

Income Contingent Loans – 2

Student Loans in TAFE and VET

Governments are proposing to introduce Income Contingent Loans into the VET sector to mask the effects of policy changes which would see considerable increases in fees and charges to students.

Governments are not proposing to introduce an income contingent loan scheme to provide relief to TAFE and VET students currently struggling with the costs of their education.

In 1973, the Whitlam government abolished student fees in TAFE. This resulted in enrolments growing from 400,700 in 1973 to 671,013 in 1975, a 59% increase.¹ Since that time, the history of student fees and charges in TAFE has been patchy. In the last 10 years, funding pressures on TAFE, caused in large part by reductions in real investment in the sector by state and federal governments, has led to increases in fees and charges directly to students.

Recent history of TAFE funding shows that since 1997, funding from both state and Commonwealth governments has declined. Commonwealth revenue has declined between 1997 and 2006 from 25% to 23.1%, and from states and territories in the same time, from 56.1% to 53.4%. In this context, it is abundantly clear that governments at both levels are pursuing strategies to reduce governments' share of the costs of education and training, thus reducing the overall funding for the sector. Requiring TAFE institutes to compete for reduced levels of funding will further reduce government funding.

In most states and territories, TAFE fees remain comparatively low, in contrast with the university sector. However the burden of these fees sometimes operates to exclude people from participating in the VET. The overall costs to taxpayers of education in TAFE is much less than the cost of university education but because university students can defer payment of their contribution to their education through an income contingent loan scheme, university study is in some cases more accessible to students than VET courses.

The principle of an Income Contingent Loan is that individuals can defer repayment of the loan until their income from earnings has reached a level where they are able to afford to pay it back. Supporters of this scheme argue that it is fair because students who gain university qualifications will earn more throughout their lives, and should therefore contribute to their education. Human capitalists are now using similar arguments about the effect of VET qualifications on individuals' earnings to justify increasing fees and charges in TAFE.

The Skilling Australia's Workforce 2005-08 Mid-Term Review – Boston Consulting Group, 22 October 2007 (the BCG Report), and the Victorian Discussion paper on Skills Reform - Victoria Securing our future economic prosperity (April 2008) both canvass the introduction of an income contingent loans scheme into the VET sector.

Recommendation 10 from the BCG Report says:

Governments should move to a system that allows part funding of selected training places (as well as full funding of others) supported by industry and employer investment and FEE-HELP loans to better reflect the balance between public and private benefit.ⁱⁱ

In considering 'a new investment model', the Victorian discussion paper acknowledges that this would involve 'some students making a greater contribution towards the cost of their training' and then poses two key questions:

- Is it reasonable to introduce high fees for students for training courses that deliver higher individual benefits with improved employment opportunities? And
- Should the Government consider an income contingent loan scheme as currently applies to university education?ⁱⁱⁱ

An additional source of income for TAFE providers which has outstripped growth in other funding sources is fee for service activity. The costs associated with fee for service courses in TAFE are considerable, with students in some courses paying in excess of \$10,000 for a Hairdressing certificate. Revenue from fees and charges nationally in the whole VET sector was about 4.6% in 2006, although Fee for Service revenue was about 13.7%.

Individuals contribute to the costs of running the TAFE system through their taxes over their lifetimes and through reduced income when they are actually studying. The average income level of those undertaking VET qualifications is still lower than the income of those undertaking university qualifications.

In recent times, as governments have made knee jerk responses to skills shortages in areas such as education and health, one strategy they have pursued is to reduce student contributions (HECS) in selected university courses to encourage increased enrolments. **It is disingenuous then of these same governments to argue that the introduction of higher fees and income contingent loans will increase participation in VET and therefore solve skills shortages.**

Proposals to introduce Income Contingent Loans in TAFE are about shifting the costs of education and training from taxpayer sourced government funds back on to individuals. The lesson to be learnt from the introduction of HECS in universities is that governments "will always find it easier to increase resources to education by increasing the student contributions rather than government contributions."^{iv}

ⁱ Goozee, G The development of TAFE in Australia, NCVER, Adelaide 2001, p. 28

ⁱⁱ *Skilling Australia's Workforce 2005-08 Mid-Term Review – Boston Consulting Group, 22 October 2007*

ⁱⁱⁱ Victorian Discussion paper on Skills Reform - Victoria Securing our future economic prosperity (April 2008)

^{iv} NTEU submission to Victorian Discussion paper on Skills Reform - Victoria Securing our future economic prosperity (April 2008)