Scholarship change flags welfare threat

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For all the anxiety about "efficiency dividends", cuts to university funding are not the big policy shift announced this month. Changes to the HELP loan scheme are of greater long-term significance, signalling new uses for income-contingent loans but increasing concern about loan costs.

The biggest new saving measure is the conversion of student start-up scholarships from grants to loans. Money borrowed will be added to the student's HELP debt and repaid on an income-contingent basis. This change has potential implications for the broader welfare system. It identifies students as a group of people who are not, during their lifetimes, likely to be in need of income support.

Instead, they are people with a temporary cashflow problem. Lending them money is cheaper than giving it to them. And if this is the principle, why stop with the scholarship? The fortnightly Youth Allowance, Austudy and Abstudy payments could be next. This idea should not be dismissed out of hand but such a significant reform needs wide discussion and debate.

Any substantial addition to the HELP debt also highlights again that the loan scheme, while conceptually sound, has numerous design problems. The government is clearly worried about cost. There have been several recent minor measures to reduce HELP-related expenditure. For example, the discount for upfront payment had been reduced before its abolition was announced this month. So had the bonus for early repayment. These latest HELP announcements are the least controversial part of the Gonski-inspired cuts.

People paying upfront are often financed by parents or employers, who are less sensitive to the discount. Supposedly early repayments receiving the bonus were typically occurring at the end of the repayment period.

The government will be better off waiting a little longer and collecting the full outstanding amount. However, the savings will be modest – probably $60 million a year.

It is surprising the government did not go further this month and introduce loan fees for postgraduate full-fee students and Open Universities Australia students borrowing under FE E- HELP. Undergraduates pay a loan fee of 25 per cent on top of whatever amount they borrow using FEE-HELP. Postgraduates and OUA students pay nothing.

Many postgraduates and OUA students are working adults who can afford to pay their tuition fees upfront. But the present system allows and encourages them to borrow at just consumer price index interest.

Introducing a loan fee designed to recover at least the commonwealth's interest cost would discourage unnecessary FEE-HELP borrowing. The government estimates 17 per cent of new HELP loans will not be repaid.

If that figure applies to the maximum start-up loans, on average each will generate $350 a year per student in doubtful debt. Total debt already exceeded $26 billion last year, so the issue of high doubtful debt should be a top priority.

Perhaps it is too complex for a package of savings thrown together at short notice, but if policymakers are serious about HELP costs it is the issue they should not avoid.

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