per cent of the loan for an undergraduate course of study. The loan fee is designed to compensate the Commonwealth for the cost of lending amounts that can be significantly higher than those loaned to Commonwealth supported students and therefore may take significantly longer to be repaid.

All categories of HELP debt can incur a cost to the Commonwealth in the form of an implicit subsidy which may take two forms: an interest rate subsidy and a doubtful debt subsidy. As there is no interest paid on the debt and the debt is indexed to inflation, the longer the time taken to repay the loan the greater the implicit subsidy.<sup>2</sup> Some HELP debt is never repaid due to a range of circumstances including the death of the debtor, the income threshold for repayment not being met or the debtor moving overseas. The Government predicts this doubtful debt in annual reporting of HELP. At June 30 2009, the accumulated HELP debt was \$17.82 billion of which \$4.25 billion (nearly 24 per cent) was not expected to be paid.<sup>3</sup>

Analysis by Chapman and Lounkaew suggests that when individual HELP debt levels are low, as is the case for most HECS-HELP debt, then the implicit subsidy is low, but when individual debt levels are high, such as in the upper limits of FEE-HELP debt, then taxpayer subsidies range from 20 to 30 per cent.<sup>4</sup> Such modelling raises the question of the appropriateness of the 20 per cent loan fee.

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1. These amounts are indexed: in 2010 they are \$85,062 and \$106,328 respectively.
  2. For a discussion of the implicit subsidy see: A Norton, 'Is there an implicit subsidy in the HECS debt?', 23 October 2007, viewed 18 February 2009, <http://andrewnorton.info/2007/10/23/is-there-an-implicit-subsidy-in-the-hecs-debt/>; see also A Norton, 'HELPLess: how the FEE-HELP loans system lets students down and how to fix it', *Issue Analysis*, no 68, Centre for Independent Studies, 27 February 2006, p. 8, viewed 16 February 2010, [http://www.cis.org.au/issue\\_analysis/IA68/IA68a.pdf](http://www.cis.org.au/issue_analysis/IA68/IA68a.pdf).
  3. Department of Education, Employment and Workplace Relations, *Annual report, 2008-09*, p. 82, Canberra, DEEWR, 2009.
  4. B Chapman and K Lounkaew, 'HECS loses its way', *Campus Review*, 15 January 2008, pp 10-12, viewed 18 February 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22library%2Fjrnart%2FVAGP6%22>.

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## Basis of policy commitment

The question of the appropriate loan fee amount was one item investigated in the Review of Australian Higher Education chaired by Professor Bradley (the Bradley review). The panel used Chapman's research to support the conclusion that the 20 per cent fee was insufficient to recover the Commonwealth's costs and recommended the loan fee for FEE-HELP be increased to 25 per cent.<sup>5</sup> The Government's response to the Bradley review was largely implemented in the 2009-10 Budget but a decision to increase the loan fee was not made until the release of the Mid-Year Economic and Fiscal Outlook which outlined policy decisions taken since the 2009-10 Budget.

## Key Issues

There seems little argument with the need for the Government to recover more of the taxpayer subsidised cost of providing FEE-HELP loans. A key issue is the anomalies that arise across the HELP categories. The increase to 25 per cent will bring FEE-HELP into line with students in the HECS-HELP system who Chapman and Lounkaew point out implicitly incur a surcharge of 25 per cent.<sup>6</sup> However postgraduate students accessing FEE-HELP pay no surcharge. OS-HELP students had the 20 per cent fee removed in 2009 and VET FEE-HELP students pay 20 per cent except 'if the VET FEE-HELP Guidelines specify a lesser percentage of the loan for the person'.<sup>7</sup>

These anomalies are further pronounced when a student has a combined debt in different categories. Academic Andrew Norton argues that the length of course may not be as important as the 'total HELP debt actually incurred. Students who go onto FEE-HELP courses while they still have a HECS-HELP debt will have larger overall HELP debts than students who just do one undergraduate FEE-HELP course ... the surcharge should be adjusted to the total existing HELP debt, rather than being based on undergraduate/postgraduate distinctions that entrench unfair anomalies in the system'.<sup>8</sup> Norton calls for a broad review of the HELP scheme and argues for a system that would

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5. Department of Education, Employment and Workplace Relations, *Review of Australian Higher Education: final report*, Canberra, December 2008, p. 168, viewed 18 February 2010, <http://www.deewr.gov.au/HigherEducation/Review/Pages/ReviewofAustralianHigherEducationReport.aspx>
  6. Chapman and Lounkaew, 'HECS loses its way', *Campus Review*, 15 January 2008
  7. See: *Higher Education Support Act 2003* section 137-18 (2)(b)
  8. A Norton, 'Our incoherent HELP loan scheme', 10 February 2010, viewed 18 February 2010, <http://andrewnorton.info/2010/02/10/our-incoherent-help-loan-scheme/>.

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abolish the different HELP categories and have common conditions for all students.<sup>9</sup> Press coverage suggests there is consensus from stakeholders and analysts for a comprehensive review of HECS-HELP and the associated allocation of funding for student places by disciplines in the Commonwealth Grant Scheme.<sup>10</sup>

## Financial implications

The Explanatory Memorandum states ‘the estimated financial impact of the increase in the loan fee is \$17.6 million on fiscal balance over the period 2010-11 to 2012-13’.<sup>11</sup> However the Mid-Year Economic and Fiscal Outlook 2009-10 adds a further saving of \$25.3 million in reduced expenses to the additional revenue of \$17.6 million for a total savings of \$42.8 million over three years.<sup>12</sup>

## Main provisions

### Schedule 1

**Item 1** proposes to amend **paragraph 137-10(2)(a)** of the Act by increasing the amount of the FEE-HELP debt for a unit of study forming part of an undergraduate course of study to 125 per cent of the FEE-HELP loan.

**Item 2** proposes that the amendment in Item 1 will apply to debts incurred on or after 1 July 2010 in relation to units of study whose census dates are on or after 1 July 2010.

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9. A Norton, ‘Warped HELP priorities’, 3 November 2009, viewed 18 February 2010, <http://andrewnorton.info/2009/11/03/warped-help-priorities/>.
  10. See for example the views of Chapman, Norton, Moodie and Stable cited in J Mather, ‘Time for HECS overhaul: Chapman’, *Campus Review*, 15 January 2008, pp. 1-2, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22library%2Fjrnart%2FHFBGP6%22>, viewed 18 February 2010; also E Macdonald, ‘Private uni students cost public: research’, *Canberra Times*, 16 January 2008, p. 6, viewed 18 February 2010, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FY6FP6%22>.
  11. Explanatory Memorandum, Higher Education Support Amendment (FEE-HELP Loan Fee) Bill 2010, p. 2, [http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r4273\\_ems\\_d39fa913-8313-44d7-b874-973a651e29d0/upload\\_pdf/339017.pdf;fileType=application%2Fpdf](http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r4273_ems_d39fa913-8313-44d7-b874-973a651e29d0/upload_pdf/339017.pdf;fileType=application%2Fpdf)
  12. Australian Government, *Mid-Year Economic and Fiscal Outlook 2009-10*, Commonwealth of Australia, Canberra, 2009, pages 129, 149, 173.

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