

# Submission

to

Senate Employment, Workplace Relations and Education  
References Committee

## **Inquiry into student income support**

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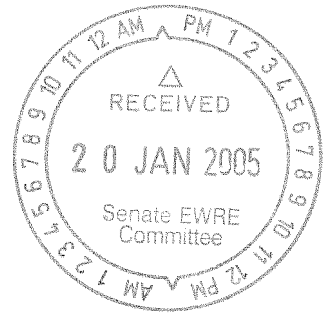
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**Inquiry into student income support**

## **1. Background:**

I am writing to outline some possible policy improvements to the Youth Allowance as applied to University students.

As a parent of a 22 year old and 20 year old moving away from home to study, I would like to say the present system of support leaves a lot to be desired.

Most parents can not afford to support their children who are attending university, especially if more than one child is at university. This may partly account for the current drop of 6% in university enrolments. With the increase in HECS fees potential students are not happy with the increased HECS debt they would incur. They are also not happy with the conditions attached to the current system of Youth Allowance.

## **2. Some Observations about The Current System:**

It seems that the current system is designed to force and hold a student in poverty while they gain their education. They are constantly forced to seek employment to top up the inadequate youth allowance. They are burdened by a draconian system of rules and bureaucratic oversight. There are difficult hurdles to initially get a Youth Allowance and excessive paperwork and oversight to retain the allowance. Worst of all they have to deal with Centrelink.

They are forced to amass a growing HECS debt as the universities are allowed to increase their fees. A HECS debt that severely limits their early family life choices and chances to establish a family home. I do not see university graduates as privileged members of the community, rather I see the need for university qualifications as essential for every person who can possibly attain them. This is in Australia's best interest.

It is becoming only marginally better to get a degree during ones lifetime as the student has to work for 18 months in a lowly job to get the allowance, can not support themselves during the study years and have to work long hours in poor conditions well below the poverty level for up to 6 years of study, repay the HECS debt of up to \$50,000 during their early career years and perhaps then (but not in all cases) their earnings may be better than a person entering the workforce without study. I believe a cash flow analysis would show only a marginally better outcome for the student as compared to the non university student over his or her working lifetime.

I was fortunate enough under the Whitlam era to get a "free" university education in the 1960's and 1970's. I note that in 1964 when I started my tertiary education, 39% of full time students were on cadetships and another 37% were receiving assistance through the Commonwealth Scholarship scheme. I received a Commonwealth Scholarship after one year at university.

The government now tries to tell us that despite 40 years of prosperity as a nation we can not afford this investment and that the students must be saddled with huge HECS debt. The Labor party under John Dawkins invented a monster. Student support has sunk to a low level in 2005. Cadetships are non existent and scholarships are few and far between. Only 32 % of students get the inadequate

Youth Allowance. The system is underfunded and has been the subject of compounding budget cuts over a forty year period.

Students are our future, however the first contacts they have with the "welfare" system leaves a bad taste in their mouths and a hatred for bureaucracy that reflects badly on politicians as well. They start their education with a hatred of authority as represented by Centrelink.

Have you ever dealt with Centrelink? It is not a pleasant experience. The "client" is a victim of the system and is shunted all around the country to get answers. The answers are confusing and not consistent, you need to ring Adelaide or Dubbo (at your own expense) to speak to someone who perhaps can provide an answer or perhaps waiting on hold for long periods. The "clients" are always "guilty unless proven innocent" and Centrelink has (in my opinion) excessive powers and use them to effectively intimidate the "client". Clients are required to go cap in hand to receive a pittance from their betters. They lose all dignity and respect. This is no way to treat our future leaders.

The system was probably designed by an ex Tax Office person where all clients are considered as potential fraudsters. Students are young, vulnerable and the maze of rules seems to defy the original purpose for support. In every rule you can read the hand of cost avoidance by excluding a new set of cases. For example, why isn't a student "independent" regardless of age if they are living away from home to attend university? Another example is the family income threshold of \$28,150 to define "independence" is so low that only a few would qualify. All family earnings over this amount reduce the rate payable. Why? Again, is this to limit the payout? Average income in Australia is more like \$50,000 per person which would make a family average at least \$85,000. What percentile of families would only earn \$28,000? Again a web of complexity of sliding scales and tables of limits. As family income or circumstances change Centrelink tracks it and enforces a debt (payable by the student) if the family income rises outside limits. If the student is not fully aware of family circumstances (remember we defined them as "independent") this debt can mount up and drastically reduces the amount of youth allowance payable. In one case, which I understand is typical, a debt was repayable at \$90 per fortnight, deducted from the Youth allowance. But wait there's more. Centrelink even claims to have the power to recover this debt directly from the student's bank account, even if it was incurred through family income changes. Mind boggling powers that should not be tolerated in this era of personal privacy. Students must monitor and report to Centrelink changes in family income. This system has lost sight of its original goals and has become a bureaucratic monster.

Yes Centrelink has an appeals system, but you can not appeal against a faulty system design. Legislation piling bandaid amendments on top of faulty legislation and illogical rules means the system is self-defeating and embodies many "Catch 22" devices. At every turning Centrelink is waiting to exercise their powers of "breaching" the client and reducing the already pitiful allowance.

Youth Allowance for university students is solely a safety net for a few dire cases rather than a scheme for all students. It is a system that forces students into poverty

and holds them there for the duration of their studies and HECS makes them debtors after graduation. This system does not treat our students with dignity.

Only about 32 per cent of full time students get Youth Allowance. I believe 100 per cent of students should get the allowance as a recognition of the importance of education to Australia's future.

Many students give up on the process as it is too complex to understand the eligibility and comply with the reporting requirements and the hassle is not worth the effort. They prefer to seek the additional funding support needed by working several jobs, often on a cash basis. Their performance at university suffers from the need to chase extra dollars for at least three full days a week and Australia gets a poorer educational result.

Australia can afford to make the investment in its students, it is just not a current priority. I ask myself, why is this not a vote winning issue? Do parents really want their children to be poor and suffer health problems, get insufficient sleep, few leisure hours not taken up with the need to earn more money to survive, poor diet, insecurity if they break a rule and may lose their allowance? Is this the secure learning environment we want for our children? Is this an environment that leads to the best educational outcomes? Can politicians do anything to help these students and recreate and build upon the positive educational environment of the 70's? Or better still to create a new "world's best practice" educational environment where Australia can invest in our own students and to target the increase of educational excellence.

### **3. A Proposed System of Financial Support to all students:**

One immediate tangible step that would improve the student's financial and living arrangements would be to provide a simple financial support system that does not have Centrelink on their back at every turn.

I believe a student study financial support system should be separate from other welfare measures and safety nets.

The system needs to be simple and easy to administer.

It should provide a set amount per week (indexed to CPI) for ALL students who are enrolled in approved tertiary courses and who demonstrate progress by passing exams.

This amount should be more than the dole and at least equal to the single aged pension at around \$470 per fortnight (\$12,220 per year). (Why do pensioners get more than students?)

It should be paid regardless of parental circumstances or regardless of any (currently meaningless) criteria of "independence". At present if a student's family earns even a modest amount the student is not eligible to receive the allowance. Alternatively to prove "independence" the student must have worked 30 hours a week for 18 months during the last two years. Or have earned a large amount of money over 18 months (about \$17,000). These artificial criteria seem to be cleverly devised to exclude most students who want to leave school and continue their education immediately. Attendance at university regardless of age should be the criterion to initiate payment.

There should be no earnings threshold before eligibility is attained. This would allow a student to receive the allowance immediately and allow continuation from school to university without waiting to earn a qualifying amount. This delay postpones the productive output from each student while they work at lowly paid jobs to meet the criteria. Student crowd out part time work for other groups. It is better to encourage the students to continue immediately and gain their degrees in the shortest possible time. Economists could quantify this benefit to the nation.

The allowance should not decrease if two or more students live together in shared accommodation.

The right to privacy should extend to students and no questions about defacto or other relationships should be permitted. This is a breach of privacy and a continual source of students' frustration with the current system.

There should be no limits on earnings during the year. If the student is resourceful enough to earn more money as well as complete a full time course why penalise the payments? The student is likely to spend any extra money, for example on a computer or some text books or even perhaps a holiday. Any additional money earned by a student returns to the economy, the student pays taxes on every dollar of additional earnings including paying tax on the Youth Allowance itself.

The current system is a maze of reporting requirements. For example the \$236 per fortnight limit on earnings, after which student allowance is reduced, causes reporting problems almost every fortnight if variable hours are worked by the student. This arbitrary limit should be removed.

Why does the Youth Allowance reduce if more money is earned? The rate of reduction is 50 cents per dollar up to \$316 and 70 cents per dollar if over \$316. Add to this the tax and other expenses to earn this income (e.g. travel to work) and this system is devised to ensure the student remains in poverty. Else they get sick of the hassle and opt out. Many go into the cash economy where low paid workers have no rights, unionism is unknown and exploitation is widespread. They leave the tax system because the Centrelink system punishes extra earnings.

If a student has enough initiative to earn income or share a rental with others they should be praised not penalised.

The current \$6000 ceiling on additional earnings is the cause of many complaints. The \$6000 income bank allows students to accumulate unused amounts of \$236 income free allowance. This is giving them nothing if they are using the allowable extra income to live on (and most need to).

The concept of claw-back of these additional earnings can not be justified. As the youth allowance leaves the student below the poverty line, additional earnings are essential for student survival. This social engineering is a restraint of student rights. The claw backs of additional earnings should be removed.

What right does the government have in stealing more than 70 cents in the dollar earned by the poor student? I wish they were as hard on corporate tax avoiders.

You must admit this amounts to exploitation of the young in the name of assisting them, I would describe this a deliberate "poverty trap" engineered into the scheme by the government.

My proposed system would cost less to administer than the existing Centrelink System as it does not have any loopholes and sliding scales that need constant monitoring and does not need a huge administrative workload to maintain. Centrelink should reduce the monitoring and harassment and take a "risk management" approach where students are not treated like criminals frauding the system at every turn. I seriously doubt the government's claims of savings related to this type of fraud, it really is not worth frauding this system.

My proposed system starts from the premise that students are never going to get rich under this or any system of financial support. I also note that the recent current government paid lump sums to families receiving child care support in the lead-up to the 2004 election. They did not have complex rules and nasty claw-back provisions. Yet these negative things currently apply to our students.

My proposed system aims to show students that the government wants them to succeed and reach their full educational potential in a more financially secure environment so we can once again take steps to become a well-educated nation.

It does not seek to subjugate student's lifestyles, rather it facilitates their goal to become productive well educated members of the community.

#### **4. Cost of the Improved System: (see Attachment B for details)**

A system paying all 900,000 students at the rate of \$11,400 after tax for those students living away from home and \$5,300 for those living at home would cost less than \$6.2 billion (see attachment A). This amounts to an increase of less than \$4.2 billion over the existing system paying only 286,000 students (32%) who receive Youth Allowance.

If a conservative 5% of Centrelink costs are saved under the proposed simplified system this would save around 1500 staff at an average \$45,000 per annum or \$67 million of salaries, a total saving (including on-costs) of around \$200 million.

#### **5. Funding the Improved System:**

I would propose funding of the cost of the proposed system by means of an increase of 5 percent in company tax revenues. Companies are the real users of an educated workforce, yet they have escaped their responsibility to contribute to the investment in developing their human resources. Companies are no longer required by law to offer scholarships or even to spend any set percentage of revenues on education and training. As a result the number of cadetships and scholarships on offer is very low. My proposal is that companies pay the additional 5% as an educational levy unless they can prove an equivalent dollar value of scholarships on offer. Current company taxes raise \$37 billion, a 5% increase would raise an additional \$2 billion. The use of company taxes in this way would link the educational funding to economic activity and prosperity. Given the benefit to the nation of an educated workforce I believe companies must play a significant role in financing university education and not just the individual student and the student's families.

The balance of the increase, \$2.2 billion, could be met by deferring proposed tax reductions or by reducing the budget surplus. This increase is a justifiable investment of taxation revenue and it is certain that every dollar of the increase will be spent in the economy.

## **6. Concluding Remarks:**

The current Youth Allowance system as applied to tertiary students is faulty in design and in execution. It should be scrapped and replaced with a humane student financial support package with a one page application form and two pages (or less) of rules about maintaining suitable progress.

I hope that politicians can move away from blaming the victims and intimidating the unsophisticated, the young and the poorest members of our society and replace this attitude with a more caring and simpler model. The anomalies of the welfare system need to be designed-out by simplifying the systems not by adding complexity. I am looking for simplicity on the other side of complexity, which means a "smart simple system", which could also be applied to other welfare payments such as pensions and family support.

The nation should provide the highest educational level for all its members so they can reach their fullest potential. This would serve the nation's future interests. The beneficiaries of this educational investment are the entire nation, not just the individual students.

I have attempted to provide a simpler system that would restore the status and recognition of students as valuable members of our community. To the extent possible (given the lack of available statistics), I have costed my proposal and have suggested a means of funding. Given more data the costing could be more precise and slightly better targeted.

Historically we have always said we should pay students more, but in practice the budgets have always been cut and the rules tightened to exclude more students. Two thirds of all students do not get any financial benefits. After 40 years of inadequate resourcing, under all governments, it is now time to provide an student support allowance that will provide dignity and respect for our students and an educational environment geared for success rather than inflicting poverty.

The current system has failed. Adding more bandaids to it will not work, students need a new system.

I think our politicians are capable of creating a system that values our students and a system that provides them with the respect and dignity they deserve and a substantially higher level of financial support during their studies.

Please consider my proposals when framing your education policies.



Thank you for the opportunity for making this submission.

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## **Attachment A:**

### **Summary of Recommendations:**

1. That all existing definitions of independence be scrapped and the concept of independence be abolished.
2. That all undergraduate students attending full time university should receive an indexed student Financial Assistance Payment of \$12,500 per annum if living away from home or \$5,300 if living at home. Payments to be made fortnightly.
3. That separate student rental assistance be scrapped.
4. That receipt of the Financial Assistance Payment be conditional on enrolment and suitable continued progress towards completion of their studies.
5. There shall be no income tests (student or family) for receipt of the payment.
6. There are no reporting/notification requirements other than cessation of study and annual progress.
7. There is no monitoring of earnings and no restriction placed on additional earnings by the student.
8. The existing variations to allowances for partner and/or children are to be scrapped and met separately by other welfare payments e.g. family benefits.
- 9 For the purposes of the Financial Assistance Payment there shall be no consideration of partnerships, couples, defacto, married , same sex partners or any other linkage based on relationships. Hence no questions in the application form and no monitoring and no discrimination.
10. The application form should be less than two pages including explanatory notes. The application can preferably be made via the internet, requiring no actual contact with Centrelink.
11. Centrelink staff are to be instructed that students receiving this allowance must be treated with dignity at all times. The administrative simplicity of the system will help to ensure this can be achieved.
12. A separate simplified post graduate student financial support system should be developed along the same lines as the one proposed above for undergraduates.
13. An independent judicial review of Centrelink's powers should be initiated with a view to reversing the onus of proof and making the payment of welfare a right of the citizen rather than a benevolent act by the government to be given and taken at the whim of Centrelink. Particular reference should be made to the methods of recovery of debt by Centrelink.

## Attachment B:

### Basis for Costing:

Note: The submission by FaCS fails to provide sufficient basic statistics about the the Youth Allowance for university students. A reviewer is forced to conclude that FaCS can not provide the data needed for sensible analysis of this \$2.3 billion program serving 286,000 of a potential 850,000 students. For example there is no breakdown of students categories full-time part time, overseas, full fee paying and the number of these in age categories that would be eligible for Youth Allowance.

My proposed system would provide an allowance of \$12,500 per annum (\$11,400 after allowing for tax) for all full time students living away from home and an allowance of \$5,300 (tax free) for all students living at home. These figures are based on the logic that costs (according to the University of Melbourne) are as follows:

#### Annual Costs:

Renting apartment or house (shared)	\$17,480
Living at Home	\$8,330

I am assuming that the student can work either during the year or during the university vacation to earn \$5,000 (after tax). I also assume a notional rental of \$75 per fortnight should be payable to living at home students.

The amounts calculated will provide what the Vice Chancellors request in their submission, namely, ***“A fundamental change in student income support .....that will provide Australian students with sufficient income during the period in which they are studying”***.

I have noted the disadvantages to educational outcomes of a student environment that deliberately keeps a student in poverty and continually distracted from studies to earn money to survive and to meet Centrelink's reporting requirements. In this respect the current maximum amount of Youth allowance is below the poverty line and is totally inadequate.

## Costing:

Number of full time students living at home:  
183,000 (existing Youth Allowance clients)  
Number of full time students living away from home:  
103,000 (existing Youth Allowance clients)

Assume that only 32% are receiving allowance, this means a potential market of about 3 times the above less part time students or overseas or other full fee paying students and students over 25.

### Current system;

183,000 @ \$210 /fortnight before tax	\$992 million
103,000 @ \$319 /fortnight before tax	\$854 million
rent allowance \$75 avge/fortnight	
103,000 @ \$75 / fortnight before tax	\$201 million
Total	\$2,047 million

### Proposed System:

549,000 @ \$5300 /year before tax	\$2,909 million
309,000 @ \$12500 /year before tax	\$3,863 million
less \$200 million centrelink saving	(\$200) million
Total	\$6,572 million

(Tax payable on 309,000 @(\$12500) @17% of (\$12500-6000) = \$340 million)

The total additional cost of this proposed system (after tax) would be less than \$4.2 billion.

Note: the proposed system does not intend to differentiate between students with and without dependants and partnered and non partnered. It is considered that the student allowance should not attempt to mirror other welfare payments and that other welfare needs be met by specific systems e.g. family benefits.