Resourcing Australia’s tertiary education sector

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A note on the production of this paper

A first draft of this paper was finalised in July 2016 and provided to the Department of Education and Training as a submission to the Government’s inquiries on Redesigning VET FEE-HELP and Driving Innovation, Fairness and Excellence in Australian Higher Education.

Since that time, the paper has benefited from further development in response to feedback from a range of people with expertise in tertiary education and economics. I would particularly like to thank Bruce Chapman, Tim Higgins, Andrew Norton, David Phillips, Leo Goedegebuure, Peter Noonan and Peter Tulip for taking time to provide me with comments and helping support the production of this paper.

Any errors and misconceived views remaining in the paper are my own.
A. Executive Summary

Australian Government expenditure on tertiary education has been consistently at 0.8 per cent of GDP since 2000. There has not been a ‘blowout’ in tertiary education spending. If there is a problem, it is simply that the Government needs to bring the Budget back into balance. The contribution that can be made to that objective from the tertiary education sector is at best modest.

While direct expenditure on higher education student places under the Commonwealth Grant Scheme (CGS) has increased considerably since 2008, this has been substantially offset since 2011 by 13 major savings measures which have reduced spending in other programs of support for higher education teaching. Overall expenditure on higher education teaching has risen broadly in line with GDP. Since 2000, student contributions have increased by 187 per cent, CGS subsidies by 158 per cent and GDP by 144 per cent.

This contrasts markedly with what has been happening in the vocational education and training (VET) sector. Since 2009-10, the Australian Government's nominal expenditure on VET has declined by $0.6 billion or 16 per cent and this decline will have reached $1.2 billion or 30 per cent by 2017-18.

There is currently a lack of coherent strategy aimed at ensuring that VET resourcing is being used efficiently. The expansion in VET FEE-HELP that has occurred could potentially ensure that VET resourcing is maintained despite expenditure reductions. Currently, there appears to be substantial disparity in the level of resourcing of the VET sector in comparison to that in the higher education sector and it is not clear that this relates to a substantial difference in their need for resources. The distribution of VET resources is changing rapidly and is not fully understood. Some areas of VET activity are declining in ways that may have adverse impacts on the availability of skills in the Australian labour market.

The Government’s student loan programs are proliferating. There are now seven separate schemes and people are borrowing under multiple schemes. Changes in patterns of educational activity, such as the increasing requirement for postgraduate education as a prerequisite for professional entry, are increasing the total amount students need to borrow to pursue their chosen career. Many undertake a full fee-paying course after completing a subsidised course and borrow under different schemes to pay fees and contributions. They may also now borrow to assist with living and other expenses during their period of study.

There is currently inadequate strategic oversight of the suite of student loan programs. There needs to be much greater oversight of the total amounts that may be borrowed and of the quality of the resulting debts. Too little is known about the likely repayment of much of the lending that is now occurring. There are no total borrowing limits across the full suite of loan schemes and yet all of these programs are directed to a single purpose - supporting Australians, primarily young adults, to obtain the education and skills they need for economic participation. The level of the education that young Australians undertake has a substantial impact on their likely future earnings and hence on the likelihood that student debts will be repaid.

Income contingent loans are not an appropriate financing instrument to use if the government is seeking to create a fully deregulated tertiary education market in which there is price competition. Nor are they appropriate to use if fees are to be fully deregulated. They are an extremely valuable financing instrument and an appropriate and fair way of facilitating student contributions to the cost of their education. They are not a method by which the Government can eliminate its responsibility for ensuring that the education services supported by its grants and loans are provided at a reasonable cost.
Both public and private institutions may have incentives to charge prices above both the ‘efficient’ price and the actual cost of delivery. A private institution may do this to maximise revenue and possibly profit. A public institution may have an equally strong imperative to do so to generate revenues for legislated purposes other than the provision of education services. An obvious example is a university seeking to lift its research activity and its prestige through higher international rankings.

The Government should give equal consideration to the resourcing of higher education and VET and it should seek to maximise the efficiency of delivery of the tertiary sector as a whole. It should recognise that there are limits on the extent to which income contingent loans can be used while remaining an effective financing instrument. It should recognise that they may play a more limited role in resourcing of the VET sector than of higher education. It should ensure that their availability maximises the contribution they make to the overall financing of tertiary education.

None of this is incompatible with students continuing to have a choice of education provider or a provider being able to compete in attracting students, including by charging less than a prescribed maximum student contribution or fee.

**Major recommendations:**

The Australian Government’s programs of support for tertiary education should ensure that tertiary sector resourcing is sustainable into the medium term and accommodates population growth. Modest and highly targeted amounts of capital support should be available for small public institutions in areas of rapidly growing population with under-developed educational infrastructure.

A more coherent system of support for resourcing student places across the tertiary sector should be developed. It should consist of:

- direct government subsidies for the delivery of education and training services (which would generally be paid by the Australian Government in the higher education sector and State and Territory governments in the vocational education and training sector); and
- financial support for students through entitlements to income contingent loans and income support.

There should be a resource package for the education/training of domestic students seeking to attain an Australian tertiary qualification. This resource package would potentially vary according to discipline, and qualification level. It would not be desirable for it to differ according to the sector in which it is delivered.

The total amount of this resource package should be equivalent to the best available estimate of the reasonable cost of tuition for the delivery of that education service. Providers generally should be prevented from using the resources for these services on other purposes. In particular, there should not be a significant transfer of resources from the teaching of domestic students to research within universities.

The resource package should be comprised of two elements - a direct Government subsidy and a student contribution / tuition fee. The amount of the direct government subsidy should equal the balance of the resource package after determination of an appropriate maximum student contribution amount.

- The determination of maximum student contribution amounts should take into account that students may be utilising income contingent loans for both tuition fees and other related expenses (including living expenses), and may be required to undertake multiple courses (at different levels in the education system) as they progress to their chosen career (trade or profession).
A considerable amount of detailed costing and research would be required to provide an appropriate evidence base on which to make recommendations to Government on the value of each of the resource packages and the maximum student contribution amount for it. This work should be undertaken by an independent authority making public recommendations on the reasonable cost of tuition and the appropriate level of student contributions. It should have tightly structured terms of reference for the scope of its work, but an unfettered power to publish its findings and recommendations. It should have modest resourcing, a long term work program reviewing and updating the various resource packages and government should set priorities for the review of those packages. The Government should retain final responsibility for decisions on resourcing and student contributions.

• The Government’s highest priority should be ensuring that resourcing in the VET sector is stable and that the VET sector is able to continue to meet the labour market’s skills needs into the medium term.

• The Government should not further consider extending the demand driven system in higher education to diplomas and advanced diplomas until this has occurred.

The currently fragmented system of loans should be unified into a coherent single program of income contingent loans supporting the tertiary education of domestic students and enabling better monitoring and management of the associated costs to Government. The Government should ensure that there is a publicly available research data set to facilitate greater understanding of:

• the total level of debt which students are incurring, particularly on the path to their initial career; and

• the subsequent patterns of loan repayment, particularly of the amounts not expected to be repaid and of the times taken for the total loan to be repaid.

The loan program should be entitlement based, but subject to a tiered system of lifetime borrowing amounts and a system of maximum annual borrowing amounts. An example of what is intended by this proposal is provided on the following page.

The lifetime borrowing amount of a student should be a function of their past level of educational attainment and of the course to which they have been admitted. The general principle is that a student seeking a higher level of educational attainment would usually be able to borrow more and should also have the capacity to repay the higher loan amount. For example, a person whose highest educational attainment is a ‘Certificate IV’ would generally have a lower lifetime borrowing amount than a university student and so would need less income to successfully repay their loan.

The lifetime borrowing amounts would be a critical program parameter. They should be subject to close monitoring, particularly in respect of their implications for the repayment of loans and the cost of the loan scheme.

The maximum annual borrowing amounts would be a less critical program parameter than the lifetime borrowing amounts. However, they would need to be set to ensure that students continue to have access to loans and are able to complete the path to their chosen career without upfront fees. These amounts would effectively set a ceiling on the amount of funds lent to a student in each calendar year and serve to help manage risks to program integrity.
Student loans should be made available to all Australians under the same conditions, in particular all borrowings should be subject to the same loan fee, indexation and repayment arrangements. In considering the cost of student loans schemes the Government should, in order of priority:

- ensure that repayment arrangements remain equitable. This social objective is an essential feature of income contingent loan schemes and underlies the widespread public support for the fairness of Australian arrangements for students to contribute to the cost of their tertiary education;
- ensure that loans principally are made to individuals with a high likelihood of repaying them;
- focus primarily on overall efficiency in the public resourcing of tertiary education, noting that government costs can be reduced either by replacing grants with loans, increasing the rate of debt indexation or imposing loan fees. From an overall policy perspective, an increased rate of indexation should be preferred over a loan fee.

The Government should clarify which agencies are fundamentally responsible for the regulatory activity required to ensure that the problems which occurred with VET FEE-HELP do not arise again. It should ensure that the responsible agencies are adequately resourced and have the experience, expertise and capability to adequately perform those regulatory activities.

Example of a single income contingent loan program with tiered lifetime borrowing limits

**Tier 1: Lifetime borrowing limit of $25,000**
A student undertaking vocational education and training or a qualification below the bachelor degree level might have a Tier 1 lifetime borrowing limit of $25,000. Their maximum annual borrowing limit might be set at $12,500, enabling them to study at this level for two years and use the maximum annual borrowing amount. It might not be possible for a student to use their full maximum annual borrowing amount. They might be enrolled in a course with a maximum tuition fee of $6,000 and otherwise only have access to additional loan amounts of $2,500 each year for living costs and tools of trade.

**Tier 2: Lifetime borrowing limit of $75,000**
A student undertaking a low cost bachelor degree program might have a lifetime borrowing limit of $75,000 and an annual borrowing limit of $12,500. A student who had undertaken a Tier 1 program and had already borrowed $25,000 would still be able to borrow $50,000. Such a student would have four years in which to complete their Bachelor degree program and be receiving the maximum annual borrowing amount of $12,500.

**Tier 3: Lifetime borrowing limit of $90,000**
A student undertaking a high cost bachelor degree program of five years duration might have a lifetime borrowing limit of $90,000 and an annual borrowing limit of $15,000.

**Tier 4: Lifetime borrowing limit of $120,000**
A student undertaking a professional entry master level qualification might have a lifetime borrowing limit of $120,000. Their maximum annual borrowing limit might be set at $35,000. A student doing this level of qualification may already have borrowed $50,000 to complete a bachelor degree level qualification (i.e. 4 years of study using the Tier 2 maximum borrowing limit of $12,500). Such a student would have two years in which to complete their Master level qualification and be receiving the maximum annual borrowing amount of $35,000.
B. Introduction

1. The need to reassess tertiary education resourcing

In his opening message of the *Redesigning VET FEE-HELP: Discussion Paper*, the then Minister for Vocational Education and Skills said:

*it is critical that all elements of the VET system both build public confidence and are as efficient as possible, representing good value for money for students, employers and taxpayers.*


The same should be said of all of the resourcing components of Australia’s tertiary education sector. It is critical that these are integrated and efficiently resource tertiary education to achieve the Commonwealth Government’s objective of promoting growth in economic prosperity and social wellbeing through access to quality higher education, skills and training.

Earlier this year, the Government released two separate discussion papers – the one quoted above on *Redesigning VET FEE-HELP* and the other on *Driving Innovation, Fairness and Excellence in Australian Higher Education*. Both papers were heavily imbued with political positioning related to recent events. The former sought to lay responsibility for problems in the VET FEE-HELP program on the previous Government. The later sought to manage the political fallout associated with its stalled proposals for further deregulation of higher education provision.

The context in which these discussion papers were developed meant that they did not:

- properly analyse recent developments in the higher education and vocational education and training (VET) sectors;
- promote understanding of the problems and issues associated with current arrangements for resourcing those sectors; or
- canvass feasible and concrete solutions to those problems.

This paper is intended to be a modest contribution to filling some of those gaps.

The recent intense public debate about the deregulation of course fees and the supply of tertiary education has a long history. Its genesis lies in developments in tertiary education funding which began in the late 1980s. These developments were responses to questions about who should pay for tertiary education, how resources should be allocated between providers and who those providers should be. They were about how government could afford mass post-secondary education and how this could be done efficiently.

Most notably the Higher Education Contribution Scheme (HECS) was introduced. It allowed students to contribute to the cost of their higher education without that cost being much of a disincentive to study. HECS was a ‘loan style’ program that made the level of student contribution contingent on the subsequent income of students. It had deliberate and distinct differences from a ‘normal’ loan. Other related developments sought to ensure that university ‘operating grants’ properly reflected the current teaching loads of universities, rather than being an artefact of historical university funding. This was particularly critical for new and developing universities. Considerable efforts were made to remove research funding from university ‘operating grants’. 
Australia’s universities are mainly statutory authorities created by State Governments and accountable to State Parliaments. As a matter of policy they are given academic freedom and a high degree of autonomy, but there are clear limits on their use of public funding and assets. High standards of probity are expected in the use of those resources and in the treatment of citizens - students, staff and research subjects. The HECS scheme operated in an environment in which a high degree of trust could be placed in universities to administer the scheme and in which the funds made available through that program remained within a framework of public accountability.

In 2003, a new higher education funding act was passed which explicitly provided for teaching subsidies and student contributions to be allocated based on what was being taught by a university, effectively a shift towards an activity-based resourcing model. But the new act went much further. The Government established a framework for providing grants to private providers of higher education and enabling their students to receive income contingent loans to pay their fees. The new Higher Education Support Act 2003 (HESA):

- provided a framework for the inclusion of new higher education providers in the Commonwealth funding framework – including approval processes for admission, ongoing quality and accountability requirements and processes for cancelling/suspending provider approvals;
- introduced ‘fee flexibility’ into the system of student contributions for ‘Commonwealth supported’ students (students who benefit from a direct subsidy/grant, in addition to access to a student loan); and
- introduced a new ‘all encompassing’ income contingent loan scheme for full fee-paying students (students who do not benefit from a direct grant/subsidy).

In 2007, VET FEE-HELP was created, primarily by copying the 2003 framework. There were appropriate name changes. Higher education provider became VET provider and FEE-HELP became VET FEE-HELP. There were some minor modifications to accommodate differences in the operation of the sectors. It was tacked onto the end of the Higher Education Support Act 2003 as a new Appendix 1.

The 2003 framework was promoted as giving education consumers greater choice, with quality and price being key determinants of those choices. The longer term implications of the framework were not debated to the extent that they should have been. The real detail of this ‘framework for competition’ was subject to too little public policy debate and received inadequate public policy consideration and parliamentary scrutiny.

In the 1996-97 Budget, the Howard Government had cut higher education funding, increased student contributions and introduced full fee-paying for undergraduate students. This had produced a ‘Western Front’ of political battles and trench warfare that occupied all of the policy and political tertiary education space for the decade to 2005. There is little doubt that one of the major objectives of the Nelson Crossroads Review, which gave rise to the new funding act and the 2003 framework, was an attempt to end those hostilities.

At the time the 2003 higher education funding act was being debated in Parliament, Vice-Chancellors were in Parliament House lobbying Senators from their home State to extract further financial benefits for their university. Opposition Senators were complaining across the Senate Chamber about the deals to secure the passage of the Bill being done outside its doors.
Few politicians or stakeholders occupied themselves considering whether a fully competitive tertiary education sector with deregulated student fees/contributions was compatible with a Government financed income contingent loan scheme or the detail of the regulation that might be required for the two to co-exist. Nor was there comprehensive examination of these matters when VET FEE-HELP was created in 2007 or expanded in 2012.

There is little doubt that the 1996-2005 ‘higher education war’ has re-ignited. It is now worse than ever and it has engulfed the VET sector. It needs to be extinguished and replaced with a more dispassionate examination of the state of resourcing across both the higher education and VET sectors and of the role that income contingent loans should play in the future resourcing of those sectors.
C. Recent developments in higher education resourcing

2. The alleged ‘cost blowout’ is vastly overstated

The Government has recently sought to highlight increased costs in higher education to provide support for reducing the level of grant funding and further shifting costs to students. In a paper entitled Higher Education in Australia: A review of reviews from Dawkins to today, the Government included the following chart in support of this position. It also included it in Driving Innovation, Fairness and Excellence in Australian Higher Education. There are four major points to be made about it.

![Chart 1: Teaching and learning grants, HELP loans and university research funding 1989-2014 ($b)](source)

First, it shows you the last 10 years have been pretty good for universities. Universities generally need to accept that times are going to get tougher than they have been during this period. But this decade needs to be put in context:

- It followed what might be described as a decade of excessive constraint on growth in the higher education system from the mid-1990s to around 2004. The fiscal restraint during that period did not just produce pressure to improve the efficiency of education provision. It tightened the access of young Australians to subsidised higher education, a point which is demonstrated in more detail later in this paper. A significant detrimental impact on higher education participation was avoided only by expanding full fee-paying undergraduate places, converting the majority of postgraduate coursework study to full fee-paying and increasing skilled migration.

- In the decade since 2005, Australia’s higher education system both recovered from the previous reduction in opportunities to undertake subsidised undergraduate higher education and was further expanded to increase overall participation. The Government adopted an attainment target, seeking to ensure that 40% of 25-34 year olds would have a bachelor level qualification or above by 2025.
• There were also other drivers exacerbating the growth in expenditure in the six years prior to 2013. The main one was the behavioural response of universities who were sceptical that the demand driven system would be retained. There was considerable temptation to push enrolments as high as possible to ‘get student places’ while they were available and before the policy settings changed back to a capped system. The past experience of policy instability and even radical policy change provided supportive evidence for the adoption of this approach.

• The influence of the above drivers of funding growth is waning. There is now an opportunity for student numbers to stabilise and this should be encouraged through a renewed policy emphasis on enrolment offerings being appropriate and on the achievement of high rates of course completions and good employment outcomes.

Second, the chart shows that the fastest growing component of funding is HELP loans. Around three quarters of the cost of HELP loans is met by students, not the Government.

• HECS was introduced in 1989 to fund an expansion in higher education when the ‘unified system’ was being created. Since that time students have paid a continually increasing share of the cost of higher education, regardless of the complexion of the Government in power.

• Of particular import is that students paid more for the introduction of the demand driven system than the Government. Evidence for this assertion is provided in Section 3 and Table 1 below.

• The more the Government shifts to relying on students to pay for higher education, the greater is the cost of the suite of income contingent loans. The focus of policy needs to be broader than simply the amount that a student contributes to a ‘Commonwealth supported place’ in a year. The focus needs to be on the total amount that a student may need to borrow to reach their chosen career (trade or profession) and the relationship of that amount to their likely future income.

Third, this chart does not indicate that overall funding of higher education is unaffordable or that the demand driven funding of undergraduate places is unaffordable. The chart does not take into account growth in Australia’s population or its economy and so provides a very partial picture.

• The yellow line in the chart shows that the real value of funding has increased considerably over the last 10 years. What it doesn’t show you is that a lot more students are receiving a higher education than was the case in the past.

• Australia’s population is growing rapidly. If funding isn’t growing in real terms, Australia would likely be creating a problem for itself by progressively restricting the access of its population to higher education.

• This point about population is discussed further below.

Fourth, a judgement about the affordability of our higher education system should not be based on nominal dollars or even real dollars, but on more appropriate indicators of affordability for the country.

• It is much more sensible to look at the share of GDP which the Government is spending on higher education to make a judgement about affordability. This is particularly the case in a country with a growing population, like Australia.

• Such indicators demonstrate that there has been little change over time in the affordability of the higher education system and even less for the total tertiary education system. There is ample evidence for this proposition in OECD reports, in the Government’s Intergenerational Reports and in the Government’s own National Commission of Audit Report.

• OECD reports show that Government, not student, investment in tertiary education (both higher education and VET) was 1.2% of GDP in 1995. Since 2000, it is has been consistently 0.8% of GDP – even after the introduction of the demand driven system.
• The National Commission of Audit looked at higher education spending by itself, that is, excluding VET. It estimated it at 0.5 per cent of GDP from 2013-14 all the way to 2023-24 – rising slightly but lost in the rounding to one decimal place.

Given the expansion in undergraduate student places that occurred with the introduction of demand driven funding and the growth in real funding evident in Chart 1 above, this result may seem implausible. It is, however, wholly explicable in terms of:

• the considerable level of higher education savings achieved in recent years;
• the continual shift in the cost of higher education provision from the Government to students that has been occurring; and
• the scope that exists for our higher education system to grow in line with population and the economy without requiring an increased share of Australia’s economic resources.

The Government has not adequately acknowledged these factors in its higher education discussion paper. Further details on them are provided in the following two sections of this paper.

A very strong case can be made that ‘the problem’ the Government wishes to fix is not unsustainable increases in higher education funding. The problem is quite simply the current state of the Budget and the need to reduce the Budget deficit. The Government is overstating the growth in the cost of higher education provision because it wants to make savings from higher education spending. While it is possible to make further savings, this needs to be done in a manner that does not damage the sector, maintains an appropriate level of participation in higher education, does not result in excessive indebtedness of students and produces a set of policy parameters that can be sustained into the medium term.

3. Some details on cost containment under the demand driven system

The Government’s discussion paper on higher education reform Driving Innovation, Fairness and Excellence in Australian Higher Education makes the following claim:

“Since 2009, with the demand driven system, taxpayer funding for Commonwealth supported places has increased by 59 per cent as compared to 29 per cent growth in nominal GDP over the same period. Funding of university students has grown at twice the rate of the economy.”

[Australian Government 2016 (b), page 2]

This statement is correct but highly misleading in the absence of any comment on what has been happening to other programs of funding for teaching. The Commonwealth Grant Scheme (CGS), which is the program which provides taxpayer funding for Commonwealth supported places, is not the only program supporting universities’ teaching functions and funding from these other programs has been declining, as can be seen in Table 1 below.

The statement is based on data to the 2014 calendar year. Table 1 shows that from 2009 to 2014, the funding for all programs supporting the teaching function has increased in nominal terms by around 28 per cent – a figure very comparable with the 29 per cent GDP growth used in the Government’s discussion paper.
Table 1: Growth in Commonwealth funding and student contributions from 2009 to 2014

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<td>%</td>
<td>$m</td>
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<td>Commonwealth Grant Scheme</td>
<td>4,104</td>
<td>4,847</td>
<td>5,046</td>
<td>5,837</td>
<td>6,108</td>
<td>6,311</td>
<td>54%</td>
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<td>Other teaching grants</td>
<td>1,448</td>
<td>997</td>
<td>982</td>
<td>1,064</td>
<td>889</td>
<td>805</td>
<td>-44%</td>
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<tr>
<td>Total teaching grants</td>
<td>5,552</td>
<td>5,844</td>
<td>6,028</td>
<td>6,900</td>
<td>6,997</td>
<td>7,116</td>
<td>28%</td>
<td>1,565</td>
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<td>HECS-HELP (Student contributions)</td>
<td>2,807</td>
<td>3,220</td>
<td>3,271</td>
<td>3,618</td>
<td>4,251</td>
<td>4,527</td>
<td>61%</td>
<td>1,720</td>
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</table>

Source: Department of Education and Training, Excel spreadsheet providing details on higher education expenditure on teaching and research for financial and calendar years, April 2016 version.

1. Note that the Government has announced further reductions in these grants of around $100 million a year, primarily from the Higher Education Participation Program. In each year, around $330 million of this funding is for the ANU National Institute grant (which should really be classified as a research funding grant), for superannuation expenses associated with closed defined benefit schemes and for funding the operation of TEQSA.

2. These figures conceal that in 2009 the government was making some of these contributions for students but has since ceased to do so. Around $180 million in annual Government cost has been removed from the HELP program, as outlined in Table 2 below.

The table also shows that costs to students have grown at twice the rate of costs to Government. This resulted in students paying for the majority of the increased cost of the demand driven system. Students contributed $1.72 billion towards the growth in costs from 2009 to 2014. The Government contributed $1.56 billion.

The Government has put considerable effort into containing the growth in costs of higher education provision. From 2011 to 2013, 15 savings measures were announced and 13 of them have now been implemented. Legislation for the last of them was finally passed late in 2015. Information on the 13 implemented savings measures and an estimate of the annual savings associated with each is outlined in Table 2.

The 13 savings measures were worth nearly $1.2 billion dollars a year. This is broadly equivalent to the additional annual cost for subsidies under the CGS associated with the demand driven funding of student places in Bachelor level courses. Two thirds of the savings ($800 million a year) had no direct impact on universities whatsoever. They all served to increase the costs which would be borne by students. Only one third ($400 million a year) had any impact on universities.

The Government has made savings in higher education in addition to these 13 measures, despite being unable to fully implement the changes proposed in its 2014-15 Budget. The most significant were legislated in the Budget Savings (Omnibus) Act 2016, in particular the change ensuring that all funding amounts in HESA (which include grants and student contribution amounts) are indexed only by the Consumer Price Index (CPI). There are potentially large accumulating savings (reaching over $100 million a year within three to four years) associated with removing from the indexation arrangement the component reflecting movements in the labour price index for professional, scientific and technical employees. Modest savings from discretionary grant programs which do not require legislative change have also been achieved, such as reductions in spending on the Higher Education Participation and Partnerships Program.
Table 2: Achieved annual savings from measures announced from 2011-12 to 2013-14 Budgets

<table>
<thead>
<tr>
<th>Government savings measures</th>
<th>Time of announcement</th>
<th>Annual Savings (Based on 2014-15 year)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Savings increasing costs for students with no impact on universities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Abolish HECS-HELP discount and voluntary repayment bonus – two measures.</td>
<td>2011-12 Budget⁴</td>
<td>$112.0 m</td>
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<tr>
<td></td>
<td>2013-14 Budget⁵</td>
<td>$67.5 m</td>
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<tr>
<td>Reinstatement of Band 2 maths and science student contributions – two measures</td>
<td>2011-12 MYEFO²</td>
<td>$220.0 m</td>
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<tr>
<td></td>
<td>2012-13 Budget³</td>
<td>$73.9 m</td>
</tr>
<tr>
<td>Pause indexation of Student Start-up Scholarships</td>
<td>2012-13 MYEFO⁴</td>
<td>$26.8 m</td>
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<tr>
<td>Conversion of student start-up scholarships to income contingent loans</td>
<td>2013-14 Budget⁶</td>
<td>$233.1 m</td>
</tr>
<tr>
<td>Delay income support for Masters by coursework for three years</td>
<td>2012-13 MYEFO⁴</td>
<td>$66.5 m</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td></td>
<td>$799.8 m</td>
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<tr>
<td><strong>Savings with an impact on universities</strong></td>
<td></td>
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<tr>
<td>Remove eligibility for CGS student subsidies and HELP for overseas residents</td>
<td>2012-13 Budget³</td>
<td>$7.7 m</td>
</tr>
<tr>
<td>Cease facilitation funding¹</td>
<td>2012-13 MYEFO⁴</td>
<td>$106.9 m</td>
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<tr>
<td>Slow growth of Sustainable Research Excellence funding¹</td>
<td>2012-13 MYEFO⁴</td>
<td>$154.0 m</td>
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<td>Reduction in reward funding</td>
<td>2011-12 MYEFO²</td>
<td>$119.8 m</td>
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<td><strong>Sub-total</strong></td>
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<td>$388.4 m</td>
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<tr>
<td><strong>Total annual savings - 2011-12 Budget to 2012-13 Budget</strong></td>
<td></td>
<td>$1 188.2 m</td>
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</tbody>
</table>


It is important to note that while Table 2 presents the ongoing annual impact of implemented savings measures, it does not provide a sound basis on which to assess trends in higher education funding. There are considerable limits to the conclusions that can be drawn from Government announcements of spending and savings measures.

- Government’s outline new spending proposals and then don’t deliver on them.
- Savings measures may appear small, but produce large savings beyond the Budget forward estimates period. Conversely, spending measures may appear large, but contribute nothing to sector resourcing after a year or two.
• Large ongoing savings can be achieved simply by not renewing funding for a program that has existed for many years. The Budget may not record any saving associated with this because the program had always been funded on a time limited basis.

A better way to analyse trends in financing of higher education is to look at the resources which have actually been delivered over time, as is done below. But Table 2 does highlight that there have been many savings measures taken during the period of implementation of demand driven funding. Only one of these had any impact on the CGS and its impact was small. The savings generally were taken from other programs supporting higher education provision.

The Government’s discussion paper has failed to acknowledge or recognise the changes to the funding of teaching in higher education which have occurred since 2009. These need to be recognised in any assessment of the overall cost to Government of higher education provision in Australia.

The Government has also been highly selective in the period of analysis it has chosen to examine growth in the cost of student subsidies provided through the CGS. The strong growth that occurred under the demand driven system was in part due to the constrained growth in the decade prior to 2004.

A more realistic picture of the growth in the cost of student subsidies is to be derived by examining data over a longer period of time. Table 3 shows that since 2000, the subsidies paid for student places under the CGS have grown by not much more than GDP. Student subsidies have grown by 158 per cent compared to GDP growth of 144 per cent. Student contributions have grown by 187 per cent, a much greater rate of increase.

Table 3: Growth in CGS, student contributions, GDP and population from 2000 to 2015.

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2015</th>
<th>Percentage increase %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commonwealth Grant Scheme ($b)</td>
<td>2.5</td>
<td>6.6</td>
<td>158</td>
</tr>
<tr>
<td>Student Contributions ($b)</td>
<td>1.6</td>
<td>4.7</td>
<td>187</td>
</tr>
<tr>
<td>Gross Domestic Product (GDP) ($b)</td>
<td>660.7</td>
<td>1610.0</td>
<td>144</td>
</tr>
<tr>
<td>Population aged 15-24 (‘000)</td>
<td>2,596</td>
<td>3,132</td>
<td>21</td>
</tr>
<tr>
<td>Population (‘000)</td>
<td>19,029</td>
<td>23,941</td>
<td>26</td>
</tr>
</tbody>
</table>

Sources: Senate Estimates, Additional Estimates 2015-16, Department of Education and Training Question No. SQ16-000402; Department of Education and Training, Excel spreadsheet providing details on higher education expenditure on teaching and research for financial and calendar years, April 2016 version; ABS (2015), 5204.0 Australian System of National Accounts, Table 1 Key National Accounts Aggregates (A2420638T); ABS Population Statistics (various – see bibliography)

The Government’s savings efforts have brought about a situation in which universities teaching resources are now being derived almost exclusively from the student subsidy paid under the CGS and student contributions.

• The Government has effectively ended all capital funding programs.
• Funding for structural adjustment and for improving the quality of teaching has ceased.
• Scholarship programs have been converted to loans.
• A large amount of hidden subsidy from within the HELP loan program has been removed.
• Funding for equity programs is now being reduced because there are few other discretionary grant programs left from which to take savings.

It is particularly important to note that the costs to students are rising much more rapidly than Government costs. The implications of this for the HELP program is a matter that needs greater scrutiny and is discussed in more detail in the Income Contingent Loans part of this paper, in particular in Sections 12 and 14.

4. Population and higher education participation

As discussed in the preceding section, the constraint on growth in the higher education system from the mid-1990s to around 2004 tightened the access of young Australians to subsidised higher education. This is quite evident in Chart 2.

The black line in this chart shows how the number of Commonwealth supported student places has changed over time since 1990 and highlights the growth from 2000 to 2015. The change in the number of these places is compared with movements in the population of young people aged 15 to 24 years old, represented by the tan coloured band running the width of the chart. The chart uses the young adult population because, despite increases in mature age students and greater labour force mobility, it is still the case that around two thirds of domestic students at Australian universities are aged 15-24 years.

There have been a number of occasions when there have been deliberate attempts to expand the participation of Australians in higher education, notably at the beginning of the 1990s and then from around 2008. Between these occasions, it is reasonable to expect that Governments would seek to ensure that the arrangements for funding and provision of higher education took into account population movements (particularly movements in the young adult population). The evidence is that they do not always do this.

Chart 2: Commonwealth supported places compared to 15 to 24 year old population

Sources: Senate Estimates, Additional Estimates 2015-16, Department of Education and Training Question No. SQ16-000402; Department of Education and Training, uCube; ABS Population Statistics (various – see bibliography)
Chart 2 shows that from 2000 to 2005, Government paid insufficient attention to Australia’s population growth and opportunities for undertaking higher education in a domestic subsidised place became restricted. All of the growth in subsidised student places from 2005 to 2010 simply restored opportunity to the level it had been at the turn of the Century. A lot of the recent growth in subsidised student places was catching up what was lost under the previous policy of capped places. Only after 2010 was there a significant further opening up of opportunities.

The level of opportunity to undertake higher education afforded by the current level of subsidised places is expected to be sufficient to ensure achievement of the previous Government’s higher education attainment target of 40% of 25-34 year olds having a bachelor level qualification or above by 2025. The Government will need to maintain the level of subsidised places in the upper half of the tan coloured band if it is not to reduce higher education attainment, noting that the level of skilled migration also plays a significant role in the overall level of higher education attainment in the Australian population.

The Chart shows that new growth starting around 2022 will be needed to keep student opportunities at the level they are now. There was an increase in Australian fertility in the early years of the 21st century, encouraged by the then Treasurer, Peter Costello, and Government policies such as the baby bonus. The babies borne around that time will be of university age in the early 2020s.

From 2011 to 2031 Australia’s population is projected to increase by 8.1 million people. The Australian Infrastructure Plan, released in February 2016, notes that the bulk of this will occur in cities – almost 7 million of it. By cities, it means the 8 capital cities and the adjacent areas of Newcastle, Wollongong, Geelong, the Gold Coast and the Sunshine Coast.

- Sydney, Melbourne, Brisbane and Perth will grow by around 6 million.
- Other cities will account for around 1 million of the growth and it is Darwin, Canberra, the Gold Coast and the Sunshine Coast which are expected to be the strongest growers among those cities.

Recommendation 2.6 of the Australian Infrastructure Plan is that ‘The cities of Newcastle, Wollongong, Geelong, the Sunshine Coast and the Gold Coast should be supported by Governments, business and local communities to grow their populations and economies.’ An important part of this should be ensuring that the educational infrastructure is able to cope with the growth in population so that there are not adverse impacts on the level of education attainment in the Australian population.

There also continue to be some States/Territories with higher education attainment significantly below the national average. A good example is Queensland which has both below average higher education attainment and population growth which is going to be above average.

Future policy settings for recurrent and capital expenditures will need to appropriately accommodate these factors. It is worth noting that the ending of all capital funding programs will require universities to find other ways of meeting their capital requirements. There will be greater reliance on attracting capital from outside sources and managing the resources derived from student places (CGS subsidies and student contributions from Government subsidised places and fees from non-subsidised places) to meet these requirements. This will be more difficult for small universities in rapidly growing regions. In the medium term, there is a relatively strong case for re-introducing a modest capital funding program specifically directed to such needs.
D. Recent developments in VET resourcing

5. The potential lack of coherence in VET resourcing

The Government has recently been pre-occupied with the need to stop the waste that is occurring in the resourcing of the VET sector, associated with inadequate regulation of VET provision and substantially reduced regulation of fees for VET courses. In April 2016, it issued its discussion paper seeking input on how to redesign VET FEE-HELP.

The paper raises a wide range of important issues concerning VET FEE-HELP and also raises many matters that are relevant to the broader operation of the VET sector. It is unfortunate that the paper did not specifically consider the broader function of the program in the overall resourcing of the VET sector or the overall role of income contingent loans in the resourcing of tertiary education in Australia.

The Government should not redesign VET FEE-HELP in isolation from its objectives for tertiary education provision, as it appears to have done with the new VET Student Loans Scheme. There needs to be a broader redesign of the emerging system of income contingent loans, as argued below, and this should be done to improve the efficiency of Government resourcing to the tertiary education sector as a whole.

In 2008, all Australian Governments signed the National Agreement on Skills and Workforce Development. Between 2009 and 2020, it seeks to:

- halve the proportion of Australians aged 20-64 without qualifications at Certificate III level and above; and
- double the national number of higher level (meaning diploma and advanced diploma) qualification completions.

In 2012, all Governments signed the National Partnership Agreement on Skills Reform which seeks to increase the accessibility and equity of VET training, the transparency of VET activity and the overall quality and efficiency of the VET sector. Two major elements of the overall set of agreed changes were:

- The States and Territories would introduce an entitlement to access a government subsidised training place to a minimum of the first Certificate III qualification through any registered training organisation (RTO), public or private. It was to be available to all working age Australians without a Certificate III or higher qualification, subject to them meeting minimum entry requirements and state based criteria and it was to include foundation skills or lower qualifications contained within the Certificate III qualification.
- The Commonwealth would extend VET FEE-HELP to all diploma and advanced diploma courses, both subsidised and full fee paying, undertaken at an approved VET provider.

These two elements, combined with the need for fiscal restraint by the Australian Government and Budget constraints on State/Territory Government funding are producing dramatic shifts in the way the VET sector is resourced. The complexity of VET funding arrangements makes these shifts more opaque than funding shifts in the higher education sector. It is possible however to discern two main shifts of significance:

- Unlike higher education where overall teaching grants have increased (albeit only slightly faster than GDP growth), grants to support VET are being significantly reduced.
- Similar to higher education, there is now greater emphasis on students paying fees/contributions and this has been facilitated through the increased availability of income contingent loans (in this case through the VET FEE-HELP program).
Of concern is that change in how Government programs deliver revenue to the VET sector appears to be occurring in a more ad hoc fashion than has been the case in higher education. In higher education, there has been a tendency for savings in Government grants to be offset by increases in student fees, supported by income contingent loans. This has helped to:

- maintain the level of revenue to the higher education sector broadly in the same areas as where grant reductions have occurred;
- reduce the adverse impact of Government savings measures; and
- increase efficiency in the use of Government resources devoted to supporting higher education.

The extent to which this is occurring in the VET sector is not clear, but the available evidence tends to indicate it is not happening. Compared to higher education, there is greater disconnect in decision making on VET subsidies and the level of VET course fees. There generally is less regulation of fees which means that there is less Government control over the use of income contingent loans.

These factors are constraining the ability of the Government to use income contingent loans to reduce adverse impacts of reductions in subsidies and to increase the efficiency of its own resourcing of the sector. It is also not clear that the Government is accurately costing its use of income contingent loans in the VET sector, primarily by underestimating the level of debt that will not be repaid and the time that will be taken to repay the remainder of the debt.

### 6. Change in Australian Government funding for skills training

Table 4 below shows that from 2009-10 to 2014-15 the Commonwealth’s skills and VET expenditure declined by $0.6 billion, or 16 per cent. It also shows that by 2017-18, the decline in nominal expenditure from 2009-10 will be $1.2 billion or 30 per cent.

<table>
<thead>
<tr>
<th>Table 4: Reduction in Commonwealth expenditure on skills training &amp; VET, 2009-10 to 2019-20 ($m)</th>
<th>2009-10</th>
<th>2014-15</th>
<th>Three forward estimate years beginning 2017-18¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commonwealth payments to the States / Territories for skills &amp; workforce development</td>
<td>1 760</td>
<td>1 824</td>
<td>1 525</td>
</tr>
<tr>
<td>DEEWR / DET skills program expenses (excluding ICL expenses)</td>
<td>2 059</td>
<td>1 388</td>
<td>1 139</td>
</tr>
<tr>
<td>Total Commonwealth skills &amp; VET expenses (excluding ICL expenses)</td>
<td>3 819</td>
<td>3 212</td>
<td>2 664</td>
</tr>
</tbody>
</table>

| Reduction on nominal 2009-10 expenses | 16% | 30% |


¹. Approximate average for each of the forward estimate years.
There are differences in the nature of the Commonwealth’s skills and VET expenditure and higher education teaching grants. Skills and VET expenditure supports training and teaching in the VET sector, as well as incentives to employers and personal benefits for apprentices. Higher education teaching grants are more directly focused on university teaching. Despite these differences, the decline in the Commonwealth’s skills and VET expenditure contrasts starkly with the increase in higher education teaching grants of $1.6 billion or 28 per cent from 2009 to 2014 shown in Table 1 above.

This is not a new finding, but it appears to be a finding that is largely being ignored by the Australian Government and that situation is unsatisfactory. It has been noted in much research over the past 4 to 5 years, in particular in work undertaken by the Australian Workforce and Productivity Agency [Australian Government (2013), pp 129-132], by the Mitchel Institute [Noonan, P. (2016)] and for the 2016 Report on Government Services [SCRGSP (Steering Committee for the Review of Government Service Provision) (2016)].

The Productivity Commission assists with the detailed analysis and provides the secretariat for the Steering Committee which is responsible for the last report listed in the previous paragraph. That Report noted:

> Since 2005, government real recurrent VET expenditure has increased 4.1 per cent, while the number of government funded annual hours has increased 51.8 per cent … As a result, government real recurrent expenditure per annual hour has declined 31.5 per cent over the past 10 years — from $16.64 in 2005 to $11.40 in 2014 — at an average annual rate of decline of 4.1 per cent …

[SCRGSP (2016), page 5.32]

The currently projected $1.2 billion or 30 per cent decline in nominal annual expenditure for skills training and the VET sector from 2009—10 to the three forward estimate years beginning 2017-18 has two distinct components:

- The first is the end of funding delivered through payments to the States and Territories under the National Partnership Agreement on Skills Reform which ends on 30 June 2017.
- The second is an apparent $800 million reduction in expenditure on apprenticeships. This reduction is evident in the purple highlighted area of Table 5 below which identifies some of the major changes from 2009-10 to 2017-18 in the expenses associated with the skills programs which the Commonwealth administers (i.e. excluding payment to the States and Territories).

The potential impact of this major reduction in expenditure on apprenticeships is not explored further in this paper. To ascertain that impact would require answers to questions such as:

- How much of that reduction was directly due to removing personal benefits to apprentices and replacing them with income contingent loans, in this case through the Trade Support Loans program?
- What was the other money previously used for and how effective was it in supporting actual training? It is worth noting that there is more discretion in the expenditure of VET funds than in higher education, where the vast bulk of funds are directed to more defined purposes under the provisions of the Higher Education Support Act (HESA). This discretion makes it more difficult to determine the actual uses to which VET funds are being put.

While there have clearly been reductions in expenditure on skills training and the VET sector, the overall impact on the functioning of the VET sector is not clear. This is because, as with higher education, there has been a substantial increase in reliance on income contingent loans. This is quite evident in the Chart 3 below.
### Table 5: Major changes in Australian Government skills program expenses from 2009-10 to 2017-18

<table>
<thead>
<tr>
<th>Annual program expenses in 2009-10</th>
<th>Annual program expenses in each of the three forward estimate years beginning 2017-18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian Apprenticeship Centres</td>
<td>$197</td>
</tr>
<tr>
<td>Apprenticeship support network</td>
<td>$189</td>
</tr>
<tr>
<td>Support for new apprentices</td>
<td>$951</td>
</tr>
<tr>
<td>Apprenticeship incentives &amp; trade recognition</td>
<td>$397</td>
</tr>
<tr>
<td>Australian Apprenticeship Workforce Skills Development</td>
<td>$410</td>
</tr>
<tr>
<td>Industry skills fund</td>
<td>$42</td>
</tr>
<tr>
<td>Trade Support Loan expenses &amp; other expenses</td>
<td>$245</td>
</tr>
<tr>
<td>Apprenticeship access program</td>
<td>$200</td>
</tr>
<tr>
<td>Adult Migrant Education Program &amp; Skills for Education and Employment Program</td>
<td>$420</td>
</tr>
<tr>
<td>Support for National Training System</td>
<td>$1</td>
</tr>
<tr>
<td>Support for National Training System</td>
<td>$91</td>
</tr>
<tr>
<td>Capital funding</td>
<td>$300</td>
</tr>
<tr>
<td>Capital funding</td>
<td>$0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>2,059</strong></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,384</strong></td>
</tr>
</tbody>
</table>

1. Sourced from the 2010-11 Portfolio Budget Statement for the Department of Employment, Education and Workplace Relations, page 100.
2. Sourced from the 2016-17 Portfolio Budget Statement for the Department of Education and Training, page 75. Figures are the approximate average for each of the forward estimate years.
3. Increased funding is primarily for Industry Workforce Training ($51m) & National Training System COPE ($35m).

### Chart 3: Changes in Commonwealth revenue to the VET Sector 2009-14 ($m)

![Chart showing revenue changes](chart-url)

- **Revenue derived through Commonwealth VET FEE-HELP**
- **Other Commonwealth revenue identified in NCVER finance report**
- **Commonwealth National Agreements revenue**
- **Commonwealth expenses not identified in NVCER Finance report**


Note: The above chart does not include Commonwealth expenses associated with its income contingent loan programs or the amount of loans to apprentices under the Trade Support Loan program.
Chart 3 shows that the increase in revenue to the VET sector from VET FEE-HELP has been more than enough to compensate for reduced Commonwealth grant expenditure. VET FEE-HELP increased from around $26 million in 2009 to $1,757 million in 2014. Across both grants and loans, this has resulted in a net increase in revenue to the sector of $1.1 billion or just over 29 per cent from 2009 to 2014. What is less clear is how the distribution of that revenue has changed over time and whether the change in distribution has produced a more effective and efficient VET sector.

The manifest problems associated with VET FEE-HELP cast considerable doubt on whether this has been the case. The analysis which follows in this paper provides reasonable support for the following views:

- the shift to contestable funding has resulted in a considerable level of VET activity shifting from Government providers to private and enterprise providers;
- reductions are occurring in the subsidy levels for ‘existing’ activity and in many cases fees and revenue from income contingent loans may not directly be compensating for these subsidy reductions. The size of these reductions far exceeds what could be expected through improved efficiency and so adverse impacts on the quality of provision are a real possibility; and
- little is known about the new VET activities to which Commonwealth revenue from VET FEE-HELP is being directed.

In the current fiscal environment, it is unlikely that there will be major increases in funding for vocational education and training and this may be the case for some time. Chart 4 below shows that total Commonwealth resourcing for skills training and the VET sector (including income contingent loans to support payment of fees) has risen to around $6 billion in the current financial year. It is clear that resourcing will decline by at least $500 million to around $5.5 billion in the 2017-18 financial year, but a further substantial decline appears to be a likely outcome of the current VET FEE-HELP redesign policy deliberations.

In 2015, there was around $2.9 billion in VET FEE-HELP loans. Towards the end of that year the Government announced that the scheme would be capped at its 2015 level from 1 January 2016. In the Financial Impact Statement in the Explanatory Memorandum of the VET Student Loans Bill 2016, it has indicated that the new scheme will reduce the value of student loans by more than $2.4 billion per annum by 2019-20. The Government has not specified what level of lending was estimated in the Budget forward estimates for VET FEE-HELP. On the assumption that it would have continued at the capped level of $2.9 billion, the Government is intending to lend only around $500 million a year under VET Student Loans.

If the above analysis is correct, Commonwealth resourcing for VET in 2019-20 will be only around $3.2 billion. This will be around $600 million or over 15 per cent less in nominal terms than was provided in 2009. If this eventuates, there are likely to be significant adverse consequences on Australia’s VET sector.

The redesign of VET FEE-HELP should not be undertaken as an exercise abstracted from consideration of how best to support skills training within the VET sector. Any redesign of VET FEE-HELP has to be directed to achieving an effective and efficient skills and training system. There can be little doubt that there is a need to improve the regulation of VET provision and further protect potential students from deceptive and misleading conduct by VET providers. But these issues concern broader regulatory matters. This is not to deny their importance, but they should not be confused with the need for detailed consideration of:

- how income contingent loans are best used in conjunction with Commonwealth and State/Territory training subsidies to maximise provision and ensure that the available resources are used efficiently and effectively; and
how best to structure the whole suite of Commonwealth income contingent loan programs, all of which are directed to support higher levels of tertiary education attainment.

The redesign of VET FEE-HELP, particularly parameters such as maximum annual and lifetime borrowing amounts, the application of loan fees and interest and repayment arrangements are most appropriately considered in the broad context of the overall role of income contingent loans in:

- facilitating access by Australians to post-secondary education and training;
- increasing the resources for tertiary education provision though contributions from students; and
- doing so in a way that does not create a disincentive to undertaking tertiary education.


Note: VET FEE-HELP Payments in this chart have been estimated by the author based on $699 million in loans in 2013, $1 757 million in 2014 and $2 900 million in 2015 and each subsequent year. This is consistent with the Government having capped the scheme at 2015 loan amounts from 1 January 2016. The Financial Impact Statement in the Explanatory Memorandum of the VET Student Loans Bill 2016 indicates that the new scheme will reduce the value of student loans by more than $2.4 billion per annum by 2019-20.

7. Developments in overall resourcing of the VET sector across Governments

The following analysis of overall resourcing of the VET sector across all Governments uses data from the NCVER’s annual VET financial information publication. That publication is an extremely useful source of information on the financing of the VET sector but, like all such publications, users need to be aware of some of its limitations. These arise primarily out of its particular collection methodology. There is to be a review of the publication this year.
For the purposes of this paper, there are two main limitations associated with using the NCVER Finance publication to analyse the Commonwealth’s contribution to the VET sector that should be noted:

- The first is that it does not identify all of the revenue provided by the Commonwealth to the VET sector. In Chart 3 above this omitted revenue is the blue section of the graph labelled Commonwealth expenses not identified in NCVER Finance reports. In both 2009 and 2014, approximately $1.4 billion in Commonwealth outlays was not identified in the relevant NCVER Finance report.
  - These Commonwealth expenses include incentives to employers and personal benefits for apprentices, neither of which would be expected to be picked up in the NCVER publication.
  - They also include expenses under Commonwealth administered programs in circumstances where those funds are received by Government payees (such as TAFEs and State and Territory Departments). These expenses may be reported as ‘Fee-for-service’ income by the Government payee. To this extent, the NCVER Finance publication understates the Commonwealth’s contribution to the VET sector, but does not underestimate total VET sector revenue.

- The second is that it does not specifically identify the VET FEE-HELP revenue being received by the public providers which are reporting data for the publication (TAFES, their wholly controlled entities and colleges). This revenue is reported as ‘fees and charges’ income by these public providers.
  - There are however differences in the reported timing of Commonwealth VET FEE-HELP payments and when those payments would be reported as fees and charges income.
  - It cannot therefore be assumed that the full value of VET FEE-HELP payments made in a year are reported as fees and charges by public providers in that year. This is because not all of those payments may have been ‘earned’ in that year and reporting is required to be on an accrual basis.
  - The NCVER Finance publication does include the revenue to private providers from the Commonwealth’s VET FEE-HELP program, which is reported as Commonwealth revenue to the VET sector in the year that it is paid.

With these caveats noted, it is illuminating to compare the change in resourcing of the VET sector from 2009 to 2014 evident in the NCVER finance data. This can be done by comparing Charts 5 and 6 on the following page.

The first point to note is that total resourcing of the VET sector has grown by $1.4 billion or 20 per cent from 2009 to 2014. This is only around two thirds the rate of growth of GDP, but higher than inflation over the period which was around 13 per cent. Again, the contrast with higher education is marked. In higher education nominal teaching grants grew by 28 per cent, broadly in line with GDP growth, and student contributions in higher education grew at twice that rate.

Overall VET sector resourcing experienced a decline in the nominal value of training grants and an unprecedented expansion in the use of income contingent loans. There was significant variation in the change occurring in each of the major sources of VET resourcing:

- State revenues grew by around 15 per cent ($475 million); and
- Commonwealth revenues grew by around 31 per cent ($742 million), but this was the net result of grants / subsidies declining by 27 per cent ($635 million) and VET FEE-HELP revenue for private providers growing by $1.4 billion from a near zero base.
Chart 5: Public VET sector income & Total VET Revenue from Government in 2009 = $7.4b
- by major source

- Student fees & charges, 4%
- Fee-for-service - Govt agencies & Other, 9%
- Overseas student fees & contracted training, 5%
- Miscellaneous / other, 5%
- Commonwealth revenue - National Agreements, 15%
- Commonwealth revenue - other, 16%
- Commonwealth revenue - VET FEE-HELP for private providers, 0%

State revenue = $3.3b (44%)

Total Commonwealth revenue = $2.4b (32%)
- Plus potentially a majority of 'Student fees & charges' and 'Fee-for-service - Govt Agencies & Other'

Note total VET sector expenses in 2009 = $6.8b

Source: NCVER, National VET Financial Data Collection, NCVER, Adelaide.

Chart 6: Public VET sector income & Total VET Revenue from Government in 2014 = $8.8b
- by major source

- Student fees & charges, 5%
- Fee-for-service - Govt agencies & Other, 10%
- Overseas student fees & contracted training, 3%
- Miscellaneous / other, 4%
- Commonwealth revenue - National Agreements, 16%
- Commonwealth revenue - other, 4%
- Commonwealth revenue - VET FEE-HELP, 16%

State revenue = $3.7b (42%)

Total Commonwealth revenue = $3.2b (36%)
- Plus potentially a majority of 'Student fees & charges' and 'Fee-for-service - Govt Agencies & Other'

Note total VET sector expenses in 2014 = $7.6b

In 2014, it is likely that the Commonwealth was providing close to the same amount of revenue to the VET sector through its various programs (including VET FEE-HELP), as were the States and Territories. This is because there was $355 million in VET FEE-HELP paid to public providers in 2014 which is not identified as Commonwealth resourcing in the above charts, plus an unknown amount of a further $1.4 billion which is not identified in the relevant NCVER Finance reports.

By 2015, it is likely that the Commonwealth was providing more revenue to the VET sector than the States and Territories, as loans under VET FEE-HELP grew by a further 65 per cent in that year to around $2.9 billion dollars (up from $1.8 billion in 2014). There is a considerable question mark over the effectiveness of this expansion in VET FEE-HELP loans in improving post secondary education and training. But there is little doubt that if that level of resourcing was appropriately directed, it would make a major contribution to ensuring the financial health of Australia’s VET sector.

Significantly improving the way in which VET FEE-HELP loans are used, in particular ensuring that they appropriately complement Government subsidies, should be one of the main objectives of any forthcoming negotiations with the States and Territories on a new intergovernmental agreement on VET. The proposal of the Government to reduce the amount available for VET Student Loans to around one fifth of the 2015 value of VET FEE-HELP loans will have significant implications for those negotiations. It will have major flow on implications for the amount of VET subsidies they provide and the distribution of those subsidies among courses and providers.

Chart 7 shows that 94 per cent of total VET FEE-HELP payments (that is to both public and private providers) are to pay fees for courses that do not attract any Government subsidy. These courses are at the diploma level and above, consistent with VET FEE-HELP eligibility criteria. Chart 8 shows that 80 per cent of total VET FEE-HELP payments are directed to private VET providers.

Together this data implies that around three quarters of all VET FEE-HELP payments are for full fee paying courses undertaken with private providers. The six per cent of payments for Government subsidised course enrolments in Chart 7, could occur in either of the segments in Chart 8. So in combination the data shows that:

- a minimum of 14 per cent of all VET FEE-HELP payments are for full fee paying diploma level and above courses at TAFE and other Government providers (20% less 6%); and
- a minimum of 74 per cent are for full fee paying diploma level and above courses at private providers (80% less 6%).

The requirement to provide young people with an entitlement to access a government subsidised training place to a minimum of the first Certificate III qualification through any registered training organisation (RTO), public or private, has shifted how subsidies are distributed within the VET sector.

- States and Territories have been required to make their subsidies more available to private providers. From 2009 to 2014, their payments to private providers of VET increased threefold – from around $0.5 billion to $1.5 billion.
- The requirement to deliver the minimum Certificate III entitlement, combined with the need to manage finite Budgets, has resulted in States and Territories reducing or eliminating subsidies for courses at the diploma level and above (including at TAFEs and other Government providers) and placing much greater, if not exclusive, reliance on fees and the availability of VET FEE-HELP to fund these courses.

Chart 9 shows that in 2009, around $1.2 billion or 16 per cent of sector resourcing, was directed to non-TAFE providers, but by 2014, this had increased by over 160 per cent to $3.2 billion. More than one third of all resourcing for the VET sector is now directed to provision of training by non-TAFE (non-government) providers.

This trend to increasing provision by private providers is also clearly evident in NCVER data on VET students by provider type. Chart 10 on the following page shows that more than one third of all government-funded students are now training with registered providers that are outside of the Government and community sectors. The VET FEE-HELP payment data discussed above indicates that by 2014 there would have been more than 140 000 fee-for-service VET FEE-HELP students studying with ‘other registered providers’ who are not included in Chart 10.
NCVER statistical collections are in the process of being improved in light of the significant changes occurring in the funding and delivery of VET activity. The first report on 2014 total VET activity across all types of providers was released in late 2015 and the second on 2015 activity in July 2016. These have been used to produce Charts 11 and 12 on the following page. The NVCER notes that caution needs to be taken when comparing 2015 data with that for 2014, primarily because 2014 was the first collection year with many training providers reporting data for the first time and a number granted exemptions from reporting or simply not reporting.

Despite these caveats, total VET activity data allows some very significant findings to be made about the current composition of Australia’s VET sector. It is worth noting that there was very little increase in the overall activity levels reported in both years, despite the NVCER’s caution about some providers reporting for the first time in 2015. The number of hours of reported activity increased by only 0.2 per cent from 818 to 820 million hours and the number of equivalent full time student places remained steady at around 1.14 million.

The data clearly indicate that by 2014 half of all VET activity was occurring outside of the public sector and this increased to nearly 60 per cent by 2015.

Government funded activity (meaning partly funded by Government subsidies and excluding all full fee-paying activity, including that supported through VET FEE-HELP) declined from being 61 per cent to 53 per cent of all activity. By 2015, around 43 per cent of all Government subsidised activity was occurring at private and enterprise providers (the non-public sector).

Significantly, from 2014 to 2015, eight per cent of all activity shifted from Government funded activity at public providers to domestic full fee-paying activity in the non-public sector. In 2015, 47 per cent of all activity was full fee-for-service, up from 39 per cent in 2014.
Chart 11: Total VET Activity in 2014 by provider type and subsidy status based on hours of delivery

Full time places (hrs/720 ) = 1.14 million

Total hours = 818 million

- Public providers - Govt funded: 38%
- Private & enterprise providers - Govt funded: 23%
- Private & enterprise providers - Domestic fee payer: 20%
- Public providers - Domestic fee payer: 8%
- Public providers - International fee payer: 4%
- Community education provider: 4%
- Private & enterprise providers - International fee payer: 3%


Chart 12: Total VET Activity in 2015 by provider type and subsidy status based on hours of delivery

Full time places (hrs/720 ) = 1.14 million

Total hours = 820 million

- Public providers - Govt funded: 30%
- Private & enterprise providers - Govt funded: 23%
- Private & enterprise providers - Domestic fee payer: 28%
- Public providers - Domestic fee payer: 8%
- Public providers - International fee payer: 3%
- Community education provider: 4%
- Private & enterprise providers - International fee payer: 4%

Source: NCVER (2016c), Total VET students and courses 2015, NCVER, Adelaide.
8. Population and VET participation

As with higher education, it is reasonable to expect that Governments would ensure that the arrangements for the resourcing and provision of vocational education and training take into account population growth.

Chart 13 below compares changes in the number of government-funded VET students since 1996 with changes in the young adult population, in a manner similar to that done for higher education in Chart 2 above. There are reasons to be more cautious in drawing conclusions from this chart than was the case for the comparable higher education chart (which also has its limitations). In particular:

- Government-funded VET students are generally older than higher education students. Only around 42 per cent of all Government-funded VET students are under age 25 years, compared to around two thirds of higher education students. A further 37 per cent are aged 25-44 years. However, the apprentice and trainee population appears more concentrated in the young adult population. Around 63 per cent of commencing apprentices and trainees are under age 25 years.

- There may also be greater labour market volatility in the numbers undertaking training, due to its more direct focus on skills and workforce training. While all tertiary education should be responsive to change within the economy, the VET sector is likely to be more directly affected by changes in demand for particular skills in the labour market.

Despite these caveats, Chart 13 shows that significant changes are occurring in the nature of Government-funded VET activity with potentially major implications for skill development in the young adult population. It shows:

- the dramatic growth that occurred over the decade to 2012 in the potential opportunity to study at the Certificate III level, compared to all other program levels; and

- that there has been a significant decline in students across all program areas since 2012.

Chart 13: Number of government-funded VET students by major program level 1996-2015

Sources: NCVER (2016b), Historical time series of government-funded vocational education and training in Australia, from 1981, NCVER, Adelaide; ABS Population Statistics (various – see bibliography)
The net result of these changes is that the composition of the VET sector in 2015 is radically different from what it was two decades ago and even appears to be radically different from what it was one decade ago.

The trends for students studying at program levels other than Certificate III show a similar pattern to higher education until 2012. The number of such students was largely static or declining during the early 2000s and then around 2008 there was a notable increase in the number of students. Since 2012, the trends differ significantly from what occurred in higher education. There has been a decline in the number of students studying at each of these program levels. Relative to the young adult population, government-funded opportunities to undertake study towards these qualifications may be returning to levels not much different to those that existed around 2000.

Despite the general opening up of VET FEE-HELP eligibility to diploma and advanced diploma students from 2012, the decline in the number of government-funded students at the diploma or higher level is still evident, though not as great as for other VET program levels. The number of students undertaking diploma level study with private providers and who have been assisted to pay full fees through VET FEE-HELP is likely to have increased, but their number is not included in the data on government-funded students. Whether this fee-for-service activity is qualitatively the same as for the subsidised activity is not clear.

The situation for Certificate III level qualifications differs from other VET programs. The number of students at this level grew strongly throughout the period from 1996 to 2012. Despite the decline since that time, government funded opportunities to study at the Certificate III level remain considerably above the levels that existed prior to 2007. It is important to note that since around 2003, the majority of the growth in Certificate III students appears not to have been in apprentices and trainees. This is evident from the data in Chart 14 showing trends in the number of apprentices and trainees in trade and no-trade occupations.

**Chart 14: Number of apprentices / trainees by trade and non-trade occupation 1996-2015**

Sources: NCVER 2015, *Historical time series of apprenticeships and traineeships in Australia, from 1963, NCVER, Adelaide*; ABS Population Statistics (various – see bibliography)
Chart 14 shows growth in apprentices and trainees since 1996 and also compares it with changes in the young adult population. In 2015, around 75 per cent of the apprentices and trainees included in the data in Chart 14 would also be included in the data for government funded Certificate III qualifications in Chart 13 (based on the data in Table 6 below). This implies that virtually all of the decline evident in the number of students undertaking Certificate III level study is explained by the decline in apprentices and trainees in non-trade occupations.

Relative to the young adult population, the number of apprentices and trainees in trade occupations has dropped to a level comparable to that which applied in 2004 and in the case of the non-trade occupations to levels comparable to those which applied at the turn of the Century. This general finding is borne out by an examination of the more detailed analysis of training rates by occupation, detailed in the relevant NCVER publication (NCVER 2015b).

While declines in some occupations might be expected due to changes in the Australian economy and particular industries, there are many occupations in which one would not expect to find such significant declines. While there may have been changes in the nature of required skills, it is not clear that there is a reduced need for vocational skills in areas such as health and welfare support workers; the food trades; engineering, ICT and science technicians; construction trades workers and sales.

**Table 6: Distribution of apprentices and trainees undertaking off-the-job training across major program levels in 2015**

<table>
<thead>
<tr>
<th>Advanced diploma</th>
<th>Diploma</th>
<th>Certificate IV</th>
<th>Certificate III</th>
<th>Certificate I &amp; II</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.1 %</td>
<td>3.5%</td>
<td>11.2%</td>
<td>80.6%</td>
<td>4.6%</td>
</tr>
</tbody>
</table>

*Note: There were 287 000 apprentices and trainees undertaking off-the-job training out of a total of 309 000 apprentices and trainees (i.e. 93 per cent). So around 75 per cent of all apprentices and trainees are included in Government-funded VET students studying at the Certificate III level (i.e. 80.6% of 93%)*

E. Income contingent loans (ICLs)

The significant policy success of the Higher Education Contribution Scheme (HECS) has been lauded for several decades. It is frequently spoken of as a panacea for financing social expenditures, particularly when budgetary conditions are difficult.

Income contingent loans are an excellent financing instrument capable of supporting social expenditures by requiring greater self-provision. By requiring some social expenditure to be repaid by individuals who have a reasonable level of personal income at a later point in time, they reduce the overall requirement for government funding of those social expenditures and focus them on citizens with lower lifetime incomes. Like any instrument, they have limits and their effectiveness can be undermined if they are not used appropriately.

Since HECS was introduced the scheme has been gradually expanded to support a greater level of national investment in tertiary education. There are now seven schemes which provide income contingent loans along similar lines to the original HECS scheme. Five of these schemes operate under the legislative banner of the Higher Education Loans Program (HELP) and two schemes operate under separate legislation. More detail on these schemes is contained in Section 12 below.

The amount students are borrowing and the characteristics of the population who take out a loan are changing rapidly. This has major implications for the costs to Government of its income contingent loans. Insufficient attention is being paid to the longer run implications of particular Government policy changes and their interaction with general changes in the structure of education provision which are affecting how much students are borrowing in total under these schemes.

Governments are making decisions about student loan schemes to meet short term Budgetary objectives. But the reality is that large short-term savings can be achieved at very high long-term cost. While changes to economic parameters may create great uncertainty beyond the Budget forward estimates period, the impact of changes to many of the parameters of loan schemes is reasonably certain. Income contingent loans provide a classic example of a scheme for which the prime consideration of Government should be the long term structural impact of the change it is making.

Unfortunately the development of Australia’s system of income contingent loans and much of the public debate about their use and operation is occurring in an environment in which there is very poor understanding of the nature of these schemes – their objectives, their strengths and weaknesses, critical aspects of their administration and how they will evolve over time.

Evidence for this can be found in:

- calls for Government to ensure that such schemes are sustainable while the callers remain silent on proposals to extend the schemes into new domains and remove fee caps, loan limits and loan fees. These latter proposals if introduced are likely to be major factors increasing the cost of the schemes to Government and potentially the biggest threat to the sustainability of the schemes;
- proposals for the expansion of such schemes into the private sector without recognition that the current integrity and proper administration of these schemes relies heavily on the trust that can be placed in public institutions subjected to high levels of public accountability;
- continuous references in public debate to the fair value of the HELP asset as though, by itself, it was evidence of some sort of impending debt disaster just because it is a big number; and
• continuous references to the stock of ‘debt not expected to be repaid’ as though it was evidence of potentially fraudulent behaviour and as if the scheme was intended to ensure 100 per cent recovery of ‘loans’.

It is time more was done by the Government, its Ministers and senior public servants to improve understanding of, and promote more informed public debate about, the schemes. Less ideology and politics around tertiary education funding would be helpful in this context.

9. The social objective of income contingent loans

HECS was introduced at a time when there was strong community support for access to university without fees. While a modest administrative charge had been put in place, the introduction of more significant student charges posed a major political challenge for the then Labor Government.

Unique features of HECS, combined with an expansion of university places, provided a solution to overcome those challenges. The Government was not introducing fees that students must pay upfront. It was only asking them to make a ‘contribution’ and it was only if their education gave them a higher than average income. The deferral of any liability for contribution and the income contingent nature of any payment were HECS’ most ‘necessary’ features.

When HECS was introduced, the threshold below which a person was not required to make a payment towards their ‘contribution’ was conceptually linked to average weekly earnings. This link was essentially retained for nearly a decade, including when the threshold was adjusted down for the 1993-94 financial year. The conceptual basis on which the threshold has been set has been considerably weaker since the Government announced in the 1996-97 Budget that the threshold would be substantially lowered from the 1997-98 financial year. It has amounted to not much more than a cursory statement providing one reason for change to the threshold.

Table 7 below outlines the policy changes which have occurred to the threshold since 1988, the reasons for the changes which were provided and shows how the new thresholds compared to the average weekly earnings and median earnings at the time.

In practical terms, the original setting of the threshold around AWE meant that only people in the top half of the earnings distribution were being required to pay part of the cost of their education. People with such incomes were considered to have a demonstrated capacity to make a contribution. The arrangement overcame the critique of ‘free education’:

*Taxpayers carry most of the burden of the cost of higher education. However, most taxpayers are not privileged members of society and neither use nor directly benefit from higher education.*

*The direct beneficiaries of higher education, that is graduates, students and employers, contribute very little directly to the costs of provision.*

Table 7: Policy changes to HECS / HELP repayment threshold

<table>
<thead>
<tr>
<th>Year of change</th>
<th>Reason for change</th>
<th>Threshold</th>
<th>Annualised AWE(^1)</th>
<th>Annualised median wage(^1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988-89</td>
<td>Scheme introduced with threshold based on 1988 AWE adjusted by annual CPI movements</td>
<td>$22,000</td>
<td>22,365</td>
<td>18,980</td>
</tr>
<tr>
<td>1993-94</td>
<td>Threshold lowered as it had risen above AWE under CPI indexation. Indexation of the threshold was also changed from CPI to AWE indexation.</td>
<td>$26,402</td>
<td>27,118</td>
<td>23,972</td>
</tr>
<tr>
<td>1997-98</td>
<td>Threshold lowered so that debts would be repaid more quickly.</td>
<td>$20,701</td>
<td>30,815</td>
<td>26,520</td>
</tr>
<tr>
<td>2004-05</td>
<td>Threshold increased to improve the position of graduates on lower incomes.</td>
<td>$35,001</td>
<td>39,608</td>
<td>34,996</td>
</tr>
<tr>
<td>2018-19</td>
<td>New lower threshold to ensure sustainability and fairness of HELP Scheme.</td>
<td>$51,9561</td>
<td>N/A(^2)</td>
<td>N/A(^2)</td>
</tr>
</tbody>
</table>


1. AWE is for November of relevant financial year and median wage is for August. Weekly figures have been multiplied by 52.
2. In 2013-14, this threshold would have been $46,178. In November 2013, AWE was $57,938 and in August 2013, the median wage was $49,920. Approximately 60 per cent employees would have had earnings above this new threshold. Table 16 of Taxation Statistics 2013-14 also appears to indicate that around 60 per cent of individuals would have had taxable incomes above this new threshold. The actual 2013-14 threshold was $51,309.

There will always be a policy question about the appropriate income level at which repayments should commence. It is important that the answer to this question have a reasonable conceptual basis, not least because it has implications for other aspects of the policy, such as how much of the cost of their education should people above the threshold pay, should their debt be subject to a real interest rate and should any other aspects of their circumstances be taken into account in determining the level of required repayments.

The answers to these questions are likely to differ depending on whether the threshold is set on its originally basis or whether it is set on a basis such as that proposed by Andrew Norton and Ittima Cherastidtham:

*If risk management is HELP’s core function, fairness considerations suggest that a lower threshold is needed. Students should expect to repay their debts, except when they experience financial hardship*


HECS / HELP has never been a loan in the same sense that a lending institution would provide a loan to a person. Most lending institutions aim to ensure that the lending arrangement guarantees that the loan is repaid. While this might not always be achieved, it is broadly the objective. This was not the case with HECS or indeed any income contingent loan.
Repayment of income contingent loans is intended to be contingent on a person's future income. Regardless of where the repayment threshold is set, there will always be an amount of debt that is ‘expected’ not to be repaid. There is a policy intention/objective that some people will not be required to repay their loan. This is in stark contrast to the usual arrangements of lending financial institutions where the objective is that all of a loan and all of its interest is repaid.

This policy intention is realised in the repayment arrangements for debts which arise under all of the Government’s current income contingent loan schemes. They ensure, for example that people do not need to repay while they are unemployed or not in the labour force for reasons such as caring for young children. There is currently little ‘moral dimension’ to what activity a person may be engaged in and not make repayments. It is done purely on income.

The increasingly shrill commentary about the total amount of debt and the amount of it that is not expected to be repaid may be changing public views on this matter. That is unlikely to be a beneficial development.

It is the income contingent nature of repayments under these schemes that make them such a valuable financing instrument for Government. They are broadly supported because they are seen as fair. They help lower taxation, improve the Budget bottom line while maintaining social expenditures, and they focus those expenditures on citizens with lower lifetime incomes.

There is a very strong case for governments to use these instruments judiciously and to ensure that public confidence in them is maintained.

10. What makes ICL’s efficient and implications for when to use them

For the purposes of discussion in this section of the paper, I am going to use the example of an income contingent loan scheme that costs the Government an amount equal to around 25 per cent of the total amount lent through the scheme. Let’s also assume that this is roughly based on:

- an assumption that around 18 per cent of the amount of HELP lent in a year will not be repaid (referred to as debt not expected to be repaid [DNER]). This is broadly consistent with the level of DNER estimated for the scheme up until the last few years; and
- an assumption that the cost of making loans available at less than the cost of the Government’s rate of borrowing is around 7 per cent of the amount lent (referred to as the concessional loan cost).

While these are the two main elements of cost associated with the current income contingent loan schemes there may also be discounts available to users of the schemes such as discounts for upfront payment of fees, bonuses for early repayment of debts, a discount for completing a course or for working in a particular occupation. All of these discounts are being removed from the HELP program and they are all disregarded for the purposes of this discussion.

It is difficult to estimate both DNER and concessional loan costs. Both are affected by the particular nature of the scheme, in particular the characteristics of borrowers, the amounts borrowed and subsequent incomes of borrowers. They are also affected by the economic environment in which the scheme is operating.

The assumption for the moment is that the Government effectively recovers 75 cents of every dollar lent under the scheme. This has important implications for the efficient use of the scheme. There are two quite different situations in which a Government might introduce an income contingent loan scheme with this level of cost.
The first of these situations is one in which the scheme replaces Government expenditure. If the loan scheme did not exist, the Government would be required to fund the activity because of the importance of the public benefit that derives from the activity. In this circumstance, every dollar that the Government lends under the scheme replaces a dollar that it would otherwise spend. Every dollar of expenditure is replaced by a dollar of lending and a lent dollar only costs 25 cents. So, overall the Government saves 75 cents (the amount repaid) on every dollar lent under the scheme. The scheme enables a major reduction in Government expenditure while the public benefit of the funded activity is retained.

The second situation is one in which the Government would not be required to fund the activity. An example might be the purchase of flat screen TVs. In this case, every dollar lent under the scheme simply costs the Government 25 cents more than otherwise would be the case. If there was a very large demand for borrowing under the scheme, this would likely result in a large increase in Government expenditure.

- Anyone unlikely to have income above the repayment threshold would happily borrow under the scheme.
- For those who may eventually repay, their demand for a loan under the scheme would be heightened by any concessional rate of interest. Anyone with a house mortgage would be better off buying their flat screen TV with a loan under the scheme and using the money currently saved to reduce their mortgage.

Assuming there is no public benefit associated with funding the purchase of flat screen TVs, the additional Government expenditure could safely be described as wasteful.

There are many shades of grey between activities of high public benefit and activities of purely private benefit. But the clear implication is that income contingent loan schemes are likely to reduce Government outlays in situations where the Government would otherwise fund the activity. If Governments have assured themselves that this is the case, they can be less concerned about the level of DNER and the level of concessional loan cost.

- The loan scheme would be more efficient and sustainable than the alternative of providing a direct subsidy.
- There would be scope to ensure that repayment arrangements were not harsh and did not compromise other social objectives, such as enabling parents to take time off work to care for young children.
- There would still be good reason for the Government to seek to minimise costs, but the use of an income contingent loan would remain justified by the overall saving in Government outlays compared to the alternative direct subsidy program.

There are costs associated with administering income contingent loans schemes and the costs associated with the regulation of providers of the service or product. These costs need to be taken into account in deciding if it is efficient to use income contingent loans to fund a particular social expenditure. These may be low compared to the amount of borrowings, adding little to the cost of every dollar lent. However if these costs significantly add to relatively high DNER and concessional loan costs, then it may be just as efficient to provide a direct grant/subsidy.

My conclusion from this brief theoretical discussion is that policy makers must think carefully about the circumstances in which it is appropriate to introduce, to continue or to expand an income contingent loan scheme. In general, the following issues should always be considered:
• How much public benefit is associated with the activity and would it otherwise be funded by the Government?
• How much Government cost will be associated with every dollar lent under the particular loan scheme?
• What are the costs of administration, necessary regulation and compliance activities associated with the particular scheme?

The above discussion is not denying that it is possible to design an income contingent loan scheme with loan fees (surcharges) and/or interest rates that eliminate any cost to Government. Nor is it denying that there may be circumstances in which it is appropriate for Government to introduce an income contingent loan scheme, but that scheme does not replace potential Government expenditure. Various researchers have argued that because income contingent loans can smooth consumption and manage risk in a manner similar to ‘insurance’ that there are such circumstances.

But the Government’s current array of income contingent loan schemes are all oriented to supporting tertiary education. These schemes are not some sort of magic pudding. There are costs associated with all of them and there are limits to the circumstances in which they produce a net benefit to the Government’s ability to fund social expenditures.

11. The sustainability of ICLs: How might disaster strike?

While there are many parties who have been calling on the Government to ensure that the HELP scheme (or particular sub-schemes) is sustainable, the source of their concern is frequently not clear. There are very large sums of money involved and the complexity of the income contingent loan schemes, particularly the financial accounting arrangements for them, appear to create nervousness about their long term sustainability. This nervousness manifests itself on a spectrum. At one end is a generalised concern that the cost of the schemes is too high. At the other end is a fear of a potential financial disaster that feeds off ‘facts’ about the total quantum of dollars involved.

Nearly every year in early January when there is little else to report, journalists like to produce ‘Shock! Horror!’ stories about the ‘stock of HELP debt’ in the ATO’s records and create among the general populace the impression that financial disaster is nigh. They do their profession and their journalistic reputations a disservice. Confecting a crisis about income contingent loan schemes by loudly quoting financial figures such as “$42 billion in debt” and “$12 billion in bad debts” is not the expression of any legitimate policy concern. These ‘facts’ do not demonstrate that there is any problem or any potential problem.

Whenever the Government lends money through an income contingent loan the details of that loan are transmitted to the Australian Tax Office (ATO). The ATO keeps a record of that debt until it is either repaid or the person to whom the loan was made dies. This pool of debt contains debt that will be repaid and debt that will not be repaid. No-one knows precisely which individuals will repay their debt and no-one knows who is going to die with debt still owing. Neither of these things particularly matter.
The shock-horror stories of journalists feed off the sheer size of the pool and the estimates of the amount of bad debt contained in it. It is as though it might overflow and contaminate the fiscal environment. This view is largely rubbish. One of the keys to understanding why, is to distinguish between the various ‘stocks’ and ‘flows’. A useful metaphor for understanding the stocks and flows of HELP debt in the ATOs records is that of a pool with features similar to a ‘tailings dam’. A slightly comical schematic representation is provided below as Chart 15.

The major points to be drawn out of this schematic from a policy perspective are:

- the government should be most concerned about the taps;
- the most important tap is the tap that is filling the pool. Above all, the Government needs to know what it is putting into the pool. This is discussed further below, but it is clear that if this tap is filling the pool with 100 per cent sludge, the whole arrangement is a waste of time.
- the second most important tap is the repayment tap. This tap can have an impact on the amount of sludge in the pool. Faster repayments prevent some sludge from settling, but they also potentially compromise the social objective inherent in the income contingent loan arrangement – that only individuals who derive a reasonable level of private benefit should be required to repay their loan.
- the tap at the bottom of the pool which allows the sludge to be removed, is of lesser significance. It would be good policy to put in place an appropriate arrangement for repayment from estates. While there is little political will to do so, there should be further exploration of suitable options and how much might be recovered from them; and
- of least policy significance is the pool and its contents. So why is this the case?

The main reason the pool and its contents are of least policy significance is that what is happening in the pool is simply a consequence of how the Government has set the taps.

The size of the pool has been constantly growing and the proportion of the debt pool that is DNER has also been growing. That does not mean there is any problem. This result was inevitable from the day the scheme was created. As highlighted in the text on the chart, population growth keeps increasing the size of the inflow of debt and currently few of the first borrowers who do not have sufficient income to make repayments are dying. If 82 cents of every dollar of debt that has ever gone into the pool is to be repaid and nothing else changed, these characteristics of the pool would still be observed. The pool simply has not reached the point of equilibrium (outflows equalling inflows).

The good news is that the pool doesn’t actually ‘overflow’. It is important for the Government to accurately estimate how much of the contents of the expanding pool will be repaid (i.e. the value of the Government’s asset) and how much is DNER. If it gets this wrong, what would happen is that the Government would need to write down the value of the HELP asset. Essentially it would be confessing that there is a lot more sludge in the tank than it thought, and a lot less potable water.

If any ‘disaster’ was to occur, this is how it would manifest itself - as a significant write down of the HELP asset. Unfortunately, the risk of this occurring has been increasing due to the proliferation of income contingent loan programs, inadequate estimation of the proportion of these new loan types that will be DNER and some abuse of the new schemes (primarily VET FEE-HELP).
Chart 15: Schematic of stocks and flows for HELP debt

The most critical determinant of what is in the pool is what the Government is allowing to be poured into it. The Government accounts for the amount of DNER in the pool by estimating how much is included in what is being added to the pool each year. It also annually re-estimates the fair value of the HELP asset (broadly the clean water in the pool), but this is done by projecting the income and repayment of each outstanding debtor based mainly on the past income pattern of debtors. There is a strong assumption that income patterns for future cohorts of debtors will resemble those for past cohorts. But where the composition of student inflows changes significantly, such as probably occurred with the expansion of VET FEE-HELP, this is far from certain.

The effectiveness of income contingent loan schemes critically depends on:

- the debt flowing into the pool being held by individuals with a reasonably high likelihood of repaying it. People undertaking higher education are more likely to make repayments than, for example, currently unemployed people seeking TAFE training; and
the debt should generally be replacing Government expenditure. As discussed in section 7, this ensures that a net benefit is derived by the government, rather than simply resulting in additional expenditure.

Government grant programs, by their nature, are the same as the sludge in the pool. This is not to say that they are not being used for good purposes, but simply that they are not being repaid. In effect, every grant program is a pool full of ‘unusable tailings’ located on Government land. To the extent that the Government replaces its grant programs with income contingent loans, the size of the pool of debt it creates is of no problem whatsoever. No matter how much debt is in the pool, it will have replaced another pool that was full of sludge. The Government will be better off to the extent that some debt is now being repaid from the pool.

The situation is quite different if the Government allows ‘outsiders’ to deliver tankers full of ‘unusable tailings’, pump the contents into the debt pool and drive away with a tanker full of clean Government water. This can quite rapidly result in an environmental disaster on Government land. The Government may have little knowledge of the source of the tailings, the amount of clean water that can be extracted from them or the amount of sludge that will be left over. Some of this is what has been happening with VET FEE-HELP and it highlights the critical importance of appropriate regulation to prevent it from further occurring.

It also highlights that it is simply inappropriate and irresponsible for the Government to not be assuring itself of the ‘source’ and ‘quality’ of what is going into the debt pool. This is the most important matter from a public policy perspective. It should be carefully considered before any new income contingent loans are introduced or borrowings under existing schemes are expanded. If this policy work is done well, neither the size of the pool, nor the amount of sludge in it, is of much consequence.

12. The proliferation of income contingent loan schemes

A list of current income contingent loans schemes is provided in Table 8. The purpose of each scheme is summarised, along with brief details on the loan fees, discounts and maximum lifetime borrowing limits for each scheme.

The amount students are required to contribute for a year of a subsidised higher education course has risen continually since HECS was introduced and the number of years during which they take out a loan has been increasing. More students are doing combined undergraduate courses and more are doing a postgraduate course after completing their undergraduate degree, often as a full fee-paying student.

There is an increasing trend for courses required for entry to a profession to be provided at the postgraduate level and the majority of non-research postgraduate courses are now full fee-paying. Full fee-paying at public universities persists for some undergraduate students undertaking study in particular ‘Summer schools’ and ‘Winter schools’. A loan scheme (currently called FEE-HELP) was introduced to assist university students undertaking these various forms of study and to assist students undertaking full fee-paying undergraduate and postgraduate courses at private providers.

Loans are now available to higher education students who receive Youth Allowance, to assist them with living costs. Loans are being made available in the VET sector where generally the returns to education through increased lifetime earnings are not as great.

While students would be unlikely to have borrowings under all schemes, it is increasingly likely that most students will have borrowings under multiple schemes.
Table 8: The proliferation of income contingent loan schemes, loan fees, discounts and limits

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Loan fees and discounts</th>
<th>2016 maximum lifetime borrowing limits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HECS-HELP</strong></td>
<td>To assist eligible Commonwealth supported higher education students to pay the student contribution for their course.</td>
<td>No loan fee. There is a 10 per cent discount for upfront payment (to be abolished on 1-1-2017) and 3 HECS-HELP benefits.</td>
</tr>
<tr>
<td><strong>FEE-HELP</strong></td>
<td>To assist eligible fee-paying higher education students to pay course tuition fees. Also covers tuition fees for units undertaken in ‘Summer and Winter Schools’ by students usually Commonwealth supported in their course and for bridging courses for overseas trained professionals.</td>
<td>25 per cent loan fee for undergraduate fee-paying students.</td>
</tr>
<tr>
<td><strong>SA-HELP</strong></td>
<td>To assist eligible higher education students to pay for all or part of their student services and amenities fee.</td>
<td>Nil</td>
</tr>
<tr>
<td><strong>OS-HELP</strong></td>
<td>To assist eligible Commonwealth supported higher education students who want to undertake some of their study overseas.</td>
<td>Nil</td>
</tr>
<tr>
<td><strong>Student Start-up Loan</strong></td>
<td>To assist eligible higher education students who are on income support with the cost of study</td>
<td>Nil</td>
</tr>
<tr>
<td><strong>VET FEE-HELP</strong></td>
<td>To assist eligible students studying higher level vocational education and training (VET) qualifications to pay their tuition fees.</td>
<td>20% loan fee applies for full fee paying students. States and Territories also contribute to scheme costs.</td>
</tr>
<tr>
<td><strong>Trade Support Loans</strong></td>
<td>To assist apprentices with everyday costs while they complete their apprenticeship.</td>
<td>The loan amount is reduced by 20% on successful completion of the apprenticeship.</td>
</tr>
</tbody>
</table>
Despite these trends very little data is available on the total amounts being borrowed by students who are on the path to their chosen career or retraining later in life, or the amount of those borrowings that are DNER.

The Parliamentary Budget Office has observed:

*the published impact of HELP measures is presented on a fiscal balance basis and does not include doubtful debt costs. Neither does the published impact of individual HELP budget measures include the associated public debt interest costs, which are accounted for globally in the budget papers.*

*the lack of information on the impact of HELP loans on the budget and the incomplete costs presented in budget measures relating to HELP has meant that the financial consequences of these policy changes are not transparent and therefore not well understood.*

[Parliamentary Budget Office (2016), pp 8 and 9]

There is little modelling of the impact of the changes that are being made to student loan schemes. To the extent that this may be occurring in Government, the modelling is not being made publicly available and its limitations are little known. The Government should take steps to improve the public availability of information and facilitate a greater level of research into the implications of its policy changes.

The work that Timothy Higgins and Bruce Chapman have undertaken for the Mitchell Institute is very important in the absence of analysis based on the Government’s actual administrative records. Significantly it shows that:

- for bachelor degree students, the effective average loan subsidy (which relates to DNER and concessional loan costs) increases by between 3 and 4 per cent for every additional $10 000 of loan up to around $50 000 in borrowings. Beyond that point, it starts to rise more rapidly;
- for diploma students, similar effective average loan subsidy rates as for bachelor degree students are only achieved if borrowing levels are lower;
- for people undertaking a Certificate III or IV, borrowing levels need to be even lower to achieve such a result. For this cohort the outcomes are particularly affected by women’s employment patterns and incomes and they generally would receive a much higher effective average loan subsidy.

[see Higgins, T. and Chapman, B. (2015), pp 37-44]

It is important to note that the above points reflect the perspective of this paper’s author on the findings of that study and are not a paraphrasing of the study’s conclusion. However, they are intended to accurately reflect the findings of that study.

Until recently, most of the income contingent loan schemes had unified repayment arrangements. While there were multiple schemes providing access to loans, the resulting debts were consolidated. The repayment arrangements applied to the total debt held by a person and the amount of their outstanding debt was subject to indexation by the CPI.

But it is no longer the case that debts are consolidated into a single pool. The number of debt pools is proliferating, requiring specific arrangements to be put in place to ensure that the repayment arrangements remain reasonable. For each scheme, the repayment threshold and the required rate of repayment based on the person’s income are the same. To prevent a person being required to make multiple repayments (for example a $1,000 repayment of their HELP debt at the same time as being required to make a $1,000 repayment of their Student Start-up debt), an order of repayment of debts has been established.
This order of repayment means a person is exempt from repayment of their Student Start-up debt until they have completely repaid their HELP debt. In effect the HELP debt is completely repaid before repayments are directed to the Student Start-up debt. The result of this will be much higher levels of debt not expected to be repaid within the Student Start-up Loans scheme. People who do not fully repay all of their student loans will be more likely to have the unpaid amount left in the Student Start-up debt pool.

This has significant implications for a Government considering change to one of its loan programs. When a Government increases the level of fees paid by students, it will increase the amount of debt not expected to be repaid in the HELP debt pool, but it may have an even bigger impact on the Student Start-up debt pool. The impact on both programs needs to be taken into account in considering the merit of the proposed change.

This point also needs to be made about the various programs with debts being consolidated into the HELP debt pool. The DNER and concessional loan costs associated with increasing HECS-HELP debts by around $10,000 will differ depending on whether students currently are starting their careers with total debts of around $20,000 or total debts of around $40,000. The costs associated with the latter will be much higher.

13. Recent fee increases and the inadequacy of HELP performance indicators

The Government’s discussion paper on higher education reform Driving Innovation, Fairness and Excellence in Australian Higher Education makes the following claim:

“Student contribution rates have only changed across the board on three occasions since 1989 (with the exception of annual indexation) and these rates have not had any substantive increases during the last decade.”

(Australian Government 2016 (b), page 4)

Whether this statement is technically correct is a matter that could be debated for some time, with particular emphasis on the nuances of ‘across the board’, ‘with the exception of’ and ‘substantive’. It is however quite clear that the statement is misleading, especially given that it is presented in a Section entitled The case for change. It simply ignores a whole range of policy changes that have increased student contribution rates and shifted costs from the Government to students beginning in 2005. Table 9 below provides a list of these policy decisions.

Table 9: Main policies that have increased student fees and loans over the past decade

<table>
<thead>
<tr>
<th>Policy change</th>
<th>Year change occurred</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing the maximum student contribution rates by 25% for new students.</td>
<td>From 2005</td>
</tr>
<tr>
<td>Increasing the maximum student contribution for accounting, economics, commerce and administration from Band 2 to Band 3.</td>
<td>From 2008</td>
</tr>
<tr>
<td>Increasing the maximum student contribution for teaching and nursing from the National Priority rate to Band 1.</td>
<td>From 2010</td>
</tr>
<tr>
<td>Introducing a higher rate of indexation of student contributions before applying the higher indexation rate to CGS subsidies.</td>
<td>For the 2011 calendar year</td>
</tr>
<tr>
<td>Converting Student Start-up scholarships into income contingent loans.</td>
<td>From 2016</td>
</tr>
<tr>
<td>Halving and then abolishing of HECS-HELP discount and voluntary repayment bonus.</td>
<td>Halved from 2012 Abolished from 2017</td>
</tr>
</tbody>
</table>
These policy changes cannot be ignored in considering the case for change. They are all serving to increase the total amount of debt that students are incurring to complete study prior to embarking on their career or to retrain for a new career. This issue has been less important in the past when there was less reliance on loans and the amount of borrowing was low. But this is changing rapidly and it has reached the point where Government should not be considering the merits of further proposals to shift costs to students without an understanding of the total amount of debt which students may be incurring across the range of income contingent loan programs and what it might mean for the repayment of those debts. Without this understanding, it will not be possible to accurately understand the costs to Government associated with further increasing those debt levels.

The Department of Education and Training is not currently in a position to provide this advice to a Government considering proposals to shift further cost to students. It provides limited public information on the total amount of debt that has been incurred by students completing their studies. Since the introduction of the Commonwealth Higher Education Student Support Number (CHESSN) in 2005, the production of reasonable estimates of the total HELP debt of completing students is possible, with only minor methodological issues to be resolved.

The recent trend to introduce income contingent loan schemes outside of the HELP system to assist students with non-tuition fee costs will create a new impediment to the Australian Government’s ability to estimate and monitor the total debt of completing students across all loan schemes. This is not a desirable development and will not facilitate Government consideration of the circumstances in which it is appropriate to introduce, to continue or to expand the use of income contingent loans.

The limited program performance information that currently is made available is misleading because it is not accompanied by any adequate description of the data being presented. That information would make it clear that the underlying methodology makes the information largely useless. Table 10 identifies some limitations of the performance information which is regularly presented. This is used to imply that the contributions of students remain modest, repayment periods remain relatively short and that debt not expected to be repaid remains at a low level. In general terms, the data are based on an accumulation of historical data that is now in many respects irrelevant. This particularly applies to the figures for the average amount of debt and the average number of years to repay debt.

These indicators, particularly their methodology, should be updated to ensure that they adequately reflect what is occurring for current students. The current performance of the program should be judged on the basis of the total level debts that are now being accumulated by students, how much of that is likely not to be repaid and the estimated time that otherwise will be taken for the total debt to be repaid. If the composition of debts is being radically changed, as has occurred with the rapid expansion of VET FEE-HELP into the VET sector, more realistic estimates of debt not expected to be repaid should be provided for that element of the program.

For the Government, Members of Parliament and the public, this information would provide a far better basis on which to judge the reasonableness of current arrangements and the performance of the student loan schemes.
Table 10: Current published performance indicators for the HELP program and their limitations

<table>
<thead>
<tr>
<th>Performance indicator</th>
<th>2015-16*</th>
<th>2016-17*</th>
<th>Limitations of indicator for understanding outlook for new borrowings of current students</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average amount of debt</td>
<td>$18 000</td>
<td>$20 200</td>
<td>Provides the average amount of debt held by all current debtors - <em>downside bias</em> due to old debtors with small borrowings and substantial numbers of debtors who have partially repaid their loans</td>
</tr>
<tr>
<td>Average number of years to repay debt</td>
<td>8.8 yrs</td>
<td>8.9 yrs</td>
<td>Provides the average time of repayment for all people who have fully repaid their loans since the scheme began - <em>downside bias</em> due to inclusion of borrowers who completed repayments many years ago when contributions were much lower.</td>
</tr>
<tr>
<td>Proportion of new debt not expected to be repaid</td>
<td>19.0 %</td>
<td>18 %</td>
<td>Provides the estimated amount of new loans that will not be repaid –likely <em>downside bias</em> as based on assumption that income patterns for future cohorts of debtors will resemble those for past cohorts. There are difficulties in adjusting estimation models for the likely impact of the expansion to demand driven higher education and into the VET sector.</td>
</tr>
</tbody>
</table>

* Estimates taken from the 2016-17 Portfolio Budget Statement, Department of Education and Training.

14. How much debt can students currently have when they start their career?

Table 11 provides information on the actual contributions paid by Commonwealth supported students (i.e. subsidised higher education students) each five years from 1990 to 2015. Table 12 provides information on the Average Weekly Earnings (AWE) for each of those years.

Table 11: Student contribution amounts 1990-2015

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>National Priority (NP) Band</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>3847</td>
<td>4249</td>
<td>n.a.</td>
</tr>
<tr>
<td>Band 1 - humanities, languages education &amp; nursing when not NP</td>
<td>1882</td>
<td>2409</td>
<td>3463</td>
<td>4808</td>
<td>5310</td>
<td>6152</td>
</tr>
<tr>
<td>Band 2 - allied health, agriculture engineering science &amp; maths when not NP</td>
<td>1882</td>
<td>2409</td>
<td>4932</td>
<td>6849</td>
<td>7567</td>
<td>8768</td>
</tr>
<tr>
<td>Band 3 - medicine, dentistry subsequently law &amp; business, etc</td>
<td>1882</td>
<td>2409</td>
<td>7772</td>
<td>8018</td>
<td>8859</td>
<td>10226</td>
</tr>
</tbody>
</table>

Table 12: Average Weekly Earnings 1990 - 2015 (total earnings all employees, Nov. original figures)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Weekly Earnings (AWE) - $</td>
<td>490.60</td>
<td>555.40</td>
<td>643.10</td>
<td>800.60</td>
<td>996.10</td>
<td>1145.70</td>
</tr>
<tr>
<td>Annualised AWE (AWE x 52 weeks) - $</td>
<td>25,511</td>
<td>28,881</td>
<td>33,441</td>
<td>41,631</td>
<td>51,797</td>
<td>59,576</td>
</tr>
<tr>
<td>Growth compared to previous column - %</td>
<td>13%</td>
<td>16%</td>
<td>24%</td>
<td>24%</td>
<td>15%</td>
<td></td>
</tr>
</tbody>
</table>

Source: ABS (b), Average Weekly Earnings, Australia, November data from Table 3 of Time Series Spreadsheets and publications for years prior to November 1994, Cat. No. 6302.0.
Table 13 provides examples of the total debt that students may be incurring to complete a course based on the student contribution level and assumptions about how long it takes to complete a course. These examples are for a Band 1 course completed in 4 years, a Band 2 course completed in five years and a Band 3 course completed in five years. These have been chosen because:

- While the minimum time to complete a Bachelor level course is usually three years of full time study, many students do not complete in this time. There are a wide set of circumstances which can result in a student taking longer than three years to complete their study. These include doing a preparatory, honours or postgraduate year of study or needing to do an extra year of study because of a change of course, change of preferred major program of study within a course or simply from having failed part of a course.

- There are a wide variety of double degree courses which often take five years of full time study to complete. Many of these programs, such as economics/law can be at the Band 3 level. Courses such as medicine and dentistry are usually a minimum of five years full time study.

Table 13 shows that based on these assumptions in 1990, students would be completing their courses with debts of between $7 000 and $10 000, an amount equivalent to 30 to 40 per cent of annualised AWE. By 2015, the total debts range from $24 000 to $52 000 and are between 40 and 90 of per cent of annualised AWE.

These examples assume that a young person will complete their study as a Commonwealth supported student and will have no other borrowings. This may no longer be the case, especially for low income students who may need to borrow additional amounts to assist with the costs of study.

Table 14 on the following page shows that for such a student the total debt may range from $33 000 to $63 000 and this would be between 55 and 105 per cent of annualised AWE. There are however many circumstances in which a student who undertakes study to enter a particular profession and does so in the minimum time possible, could have a total debt far exceeding these levels.

### Table 13: Indicative total debt at course end and its percentage of annualised AWE

*For Commonwealth supported students with no other borrowings*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Band 1 course completed in 4 years</strong></td>
<td>$7 528</td>
<td>$9 636</td>
<td>$13 852</td>
<td>$19 232</td>
<td>$21 240</td>
<td>$24 608</td>
</tr>
<tr>
<td>Percentage of annualised AWE</td>
<td>30%</td>
<td>33%</td>
<td>41%</td>
<td>46%</td>
<td>41%</td>
<td>41%</td>
</tr>
<tr>
<td><strong>Band 2 course completed in 5 years</strong></td>
<td>$9 410</td>
<td>$12 045</td>
<td>$24 660</td>
<td>$34 245</td>
<td>$37 835</td>
<td>$43 840</td>
</tr>
<tr>
<td>Percentage of annualised AWE</td>
<td>37%</td>
<td>42%</td>
<td>74%</td>
<td>82%</td>
<td>73%</td>
<td>74%</td>
</tr>
<tr>
<td><strong>Band 3 course completed in 5 years</strong></td>
<td>$9 410</td>
<td>$12 045</td>
<td>$38 860</td>
<td>$40 090</td>
<td>$44 295</td>
<td>$51 130</td>
</tr>
<tr>
<td>Percentage of annualised AWE</td>
<td>37%</td>
<td>42%</td>
<td>116%</td>
<td>96%</td>
<td>86%</td>
<td>86%</td>
</tr>
</tbody>
</table>
Table 14: 2015 Indicative total debt at course end and its percentage of annualised AWE
For Commonwealth supported students with full supplementary borrowings

<table>
<thead>
<tr>
<th>Band 1 course in 4 years</th>
<th>Total student contributions $</th>
<th>Start-up loans of $1,000 each six months $</th>
<th>Student services and amenities fees of $300 p.a. $</th>
<th>Total borrowings $</th>
<th>Percentage of annualised AWE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>24 608</td>
<td>8 000</td>
<td>1 200</td>
<td>33 808</td>
<td>57%</td>
</tr>
<tr>
<td>Band 2 course in 5 years</td>
<td>43 840</td>
<td>10 000</td>
<td>1 500</td>
<td>55 340</td>
<td>93%</td>
</tr>
<tr>
<td>Band 3 course in 5 years</td>
<td>51 130</td>
<td>10 000</td>
<td>1 500</td>
<td>62 630</td>
<td>105%</td>
</tr>
</tbody>
</table>

It is increasingly the case that the prerequisite for professional entry is completion of a postgraduate course of study. Some universities are also restructuring their courses so that students complete a ‘generalist’ qualification at the undergraduate level and then undertake a specialist degree at the postgraduate level to enable them to pursue a particular profession. The University of Melbourne was the first Australian university to make the decision to restructure all of its courses along these lines. Many of the other Go8 universities are making similar changes, not all of them on the same scale. One can find many examples of this general trend across all universities.

This means that it is increasingly the case that in pursuing a chosen career, a student will need to complete study having been partly Commonwealth supported and making only a ‘contribution’ to the cost of their study and also having to pay the full cost of the latter part of their study. This has major implications for the total amount of debt that may be incurred by a student.

Table 15 shows that it is quite easy for a low income student who chooses a career which requires them to undertake one or more years of study as a full fee-paying student to complete with a substantial level of total debt. A primary care nurse may end up with a total debt of nearly $45,000 or 75 per cent of AWE. A business professional could end up with a total debt of $102 000 or 172 per cent of AWE.

These examples / case studies highlight how important it is for Government to consider the impact of the full range of its policies on students. This is particularly the case given the findings of the work of Timothy Higgins and Bruce Chapman which were discussed in Section 12 above. That work indicated that beyond borrowings of around $50 000, the effective average subsidy cost of loans (DNER and concessional loan costs) starts to rise more rapidly than for loan amounts between $20 000 and $50 000 [see Higgins, T. and Chapman, B. (2015)]

The Government should no longer be making a series of disparate decisions to ‘save money’ by converting various forms of student grant to income contingent loans. Unless it adopts a more holistic approach to assessing the total debt levels of graduates and their repayment patterns, it will not be able to properly assess how its decisions are affecting the cost of its income contingent loan programs. The total level of the debts students are incurring is a major determinant of the time taken to repay and this has a direct impact on both the DNER and concessional loan costs of its loan programs.
Table 15: Implications of postgraduate professional courses on fee paying basis in 2015

<table>
<thead>
<tr>
<th>Fee components $</th>
<th>Total debt at course end</th>
<th>Percentage of annualised AWE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary care nurse</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 years undergraduate with Commonwealth support @ Band 1</td>
<td>18 456</td>
<td></td>
</tr>
<tr>
<td>1 yr postgraduate @ $17,000 p.a.</td>
<td>17 000</td>
<td>$ 44 656</td>
</tr>
<tr>
<td>Plus 4 yrs supplementary borrowings</td>
<td>9 200</td>
<td></td>
</tr>
<tr>
<td><strong>Science teacher</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 years undergraduate science with Commonwealth support @ Band 2 (science)</td>
<td>26 304</td>
<td></td>
</tr>
<tr>
<td>2 yrs postgraduate @ $20,000 p.a.</td>
<td>40 000</td>
<td>$ 77 804</td>
</tr>
<tr>
<td>Plus 5 yrs supplementary borrowings</td>
<td>11 500</td>
<td>$ 79 956</td>
</tr>
<tr>
<td><strong>Humanities based profession</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 yrs undergraduate with Commonwealth support @ Band 1</td>
<td>18 456</td>
<td></td>
</tr>
<tr>
<td>2 yrs postgraduate @ $25,000 p.a.</td>
<td>50 000</td>
<td>$ 91 804</td>
</tr>
<tr>
<td>Plus 5 yrs supplementary borrowings</td>
<td>11 500</td>
<td></td>
</tr>
<tr>
<td><strong>Science based profession</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 yrs undergraduate with Commonwealth support @ Band 2</td>
<td>26 304</td>
<td></td>
</tr>
<tr>
<td>2 yrs postgraduate @ $27,000 p.a.</td>
<td>54 000</td>
<td></td>
</tr>
<tr>
<td>Plus 5 years supplementary borrowings</td>
<td>11 500</td>
<td>$ 102 178</td>
</tr>
<tr>
<td><strong>Business profession</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 yrs undergraduate with Commonwealth support @ Band 3</td>
<td>30 678</td>
<td></td>
</tr>
<tr>
<td>2 yrs postgraduate @ $30,000 p.a.</td>
<td>60 000</td>
<td></td>
</tr>
<tr>
<td>Plus 5 years supplementary borrowings</td>
<td>11 500</td>
<td>$ 102 178</td>
</tr>
</tbody>
</table>

The overarching objective of whatever suite of income support, scholarships, subsidies, grants and loans that a Government has in place at a particular point in time is to promote economic productivity and social wellbeing by supporting people to obtain post-secondary education and training. There is a strong relationship between the level of the education and training a person achieves and their subsequent income. In general, the higher the level of education and training, the greater the subsequent income and the greater the capacity a person has to repay any borrowings they have made along the way.

But there will be a level of borrowing beyond which the cost to government starts to increase significantly and at which the community will doubt the fairness and/or reasonableness of the arrangements. These levels depend in large part on the benefits derived by an individual from the type of education and training they undertake and its implications for the person’s subsequent income.
These factors should be reflected in the parameters of the Government’s student loan programs. Those programs should be integrated and include an overall lifetime limit on borrowings from all lending elements which varies according to the person’s highest level of education and training. Taking into account those lifetime borrowing limits, the Government should set maximum annual borrowing limits to ensure that students continue to have access to loans and, in general, are able to complete the path to their chosen career without upfront fees.

Lifetime limits do imply that students may need to pay upfront fees when they have reached their limit. Students would need to take some responsibility for how they use the government assistance available to them for education and training. The annual borrowing limits would serve to help manage the risks to the integrity of student loan programs, in particular those that might otherwise be associated with excessive fees and any predatory provider behaviour. Table 16 below provides an example of what is meant by this proposal.

The annual borrowing amounts would effectively set a ceiling on the amount of funds lent to a student in each calendar year. They would have implications for the amount of resourcing required for the various types of education and training delivered across the higher education and VET sectors. The argument in Section 20 of this paper is that Government should only support resourcing up to the level of the reasonable cost of tuition. The maximum student contribution within that level of resourcing should not exceed the relevant annual borrowing amount that would apply to a person undertaking that type of education or training. The government grant payable (which in some cases may be nil) would need to be the difference between the reasonable tuition cost and the relevant maximum student contribution.

<table>
<thead>
<tr>
<th>Table 16: Example of a single income contingent loan program with tiered lifetime borrowing limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1: Lifetime borrowing limit of $25,000</td>
</tr>
<tr>
<td>A student undertaking vocational education and training or a qualification below the bachelor degree level might have a Tier 1 lifetime borrowing limit of $25,000. Their maximum annual borrowing limit might be set at $12,500, enabling them to study at this level for two years and use the maximum annual borrowing amount. It might not be possible for a student to use their full maximum annual borrowing amount. They might be enrolled in a course with a maximum tuition fee of $6,000 and otherwise only have access to additional loan amounts of $2,500 each year for living costs and tools of trade.</td>
</tr>
<tr>
<td>Tier 2: Lifetime borrowing limit of $75,000</td>
</tr>
<tr>
<td>A student undertaking a low cost bachelor degree program might have a lifetime borrowing limit of $75,000 and an annual borrowing limit of $12,500. A student who had undertaken a Tier 1 program and had already borrowed $25,000 would still be able to borrow $50,000. Such a student would have four years in which to complete their Bachelor degree program and be receiving the maximum annual borrowing amount of $12,500.</td>
</tr>
<tr>
<td>Tier 3: Lifetime borrowing limit of $90,000</td>
</tr>
<tr>
<td>A student undertaking a high cost bachelor degree program of five years duration might have a lifetime borrowing limit of $90,000 and an annual borrowing limit of $15,000.</td>
</tr>
<tr>
<td>Tier 4: Lifetime borrowing limit of $120,000</td>
</tr>
<tr>
<td>A student undertaking a professional entry master level qualification might have a lifetime borrowing limit of $120,000. Their maximum annual borrowing limit might be set at $35,000. A student doing this level of qualification may already have borrowed $50,000 to complete a bachelor degree level qualification (i.e. 4 years of study using the Tier 2 maximum borrowing limit of $12,500). Such a student would have two years in which to complete their Master level qualification and be receiving the maximum annual borrowing amount of $35,000.</td>
</tr>
</tbody>
</table>
There should be more study and research into the DNER and concessional loan costs associated with these various borrowing limits to support the program’s design. The Government should ensure that there is a publicly available research data set to facilitate greater understanding of:

- the total level of debt which students are incurring, particularly on the path to their initial career; and
- the subsequent patterns of loan repayment, particularly of the amounts not expected to be repaid and of the times taken for the total loan to be repaid.

The Government should make decisions about how much students are required to pay and which grants and subsidies to convert to loans within the context of overall borrowing limits. A major consideration would be differences in the relative cost effectiveness of converting different programs to loans. To simply illustrate this point:

- It is likely to be more cost effective for the Government to convert a grant which provides a subsidy to all students undertaking a course into a loan, than it is for the Government to convert an income support payment into a loan when only a proportion of students (i.e. low income students) receive that income support.
- In the context of a system which has overall borrowing limits, it is important that the Government ‘use the space under the limit’ to maximum effect in supporting its social expenditures.

15. Some comments on the incompatibility of ICLs and markets

Until recently, income contingent loan schemes were used as an alternative to grant programs to expand the opportunity to undertake a higher education. Government policy usually replaced grant dollars with loans and the debt pool was increased mainly by Australian population growth and increasing participation in tertiary education. Loan recipients were known to have a modest level of borrowing and a high likelihood of repaying their debt, with generally over 80 per cent expected to be repaid. There was little cause for concern.

The ad hoc manner in which the Government has recently extended the use of income contingent loans is a cause for concern. Now, the Government is:

- expanding schemes without any overall cap on borrowings across the full suite of schemes and with little understanding of how much individual’s may borrow in total as a result;
- largely doing so under the assumption that the levels of debt not expected to be repaid will vary only marginally from ‘historical experience’. This historical experience is largely based on university students who borrowed substantially smaller amounts than is now likely to be the case and who were a much more select group of ‘high achievers’ than may be the case under demand driven funding and in the VET sector; and
- doing so in areas of expenditure that it may not otherwise fund. This will increase overall expenditure at a net cost to the Government, rather than a net saving to the Government.

These changes have occurred in an environment in which the Government appears to be attempting to create a fully deregulated tertiary education market in which there is price competition.

The Government has not given much consideration to the fact that this ‘market’ would exist in an environment in which it is promoting the use of income contingent loans and these are effectively designed to reduce the ‘market signal’ of ‘the price’. There have been a range of studies undertaken over the years which have found little evidence that to-date increases in HECS rates have been a deterrent to students undertaking studying.
Table 17 below provides nine reasons why the government should not think it can create a market using income contingent loans and continue to have a sustainable system of income contingent loans. These two objectives are not compatible.

Rather than creating an environment in which competition ensures that a good is provided at a reasonable price (taking into account its quality), the Government is creating an environment in which both public and private entities can charge prices considerably above this amount, with a muted response in the level of demand for that good (in this case education services).

Table 17: Nine reasons why you should not think you can create a well-functioning market using income contingent loans and still have a sustainable system of income contingent loans

1. ICLs are specifically designed to remove price signals (in the case of education, to remove the disincentive to study associated with a course fee). If there is no maximum fee, they allow ICL recipients to be charged significantly above a reasonable cost for the supply of the good.

2. The lack of price signal means that the supply of the good will not occur in a market where price competition is a significant factor in the choice of the good or its supplier. The effective removal of this factor on consumer choice will remove the discipline that promotes a range of value-for-money choices across the market.

3. ICLs reduce Government costs, by having consumers contribute to costs that would otherwise be borne by the Government. Charges above the reasonable cost for the supply of the good will result in government costs that would not (or at least should not) otherwise occur (being the cost associated with loan amounts which are above reasonable tuition costs). Removal of fee caps is therefore likely to increase government costs rather than reduce them.

4. Where the consumers of the good (i.e. the ICL recipients) are unlikely to have the income to trigger the requirement to repay their loan, the consumer’s financial circumstances will not limit their consumption of the good. There will effectively be no limit on the consumption of the good by such individuals, unless this is achieved through another mechanism.

5. The broad availability of ICLs in a market will therefore undermine the efficient operation of that market and is likely to result in misallocation of economic resources.

6. The potential for unlimited consumption of a good where price is of little relevance to its consumption is likely to attract many individuals to the industry who are only interested in rapid short term profits. This is likely to have adverse consequences on the quality of supply in at least some parts of the market.

7. The open-ended supply of the good and of potential ICL recipients (consumers of the good) undermines the Government’s ability to manage the costs associated with its ICL program. The Government will simply know too little about the potential future income of the people to whom loans are being made.

8. There is an excessive risk of fraud where the supplier of the good is administering entitlement to the ICL. Currently all suppliers are required to administer the student loan scheme which effectively guarantees that the course fees of their eligible students are paid.

9. The regulatory challenge to produce socially acceptable outcomes in such a market is likely to be beyond what can be achieved by Government.
16. Some comments on recovering the costs of income contingent loan schemes

The social objective of income contingent loans results in the government incurring costs associated with its current student loan schemes. As discussed in Section 10, if those loans are used to replace Government grants and the educational services which they support are provided at a reasonable price, the combined cost of grants and loans will virtually always be less than if the Government supported the services by grants alone.

That does not remove the Government’s responsibility to ensure that the cost of its student loan schemes is minimised. These costs are primarily the debt not expected to be repaid and the concessional loan costs of the schemes.

At various times, the Government has extended its student loan schemes in ways that were intended not to increase the scheme’s cost or to considerably reduce that potential cost by requiring some students to pay loan fees. A 25 per cent loan fee is applied to FEE-HELP loans for undergraduate courses of study. A 20 per cent loan fee is applied to VET FEE-HELP loans for full fee paying students. In the case of VET FEE-HELP loans for subsidised students, the States and Territories agreed to pay half of the debt not expected to be repaid and half of the concessional loan cost under the National Partnership Agreement on Skills Reform (NPASR, see page 25).

This has resulted in a complex set of confusing loan conditions that treats students in inequitable and inconsistent ways, as outlined in Table 8 above. It is worth reconsidering, from first principles, the policy objectives which should underlie any approach to cost recovery within student loan schemes.

The original 25 per cent loan fee which was applied to some FEE-HELP recipients sought to recover all of the costs of extending the scheme, both the debt not expected to be repaid and the concessional loan cost. The rationale for recovering each of these two components needs to be considered separately.

Let’s first consider the idea of recovering all of the debt not expected to be repaid and ignore for the moment concessional loan costs. In Section 9, I argued that debt not expected to be repaid arises out of the social objective of income contingent loan schemes and this objective is the most essential feature of these schemes. The intention is that people who do not earn sufficient income do not need to repay their loans.

The question would seem to be: Is there a clear policy rationale for why people who use the scheme and do repay their loans should also be required to repay the loans of those who do not?

In the case of people who are required to pay the full cost of their course, this sort of arrangement would mean that they are actually required to pay more for their course than it costs. These people would not simply repay the full cost of their course, but would also be required to make an additional contribution to Government revenue to eliminate this element of scheme cost. It would only be those students who use the student loan scheme and fully repay their loans who are required to make this contribution.

Some commentators argue that income contingent loan schemes should be considered similar to insurance funds. In the case of insurance everyone contributes to cover the cost of claims. Some people end up making no net contribution to the fund. The premiums of other people cover their claims. An income contingent loan scheme could be designed to work in the same way, with people who derive the most benefit from the loan paying an additional amount to cover those who do not end up with income sufficient to repay their loan.
My view is that this proposal is unfair because it places the burden of paying for this element of scheme cost only on scheme users, rather than on the broader population of tax payers in accordance with their capacity to pay tax. Given the social objective of the scheme, it seems most appropriate for this element of expense to be met from general government revenue. There is insufficient policy rationale to continue the practice of seeking to recover from students who repay their loans, the amounts lent to other students who do not fully repay them.

Now let's consider the idea of recovering concessional loan costs - the idea of recovering from a particular student the cost associated with providing a loan to that student at an interest rate lower than the Government's cost of borrowing. This is quite different from asking the student to make additional repayments to cover loans that will not be repaid by other students.

The first and most important point to make is that there is no reason why some students who choose to use the Government's student loan scheme should be required to meet this cost, while other students using the loan scheme are not. The current situation broadly results in full fee-paying students (i.e. those who do not benefit from the Government contributing to the cost of their course through a grant component) being required to meet this cost, while other students are not required to meet this cost.

The current situation which requires only some students to repay concessional loan costs is unfair and does not have an adequate policy rationale. It would only make sense if the education being undertaken by students who benefit from a grant component was worthy of some public support, but the education undertaken by full fee-paying students was not. But as a matter of fact, the Government does not currently decide which courses receive grants and which do not, based on a rigorous assessment of their public value.

The distribution of grants for tertiary education is heavily influenced by a history of primarily public provision of tertiary education. This is obviously changing. But in this context, there are two important policy points to be made about public support for tertiary education:

- If the educational activity being undertaken by a person is not of sufficient public value to warrant public support, then there may be no reason for the Government to provide either a grant or access to a student loan.
- The fact that the Government decides that a course should not receive a grant, does not mean that it is of no public value. It could just as easily mean that because a person completing the course is expected to obtain such a significant private benefit, no grant component should be paid.

My preferred way of framing the question is: Is there any reason why a student who elects to use the loan scheme should not meet this cost, particularly if that is subject to the person having sufficient income to meet the cost (i.e. it is also subject to the income contingent repayment arrangement)?

The alternative to a student meeting this cost is the Government meeting the cost.

The issue does not arise for any person who has insufficient income to repay their loan. Such a person may be aware that there debt was increasing, but as a practical matter they would not have to repay it. The issue only affects people who do have sufficient income to repay their loan.

The policy rationale for requiring a student to pay the full cost of their loan (i.e. remove concessional loan costs) is the same as for requiring students to contribute to the costs of their education in the first place. The rationale is that these individuals are capable of self-provision and it focusses social expenditures on citizens with lower lifetime incomes.
Whether the Government chooses to seek to reduce this cost, instead of another, is a decision about expenditure priorities. My view is that the Government should place a much higher priority on the social objective of the scheme (i.e. that the repayment threshold is set at a reasonable level and that repayment rates are reasonable) and a much lower priority on providing an interest rate subsidy for people who will have an income exceeding the repayment threshold for long enough to repay the loan and the cost of providing that loan.

Given this position, let's finally look at how recovery of concessional loan costs might best be achieved.

There are two main ways in which a government might seek to recover some or all of the concessional loan cost associated with providing student loans. These are by doing it:

- in the form of a loan fee (surcharge); or
- as an adjustment to the indexation arrangement for the loan.

The loan fee is the blunt approach. Essentially the Government would be estimating the average concessional loan cost across all borrowers and then charging every student that amount. If the average concessional loan cost was 7 per cent, a student's original debt would be 107 per cent of the amount borrowed. This amount would then be indexed by the CPI every year until the total debt was repaid.

There are undesirable consequences associated with this proposal:

- A person who repaid their debts in less than average time would be charged more than the actual cost of their loan because the concessional loan cost for that student would actually be less than 7 per cent. Obversely, a person who took longer than average to repay would be charged less than the actual cost of their loan because the concessional loan cost for that student was more than 7 per cent.
- In addition, once a student has taken out the loan it would always be better value than any other loan available in the market. Loan fees are calculated at the time a student borrows and are added to the amount of debt reported to the ATO. After that time the debt continues to be indexed by the CPI. This means former students would have no incentive to repay any more of their debt than legally required. It would also be economically irrational for them to do so in any circumstance in which they needed to borrow money for any purpose.

From a policy perspective, both of the above results should be avoided to the extent possible.

The adjustment to indexation approach does a better job of recovering the concessional loan cost from borrowers in proportion to their responsibility for that cost. There are a variety of ways in which this can be done and they do not all require full cost recovery:

- Currently debts are indexed by the CPI once a year. This arrangement already achieves partial recovery of the borrowing costs of the loan. It does so in a manner that does no more than ensure that the real value of the student contribution to the Government is maintained. There is a very high public perception that this is a fair arrangement.
- Further partial cost recovery of the concessional loan cost could be achieved by adding 1 per cent to CPI or some alternative increment considered appropriate.
- There is no real policy rationale for the Government to seek to recover more than its cost of borrowing which is essentially the Government bond rate. The Government previously abandoned its attempt to have indexation at the bond rate, up to a maximum rate of six per cent.
The arguments against indexation at a rate higher than inflation are not strong. These arguments generally claim that the proposal is inequitable. For example, Timothy Higgins and Bruce Chapman in Submission 83 to the Senate Inquiry into the Higher Education and Research Reform Amendment Bill 2014 argued:

- relatively low income debtors who repay their debt will effectively pay more in real terms for university tuition than high income debtors;
- the extent of the repayment penalty depends on the size of the debt and thus the level of tuition charges;
- debtors taking time out of the labour force will incur real loan costs as a result; and
- overall the result is inequitable.

I am not convinced by this argument primarily because low income people are not required to make any repayment of their HELP debt. Only people in the top half of the earnings distribution are currently required to make HELP repayments.

- In May 2014, the median wage was $52,052. The HELP repayment threshold in 2013-14 was $51,309 and in 2014-15 was $53,345.
- Even after the newly legislated threshold of $51,956 is introduced in 2018-19, people in the bottom 40 per cent of the earnings distribution will not be required to make a HELP repayment.

People who have income below the threshold over their lifetime or who never repay the principal of their HELP debt are not affected by a real interest rate, even though it is applied by the ATO to the potential maximum amount of debt to be repaid. These people never actually pay any interest on their debt.

The above argument relies for its force on comparing the repayments made by graduates. The Higgins-Chapman analysis was only possible for the 70 per cent of graduates with the highest earnings and they were all in the top 60 per cent of the income distribution for the general population. The lowest 30 per cent of graduate earners were estimated to not complete repayment of their debt over their lifetime.

The analysis quantifies how much in real terms people will pay over their lifetime for a range of modelled scenarios. As would be expected with a real interest rate, the results of the analysis showed that people who take longer to repay will pay more in real terms than those who repay relatively quickly. This finding is to be wholly expected, as this is what it means to have a real interest rate.

The policy question is whether the Government should care that people who only just make it into the top 50-60 per cent of the earnings distribution pay more in real terms than others who are among the highest earners in the population. These people always pay more in real terms for anything that requires them to borrow money, compared to people with higher income who can repay their loans faster. They are however, still in the top 50-60 per cent of the earnings distribution and are generally able to provide for their own well-being. So I am not convinced that the Higgins-Chapman analysis provides a sufficient argument for the Government to redistribute the burden of concessional loan costs between the members of this relatively well off group.
The undesirable consequences of the loan fee approach, including that it does not add any incentive to repay the loan, were noted above. An interest rate does not result in any person within the relatively well off group that repay their loans paying more for their education than anyone else. Some would pay more for their student loan than others, but this is because they have access to the loan for a longer period of time than other people in the group. But people would be able to prevent this outcome from occurring by voluntarily repaying their loans quicker than is legally required. This would be a good outcome.

The most important feature of the Government's student loan schemes is that the repayment arrangements are reasonable for people who are not in the labour force or who have low lifetime incomes. This is fundamentally about the repayment threshold and to some extent the repayment rates above that threshold. These are the features of the scheme that should concern people who are worried about equity. These are the features of the scheme which ensure that the Government's provision of tertiary education does not amount to a transfer of wealth from low income to high income people.

While the Government should be concerned about the overall distributional consequences of its tertiary education grant and loan programs, there is only so much that can be achieved within these programs. In particular, the Government should not overly complicate the HELP program and its repayment arrangements by seeking to embed further complex income redistribution mechanisms into them, over and above their primary redistributive objective. It should not proceed with the proposal to pause indexation of HELP debts for the primary carer of a child under five years who earns less than the HELP repayment threshold. This proposal would result in poorly targeted expenditure that could provide a benefit to someone in a family with income in excess of a billion dollars. It would be preferable for the Government to enhance family assistance or paid parental leave instead of introducing such a measure if it wishes to support the carers of young children.

There is a strong policy case for retaining the current relatively high repayment threshold which ensures that only the top half of income earners are required to contribute to the cost of their tertiary education. There is also a good policy case for requiring these people to pay most of the cost of their loan. It would produce potentially very large accumulating savings over the long term, likely to be in excess of a billion dollars a year. People who have incomes above the average are generally able to support themselves. There are a range of other social supports in place to assist them if they are not, such as family assistance if they have a large number of children. There is no reason these people should not meet at least some of the cost of the Government providing their loans.
F. The resourcing of teaching and training in the tertiary sector

17. The resourcing of higher education student places

In an era of mass higher education, Governments have little choice but to seek to ensure that higher education is provided efficiently. There are many ways in which Governments have sought to ensure this, such as tightening indexation arrangements, applying ‘efficiency dividends’ and increasing student contributions to enable the available government subsidies to be spread more thinly.

In higher education, the adequacy of the level of resourcing for student places has been contentious for many years. There is a lot of confused discussion about whether the resourcing of student places is also intended to provide resources for research. In the 15 years to 2003, considerable efforts were made to:

- ensure that university ‘operating grants’ properly reflected the current teaching loads of universities, rather than being an artefact of historical university funding. This was particularly critical for new and developing universities; and
- remove research funding from university ‘operating grants’. In 2003, a new higher education funding act was passed which explicitly provided for teaching subsidies and student contributions to be allocated based on what was being taught by a university.

Despite these developments, universities generally have continued to press for additional funding for research purposes to be provided as part of the resourcing of student places. It is likely that this explains much of the widespread support of university Vice-Chancellors for the recent proposals to deregulate fees. Proposed cuts to CGS subsidy rates of themselves do not provide an argument for deregulation, as increases in maximum student contribution rates could ensure the maintenance of university revenue for teaching.

The most recent detailed work on the resourcing of higher education student places was undertaken as part of the Higher Education Base Funding Review which reported in October 2011. As part of its work the panel looked at “the extent to which funding levels matched the direct and indirect costs incurred by universities in undertaking core teaching and learning activities, as well as scholarship and base research capability” (p 46). A costing study by Deloitte Access Economics was commissioned “to analyse the costs of delivering courses and the appropriateness of the current funding differentials between clusters” (p 46).

The study produced two particularly significant charts which are re-produced together on the next page as Chart 16. These charts provided the ratio of costs to funding (i.e. resourcing) by field of education (FOE). The first chart provided it just for undergraduate teaching and scholarship costs. The second chart provided it for teaching, scholarship and research costs. A ratio of less than one would show that resourcing exceeded costs and a ratio of more than one would show that costs exceeded resourcing.

While the situation differed by field of education, the charts broadly indicated that resourcing was adequate to meet teaching and scholarship costs and that the claim that resourcing was inadequate could generally only be substantiated if that resourcing was intended to meet some research costs. The costing study found that “base funding is on average adequate to meet the costs of teaching and scholarship but not necessarily for each FOE or each institution” (p 48) and it concluded that “for undergraduate places on average, 6 per cent of base funding is used to support base capability in research” (p 48).
Chart 16: Figures 3.2 & 3.3 from the Higher Education Based Funding Review Final Report, 2011, pages 49 and 50.

Figure 3.2: Ratio of undergraduate teaching and scholarship costs to funding by field of education

Figure 3.3: Ratio of teaching, scholarship and research costs to funding by field of education

Note: The maximum and minimum points are indicated by the top and bottom points of the vertical lines showing the range of costs.

Source: Special data request from sample universities, Deloitte Access Economics 2011a
18. Research income and expenditure of universities

Universities are growing their research expenditure much faster than their research income. This is very evident in Chart 17 below which compares higher education research and development expenditure (HERD) with the total research income of universities and the research income they receive from the Australian Government, all as a proportion of GDP.

By 2012, universities were spending $9.6 billion (39 per cent of their operating revenues) on research. This was $4.2 billion more than they received in research income. Less than $4 billion of their total $5.4 billion in research income was received from the Australian Government through its research grant programs.

There is a serious policy question which the Australian Government is largely ignoring concerning how much longer this trend can continue. We currently do not know what is driving it. It could be large research universities wanting to do even more research. It could be newer universities trying to develop their research capability. It could be both. We do know that a significant amount of this research expenditure is coming from students, including domestic students who attract CGS subsidies and pay student contributions.

There is certainly no policy justification for the Government to deregulate the course fees paid by students to facilitate a continuation of this trend. The justification for student contributions is that much of the benefit of higher education study accrues to the individuals who undertake it. It is therefore reasonable that these individuals contribute to the cost of their study. This allows taxation revenues to be directed more toward disadvantaged individuals and reduces Government expenditure on individuals that either have, or will have, the means to pay for their higher education themselves.

Chart 17: HERD and university research income (per cent of real GDP)

This justification does not apply to university research expenditure. The benefits of government expenditure on research and development do not primarily accrue to students who undertake a higher education. They accrue more generally to Australians (and even non-Australians) through their impact on our economy, the nature of our society and culture, and our living standards. There is a much stronger case that research should be funded from general taxation revenue than a student's higher education, given the 'public good' or, in the jargon of economists, ‘positive externalities’ derived from that research.

In the Grattan Institute research paper, *The cash nexus: how teaching funds research in Australian universities*, Andrew Norton and Ittima Cherastidatham estimated that in 2012 at least $2 billion out of the $10 billion that universities spend on research has been financed by students. They estimated that teaching revenues may exceed what is being spent on teaching by up to $3.2 billion with up to half of this from domestic students.

The authors of this paper also noted that “there are strong internal university pressures to favour research over teaching, and much evidence that teaching surpluses are used to finance research” (p41) and they argued that:

- it is not contrary to public policy goals for international student fees to increase the resources available for university research, but the situation is different in the case of domestic students due to the considerable investment of public funds (p34);
- there is a need to ensure public policy goals are achieved as efficiently as possible and funding research projects through students makes it harder to achieve both teaching and research funding goals (p34);
- if additional per-student funding is intended to improve outcomes for students, the Government needs to ensure that students benefit through both consumer protection measures for students and public accountability mechanisms (p34); and
- the achievement of policy objectives in both teaching and research “are likely to be better served by clarifying what money paid by or for students is for, and how it is used” (p35).

[Norton, A. & Cherastidatham, I., (2015)]

This is sound advice. There is a very significant question about who decides how much of university revenue is spent on research and particularly how much of the revenue derived from domestic students can be diverted to research purposes. This is not a matter that should be decided by universities alone and it is a matter on which the Government should have a clearly articulated view.

The Commonwealth’s Resource Management Framework seeks to ensure accountability for and transparency in the use and management of resources [Australian Government (2015c), p 6]. Each year the Department of Education requires that all universities, as part of their financial statement, include the following declaration in its “Statement of Certification(s)”: 

*The amount of Australian Government financial assistance expended during the reporting period was for the purpose(s) for which it was intended and [HEP] has complied with applicable legislation, contracts, agreements and program guidelines in making expenditure.*

These declarations are duly signed each year by the Vice-Chancellor (or Chief Executive Officer) and a Member on behalf of the Board (or governing body). An interesting question is ‘What reference or statement of grant purpose is being used by the relevant university official to enable them to be satisfied that they can provide this certification?’. It is similarly unclear on what basis Government Ministers and Departmental officials assert that CGS funds can be used for research:

- The Higher Education Support Act 2003 (HESA) indicates that CGS grants are paid “as a benefit to students”.
- The Commonwealth’s Budget appropriation documentation [which includes the Department’s Portfolio Budget Statement (PBS)] indicates that the objective of the CGS is to “subsidise the tuition costs for higher education students enrolled in undergraduate and postgraduate degrees”.
- The PBS also identifies a list of deliverables for the program and key performance indicators, none of which relate to research.

Ministers and Departmental officials are supposed to ensure that appropriated funds are spent on the purpose for which those monies are appropriated. The PBS is to inform Senators and Members of Parliament of the proposed allocation of resources to government outcomes and under section 15AB of the Acts Interpretation Act 1901 it is a ‘relevant document’ in the interpretation of the Appropriation Acts.

The Constitutional head of power which allows for the appropriation of monies for the CGS is explicitly referred to in the HESA. Section 30-1(1) indicates that CGS grants are paid ‘as a benefit to students’. Since the High Court’s decision in ‘Williams 2’ (the second Chaplaincy case) it has been clear that some existing laws may exceed their head of power and may not be able to operate as had previously been intended. In particular, for an appropriation of money to be valid under the ‘benefit to students’ power (section 51(xxiiA) of the Australian Constitution):

*it requires more than there be some advantage to a student. There must be, at a bare minimum, some material aid (such as money or a service) to an identified or identifiable student to provide for human wants which are as a consequence of being a student.*

(see Clayton Utz Insights, 26 June 2014, Where to now for Commonwealth grants programs post-Williams (No 2)?, Alexandra Wedutenko and Lisa Keeling.)

The appropriation of money for research may not be supported by the ‘benefit to students’ power as the benefit derived from research is not received by an identified student for a want that is a consequence of being a student. In particular, it is not clear that the CGS is an available source of funds for academic salaries to support research.

The Chaplaincy Program was found to exceed the authority of the ‘benefits to students’ power because it:

- merely facilitated the payment of an amount (in this case to an intermediary) which could be used to pay the wages of a chaplain to “support the wellbeing” of a particular group of children (i.e. those attending an identified school); and
- did not provide aid for any human wants which that group of children may have as a consequence of being students.
It is possible that the CGS, relying as it does only on the ‘benefit to students’ power, could exceed its legislative authority if it purported to support research. The general benefit which students obtain from research being undertaken at their institution might be viewed by the High Court in the same manner as the general benefit of supporting a chaplain at a school.

Following the Williams 2 decision, the Commonwealth has been reviewing all of its programs to ensure that it is not exceeding its legislative authority. The CGS is regarded as at low risk of challenge because the Commonwealth considers that it is providing a direct benefit to students by reducing the fees that the student would otherwise pay. For this reason, the Commonwealth has not taken any action to bolster its view that it is operating under a valid law appropriating money for that purpose.

None of this would be an issue if the Commonwealth clarified that CGS grants and student fees were to be used to provide educational services to students. This should become Government policy.

19. Comparing the resourcing of teaching in VET and higher education

While there may be evidence that university research funding is not adequate for the level of research being required of universities, there is little evidence that student places in higher education are under-resourced. There is clear evidence that VET is resourced at a level substantially below that of higher education teaching. With further reductions in the pipeline, there is a basis to be concerned at the potential adverse impact that this may have on the delivery of quality training in the VET sector.

Chart 18 shows the share of total tertiary education teaching revenues in the VET and higher education sectors. In the case of higher education, the total value of all research expenditure is subtracted from total university revenues to establish what is left to support teaching. In the case of both VET and higher education the revenue identified in the chart is assumed to be available to support subsidised and full fee-paying domestic students, as well as international students.

The chart indicates that the VET sector would require an additional $2.6 billion in revenue to achieve a resourcing share equal to its student share, as measured by the ABS in its Survey of Education and Work, May 2014 [ABS (2014b)]. It also shows the obverse, that is how much less revenue in the higher education sector would result in it having a resourcing share equivalent to its student share, as measured in the ABS Survey of Education and Work. The distribution of students by program level and sector from the ABS Survey of Education and Work are detailed in Chart 19 below.

There are substantial complexities in seeking to compare levels of resourcing across the two sectors. Different results are obtained depending on how students are counted and how the level of resourcing available to teach those students is determined. There are always residual questions about whether:

- one sector requires a greater level of resourcing for teaching than the other; and
- all else being equal, which sector might be under-resourced or alternatively, over-resourced.

Regardless of these matters, all the evidence points to the VET sector being resourced at a much lower level than higher education. Of all the readily available methods of comparison, the one presented in Chart 18 produces the smallest disparity between the higher education and VET sectors.

Note that higher education sector teaching revenue is HEP operating revenue of $27.2 billion less an estimated $11 billion spent on research. This is much less than HEP operating revenue less research income of $5.5 billion = $21.7 billion.


Note: Assumes 95% of Graduate Diploma and Graduate Certificate students and 20% of Diploma and Advanced Diploma students are in higher education.
Table 18 provides a range of estimates of revenue per student across the two sectors. Most of the comparisons are biased against the VET sector. They tend to result in an overestimate of VET revenue per student and underestimate of revenue per student for higher education.

- The number of FTE students in the NCVER VET collection does not include unsubsidised students with private providers, but six per cent of the number of FTE students in the Department of Education and Training’s (DET’s) higher education statistical collection are unsubsidised students at private providers.
- The figure for VET resourcing includes $1.4 billion in VET-FEE HELP payments for students not in the public sector, but the figure for resourcing in higher education does not include FEE-HELP payments for students at private providers (likely to be around $400 million).
- The ABS estimate of the number of students is calculated on the same basis across the VET and higher education sectors.

The conclusion from this analysis is that, based on a relatively crude measure, the resourcing available for higher education is at least 30 per cent higher than for teaching and training in the VET sector. This finding and the analysis in Part B of this paper provides strong support for the position separately argued and advocated by Peter Noonan:

*Decisions on the future of VET should be taken as part of a redesign of funding of tertiary education in Australia across the VET and higher education sectors – a process in which the Commonwealth must take the lead.*


### Table 18: Comparison of revenue per student by sector, using various methodologies

<table>
<thead>
<tr>
<th></th>
<th>Level of resourcing available ($b)</th>
<th>Number of students, May 2014 (ABS estimate)</th>
<th>Revenue per ABS student ($)</th>
<th>No. of FTE students (DET &amp; NCVER collections)</th>
<th>Revenue per FTE student ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>VET Sector</td>
<td>8.8</td>
<td>834 000</td>
<td>10 552</td>
<td>759 600</td>
<td>11 585</td>
</tr>
<tr>
<td>HE Sector - based on total revenue less research expenditure</td>
<td>16.2</td>
<td>1182 000</td>
<td>13 706</td>
<td>977 237</td>
<td>16 577</td>
</tr>
<tr>
<td>HE Sector - based on total revenue less research income</td>
<td>21.7</td>
<td>1182 000</td>
<td>18 359</td>
<td>977 237</td>
<td>22 205</td>
</tr>
</tbody>
</table>

20. **The need for further research on resourcing in tertiary education**

It is not desirable for either the VET sector or the higher education sector to be inadequately resourced in their teaching and training activities. While more resourcing does not assure higher quality in education and training, there can be little doubt that inadequate resourcing compromises it. Poor quality education and training would undermine achievement of the economic and social benefits that are intended to be derived from supporting people to obtain a post-secondary education.
In the higher education sector, there has been work undertaken on the costs of delivery in the various fields of education. Some of the results of that work were presented in Chart 16 above. Despite finding that on average resourcing was adequate to meet the costs of teaching and scholarship, the results indicated that there may be under-resourcing in some areas. The higher education sector is critical of current discipline-based resourcing levels and the point is often made that these are based on studies which are now over 25 years old, having been undertaken to inform the 1990 Assessment of the Relative Funding Position of Australia’s Higher Education Institutions.

In the preparation of this paper, there was no detailed literature review into what studies or research may have been undertaken into the cost of delivering vocational education and training and how that might compare to current resourcing levels. Given that the States and Territories have, at least until recently, had prime responsibility for the resourcing of the VET sector, there may be a variety of State-specific studies that explore this matter. Regardless of the work that may have been undertaken, the nature of teaching and training is likely to be changing rapidly, particularly due to the impact of technology on teaching as well as on the skills required in the labour market. In general, a periodic review of the resourcing required in various disciplines would be necessary to ensure that resourcing levels remained appropriate.

There are many conceptual and methodological difficulties in assessing the resources required to deliver quality teaching and training. Not least of them is the extent to which conclusions can be drawn from the current expenditure patterns of education institutions. These institutions cannot spend more than they have and there is a strong basis for thinking that their current expenditure patterns may be tailored to current resourcing levels. There is considerable scope to question whether current expenditure patterns reflect optimal efficiency in the delivery of education and training.

The level of resourcing required to deliver quality education and training and the minimum needed to provide a reasonable standard of quality education and training are difficult to ascertain. But given the level of public resources allocated to tertiary education, governments cannot absolve themselves of responsibility for making an informed judgement about the level of resourcing that should be allocated to these activities. It is not a matter that governments can leave to market forces to ensure that there is an optimal allocation of resources. The consumers of education and training have relatively poor information about the quality of different education services and the availability of income contingent loans considerably reduces effective price competition.

A considerable amount of detailed costing and research would be required to provide an appropriate evidence base on which to make recommendations to Government on the resourcing required for the various types of education and training delivered across the higher education and VET sectors. Inevitably, some level of judgement is required to reach a conclusion on these matters, but the judgement needs to be informed by good evidence and a proper consideration of all relevant factors.

There is an increasing view among policy analysts that this work is necessary to resolve some of the emerging problems in resourcing across both sectors:

- In relation to VET funding, Peter Noonan has argued for the development of a funding model for qualifications funded under a national VET system by setting (i) an efficient or benchmark price for each qualification (ii) the balance between public and private contributions (to make up the total price). [Noonan, P. (2016), p 24]
In relation to higher education funding, Andrew Norton and Ittima Cherastidtham have said “Any policy response to current funding problems will also require much better information and better ways of collecting it” [Norton, A. & Cherastidtham, I., (2015), p 35]. They advocate that this be achieved through activity based costing and are supportive of a system similar to the UK’s, Transparent Approach to Costing (TRAC).

The situation in tertiary education is not substantially different from that which applies to the funding of hospital services. In the National Health Reform Agreement, Australian Governments agreed to establish the Independent Hospital Pricing Authority (IHPA) to undertake the detailed work required to establish national efficient prices for hospital services. Table 19 below provides further information on the functions of IHPA.

<table>
<thead>
<tr>
<th>Table 19: Functions of the Independent Hospital Pricing Authority (IHPA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quotes taken from the IPHA’s website:</td>
</tr>
<tr>
<td>IHPA’s primary function is to implement Activity Based Funding for Australian public hospital services.</td>
</tr>
<tr>
<td>Activity Based Funding (ABF) is a way of funding hospitals whereby they get paid for the number and mix of patients they treat. If a hospital treats more patients, it receives more funding. Because some patients are more complicated to treat than others, ABF also takes this in to account.</td>
</tr>
<tr>
<td>ABF funding should support timely access to quality health services, improve the value of the public investment in hospital care and ensure a sustainable and efficient network of public hospital services. ABF payments should be fair and equitable, including being based on the same price for the same service across public, private or not for profit providers of public hospital services.</td>
</tr>
<tr>
<td>Selected functions extracted from Schedule B of the National Health Reform Agreement</td>
</tr>
<tr>
<td>a. developing and specifying the national classifications to be used to classify activity in public hospitals for the purposes of ABF;</td>
</tr>
<tr>
<td>b. determining the supporting data requirements and data standards to apply to data to be provided by States, including:</td>
</tr>
<tr>
<td>i. data and coding standards to support uniform provision of data; and</td>
</tr>
<tr>
<td>ii. patient demographic characteristics and other information that is relevant to classifying, costing and paying for public hospital functions;</td>
</tr>
<tr>
<td>c. specifying costing data, methods and standards to be used in studies of the costs of delivering public hospital services, and to collect such data from Local Hospital Networks, through the States, to enable it to calculate the national efficient price and loadings;</td>
</tr>
<tr>
<td>d. determining the national efficient price for services provided on an activity basis in public hospitals through empirical analysis of data on actual activity and costs in public hospitals, taking account of any time lag and the cost weights to be applied to specific types of services;</td>
</tr>
<tr>
<td>e. ...</td>
</tr>
<tr>
<td>f. developing, refining and maintaining such systems as are necessary to calculate the national efficient price, including determining classifications, costing, data elements and data collections;</td>
</tr>
<tr>
<td>g. determining adjustments ('loadings') to the national efficient price required to take account of legitimate and unavoidable variations in the costs of service delivery, including those driven by hospital size, type and location;</td>
</tr>
<tr>
<td>h. ...</td>
</tr>
</tbody>
</table>
IPHA’s functions appear quite similar to those that would need to be undertaken to establish reasonable prices for the supply of various tertiary education courses and training packages. Government resourcing of tertiary education should not exceed the reasonable cost of its delivery and it would be appropriate for the Government to apply the same level of rigour in determining prices in tertiary education as it does in hospitals. It also would be appropriate for the Government to more rigorously consider how much debt should reasonably be incurred by students and trainees in each year while undertaking these courses / training on the path to their chosen career.

This work would most appropriately be undertaken by an independent authority responsible for undertaking the costing studies and research required to make recommendations on prices and student contribution levels. While it could have tightly structured terms of reference for the scope of its work, it would be preferable for it to have an unfettered power to publish its findings and recommendations. This would help ensure that there was transparency and public confidence in its work. The Government could retain final responsibility for decisions on funding and student contributions.

There is no imminent crisis in the resourcing of Australia’s tertiary education sector, but the evidence presented in this paper appears to indicate that priority should be given to areas in the VET sector. There has been much support within the higher education sector for demand driven funding of diplomas and advanced diplomas. Given the disparities in funding between the sectors, any move in this direction should be delayed until appropriate ‘sector-neutral’ resourcing for these qualifications is in place.

The work program for such a body could be structured to ensure that the authority required only a modest level of resourcing. A reasonable approach would be for it to have a long term work program, periodically reviewing and updating resourcing packages for each of the major disciplines / fields of education. There could be stakeholder input to the setting of priorities for the review of resource packages. The Government could set the final priorities for the work program.
G. Regulation

21. Who is responsible for what?

In the introduction of this paper, I noted that the Government discussion paper on Redesigning VET FEE-HELP sought to lay responsibility for problems in the VET FEE-HELP program on a previous Government. In his introduction to that paper, the then Minister for Vocational Education and Skills said of the VET FEE-HELP scheme:

Since these 2012 changes, the scheme has experienced significant growth, reflecting student demand, but also growing course costs and student debts.

This period has also been characterised by serious concerns over the quality, probity and conduct of some providers, low completion rates and unethical practices.

There are many reasons for each of these individual issues, but the key common factor is that the changes in 2012 did not contain sufficient safeguards for students or regulatory powers for the department, instead providing incentives and rewards for unethical behaviour.

The view that that there were not sufficient safeguards for students or regulatory powers for the department is difficult to maintain. It does not accurately reflect what occurred from the 2012 to 2015.

It has always been the case that under the Higher Education Support Act 2003 (HESA) action could be taken against VET FEE-HELP providers who do not meet quality and accountability requirements. The National VET regulator (NVR), created in 2011, also had extensive powers to uphold quality and deal with rogue VET providers under the National Vocational Training and Regulator Act 2011 (NVTR Act). Details on the provisions for upholding VET quality under the HESA are detailed in Table 20 and under the NVTR Act are detailed in Table 21.

Under the HESA, delegated officers had the power to approve VET providers, making their students eligible for VET FEE-HELP. They also had the power to revoke (or suspend, pending a decision on revocation) a provider’s approval. These revocation and suspension actions could stop all new VET FEE-HELP loans for students of the provider. Officers also had the power to take these actions, so that they only affected new students commencing a course of study with the provider. They had the power to continue loans for students who had commenced with the provider but had not yet completed their course, while stopping loans going to new students.

Delegated officers could take any of these actions for an approved VET provider that failed to meet the ‘Quality and Accountability Requirements’ outlined in the HESA and the relevant Guidelines. They could also require an approved VET provider to be audited for compliance with these requirements. Importantly, these requirements included that the provider must:

- operate at an appropriate level of quality;
- treat equally and fairly all VET students and all individuals seeking to enrol in a VET unit of study with the VET provider; and
- have open, fair and transparent procedures based on merit for making decisions about the selection of persons who seek to enrol with the VET provider.
Over the period 2011 to 2013, the Government took multiple actions to strengthen the protection of VET students and taxpayer funds. The Government introduced two separate sets of amendments to the HESA which were passed by the Parliament. One came into force in 2012 and the other in early 2013. Both strengthened protections for students and taxpayer funds. In particular, these amendments made it absolutely clear that:

- **all of a VET provider's operations** were required to be of an appropriate level of quality. This could be used to ensure that admissions processes and a provider's arrangements with any agents were at an appropriate level of quality;
- delegated officers could seek information from the VET regulator to help them make revocation and suspension decisions;
- delegated officers could issue compliance notices requiring VET providers to take actions to become compliant with the HESA and its Guidelines.

**Table 20: Provisions for upholding VET quality under the Higher Education Support Act 2003 (VET FEE-HELP's enabling legislation) – as at beginning of 2014.**

<table>
<thead>
<tr>
<th>Provisions</th>
<th>Legislation Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minister may seek information from VET regulator for purpose of administering the Act and Guidelines.</td>
<td>Section 182-1, HESA</td>
</tr>
<tr>
<td>Revoke provider’s approval for breaching quality and accountability requirements.</td>
<td>Clause 33, Schedule 1A, HESA</td>
</tr>
<tr>
<td>If revoked, retain approval for existing students who have not completed their courses.</td>
<td>Clause 35, Schedule 1A, HESA</td>
</tr>
<tr>
<td>Suspend provider’s approval pending decision on revocation.</td>
<td>Clause 36, Schedule 1A, HESA</td>
</tr>
<tr>
<td>If suspended, retain approval for existing students who have not completed their courses.</td>
<td>Clause 37, Schedule 1A, HESA</td>
</tr>
<tr>
<td>Require a VET provider to be audited for compliance with quality and accountability requirements (including the fairness to students requirements but not the quality requirements).</td>
<td>Clause 26, Schedule 1A, HESA</td>
</tr>
<tr>
<td>Minister may issue compliance notices to VET providers specifying actions to be taken to become compliant with the Act and Guidelines.</td>
<td>Clause 26A, Schedule 1A, HESA</td>
</tr>
<tr>
<td>VET provider must operate at an appropriate level of quality in all its operations including complying with the Standards for NVR Registered Training Organisations.</td>
<td>Clause 17, Schedule 1A, HESA combined with Clause 4.3 of the VET Guidelines 2013</td>
</tr>
<tr>
<td>VET provider must treat equally and fairly all VET students and all individuals seeking to enrol in a VET unit of study with the VET provider.</td>
<td>Clause 18, Schedule 1A, HESA combined with Clause 5.2.1 of the VET Guidelines 2013</td>
</tr>
<tr>
<td>VET provider must have open, fair and transparent procedures based on merit for making decisions about the selection, of persons who seek to enrol with the VET provider.</td>
<td>Clause 18, Schedule 1A, HESA combined with Clause 5.2.2 of the VET Guidelines 2013</td>
</tr>
<tr>
<td>A VET provider must have a grievance procedure to deal with complaints about academic and non-academic matters from the VET provider’s students and non-academic matters from persons seeking to enrol with the VET provider in a VET course or unit of study – including arrangements for independent and external consideration of unresolved appeals.</td>
<td>Clause 18, Schedule 1A, HESA combined with Clause 5.3.1 and 5.3.2 of the VET Guidelines 2013</td>
</tr>
</tbody>
</table>
When the Government introduced the 2012 amendments, it argued that if the limitations identified with VET FEE-HELP’s quality and accountability framework were not addressed, the potential to damage industry confidence in the quality of VET qualifications and the role of VET FEE-HELP was high.

Under the National Vocational Training and Regulator Act 2011 (NVTR Act), the regulator had strong and wide powers to regulate the VET sector. Its main job was to enforce the VET Quality Framework, one element of which is the Standards for NVR Registered Training Organisations. These standards include requirements for:

- RTO advertising and marketing to be ethical and accurate;
- RTO clients to be properly informed about fees, rights and obligations; and
- RTOs to comply with all relevant legislation and regulation relevant to its operations.

The regulator’s establishing act included a wide range of offence and civil penalty provisions. In particular, these offenses included the making of false or misleading representations relating to a VET course or a VET qualification. The regulator was given strong investigative powers to enforce these provisions which included:

- the ability to search premises under a warrant with the power to seize evidential material and operate and seize electronic equipment; and;
- the power to use necessary and reasonable force to execute warrants.

What appears to have occurred from 2012 to 2015 is that, despite all of this regulatory power, little of it was used. VET FEE-HELP first doubled in 2013 and then again in 2014. It was not until Feb 2015 that 23 ASQA audits were announced. By July 2015, the widespread rorting was public knowledge but there had still not been a single VET provider suspended or cancelled.

There is a need to understand why there was such a delay in action. This is not a matter that can be adequately undertaken in this paper. There are multiple potential reasons and each of them needs to be fully explored.

- Are the responsible agencies sufficiently resourced to properly perform the required functions?
- Is there sufficient experience and expertise in the responsible agencies to properly perform the required functions?
- Is it the proliferation of agencies that have some level of responsibility in the area causing confusion about responsibilities or increasing the potential for buck-passing of responsibility?
- Is their real clarity about which agency has prime responsibility for these matters or, if responsibility is shared, which agency is responsible for what aspects of them?
- In an environment in which a Government may be seeking to increase competition, is there sufficient agency independence, so that agency officers can perform the necessary functions without fear of potential adverse consequences arising from their decisions?
- In an environment in which a Government may be seeking to increase competition, is it appropriate to be requiring providers to administer student access to loans? This may be reasonable when all of those providers are public agencies subject to a high degree of public accountability. But is it appropriate when they are for profit entities able to derive most of their revenue by providing that access?

It is highly likely that each of these factors played a role.
Table 21: Provisions for upholding VET quality under the National Vocational Training and Regulator Act 2011 (ASQA's enabling legislation) – as at beginning of 2014

<table>
<thead>
<tr>
<th>Investigative powers related to whether the Act has been, or is being, complied with:</th>
<th>Division 1, Part 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Requiring people to give information and produce documents or things, including offence provisions for not doing so.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investigative powers related to whether the Act has been, or is being complied with:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• searches of premises, including under a warrant and with:</td>
<td>Division 2, Part 5</td>
</tr>
<tr>
<td>o the power to seize evidential material and the power to operate and seize electronic equipment; and</td>
<td></td>
</tr>
<tr>
<td>o the power to use necessary and reasonable force to execute the warrant.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Enforcement – Offence</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Making false or misleading representation in advertisement.</td>
<td>Section 122</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Enforcement - Offence</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Making false or misleading representation relating to VET course or VET qualification.</td>
<td>Section 124</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>An NVR RTO must comply with VET Quality Framework, one element of which is the Standards for NVR Registered Training Organisations. The Standards include that:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• trainers and assessors have the necessary training and assessment competencies;</td>
<td></td>
</tr>
<tr>
<td>• before clients are enrolled they are informed about the training and assessment services to be provided, and about their rights and obligations;</td>
<td></td>
</tr>
<tr>
<td>• NVR RTO must comply with relevant legislation and regulatory requirements relevant to its operations;</td>
<td></td>
</tr>
<tr>
<td>• Clients must be informed of the total amount of all fees, payment terms and the organisation’s refund policy; and</td>
<td></td>
</tr>
<tr>
<td>• NVR RTO must ensure that its marketing and advertising of AQF and VET qualifications to prospective clients is ethical, accurate and consistent with its scope of registration.</td>
<td>Section 22 combined with the Standards for NVR Registered Training Organisations</td>
</tr>
</tbody>
</table>

| An NVR RTO must comply with any general directions given by the NVR on the way in which the VET Quality Framework or other conditions are to be complied with. | Section 28 |

| NVR may impose other conditions on an NVR RTO’s registration. Such conditions need not be imposed at the time of registration. | Section 29 |

The transcripts from the Senate Estimates hearings in which the issues surrounding what became known as the VET FEE-HELP debacle were discussed are quite revealing. Few readers would be able to ascertain with any certainty which agency was primarily responsible for what occurred.

- Was it the Department of Education and Training?
- Was it the National VET Regulator?
- Perhaps it was the Australian Competition and Consumer Commission, who ended up having to step in and fix the mess!
- Perhaps State and Territory agencies should have shouldered some responsibility.
There is a very basic lack of clarity about whether there is one tier or two tiers of quality and about which agencies are fundamentally responsible for ensuring that the evident problems do not continue.

It is often stated that the NVR’s role is to set minimum standards for an entity to be able to provide VET in Australia. The implication is that the NVR is not responsible for any higher standards that might be required for access to government resourcing. But contrasting views might be held by other people, especially if they are involved in implementing measures to decrease the level of regulation in the sector.

It is quite plausible for someone to consider there should not be a second layer of higher standards for access to government resourcing. Why would there be a need for higher standards, if providers are of sufficient quality to issue Australian qualifications, to supply skilled and educated Australians into the domestic labour market and to uphold the international reputation of Australia’s tertiary sector. After all, the export of education is one of Australia’s significant exports and the maintenance of high quality across its operations is vital.

One of the major reasons for the apparent existence of two levels of quality standards is the continued existence of quality and accountability provisions in HESA, at the same time as many apparently similar provisions occur in the legal frameworks of the national higher education regulator and the national VET regulator. The provisions in HESA date from prior to the existence of both regulators. They were originally intended to ensure that the Australian Government was able to regulate providers whose students benefitted from its programs, as at that time most sector regulation was the responsibility of the States and Territories. Since the creation of the two national regulators this generally is no longer the case, noting that both Victoria and Western Australia retain VET regulatory responsibilities in their respective jurisdictions.

One of the reasons that these types of provisions remain in HESA is that some of them are actually required to make providers administer the Government’s student loan schemes. This includes responsibilities such as receiving applications, making sure students are actually entitled to a loan, remitting debts and effectively being agents of the Commonwealth Government for the review of decisions under HESA. These provisions are not required unless a provider is seeking to ensure its students have access to student loans or seeking access to other Australian Government grants. This is why they are generally not encompassed by the requirements of the two sector regulators.

There would be potential to remove this somewhat confusing set of regulatory arrangements if the Australian Government assumed direct responsibility for more of the administration of its student loan programs and there would be less potential risk to the integrity of those programs. Options for using new technologies to facilitate this and minimising any additional cost to the Commonwealth should be explored.

The action taken by the Government to curb the problems within VET FEE-HELP was absolutely necessary, but it is only a short term solution. The regulatory situation needs to be fixed prior to the reinstatement of more business as usual arrangements. There needs to be clarity of responsibilities, adequate resourcing and the building of experience, expertise and capability within the relevant agency/agencies.

The proposals contained in this paper would make a contribution to efforts to minimise some of the problems that have been occurring. The imposition of limits on the availability of income contingent loans, particularly annual borrowing limits, would assist in making the tertiary education sector less attractive to individuals who are only interested in rapid short term profits. Additional efforts to have individuals who apply for a student loan take more responsibility for managing their limited entitlement and making individuals more aware of the nature of that entitlement and expectations about the repayment of it would useful complements to this proposal.
The establishment of set of resource packages based on reasonable costs for the delivery of tertiary education and training services would also assist in removing the potential for excessive fees in the sector. The nature of income contingent loans, however, means that these proposals are not sufficient to eliminate the potential for abuse of this equitable and valuable instrument for financing tertiary education. Regulation of both the higher education and VET sectors will remain a critical function.
References


ABS (2016), *Average Weekly Earnings, Australia*, November data from Table 3 of Time Series Spreadsheets and publications for years prior to November 1994, Cat. No. 6302.0.


