A comparison of student loans in England and Australia

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A longer analysis of the two countries' systems by Libby Hackett is available at **www.hepi.ac.uk**.

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Introduction

1. Australia and the United Kingdom, particularly England, have tackled the question of how to fund students in higher education in similar ways. For example, Australia adopted a student loan system in 1989, a year before the UK.

2. The previous Australian Government believed the affordability of the higher education system allowed for the student numbers cap to be removed from 2012. Public universities in Australia have no limit on how many undergraduate students they may enrol (except in Medicine). In 2013, George Osborne similarly announced the student numbers cap was to be removed in England.[1]

3. There are some important differences too:
- England has a fee cap for undergraduates of £9,000 a year in all subjects, while fee caps in Australia vary by discipline;
- tuition loans are generally restricted to first-degree students in England but parallel schemes cover a wider variety of students in Australia; and
- in England repayments are fixed at 9 per cent of income above £21,000, whereas in Australia repayments begin at a higher threshold but are imposed on total taxable income, at different rates depending on salary.

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[1] When student loans were introduced in the UK, the system was the same throughout the country. Policies have since diverged, which explains why the text sometimes refers to the UK and sometimes only to England.

4. This pamphlet considers the similarities and differences in detail to help inform those working on higher education policy in the UK – and, hopefully, in Australia too. It focuses on four areas:

- student loan entitlement;
- default rates;
- the balance of public and private contributions; and
- repayment.

5. Income-contingent repayment schemes are sometimes proposed in other areas of policy, such as childcare.[2] So the findings may be relevant beyond higher education funding.

A) Entitlement

England

6. The most important criterion determining eligibility to financial support for home and EU students at English higher education institutions is whether the student is studying for a first degree. If so, they can generally access a loan to cover their fees. For undergraduates at institutions with a financial memorandum from the Higher Education Funding Council for England (HEFCE), fees are capped at £9,000.

7. HEFCE-funded institutions also receive top-up funding for some of their UK and EU students. This helps cover the costs of courses that cannot be funded by tuition fees alone – for example, because they have laboratory-based elements or are 'strategically important and vulnerable'. In addition, Student Opportunity Funding supports students with barriers to learning. Since 2012, many first-degree students at HEFCE-funded universities have received no direct public funding.

8. First-degree students at alternative providers, which are not funded by HEFCE, may take out a government-backed tuition

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[2] Bruce Chapman, 'Debt collection, but without the defaults and the destitution', *Times Higher Education*, 12 April 2012.

loan if their course has been designated for student support. But their loans are capped at £6,000 a year, while their fees are uncapped.[3] The rules are the same whether the alternative provider is for-profit or not, although a future Labour Government might alter this: Liam Byrne, the Shadow Minister for Higher Education, has criticised the Coalition for not regulating the profitability of for-profit providers.[4]

9. Maintenance support is available for domestic (not EU) full-time undergraduates alongside the tuition fee loans. There is a maximum non-repayable maintenance grant of £3,387 in England in 2014/15, which is reduced for students from households with an income over £25,000. There is also a maintenance loan of up to £5,555 (for English students living away from home and studying outside London). This can have a big impact on a student's total borrowings.

10. Other students do not typically receive public support for either tuition or maintenance. They include:

- international students from outside the EU;
- people retraining in a new area on an equivalent or lower qualification to one they already hold (with a few exceptions); and
- those studying part-time at less than 0.25 intensity.

There is a limited amount of funding from HEFCE for taught postgraduate courses, but students on these courses are not generally entitled to support with their fees or living costs.[5]

11. Unless such students can obtain sponsorship – from an employer, a public or private funding body or their academic institution – they need to pay the course fees themselves, perhaps using financial help from their families, employment income, savings or commercial debt. Professional and Career Development Loans are available too. These have a competitive interest rate and the government pays the interest while you

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[3] Nick Hillman, *Unfinished Business: Higher education legislation*, HEPI, 2014.
[4] Liam Byrne, 'Robbins Rebooted', 1 April 2014.
[5] There are a few exceptions, such as postgraduates training to be teachers.

are studying, but they are not as attractive as the student loans for undergraduates and are limited in number.

12. Over nine out of ten full-time undergraduates and one-third of part-time undergraduates in England are eligible for a tuition fee loan. Given that fewer than half of all students in England are full-time first-degree students, the student loan system is best understood as an undergraduate loan system with restrictive eligibility conditions.

Australia

13. Entitlement to tuition fee loans is broader in Australia than in England. There are different loan schemes with different risk profiles for the Government.[6]

14. The main descendant of the original loan scheme is the 'Higher Education Contribution Scheme: Higher Education Loan Programme' (HECS-HELP). It is available to students with a 'Commonwealth supported place'. These are directly subsidised by the Australian state and are, in many ways, analogous with undergraduate places at HEFCE-funded institutions in England before 2012, when all such places attracted HEFCE funding.

15. Because Commonwealth-supported places are directly funded by the state, the loan element is described as a 'student contribution'. All Australian public universities have Commonwealth-supported places, as do some private higher education providers offering courses in Nursing and Education. The scheme is generally focussed on undergraduates but some postgraduate students on 'strategic' courses are covered.

16. A parallel loan scheme, established in 2005, is available for other students, known as FEE-HELP. This provides support to Australian students without Commonwealth-supported places, who face full fees. For undergraduate recipients, FEE-HELP

[6] There are also loan schemes for the cost of student services and amenities (SA-HELP), of studying overseas (OS-HELP) and of undertaking vocational study (VET FEE-HELP).

includes a surcharge amounting to 25 per cent of the loan (previously 20 per cent). This surcharge is explained in more detail later.

17. The table below lists the groups entitled to FEE-HELP alongside their closest English equivalents.

Entitled to FEE-HELP	Closest English equivalent
Undergraduate and postgraduate students at privately-funded non–university higher education providers approved by the Australian Government	Students at alternative providers with courses designated for student support (entitled to maintenance and fee loans capped at £6,000 if a first degree)
Non-research postgraduate students at public universities	Students on taught Masters courses (who are not generally entitled to student loans or grants but whose institutions might receive some teaching grant on their behalf from HEFCE)
Students at the distance-learning provider Open Universities Australia not on a Commonwealth-supported degree programme	Open University students not studying for a full degree (who are generally not entitled to public support)
Students at registered Training Organisations offering higher–level vocational education and training qualifications	Students at institutions offering lower-level higher education, such as Higher National Certificates and Higher National Diplomas (who are generally entitled to student loans and grants)

18. In Australia, maintenance support is currently made through non-repayable means-tested Income Support, such as Youth Allowance. However, the previous Government decided one element of the maintenance package – the Student Start-up Scholarship – should become an income-contingent loan in future. The amount is small compared to maintenance loans in England – two payments a year of $1,025 – and will not be repaid until after any HELP debt has been paid off.[7]

[7] At the time of going to print, $1 in Australia was worth 56p in the UK.

19. In 2012–13, there were 448,800 Commonwealth-supported places for which HECS-HELP loans were paid and 84,400 places for which FEE-HELP loans were paid.[8]

Commentary

20. One key difference between the Australian and English student support systems is the financial support available for the costs of living. In England, maintenance loans have played an important role since they were introduced in 1990 (and maintenance grants did not exist between 1998 and 2004). The generosity of maintenance support partly explains and partly encourages the greater propensity of English students to live away from home.

21. In Australia, members of the Regional Universities Network have lobbied for an extensive loan scheme to cover living costs. Greg Hill, the Vice-Chancellor of the University of the Sunshine Coast, has said:

> *We do have a wish list and I think one of the most interesting ones is to provide students from regional locations with an opportunity to put accommodation costs on HECS, much the same as their fees … If you are living at home and going to the local university it isn't such a big deal, but when you think of where most of our students come from – places like Hervey Bay or Kilcoy – it is a real effort and a lot of them can't afford to go to university.*[9]

22. A second key difference is that, in England, only a small minority of students who are not full-time undergraduates are entitled to a fee loan. In Australia, the overwhelming majority of all domestic students on taught courses are entitled to a government-administered loan to cover their fees. This has implications for access to the full range of higher education

[8] Budget Portfolio Statements, *Industry, Innovation, Climate Change, Science, Research and Tertiary Education Portfolio*, 2013, p.92.
[9] Megan Mackander, 'Live now, pay later – USC wants to add rent cost to HECS', *Sunshine Coast Daily*, 18 March 2013.

options by those with fewer resources. However, except for a partial exception for New Zealanders[10], Australia does not extend support for tuition costs to incoming students from other countries, as England is obliged to do under EU rules.

23. Interest has been expressed in the possibility of constructing an income-contingent contribution system in England for postgraduates: University Alliance and others have argued that this would improve access.[11] CentreForum have a model that is not consciously based on the Australian system but which has much in common with it. However, their proposed loan is classed as maintenance to avoid extending it to incoming EU students.[12]

24. The UK's 2014 Budget included a commitment to 'investigate options to support increasing participation in postgraduate studies'.[13] In addition to postgraduates, there are concerns in England about the decline in part-time students and the financial hurdles faced by those who wish to study abroad. A secondary lower-cost loan system with broad coverage could conceivably help tackle these issues and the Australian FEE-HELP scheme is one model that should be studied carefully. However, some would caution against a straight copy, as they argue FEE-HELP is too costly because the surcharge is generally limited to full-fee undergraduates.[14]

B) Default rates

England

25. The cost to the taxpayer of the loan system is one of the most sensitive political issues in English higher education. The

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[10] New Zealanders are entitled to a Commonwealth-supported place but not a loan.
[11] Libby Aston, *Proposal for a Graduate Contribution Scheme in England*, University Alliance, April 2010.
[12] Tim Leunig, *Mastering postgraduate funding*, CentreForum, 2011.
[13] HM Treasury, *Budget 2014*, 2014, p.38.
[14] Andrew Trounson, 'HECS creator Bruce Chapman opposes savings', *The Australian*, 22 January 2013.

debate centres on the so-called RAB (Resource Accounting and Budgeting) charge. This is the proportion of money loaned to students each year that is expected not to be repaid.[15]

26. Progressive loan systems have a positive RAB charge because of the support provided to those with low or no earnings. For example, English loans include interest-rate subsidies for low-paid people and automatic write-off after 30 years or on death.

27. The current political controversy stems less from the fact that some money will never be repaid and more from uncertainty about the true level of the RAB charge, if it is affordable and whether the new funding system is cheaper for taxpayers than the previous one:

i. The official RAB charge has bounced around in line with economic conditions. In 2005, the RAB charge for the incoming tuition fee loans fell overnight from 42 per cent to 33 per cent.[16] In contrast, the Coalition has gradually raised the current RAB charge from 33 per cent to 45 per cent.[17]
ii. The official modelling may overstate the future cost because students brought in to higher education when the numbers cap is removed may reduce the average graduate earnings premium. However, some argue the current modelling overestimates the cost to taxpayers because it assumes the Government borrows money at an interest rate of 2.2 per cent, which is higher than the current cost of borrowing.[18]

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[15] For more information, see Nick Hillman, 'A baker's dozen on the RAB', posted 27 March 2014 at http://www.hepi.ac.uk/2014/03/27/bakers-dozen-rab/.
[16] *Hansard*, 23 March 2005, cols 71WS-72WS; *Hansard*, 10 November 2005, cols 22WS-23WS.
[17] *Hansard*, 20 March 2014, col. 706W.
[18] Tim Leunig and Neil Shephard, 'The cost of expanding higher education is…zero', posted 10 February 2012 at http://centreforumblog.wordpress.com/2012/02/10/the-cost-of-expanding-higher-education-is-zero-tim-leunig-and-neil-shephard/

iii. The higher the RAB charge, the smaller the savings from recent funding changes. In 2010, Hepi warned the reforms 'could actually easily lead to a small increase in the public contribution'.[19] If this were so, it would put a question mark over one of the arguments for forcing through such controversial changes.[20]

28. There is particular confusion over the RAB charge for part-time students. The Coalition assumes the characteristics of part-time students make them less likely to repay their loans in full and has, on the basis of limited information, set their RAB charge much higher than for full-time students at 65 per cent. In contrast, London Economics have claimed part-time students will have a negative RAB charge of 7.5 per cent – that is, they will pay back more than they have borrowed due to their earning profiles and the application of the real interest rate.[21] Further modelling is needed.

29. John Denham, the former Secretary of State for Innovation, Universities and Skills, recently argued that, overall, the RAB charge is now so high that public expenditure should be rebalanced. He envisages less being spent on maintenance support and unpaid tuition fee loans and more on the upfront teaching costs.[22]

30. However, whatever the RAB charge, the design of English tuition fee loans means much of the money will be repaid. The key features include:

i. a £9,000 a year loan cap for HEFCE-funded providers and a lower cap (£6,000) for others;

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[19] John Thompson and Bahram Bekhradnia, *The government's proposals for higher education funding and student finance – an analysis*, HEPI, November 2010.

[20] The new system is getting closer to the costs of the old system not just because of the RAB charge but also because a fee cap of £9,000 has meant more income for educating students.

[21] Million+, *Are the changes to higher education funding in England cost effective?*, London Economics, February 2013, p.15.

[22] John Denham, 'The Cost of Higher Education: is up the only way?', 16 January 2014.

ii. a 9 per cent repayment rate on income above £21,000; and
iii. a real interest rate, which rises between £21,000 and £41,000 to a maximum of 3 per cent.

31. While some people oppose the concept of student loans, many of the key features of the existing loan scheme have nonetheless been accepted in practice. There has been no notable campaign to revise the repayment threshold, the repayment rate or even the interest rate. While continuing to prefer a graduate tax, the National Union of Students have campaigned to have the current loan terms and conditions 'written into legislation'.[23]

Australia

32. Unpaid loans are less of a political issue in Australia, perhaps because:

- the predicted rates of non-repayment are lower than in England;
- official measures of the default rate are less sensitive to month-to-month economic fluctuations; and
- less pressure has been put on the government by independent observers to justify their forecasts.

33. Nonetheless, concerns have been expressed about the relatively high non-repayment rate of the Student Financial Supplement Scheme.[24] This was available between 1993 and 2003 and allowed students to convert $1 of Income Support to $2 of a loan up to a maximum amount.

34. The key features of Australian loans that determine repayments are different from those in England. For example,

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[23] John Morgan, 'Sell-off should not change loan book conditions, says NUS head', *Times Higher Education*, 19 September 2013.
[24] Andrew Norton, 'Will the new Student Start-up Loan save money?', posted 20 November 2013 at http://andrewnorton.net.au/category/higher-education/student-loans/.

there are a range of contribution caps according to discipline and the maximum loan ($10,085) is significantly lower.

35. It is currently estimated that under 20 per cent of the money loaned out under the various HELP loan schemes is 'doubtful debt'. However, this is not directly comparable with the 45 per cent RAB charge in England because it does not include all the costs of the loans.

	2012-13	2013-14	2014-15	2015-16	2016-17
% of new debt not expected to be repaid[25]	18	19	20	21	22

36. It does not, for example, take account of the fact that interest on the loans is linked only to the Consumer Price Index, meaning there is no real rate of interest. This costs the Australian Government around $600 million a year.[26] It is similar to the position in England until 2012/13 and there is no real interest rate on student loans in Scotland.[27]

37. The British economist, Nick Barr, has been particularly critical about interest-rate subsidies: one newspaper summed up his views as 'Interest subsidies on student loans are the root of all evil'.[28] However, any change in Australia would have to be balanced against the argument that 'Changing HECS a lot isn't good public policy because it is an instrument to minimise uncertainty'.[29]

38. The threshold at which former students start repaying their loans is currently $51,309 in Australia and it is indexed to

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[25] Budget Portfolio Statements, *Industry, Innovation, Climate Change, Science, Research and Tertiary Education Portfolio*, 2013, p.93.
[26] Norton, *Mapping Australian Higher Education*, Grattan Institute, 2013, p.8.
[27] In England, the inflation measure used was the Retail Prices Index.
[28] Nicholas Barr, 'Interest subsidies on student loans are the root of all evil', *Independent*, 25 March 2010.
[29] Trounson, 'HECS creator Bruce Chapman opposes savings', *The Australian*, 22 January 2013.

average weekly earnings. This is about one-third higher in cash terms than in England but, once someone traverses the threshold, they are liable to repay on their whole taxable income, at variable rates. Those earning between $51,309 and $57,153 pay back at 4 per cent of taxable salary, whereas those with an income of over $95,288 pay back at 8.0 per cent.

39. The Student Learning Entitlement was used to set a limit on the value of a Commonwealth-supported place at 7 years of an Equivalent Full Time Student Load. But, since the demand-led system was introduced in 2012, there has been no such limit. In FEE-HELP, an individual's debt is limited by a maximum lifetime loan amount (generally $96,000, but $120,002 for Medical, Dentistry and Veterinary Science).

40. Perhaps most distinctively, students following undergraduate courses at alternative providers face a 25 per cent surcharge on their FEE-HELP, which is added to their outstanding debt. This reduces, and possibly eliminates altogether, the cost to Government of tuition for these courses.

41. The surcharge has things in common with the levy recommended in the English cross-party Browne review of higher education, which reported soon after the 2010 general election. This recommended that institutions should:

> *receive from Government all of the money for charges of up to £6,000; and pay a levy on the income from charges above that amount to cover the costs to Government of providing students with the upfront finance.*[30]

The levy was designed as a sliding scale: 40 per cent between £6,000 and £7,000 but 75 per cent between £11,000 and £12,000.

42. The levy was not implemented because universities with graduates that enjoy strong labour market outcomes construed it as an unfair tax. The Australian system avoids this dispute by

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[30] Independent Review of Higher Education Funding and Student Finance, *Securing a Sustainable Future for Higher Education*, October 2010, p.37.

putting the surcharge on the shoulders of students rather than institutions. It is effectively a transparent and capped redistribution from higher-income ex-students to lower-income ex-students.

Commentary

43. There are good social policy reasons for not seeking to reclaim every British pound or Australian dollar loaned out to students and some tweaks to improve repayment rates are likely to be deemed unacceptable. But there are lively arguments about the sustainability of the current English loan system.

44. One option for improving its sustainability is to hold down loan amounts, as has occurred in recent years with the freezing of the fee cap and tight control of the maintenance support budget. Anther option is to tweak the existing parameters of student loans, such as ending the commitment to increase the £21,000 repayment threshold in line with earnings each year. A third way would be to introduce new elements to the loans that have not previously been considered. These might include features of the Australian system, such as levying repayments on total taxable income but at a lower proportion of salary. However, Australia is unlikely to be the only instructive example, as different countries structure their student loan repayments differently.[31]

45. In the UK, the Government has recently provided tax-record data to researchers that will enable them to calculate the RAB charge for different courses at different institutions. This may stimulate renewed debate about whether a student's RAB charge could be frontloaded on to their loans – but in a more sensitive way than proposed by Lord Browne. If that were to happen, it would be a much more precise but arguably less progressive system than the 25 per cent surcharge on undergraduate FEE-HELP loans in Australia. FEE-HELP also

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[31] Edina Berlinger, 'An Efficient Student Loan System: Case Study of Hungary', *Higher Education in Europe*, vol. 34, no. 2, 2009, p.259.

shows it is not necessary to know the individual RAB charge of every course to run a subsidised loan scheme in an uncapped fees environment.

46. The past experience in Australia of giving students the choice of converting their non-repayable Income Support for living costs into a higher loan may be worth further consideration too. Leaked documents suggest the Coalition have been considering replacing some of the maintenance grant budget with larger student loans.[32] Yet when Tony Blair's Government replaced maintenance grants with loans, it proved a short-lived policy. Offering students the choice might be a less controversial way to do it.

47. There may also be some instructive points from the Australian system, with two loan systems for different sorts of higher education providers, for the current debate in England about alternative providers. For example, a different student loan system could be applied to for-profit providers or new entrants that lack a track record or even traditional universities lobbying to go above the standard £9,000 fee.

48. While a different loan system for alternative providers might look superficially attractive, it would be fiercely opposed by the providers themselves on three grounds:

- their students have lower debts as their tuition fee loans are capped at £6,000 a year;
- all other things being equal, lower debts mean a lower RAB charge; and
- alternative providers are shut out from the additional public funding provided by HEFCE.

49. While there may be some lessons for England from the Australian experience, there may also be lessons for Australia from the English experience. In 2011, Bruce Chapman argued that the 'The [Australian] government could put a real interest

[32] Shiv Malik, Richard Adams and Órla Ryan, 'Poorest students face £350m cut in grants', *Guardian*, 23 November 2013.

rate on the HECS debt and forget about the upfront discount'.[33] The upfront discount has gone while the absence of a real interest rate remains.

C) The balance between public and private contributions

England

50. The relative contributions of taxpayers and students (usually as graduates) towards the cost of higher education goes beyond the design of the loans and the RAB charge issue. Other public spending on students includes HEFCE funding and non-repayable maintenance grants. There is other private funding too, such as parental contributions and commercial debt, although these are not discussed further here.

51. In the current funding model, a Humanities undergraduate at an English university from a household with an income of £30,000 might have around £15,300 spent on their education each year:

- a tuition fee of £8,500 (backed by a loan);
- a maintenance loan of £4,335; and
- a maintenance grant of £2,441.[34]

The student could expect eventually to repay a little over £7,000 of that cost themselves, with the generality of taxpayers covering the rest. Assuming there is no HEFCE-funding for this student, that means the recipient of the education is set to cover around 46 per cent of the costs of their higher education while the taxpayer is set to cover around 54 per cent.

52. If the same student were from a household with a higher annual income of £45,000, they would pay a larger proportion of the costs (55 per cent) themselves. On the other hand, if they were not from a better-off household but were studying a laboratory-based subject, which attracts £1,500 grant from

[33] Bernard Lane, 'HECS tweaks will cost the taxpayer', *The Australian*, 18 May 2011.
[34] Calculated using https://www.gov.uk/student-finance-calculator.

HEFCE, they would pay a lower proportion (42 per cent) of the costs.

53. Excluding alternative providers, the English higher education budget from central government for 2014/15 comprises:

- £1.9 billion in teaching grants;
- £5.0 billion in costs associated with tuition and maintenance loans (separate to the new loan outlay of around £11 billion);
- £2.2 billion in grants and allowances to students.

Overall, the contribution of taxpayers to English undergraduates amounts to around 60 per cent of their costs, with the rest being made up from private sources such as loan repayments. In reality the precise proportion from taxpayers may be lower as these numbers do not include parental contributions or fees paid upfront without a loan.

Australia

54. The principal Australian loan scheme, now known as HECS-HELP, is more complicated than when it began. For example, originally all subjects cost the same and the amount was fixed rather than variable. However, in 1997 different amounts were introduced for different subjects. From 2005, universities were allowed to vary their fees within the caps and HECS shifted from being a fixed charge that went to government to one set by and going to universities.

Discipline	Maximum student contribution
Humanities, Behavioural Science, Social Studies, Education, Clinical Psychology, Foreign Languages, Visual and Performing Arts, Nursing	\$0 – \$6,044
Computing, Built Environment, Other Health, Allied Health, Engineering, Surveying, Agriculture, Mathematics, Statistics, Science	\$0 – \$8,613
Law, Dentistry, Medicine, Veterinary Science, Accounting, Administration, Economics, Commerce	\$0 – \$10,085

55. All Commonwealth-supported places receive direct subsidy from the Australian Government. The amount varies widely: from $1,990 for Law, Accounting, Commerce, Economics and Administration to $21,707 for Dentistry, Medicine and Veterinary Science. There is no correlation between the maximum student contribution and the Government funding:

- subjects attracting the lowest and the highest Government contribution both have a student contribution capped at $10,085;
- Humanities is in the middle band for the student contribution but receives a relatively low Government contribution ($5,530); and
- Nursing is in the same band as the Humanities for the student contribution but has a much higher Government contribution ($13,432).

56. There is also no correlation between the student contribution and the likely private benefits. A review that reported in 2011 found:

> *Some students with little prospect of high graduate incomes pay 52 per cent of the base funding amount, while those in some high-cost disciplines with high potential graduate salaries pay 32 per cent. Other students in lower cost disciplines pay 84 per cent.*[35]

57. When maintenance is included, the contribution of Australian taxpayers rises further because it is generally in the form of non-repayable Income Support. In 2011/12, the Australian higher education budget from central government comprised:

- $5.5 billion in teaching grants;
- $1.5 billion in costs associated with loans (separate to the new loan outlay of $3.2 billion); and

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[35] Jane Lomax-Smith, Louise Watson and Beth Webster, *Higher education base funding review: Final Report*, Department of Education, Employment and Workplace Relations, October 2011, p.xiii.

- $2.2 billion in maintenance support.[36]

Overall, the contribution towards the total costs of their higher education made by Australian students in receipt of state support is less than 20 per cent – much less than in England.

Commentary

58. The greater reliance on loans since 2012 in England has protected or even increased spending per student, although the £9,000 fees cap has been fixed since it was introduced and HEFCE funding for teaching is now declining.[37] Graduates will repay more than in the past although taxpayers are currently contributing more than was originally expected via the higher RAB charge.

59. There are considerable funding pressures in Australia as well, arising partly from the uncapping of student numbers. The Government envisages a reduction in the direct funding of higher education and a shift towards higher student contributions through converting the Start-Up Scholarship into a loan. However, the required legislation has not yet been passed by the Australian Senate.

60. There is no consensus on what the right balance between state and private support for higher education should be. Walter McMahon has argued that the greatest efficiency comes when public investment makes up around half of the total funding:

> *The estimate that social benefit externalities constitute about 52% of the total benefits of higher education [in the United States] is an approximate guide to how far the privatisation of higher education should proceed before public investment falls below the level conducive to optimum efficiency.*[38]

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[36] Norton, *Mapping Australian Higher Education*, Grattan Institute, 2013, p.39.

[37] Vince Cable and David Willetts to Tim Melville-Ross, *2014 Hefce Grant Letter*, 10 February 2014.

[38] Walter McMahon, *Higher learning, greater good: the private and social benefits of higher education*, 2009, p.255.

61. At a conceptual level, this might suggest the English funding model is close to equilibrium, although it is uncertain whether the current balance is stable and lively debates continue about whether taxpayers or graduates should contribute more. The Labour Party has suggested reducing the fee cap to £6,000, which would suggest a greater contribution from tax receipts – assuming institutions were to be compensated for the loss of tuition fee income.

62. The Sutton Trust, in contrast, has called for some upfront payments of fees via the means-testing of tuition loans.[39] In Australia, Andrew Norton has cautioned against relying on pure economic modelling alone. Using the high average graduate earnings premium in Australia, he has argued: 'Where private and public benefits are both high, private benefits alone can provide the incentive for joint production of the public and private benefits.'[40] He has called for reductions in the direct funding of tuition in Australia by up to $3 billion a year by 2016/17.[41] This would arouse strong opposition, though it would bring the Australian and English systems closer together.

63. The appropriate level of student debt, the precise parameters of student loans, the acceptable rate of repayment, the overall progressivity of the system, the balance between tuition and maintenance support and the optimum level of public and private contributions are all, ultimately, political decisions. But the public debate about them is often obscured by a lack of transparency – for example, on the various components of the RAB charge. At a micro level, this makes it hard for students to know how much public support they are receiving. At a macro level, it makes international comparisons harder.

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[39] Claire Crawford and Wenchao Jin, *Payback Time? Student debt and loan repayments: what will the 2012 reforms mean for graduates?*, Institute for Fiscal Studies, April 2014.
[40] Norton, *Graduate Winners*, The Grattan Institute, August 2012, p.27.
[41] *Ibid.*, p.89.

D) Repayment

England

64. One feature of English loans compared to Australian ones is that they take much longer to pay off. They are also much less likely ever to be repaid in full. Someone on the typical graduate starting salary of around £25,000 might have a total student loan debt of £42,000 and make repayments totalling just £360 a year. It is sometimes said the average period of repayment is around 27 years but a substantial majority of graduates will reach the 30-year write-off point with some of their debt unpaid.[42]

65. The Coalition say this is preferable to the previous system, which had a lower repayment threshold and therefore higher payments from those on modest incomes: 'instead of repayments being borne by young people in their twenties and thirties, their monthly instalments are reduced and spread out'.[43] On the other hand, the loans will have to be repaid for much longer. According to the Institute for Fiscal Studies, '49% of graduates would have repaid their loans in full by age 40 under the old system, compared with just 5% under the new system.'[44]

66. Not all students borrow their full fee: institutions encourage upfront payment by offering discounts; some students opt not to take out a loan; and others choose to borrow only part of the fee. Where a loan has been taken out, borrowers are free to repay without a penalty or an early repayment bonus.

67. The Conservative Party backed an early repayment discount before the 2010 general election. This would have bolstered the Government's income in the short-term by encouraging student

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[42] *Hansard*, 2 April 2014, col. 650W.
[43] Willetts, 'Without fees reform, our children would really feel the pinch', *Times Higher Education*, 31 May 2012.
[44] Crawford and Jin, *Payback Time? Student debt and loan repayments: what will the 2012 reforms mean for graduates?*, Institute for Fiscal Studies, April 2014, p.1.

loans to be repaid more quickly. After the election, the Coalition Government of Conservatives and Liberal Democrats consulted on the opposite policy of an early repayment penalty. No changes occurred as ‘a substantial majority of respondents were opposed to there being any restrictions on a borrower’s ability to make early repayments’.[45]

68. The remaining government-owned stock of mortgage-style student loans taken out by people entering higher education between 1990/91 and 1997/98 was recently sold off. Progress is now being made on selling the post-1998 income-contingent loan book. Buyers can benefit in two ways: buying the loans below face value; and increasing repayment rates.

69. If the English loans are sold below face value, bulk purchasers effectively benefit from a discount unavailable to former students. This raises another question: whether borrowers whose loans are sold could be offered an early repayment bonus from the new owner, while those whose loans remain on the Government’s books do not.

70. One argument for encouraging early repayment is to mitigate against the higher-than-expected RAB charge. If the Government expects loans to be repaid in smaller amounts than when it made the loans, there may be a stronger case than before for encouraging voluntary repayments. It would also have a positive impact on the national debt. However, the Australian experience suggests early repayment discounts are difficult to defend politically in straitened times and are inefficient.

Australia

71. In 2013–14, the average HECS-HELP debt was $16,000 and the average time taken to repay HECS-HELP debt was thought to be 8.4 years. Both these figures are expected to increase.

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[45] *Hansard*, 23 February 2012, cols 81WS-82WS.

Trends in HELP repayment patterns[46]					
	2012-13	2013-14	2014-15	2015-16	2016-17
Ave. debt ($)	16,000	16,800	17,600	18,500	19,500
Ave. years to repay	8.4	8.6	8.8	9	9.1

72. Discounts for upfront payment and early repayment discounts have been part of the Australian student contribution system for many years. Until the start of 2012, there was a 20 per cent discount for upfront payments of student contributions amounting to $500 or more. For those who had borrowed money, there was originally a generous 15 per cent bonus on voluntary repayments over $500.

73. However, such features have arguably offered poor value-for-money to Australian taxpayers:

> *on average people take 7 years to make their first voluntary repayment and on average finish repaying about 10 months after that payment. So the purpose of the discount – to get people to repay early and save the government interest subsidy costs – is not being achieved.*[47]

74. In 2012, the upfront payment discount was halved to 10 per cent. The 15 per cent bonus on voluntary repayments was reduced to 10 per cent from the start of 2005. It was reduced further to just 5% from the start of 2012. Upfront and voluntary early repayments are now due to be abolished. New Zealand similarly abolished early repayment bonuses in 2013.

75. Australia also has financial incentives to encourage graduates to work in specific occupations or locations. HECS-HELP Benefit reduces compulsory repayments and is available to graduates in: Mathematics, Statistics and Science; Education, Nursing and Midwifery; and Early Childhood

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[46] Budget Portfolio Statements, *Industry, Innovation, Climate Change, Science, Research and Tertiary Education Portfolio*, 2013, p.93.

[47] Norton, 'More HELP reform – reduced discount for repaying early', posted on 11 May 2011 at http://andrewnorton.info/2011/05/10/more-help-reform-reduced-discount-for-repaying-early/.

Education.[48] There is no English equivalent, but a Repayment of Teachers' Loans Scheme existed from 2002/03 to 2004/05.[49]

Commentary

76. It remains unclear whether the interest of the current Australian Government in selling off HECS loans to the private sector and of England's desire to sell off income-contingent loans will stimulate a new debate about early repayment bonuses for individual borrowers. But, for now, the debate about early repayment benefits seems dormant in both Australia and England.

77. However, both countries have faced a particular challenge in retrieving repayments from former students living abroad. In Australia, it is thought graduates who have moved overseas have unpaid HECS amounts of between $0.4 and $0.8 billion.[50] Bruce Chapman and Timothy Higgins complain: 'HECS seems to be the only income contingent loan policy which does not include any regulations designed to minimise losses for taxpayers from graduates going overseas.'[51]

78. England faces a similar challenge in seeking repayments from graduates abroad. It is estimated around 6 per cent of graduates are working overseas soon after graduation.[52] According to Margaret Hodge, the Chair of the Committee of Public Accounts:

> *It [The Student Loans Company] knows very little about British graduates who live abroad or about*

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[48] For some early childhood educators, the accumulated HELP debt is reduced.
[49] Patrick Barmby and Robert Coe, *Evaluation of the Repayment of Teachers' Loans Scheme*, Department for Education and Skills, 2004.
[50] Chapman and Tim Higgins, 'The Costs of Unpaid Higher Education Contribution Scheme Debts of Graduates Working Abroad', *Australian Economic Review*, vol. 46, no. 3, p.293.
[51] Chapman and Higgins, *The costs of unpaid HECS debts from graduates going overseas*, Crawford School Working Paper, No. 13-03, January 2013, p.14.
[52] National Audit Office, *Student loan repayments*, November 2013, p.23.

graduates from the EU who have since left the country. Will they ever pay back their loans? The Student Loans Company simply doesn't know.[53]

79. Under European Union law, EU residents studying in England are entitled to tuition fee loans (though not maintenance support). As the first full cohort of graduates with tuition fee loans only became liable for repayment in 2010, the problem has become more significant recently. It is likely to continue growing. Were Scotland to become independent, there could be a new set of cross-border loan repayment challenges. When the student numbers cap is removed, people in other EU nations will potentially find it easier to come and study in England.

80. There are three distinct problems that are shared by Australia and England in persuading emigrants to pay up:

- the quality of the data about graduates abroad;
- the challenge of using tax-based repayment systems, which work efficiently within a country but not outside it; and
- the cost effectiveness of chasing borrowers who live abroad and with whom contact has been lost.

81. Some useful changes have been made in England: for example, getting more details from borrowers when loans begin and applying the highest interest rate to the accounts of graduates who have lost touch. Those who lose contact can also be pursued through the courts and may even have to pay the costs of any agents used to find them.

82. There are other solutions for recouping debt from borrowers moving overseas that both countries could usefully consider, including:

- converting income-contingent debt to mortgage-style debt on leaving the country;

[53] Committee of Public Accounts, 'Government likely to be underestimating value of student loans that will never be paid back', 14 February 2014.

- applying a higher rate of interest or a surcharge on all those going abroad to work for a period of time; and
- taking a joined-up approach with other parts of Government so that non-repayment affects other services.

83. Such ideas have been tried elsewhere. New Zealand sets annual repayments at roughly 10 per cent of the outstanding debt for borrowers going overseas and charges a real rate of interest to those going overseas that is not applied to others, as well as late payment interest.[54] For those New Zealanders who are seriously behind with their repayments and who have not kept in touch with the authorities, there is a clear warning: 'We can now request an arrest warrant to stop borrowers from leaving New Zealand next time they visit'.[55]

Conclusion

84. There are remarkable similarities, as well as important differences, between the Australian and English higher education systems. In some areas, England has been playing catch-up. For example, not only did Australia introduce a student loan system in 1989, just before the UK, but it took until 1998 for the UK to copy the income-contingent nature of the Australian loans.

85. Australia's approach to higher education provides an excellent opportunity for British policymakers to learn from the experience of another country with a comparable system. Yet policymakers here have paid too little attention to the Australian debate to date. For example, the Australian experience in uncapping student numbers played almost no part in informing the decision to uncap numbers in England. Australia's implementation of a demand-driven system, while successful in many ways, has been different from what was

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[54] https://www.ird.govt.nz/news-updates/campaign-customs-data-match.html?id=homepage.
[55] https://www.ird.govt.nz/news-updates/like-to-know-sl-changes-2014.html.

expected. There were more enrolments and higher costs, which have led to cuts elsewhere in the higher education budget and calls for some form of numbers control to be reimposed.[56]

86. The two countries face similar challenges on funding the extra undergraduate places necessary in a demand-driven system and maintaining the affordability of student finance as circumstances change. The parameters of the two countries' student loan systems are different and non-repayment rates are an issue in both countries, but they are typically lower in Australia than in England. As the future spending challenges in the UK are tackled and as we continue to consider how best to absorb extra students without having to cut the unit of resource, policymakers in England will need to consider the loan parameters carefully. After all, the extra students who will arrive once the numbers cap is removed are expected to have a RAB charge that is higher than the 45 per cent for those currently in the system.

87. Another issue where recent Australian experience could aid British policymakers now is on the financial support for students other than first-degree students, such as those retraining or taking a postgraduate qualification. The FEE-HELP system has proved to be an acceptable way to widen access to non-traditional forms of higher education while limiting the exposure of Australian taxpayers.

88. While the focus of this paper has been on potential lessons for England and the rest of the UK, it seems likely that Australian policymakers could find it useful to consider the English experience in areas such as:

- the technicalities of calculating loan default rates;
- the operation of real interest rates;
- student loan sales; and
- loans for living costs.

[56] See Norton, *Keep the caps off! Student access and choice in higher education*, Grattan Institute, August 2013.

89. The comparison between Australia and England should not be all-consuming. Some people regard both countries' higher education funding systems as excessively neo-liberal and in conflict with the public role of universities. Even those who are more accepting of current structures, need to tread carefully because:

- there are important differences between the two countries' higher education systems, such as on the proportion of students who live at home;
- other countries have implemented different approaches and may hold lessons for both Australia and England, as with New Zealand's attempts to recoup the student loans of people who have moved abroad; and
- there are some policies, for example on increasing loan repayment rates, that neither Australia nor England have officially considered in detail – such as treating outstanding student loans as a claim on the estates of deceased people.[57]

90. Of all the countries in the world, the Australian higher education system has some of the closest similarities to England's. Policymakers in each country have grappled with the same questions. Sometimes they have found the same answer, sometimes a similar one and sometimes a completely different one. As the English and Australian higher education systems continue to evolve and expand, we would be unwise to ignore the debate on the other side of the world.

[57] This idea has been proposed for Australia in Norton, *Doubtful Debt: The rising cost of student loans*, Grattan Institute, April 2014. If the change were made in England, it would lower the RAB charge in the short-term by recovering more money later on.

Conclusions of the longer analysis of the English and Australian systems by Libby Hackett, available at www.hepi.ac.uk

- A 50:50 balance of public and private contributions may achieve optimum economic efficiency.

- Australia shows postgraduate, part-time and second-chance students can be helped with loans that have little cost to Government.

- Raising fees has consequences for base funding.

- Direct funding for teaching can offer a relatively transparent method of public investment in higher education.

- The lifetime allocation in FEE-HELP provides a flexible system that England could learn from.

- Australia may find useful lessons in the responsiveness of the English funding system to retention rates.

- Australian graduates pay back their loans more quickly thanks to lower debt levels and a better-designed repayment system.

- FEE-HELP has enabled Australians to retrain throughout their career.

- Non-subsidised Government fee loans can facilitate the expansion of new providers and new types of provision without carrying considerable public subsidy.

- Transparency and language matter if you want a social contract based on a shared contribution towards the costs of gaining a degree.

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Higher Education Policy Institute
99 Banbury Road
Oxford OX2 6JX
Tel: 01865 284450
www.hepi.ac.uk

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