

Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Budget Estimates Hearing – May 2009

Department of Finance and Deregulation

Finance and Deregulation Portfolio

Outcome 1, Program 1

Topic: Costing of Student Income Support Measures in the Budget

Question reference number: F67

Type of Question: Written

Date set by the committee for the return of answer: 10 July 2009

Number of Pages: 1 (with 11 page attachment)

Senator Coonan asked:

Would the Department of Finance and Deregulation supply all costing information it has on the “Student Income Support” measures in “An Innovation and Higher Education System for the 21st Century” package that is in the 2009-10 Budget Paper No 2? The costing information needs to include all working documents that show what assumptions and projections were used to agree to the costings that appear in the 2009-10 Budget Paper No 2.

Answer:

As part of its “An Innovation and Higher Education System for the 21st Century” package, the Government announced 11 changes to student income support in the 2009-10 Budget. The measures have a positive net fiscal impact of \$8.1 million over the forward estimates period.

The following attachments provide the key assumptions used to agree the costings for each component of the package presented in the 2009-10 Budget.

Questions in regard to the assumptions underpinning models for the income support measures should be addressed to the Department of Education, Employment and Workplace Relations (DEEWR).

INCOME SUPPORT COSTING INFORMATION

Component 1

Increase Youth Allowance parental income test threshold

Impact on fiscal balance: –\$559.8 million over four years

Description

The parental income test threshold for students applying for Youth Allowance or ABSTUDY will increase from \$32,800 to \$42,559 per annum to align with the Family Tax Benefit-Part A (FTB) parental income test.

Current complex withdrawal arrangements for calculating benefits above the threshold will be replaced with the 20% per family taper as applied under FTB arrangements.

The new taper will be applied only once per family rather than applied for each child as it is under existing arrangements.

Number affected

In 2009-10, the measure is expected to encourage 67,800 students to move from FTB to Youth Allowance or ABSTUDY because of more generous payment arrangements and 34,600 existing recipients who currently receive part-payment are expected to receive increased payments.

Assumptions

The costing of this measure is based on data from models maintained by DEEWR.

The increase in the parental income test threshold will lead to an increase in the number of students who will now be eligible for Youth Allowance. Many existing recipients of Youth Allowance and ABSTUDY will also receive a higher payment.

This measure is expected to produce \$507.9 million over four years in savings under FTB A and \$1,067.6 million over four years in additional payments under Youth Allowance and ABSTUDY, for a net impact of –\$559.8 million over four years.

INCOME SUPPORT COSTING INFORMATION

Component 2

Reduction in the age of independence

Impact on fiscal balance: −\$98.7 million over four years

Description

The age of independence will be reduced from 25 years to 22 years by 2012. The age of independence drops to 24 in 2010, 23 in 2011 and 22 in 2012.

The age of independence is the age at which students are automatically deemed to be independent for the purposes of income support and not subject to the parental means test.

The parental means test comprises the parental income test, the family actual means test and the family assets test.

Number affected

This measure is expected to allow 760 new recipients and 1,100 existing recipients to receive higher payments in 2010, increasing to 2,750 new recipients and 4,400 existing recipients in 2011, and to 7,600 new recipients and 12,100 existing recipients in 2012.

Assumptions

The costing of this measure is based on projections developed by DEEWR.

By 2012, all 22 to 24 year old students will be assessed as independent for Youth Allowance and ABSTUDY. They will no longer be subject to the parental means test, increasing access and payment levels. Students will remain subject to personal and partner income tests.

This measure is expected to produce \$40.0 million over four years in savings under FTB A and \$138.7 million over four years in additional payments under Youth Allowance and ABSTUDY, for a net impact of −\$98.7 million over four years.

INCOME SUPPORT COSTING INFORMATION

Component 3

Youth Allowance workforce participation criteria

Impact on fiscal balance: +\$1,819.9 million over four years

Description

The Government will tighten the workforce participation criteria for establishing independence under Youth Allowance by removing two eligibility criteria:

- the criterion that the recipient worked part-time for at least 15 hours a week for two years or more since leaving school; and
- the criterion that the recipient earned, in an 18-month period since leaving school, an amount equivalent to 75% of the maximum rate of pay under Wage Level A of the Australian Pay and Classification Scale generally applicable to trainees (in 2009 this requires earnings of \$19,532 to reach the 75% level threshold).

These changes will apply from 1 January 2010 and will not apply to students who have already satisfied the workforce participation criteria and are already independent.

Number affected

All existing payments will be 'grandfathered' so that no existing recipients are disadvantaged.

In 2010, an estimated 30,700 prospective claimants who would have received a payment will no longer qualify for payment and around 3,600 prospective claimants will now receive a smaller payment.

Assumptions

Students who are not classed as independent must satisfy the parental means test in order to receive Youth Allowance or ABSTUDY.

About 5% of the students affected by this measure are assumed to satisfy other criteria for independence and not experience a reduction in payments. An estimated 10% of the affected students will satisfy criteria as a dependent student and receive a reduced payment. The remainder will no longer receive income support payments.

INCOME SUPPORT COSTING INFORMATION

Component 4 **Relax personal income test**

Impact on fiscal balance: −\$287.3 million over three years

Description

From 2010-11, the personal income threshold will increase from \$236 to \$400 per fortnight, enabling recipients to earn up to \$400 per fortnight without having payments reduced.

Payments will reduce by \$0.50 for every dollar of income earned between \$400 and \$480 per fortnight, and by \$0.60 for every dollar earned in excess of \$480 per fortnight.

Additionally, the personal income threshold will now be indexed according to movements in CPI.

Number affected

In 2010-11, 61,480 Youth Allowance, Austudy or ABSTUDY recipients earning over \$236 per fortnight are expected to receive a higher payment.

Assumptions

The costing of this measure is based on projections developed by DEEWR.

The increase in the personal earnings threshold will benefit students with personal incomes above \$236 per fortnight up to the point at which the payment tapers out completely.

INCOME SUPPORT COSTING INFORMATION

Component 5 Masters by course work

Impact on fiscal balance: -\$72.7 million over four years

Description

Income support eligibility will be extended to students enrolled in all masters by coursework programs from 2011-12.

Number affected

Approximately 4,877 Masters students in 2011-12, rising to 10,788 Masters students in 2012-13, are expected to be eligible for Youth Allowance, AUSTUDY and Pensioner Education Supplement.

Assumptions

The costing for this measure is based on data held by DEEWR and relates to Masters by coursework students less those currently receiving income support.

- A 10% per year progression in enrolments has been modelled in the costing.
- Masters Degree students aged 25 years or older would be eligible for AUSTUDY.
- Masters Degree students under 25 years of age would access Youth Allowance (student).
- 75% of Masters Degree students accessing Youth Allowance would also access Rent Assistance.
- 75% of Masters Degree students accessing AUSTUDY would also access Rent Assistance.
- Enrolments are expected to increase due to the incentive effect and the resulting change in behaviour arising from the new payments.
- Enrolments that occur in first half of calendar year is 75%.

INCOME SUPPORT COSTING INFORMATION

Component 6 Student Start-up Scholarship

Impact on fiscal balance: -\$1,259.6 million over four years

Description

The Student Start-Up Scholarship will be provided to all university students receiving income support and those assisted under veterans' schemes. The scholarship will be \$2,254 in 2010 indexed annually.

Number affected

An estimated 629,000 students are expected to have access to the Student Start-Up Scholarship by 2012-13.

Assumptions

The costing of this measure is based on projections from DEEWR data on the number of future student income support recipients. This is then reduced by the number of existing Commonwealth Education Costs Scholarship holders, who will not move to the Student Start-Up Scholarship but will be grandfathered under their existing arrangements.

INCOME SUPPORT COSTING INFORMATION

Component 7

Relocation Scholarship

Impact on fiscal balance: –\$193.2 million over four years

Description

A Relocation Scholarship will assist Youth Allowance and ABSTUDY students at university who are dependants who have to live away from the family home for study as well as independent students who are disadvantaged by personal and relationship circumstances.

This scholarship is provided in addition to the annual Student Start-Up Scholarship.

Number affected

- In 2009-10, 16,428 students are expected to be assisted with a Relocation Scholarship.
- By 2012-13, an estimated 28,700 students are expected to receive the Relocation Scholarship annually.
- The Relocation Scholarship is expected to extend to around 320 veterans' children.

Assumptions

The costing of this measure is based on projections from DEEWR data on the number of future student income support recipients fulfilling the following criteria:

- dependent recipients being paid at the 'away from home rate'; and
- independent recipients granted independence for reasons of personal circumstances, including being married, de facto, widowed or having a dependent child of their own, by being orphans, wards of the state, refugees or where parents are unable or refuse to exercise their parental responsibilities.

INCOME SUPPORT COSTING INFORMATION

Component 8

Means test exemption for equity and merit-based scholarships

Impact on fiscal balance: −\$9.1 million over four years

Description

Equity and merit-based scholarships to the value of Commonwealth Scholarships, which in 2009 is \$6,622 per year, will be exempted from means testing. Scholarship amounts in excess of the capped value would continue to be assessed under existing criteria.

Number affected

In 2009-10, 3,500 students are expected to receive a higher payment.

Assumptions

Based on data held by DEEWR, there are expected to be about 3,515 beneficiaries, receiving an average increase in the payment they receive of \$750 per year in 2010-11.

INCOME SUPPORT COSTING INFORMATION

Component 9

Abolition of Commonwealth Education Costs Scholarships and Commonwealth Accommodation Scholarships programs

Impact on fiscal balance: +\$654.1 million over four years

Description

The Government is abolishing the Commonwealth Education Costs Scholarships and Commonwealth Accommodation Scholarships from 1 January 2010.

The scholarships will be replaced by the Student Start-Up Scholarship and the Relocation Scholarship.

Number affected

Current Commonwealth Scholarship holders will continue to be supported and will not be affected.

Assumptions

This savings is based on the current forward estimates for these scholarships less the estimated costs for the existing holders as they continue to be supported. The estimated savings increase as the existing holders phase out.

INCOME SUPPORT COSTING INFORMATION

Component 10

Abolition of Commonwealth Scholarships for Associate Degrees program

Impact on fiscal balance: +\$55.7 million over four years

Description

The Government is abolishing Commonwealth Scholarships for Associate Degrees program.

Number affected

All current recipients will continue to be supported and will not be affected.

Assumptions

This savings is based on the current forward estimates for these scholarships less the estimated costs for the existing holders as they continue to be supported. The estimated savings increase as existing holders phase out.

INCOME SUPPORT COSTING INFORMATION

Component 11 **Administrative costs**

Impact on fiscal balance: -\$41.1 million over four years

Description

This measure provides funding for the administrative costs associated with the Student Income Support package, including technology redesign and communication strategies.

The costing of this measure is based on agreed methods for determining administrative costs. Agencies affected include DEEWR and Centrelink.