



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

EMPLOYMENT, WORKPLACE RELATIONS, SMALL BUSINESS
AND EDUCATION LEGISLATION COMMITTEE

Reference: Innovation and Education Legislation Amendment Bill 2001

FRIDAY, 15 JUNE 2001

CANBERRA

BY AUTHORITY OF THE SENATE

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SENATE
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AND EDUCATION LEGISLATION COMMITTEE

Friday, 15 June 2001

Members: Senator Tierney (*Chair*), Senator Carr (*Deputy Chair*), Senators Collins, Ferris, Stott Despoja and Tchen

Substitute members: Senator Murray for Senator Stott Despoja

Participating members: Senators Abetz, Allison, Boswell, Brown, Calvert, George Campbell, Chapman, Coonan, Cooney, Crane, Crossin, Crowley, Eggleston, Faulkner, Ferguson, Gibbs, Gibson, Harradine, Hogg, Hutchins, Knowles, Lightfoot, Ludwig, Lundy, Mackay, Mason, McGauran, O'Brien, Payne, Schacht and Watson

Senators in attendance: Senators Allison, Carr, Collins and Tierney

Terms of reference for the inquiry:

Innovation and Education Legislation Amendment Bill 2001.

Committee met at 9.18 a.m.

FITZGERALD, Mr Denis, Federal President, Australian Education Union

CHAIR—I declare open the public hearing of the Senate Employment, Workplace Relations, Small Business and Education Legislation Committee. On 23 May 2001 the Senate referred the [Innovation and Education Legislation Amendment Bill 2001](#) to this committee. The committee is due to report on 25 June. The bill amends the Higher Education Funding Act 1988, the Australian Research Council Act 2001 and the States Grants (Primary and Secondary Education Assistance) Act 2000.

The amendments provide for, among other purposes, additional funding for research infrastructure in universities, additional undergraduate places, loans for postgraduate students, additional funding for the Australian Research Council and, in the case of school education, a change to the arrangements for the payment of grants to non-government schools and for increases in funding under these new arrangements.

Before we start taking evidence today, I wish to state for the record that all witnesses appearing before the committee are protected by parliamentary privilege with respect to their evidence. Parliamentary privilege refers to a special right and immunity attached to parliament for its members and others necessary for the discharge of parliamentary functions without obstruction or fear of prosecution. Any act by any person which operates to the disadvantage of a witness on account of evidence given before the Senate or any other of its committees is treated as a breach of privilege.

I welcome all observers to this public hearing and also the representative of the Australian Education Union. The committee has before it submission No. 12. Are there any changes you wish to make to the submission?

Mr Fitzgerald—No, Senator, there are not.

CHAIR—The committee prefers all evidence to be given in public but if at any stage you wish to give any evidence or part of evidence or answers to any questions in camera the committee will consider the request, but such evidence may subsequently be made public by order of the Senate. I now invite you to make a brief opening statement.

Mr Fitzgerald—I thank the senators and your committee for this opportunity. It is an extraordinary opportunity, however, both in terms of time and this particular legislative context, to be appearing before this committee to address this and related issues. It would appear that the major purposes of the bill relate to the implementation of the government's January statement on innovation which deals primarily with research and development. The bill does depart from normal practice in its inclusion of sections relating to schools funding. These have become minor, rather unrelated addenda to a bill that does deal overwhelmingly with higher education and research. We were troubled by the placement of a schools funding question in that particular legislative context.

We were also troubled by the fact that we are reappearing here before you—or I am—on behalf of the federal branch of the Australian Education Union so quickly after the passage of the States Grants Act, the substantive legislation that goes to the question of the appropriation and allocation of funds from the federal parliament to schools across Australia. It is impossible to dwell on that without looking at the question of the possible motives of the government in embedding schools clauses within unrelated legislation. One fears that this is, indeed, an attempt to avoid accountability; that is, rather than deal with something openly, it is a question of embedding it in something that is not a cognate or clearly related piece of legislation, and distinctly and deliberately away from that act that has been part of such important and open public debate.

Having said so, it would appear that, with regard to the recommendations that, in its wisdom, this committee decides to make, there is a problem if the committee itself is drawn into a complicity with that sort of process. That is why we would strongly suggest that the school provisions be split off from the other aspects of the bill, and request that the committee recommend that this be done; otherwise what is widely seen as a tricky piece of legislative enhancement or concealment will, in fact, proceed.

The government has decided to introduce separate legislation on a range of matters that could be dealt with quite clearly by means of amendment to a major bill that is already before the parliament and, because there has been such understandable and widespread public debate, again, one returns to fears as to why this particular piece of tricky legislative behaviour is taking place. Secondly, we dwell on the question of the timing of the much debated states grants bill which passed on 31 December. We are now back here, again seeking further appropriation of taxpayers' money, exclusively to be directed in increasing proportions to the private sector of education.

This bill was introduced only four months after the enactment of the States Grants Act 2000. We have been asked to reappear and discuss taxpayers' funds being used as a magic pudding—that is, in terms of delivering the government's legislative and ideological agenda yet more funding has been sought in relation to this piece of legislation. Taxpayers and their funds are being used as a magic pudding—you return to that, and yet more money, a 330 per cent increase for 2001, over 200 per cent in 2002 and more than 100 per cent in the remaining two years.

We have said much, as have many concerned members of the community, about the allocation of funds, and the disproportionate amount of money going to private schools. We do not intend to return to that, except to refer to some further material a little bit later. We

have simply sought a fair share for children in public schools. So far, this has not been forthcoming. In fact, the legislative outcome of this amendment that we address specifically would exacerbate the unfairness that this government is associated with. It also follows sharply on a federal budget that did not indicate in any overt way that this was going to happen; a federal budget the speech for which, when delivered by the Treasurer, made no reference to education. There was no explicit section on education and no reference at all to public education.

What we have here is, in fact, a process that further encourages those who would set up new private schools. It is consistent with the government's favouritism directed towards those private schools and tries to seek to exacerbate the balance of enrolments in relation to that. What we suggest, quite simply, is that this committee decide not to recommend that the extra funds be made available. The public sector, quite rightly, is often reminded about its need for accountability, and accountability that we accept, but if you look at the lack of accountability provisions within this legislation it is, in fact, the antithesis of everything that this federal government does tend to hector us on in relation to what we ought to do in the public sector.

There are, for example, no requirements along the lines of minimum enrolment size. There is no explicit or special accountability or reporting requirements attached to that; in fact, the funds do not even have to be accounted for separately. It is, in fact, a rather profligate use and an unaccountable use of the public's money—not the federal government's money. Clearly, the evidence from the public over recent months is that there is an overwhelming antipathy to what the government is seeking to do in terms of the misallocation of public money for private education, including wealthy private schools. It is an ideological rather than an educational set of outcomes that will take place here.

We certainly believe that if these are going to proceed that the committee should recommend that there be separate, rigorous reporting/accountability requirements. That seems fundamental. We also believe that there ought to be a minimum enrolment benchmark—that is, we need to know that schools are going to be viable propositions. That is standard procedure. If the establishment grants are to go ahead and if the federal government wishes to associate itself with governing in the interests of all Australian children, surely the Commonwealth should provide establishment grants on an equal per capita basis to both public and private schools, but what we have is not boundless optimism in relation to that.

We also make a related observation: it seems clear with this tricky piece of legislation that there is now clear evidence that the minister has misled the parliament and the public prior to the passage of this bill. In the second reading speech, the minister said:

Under the new arrangements general recurrent funding will be distributed according to need and schools serving the neediest communities will receive the greatest financial support.

That is now demonstrably untrue. As we look at the table that was provided by DETYA to the Senate, the returned order of 3 October, we know that in fact the wealthiest category of schools received the greatest percentage increase. It is the inverted pyramid—the wealthiest received the most. Category 1 schools, those 59 schools, got 145.8 per cent whereas category 12 schools had an increase only of 29.6 per cent.

The other key selling point for this prior piece of legislation, the fundamental piece, the 68 per cent of which goes to private schools, is that both the minister and the Prime Minister have said in the parliament and in the public domain that this was sold on the basis that it would open up choice and would lead to pushing fees down. The minister, for example, has said quite clearly several times, 'Our bill pushes fees down.' The Prime Minister said in the parliament on 5 October, 'Our policy is about expanding options for parents.'

Those things are conspicuously and demonstrably untrue. I refer the committee to the survey of category 1 schools conducted by the *Weekend Australian* of 2 and 3 June. The *Australian* surveyed and spoke to each of the schools in that particular category and only eight schools out of the 59 declared that any of that money would go to fee relief. They mentioned a whole number of things about the enhancement of existing privilege but none of it went to the question of making their schools more affordable and, as we know quite clearly, fees have gone up in those schools across the board.

The selling point about this is now demonstrably untrue. There are no requirements for proper accountability which would have those schools do the things that they ought to be doing if they were going to be consistent. If Dr Kemp were serious about the proposition of opening that up, there would have been attached legislative requirements. We know that these schools have continued to put their fees up and that there are no requirements that the money coming from the public purse to those schools out of the largesse of the States Grants Act will have to, in any accountable fashion, go to those sorts of fee reductions, even as opposed to fee relief.

We know, further, that on 5 June this year the minister brought back the question of the enrolment benchmark adjustment. Earlier this year there was talk about its abolition or about its return but, as Dr Kemp told the House of Representatives on 5 June this year, it is not true that the government has abolished the enrolment benchmark adjustment. As late as last night on ABC Radio National, Dr Kemp was reiterating that point, and that is a point likely to be returned to several times over the next couple of months leading up towards the end of the year. This follows hard on the heels of the revelation in the *Sydney Morning Herald* that the budget understated the previous \$300 million allocation from the States Grants Act in comparison to previous estimates that had taken place. So we have a consistent pattern of trickiness, of deceit, of misleading the parliament and the public, and this is entirely consistent with where we have been in this debate and what we predicted would take place. We are now in extraordinary circumstances.

One of the category 1 schools that gets \$1.8 million extra is SCEGGS Redlands. We notice the connection with the founder of One.Tel, a Mr Brad Keeling. He has donated, according to the *Financial Review*, \$1 million in cash towards new classrooms and another \$5 million more in interest free loans has also been extended by Mr Keeling. However, says the *Financial Review*, Keeling apparently became rather testy earlier this year when he learnt his money had been spent appeasing some of the school's creditors over a collapsed corporate catering venture during the Sydney Olympics. It goes on to say that SCEGGS Redlands is facing legal action from several of the 50 creditors after its foray into corporate catering at Homebush failed when its partner Blazer was placed in voluntary liquidation after the Olympics.

What is significant about this—I would not want to reflect on One.Tel or, indeed, Mr Keeling—is that that money would have no account in relation to the funds that it would get from the States Grants Act. It is specifically excluded from the review because it is regarded as private effort. Similarly—and this is why this amendment before us concerns us also—there is no accountability. How do we know the money that is extended towards them is spent in that particular way and none of those provisions exist at all? What we have is quite simply the continuation of a government that governs for some of Australia's children, for the 30 per cent in private education, and disproportionately for those in elite schools, and they have just found another way to get millions more to encourage more people into those private schools at taxpayers' expense. That is what this particular piece of legislation represents.

CHAIR—Thank you. Senator Allison.

Senator ALLISON—I am interested, Mr Fitzgerald, in what you think might be the mechanisms operating here. We are led to believe that there were a larger number of students enrolling in new schools and this is what has led to the increased demand. If you were a private school operator, perhaps a category 1 school, setting up a new school in another area, would it encourage you to perhaps not set up the school until you knew you had substantial numbers of students in that first year? You might, for instance, accommodate those students at that campus and then set up a new school elsewhere. Have you thought that through? Is this what is happening here? Is this why we are faced with an extra demand?

Mr Fitzgerald—It is hard to go to the question of motivation. It seems, for one who has drawn up timetables, done enrolment projections and so forth, that if I could not project accurately one school from the September previously, let alone across Australia—we know enrolment projections, people know, and this sudden, dramatic alleged increase in enrolments or this new model that has been put here may have that effect. It is either incredible incompetence—and I do not speculate on that because I simply do not know—or furtive behaviour, tricky behaviour or deceitful behaviour; it is one of those. The model you describe there, Senator, is one of the possible outcomes. In any event, it does optimise the amount of money that goes to private education without any concomitant accountability.

Senator ALLISON—You make some suggestions on how the money might be limited. Would you suggest that the money ought not be used for things like advertising, maybe corporate ventures, given the example you have just given us? Would that make any difference? Wouldn't it just be a situation where the school would say, 'We haven't used that money for advertising but we've taken money away from fees'—or whatever else—'in order to spend it on that'? How would it work if the Senate were to say that there were some limits on what this money could be used for?

Mr Fitzgerald—I would think that an establishment grant ought to go to the question of the establishment of a school. The way that would be drafted would be determined by people wiser than I in relation to that, but there has to be a direct accountability. As teachers we have to have outcomes based accountability. If we have money that comes in for, say, a particular literacy and numeracy program, then we have to establish, prove and document that that money has gone to the employment of appropriate people, the use of appropriate assessment instruments, and then the placement of remediation programs. We do it in the public sector in every ounce of our being, every day.

It is not beyond our wit to be able to establish that, if governments are going to be in the business of establishment grants, clearly it has to be a universal proposition. You cannot say that a government will want to establish a certain type of school but if you are in the public sector those children warrant no money whatsoever. We have a long history in the public sector of being able to tie a grant and its accountability to fixed outcomes and expenditure. I think it could be done with the masses of public money being suggested here.

Senator ALLISON—If the Senate does not support this aspect of the legislation—you suggest splitting the bill—how would you suggest that the money which is currently provided for under the previous states grants bill would be allocated? Would it be first come first served? Would your preference be, as I think you suggest in your submission, a set amount for each school regardless of the enrolment numbers? Can you indicate how you think the current arrangement might work if this bill does not proceed?

Mr Fitzgerald—If it does not proceed in that way I think it can be done per capita, as we describe in the submission. Another way is to consider the prospect of educational impact.

What is the impact on existing children's educational choices—that is, for those people who have chosen existing schools in the public and private sectors, what is the impact on those children, the choices of those parents, the curriculum provision within those schools, the staffing levels that exist and so forth?

Senator ALLISON—You are suggesting a set of criteria should be established for the prioritising of this?

Mr Fitzgerald—Indeed. It certainly could be around the question of an educational impact statement: how are other children harmed or hindered by the establishment of a new publicly resourced facility?

Senator ALLISON—The government seems to be suggesting this is a competitive mechanism to enable those schools to be competitive. You point out that government schools do not receive this grant and the anomaly there with competition. In how many instances would you expect this competition to be between two establishing schools—or three or six or whatever—and, in your experience, how much more common is it that a new school will challenge the enrolments or set up in competition to an existing school? How would your rationale work if we were to amend this legislation to mean that all new schools would get the grant?

Mr Fitzgerald—The latter example is much more common. Private schools, by their nature and inclination, are unlikely to be in distant or regional parts of Australia. They tend to look at, to use their language, market theory to see how they can meet what they would regard as a new opportunity. The model normally is that there is an existing government school. Therefore, if you set up a new publicly funded school without regard to the impact on the pre-existing choices of parents in a community, you will harm curriculum choice in the existing schools.

The growth in enrolment is not in the Catholic sector. The share of enrolments within the Catholic sector is almost identical to what it was 40 years ago. The big enrolment growth is in the low-fee high-subsidy private schools. They are low fee for good reason: the public subsidises them massively. They can have a significant negative impact on the great majority of parents who have made a pre-existing choice.

Senator CARR—If I could begin with the question of discrimination. It has been said that this bill is highly discriminatory, that it favours particular groups attending particular schools as distinct from the public school system. Do you agree with that assessment? Can you tell me, for instance, if government schools get specific allocations from the Commonwealth for establishment grants.

Mr Fitzgerald—No. This particular amendment reinforces that bias but it is also consistent with the ideological inclination of the government that they are about business and they are quite overt. If I could quote a letter that Dr Kemp wrote to all secondary principals in Australia, he says that the Commonwealth has principal responsibility for non-government school funding, that they have redefined their constitutional responsibility and, in fact, barrack for and work for private school interests.

Senator CARR—You say that this policy is irrational, unjust and inequitable. Why is that?

Mr Fitzgerald—Because if we are about creating a fair, well-educated pluralist society, if we believe that all parents' choices are equally valid and worth while and worth enhancing, then they are universal principles or they are not. If they are not, they are discriminatory principles. Unless we have funding from the federal government on the basis of a fair share, or the federal government will govern for all of Australia's children, we have a discriminatory

procedure without regard for accountability, without the account for great need or the impact on existing schools or minimum enrolment levels. Unless we have those essential benchmarks of financial and educational accountability, we will have this other model which is before the committee and before the parliament. That is an idea that we will set up schools but only in the private sector and without regard to the negative consequences to parents who have made their choice for public education.

Senator CARR—Mr Fitzgerald, the Commonwealth has decreased the amount of money going to the public sector from 43 per cent of its total outlays down to about 34½ per cent, perhaps a little bit more than that. There has been a dramatic change in the space of six years. Isn't it to be expected that there is going to be a significant shift in enrolments that would follow that increase in moneys?

Mr Fitzgerald—It is quite clear that the enrolment shifts. If you add up the billions—and I am talking about tens of billions of dollars of money that is shifted to the private sector—it is not surprising, with that degree of market interference by an otherwise ostensibly economically rationalist government, that they are in fact facilitating a process which does tend to replicate itself. When you have a government that says they are in the business of private education, of course that enrolment shift is going to take place. At the same time, they will seek to blame the public sector for the difficulties that befall it as a consequence of this ideological policy.

As we note in the forward estimates from the recently released budget papers, if you look at questions like the general recurrent funding, that now appears to be exceeding 70 per cent of federal dollars going to private schools. This is increasing, as this legislation before us suggests, at an exponential rate.

Senator CARR—The advice that has been given to me by public servants before the Senate estimates is that already this year there has been an application for 40 new additional schools to the system, which is in excess of the previous year. It is likely to be 70 in total for 2001 and about 70 for 2002. On that basis it is argued that there is a need to give an increase of \$750 per child for these schools. Isn't that a fair proposition? Isn't the government's claim that that is reasonable fair?

Mr Fitzgerald—If it was a universal proposition and if it did not harm other children, but only in those two cases, that might be the case; if establishment grants were in fact establishment grants as opposed to the establishment of private school grants, which this is, and if it has no regard for proper accountability. We can think of no other example where the federal government would hand out such largesse for small businesses and say, 'Look, we don't care how many kids you've got. We won't get into the business of accreditation, registration and so forth. We won't require that the money we give you be spent on the thing it is entitled as—an establishment grant—and we won't have other accountability provisions.' Without any of those criteria it is very strange that it is reckless in its fiscal implications.

Senator CARR—I am at a bit of a loss here because the government has not sought to defend its position. There is a 300 per cent increase in funding for these particular grants; a 330 per cent increase in the next year; a 262 per cent increase in the subsequent year; then 128 per cent followed by 128 per cent—a massive growth. We have no government submission to defend this position. This is unprecedented. The advice I have is that the minister said there will be no government submission to defend this legislation. Of all the time I have been on this committee there has never been a situation, to my knowledge, where the government has failed to put a submission in to defend its own legislation.

I am at a bit of a loss to explain how this could come about. They are seeking to increase 300 per cent for the number of students, which seem to be only increasing by 100 per cent. That seems to be the logic of it. You state here that there should be some questioning of the motives of the government's position. Irrespective of what you said today, your submission actually says that there should be some questioning. What do you believe is behind this manoeuvre?

Mr Fitzgerald—Clearly there is one reason why people in general do not seek to defend something—if it is literally indefensible; but seek to conceal something in a piece of legislation that is not in any sense a cognate piece of legislation.

Certainly—and this concerns me as a history teacher—they are attempting to make it difficult for the parliament, as the representatives of the people of Australia, to debate this question of schools funding without endangering funding going to higher education. It would appear to be cunning, tricky parliamentary tactics rather than something that really deals honestly with public funds and the future of our children.

It is unsurprising, however: we are getting used to these percentage increases of 100 and 200 and so forth. It is the same government that regards the neediest school in Australia, according to the per school funding, as the Wesley College in Melbourne. That is Australia's neediest school according to these figures. The rather troubled Trinity Grammar in Sydney gets a 233 per cent increase, and in fact Dr Kemp's alma mater, Scotch College, gets \$3 million. So one gets inured to this sort of largesse being handed out to reinforce privilege.

Senator CARR—The other question that you have drawn our attention to is one that we have canvassed with the department at the previous round of estimates, and that is the issue of accountability. My reading of the guidelines tells me that the only accountability that is required here is that a statement has to be signed by an accountant that the funds have been spent in accordance with the guidelines, which is that they are spent in accordance with the proposition that they are being used for recurrent funding. I put to the department the proposition that this money could be used to buy a principal a new suit. The department says that this is possible in the state school system as well. They actually concede that it is possible to use this money to buy a principal a new suit. How do you respond to that proposition that a principal in a government school might well, equally, draw upon public funds, other than his normal salary, to buy a new suit?

Mr Fitzgerald—Senator, without reflecting on the sartorial wisdom of government school principals, there is no evidence of that. There is very good reason for that. I will use New South Wales as an example. We have a very rigorous form of accountability there. That sort of personal expenditure from the public purse would be illegal and would have someone lose their job—and quite rightly, too. If you take a disadvantaged school in Western Sydney, on the former disadvantaged schools program, you might get \$80,000 per year to look after 1,000 children and to seek to remedy the causes of their disadvantage. Each cent of that would be accounted for down to the last line item. The idea of suits and other forms of paraphernalia—marketing, advertising, or whatever—would not enter into the consciousness of people. To engage in that sort of expenditure could not be done and it should not be done.

Senator CARR—The other issue that has been canvassed in recent times is the discriminatory approach taken in regard to Commonwealth agreements on accountability. My reading of the arrangements is that the state government is obliged to enter into an agreement as to the allocation of moneys, and I am told those agreements go to such matters as the question of access to premises and records. The agreement states:

The state shall allow any person authorised in writing by the minister, with such help as the person requires, to have full and free access, at all reasonable times after giving reasonable notice to the state, to all accounts, records and documents, of the state relating to information that the state is required under this agreement to give the minister.

I understand that that is a provision of all agreements, public and private. However, when it comes to withholding of moneys we have seen in Victoria the figure of \$2½ million being withheld from the capital program because that state chose not to invite Dr Kemp to cut the ribbons at the school openings; moneys for the library programs were withheld because that state chose not to put Dr Kemp's book stickers inside the fly jackets of books; in Western Australia moneys have been withheld from governments there because they refuse to sign particular agreements with the Commonwealth in those matters. But I have not found one occasion yet where moneys have been withheld from the non-government school system.

Are you aware of any arrangements that have been entered into where there have been moneys withheld from the non-government school system? Can you give me any examples of where moneys have been withheld from the government school system? The point I am making is: do you think, despite these common clauses in agreements, that there is a discriminatory attitude being taken on the question of accountability between the public and private systems?

Mr Fitzgerald—I think the evidence is clear on that, and some of the examples you cite are clear. Whatever party is in government, to withdraw or to withhold books from children because the appropriate stickers were not in there is just educationally barbaric, particularly for children in great need. It is the same thing in relation to the fundamental needs of public schools and their maintenance: for that maintenance not to be endorsed or funded in a supplementary sense from the federal government in the normal course of duties is appalling, but there clearly are two sets.

The marketing of the States Grants Act was going to bring private school fees down and it was going to open up choice. We know that is demonstrably untrue, and that the inverse is true. An article in the *Australian* on Monday of this week states:

A spokeswoman for federal Education Minister David Kemp says SES funding increases are for teaching and ancillary staff salaries, professional development of teachers, curriculum development and maintenance and general provisions.

That is the most omnibus set of descriptions. You can spend it pretty much as you like. Tellingly, it makes no reference to opening up to the Australian public. Tellingly, it says nothing about bringing down school fees, or affordability. It says nothing about the welfarist approach in terms of scholarships, and it ends with 'general provisions'. There are two sets. There has been an indiscriminate opening up of funding for private schools without proper accountability whilst, down to the last cent, we have accountability in the public sector. We embrace that accountability. We just seek an equality of accountability across the sectors.

Senator CARR—The government are claiming that they have various letters to people whom I have been able to have access to—that there have been schools that have opened with 847 enrolments, another with 338 enrolments and another with 197 enrolments. Are you aware of schools of that size?

Mr Fitzgerald—This would be a considerable rush on a school. Schools tend to grow from mid-size to large but, under this policy here, you can now grow from acorns to any size you feel like and still access it. I would think a school that could overnight or over Christmas pick up 857 students was either opening up in areas that hitherto were uneducated, or something unusual had taken place.

Senator CARR—The other question arises—and you have raised this point—about the timing of the government’s attitudinal changes on these matters. Your submission to this committee is that these are matters that should have been dealt with at the time of the states grants bill. Are you aware or do you have any advice at all through your discussions, either with state or Commonwealth officials, as to when the government chose to change the funding formula and to move it from a school based establishment grant process, bearing in mind that many of these schools do not have 800 students in them but only have 10?

Mr Fitzgerald—Yes.

Senator CARR—Are you aware at what point that change occurred in the government’s thinking?

Mr Fitzgerald—One would like to think it was simple incompetence and that it happened at some time after 1 January when the act in fact became the act. But it would appear there is some evidence to suggest that it was known about before but amendments were not made to the legislation before it went through both houses of parliament.

Senator CARR—In fact, the government amended its legislation last year to increase the amount of money being provided for cost supplementation purposes. They had a figure of 7.4 per cent. One presumes that at the time they introduced those amendment—I think it was around September of last year—they would have known the projections on forward enrolments. Is it your experience that that sort of time line would be reasonable? Would you know or would government officials know what they expected enrolments would be for the next year by that time?

Mr Fitzgerald—In terms 3 and 4 that were fast approaching government schools begin to put in their anticipated enrolment for the following year. It is at this time of the year that open days and other forms of publicity around schools are taking place for year 6 and year 10. That is when the projections normally take place. It does not take place after a school has closed or, indeed, a system that has closed down. The normal, proper form of accountability is that you would know your enrolment projections well before that academic year had started, normally in a period of four to five months beforehand. It would be extraordinary if one was suddenly surprised by thousands more enrolments in a particular sector.

Senator CARR—Can you just go through this again. Why do you believe that this government has found it necessary to introduce another piece of legislation, four months after the states grants bill was debated, under such considerable controversy? If they had opportunities to introduce other amendments on supplementation for strategic initiatives, for instance, why would they not do it at that time?

Mr Fitzgerald—It is impossible to separate the question of the timing from the way this legislation is in fact presented. It is in fact embedded in another piece of legislation to prevent the very form of public debate that may ensue from the recommendations of this committee and what ensues thereafter. It could well be that it is a question of being shamefaced, but I cannot speculate as to why that might take place. As I say, it is a simple choice between incompetence or tricky behaviour and it could well be a combination of both. It would be the form of incompetence that we would not accept in the government sector in terms of anticipating enrolment growth.

Senator CARR—Thank you very much, Mr Fitzgerald.

Senator ALLISON—I have a few questions first about behaviour and the incentives for schools to not apply for new school status until they have substantial enrolments. Do you see anything in the legislation which would prevent an established school from, say, establishing

another new school—perhaps across the road, perhaps down the corner—and simply transferring students from the existing school to the new one, then calling it a new school and getting maybe, in the case of the school which has just over 1,000 students, \$700,000 as a result? Are there any windfall gains opportunities in this for schools in this situation?

Mr Fitzgerald—There are, indeed. What we have seen in some parts of the private sector is the multicampus school. If you take a school like SCEGGS or the whole network of schools like SCEGGS—and I am not saying that SCEGGS themselves are doing this process, but I use them as an example of a multicampus enterprise—then a campus that exists further down the way, which we see in other parts of urban areas, could be declared to be a new school.

Senator ALLISON—There is nothing in the legislation to prevent that, as far as you can see.

Mr Fitzgerald—Our reading of the legislation does not prevent that at all. That is consistent with its lack of accountability.

Senator ALLISON—You criticised the fact that there is no formula here for establishing what those grants would be. You have talked about a minimum enrolment size as being one measure. Would you also support some sort of cap on a school? If so, what do you think that ought to be? Would you take into account income to the school, such as fees in particular?

Mr Fitzgerald—That is perfectly so, on the basis of need. If you contrast this particular form of government beneficence to every other part of the way that it allocates our public funds, there are in fact quite stringent income based returns. For example, with the former DSP survey—the Disadvantaged Schools Program survey—every parent, every family from disadvantaged communities needed to state quite detailed backgrounds of themselves, their families, their income, their means and so forth. It would seem a proper educational and financial responsibility to say, ‘How much do you need from the public purse?’

Similarly on your question, Senator, in relation to a cap: there is no cap in relation to any of this. This is why we use the term ‘magic pudding’. You can just keep returning to this public purse and, without accountability, get more and more money particularly if you optimise the nature of new school establishments and so forth. There are no caps and private education seems to be the only part of budget policy that is excluded from that sort of accountability.

CHAIR—Thank you very much for appearing today, Mr Fitzgerald.

Mr Fitzgerald—Thank you, Senator.

[10.03 a.m.]

KING, Mr Conor, Director of Policy and Coordination, Australian Vice-Chancellors Committee

CHAIR—I welcome the representative of the Australian Vice-Chancellors Committee. The committee has before it submission No. 5. Are there any changes you wish to make to the submission?

Mr King—No.

CHAIR—The committee prefers all evidence to be given in public although the committee will also consider any requests for any evidence or part of evidence to be given in camera if you so wish. I point out that such evidence may subsequently be made public by order of the Senate. I now invite you to make a brief opening statement.

Mr King—I will start by outlining the AVCC policy in regard to postgraduate course work places. There are two issues here, both of which have been outlined in our recent publication *Our universities, our future* released in December last year. The first thing is that the AVCC is strongly of the belief that postgraduate course work places should be a mixture of HECS places and fee based places. Over recent years universities have been squeezed in the number of HECS places they can make available. Our policy position is that we would like to see universities have greater freedom to set the balance between HECS based places and fee based places for these courses.

With regard to fee based places, the AVCC position is that there should be a system of income contingent loans for students undertaking such courses so that their own personal income is not a key factor in deciding whether or not to undertake such a course, but there is a loan available to offset that cost until their future income allows them to repay it. Hence, we welcome the introduction of the Postgraduate Educational Loan Scheme. Our submission focuses on that aspect of the bill you are considering.

There are three issues, however, with the bill as proposed, which we wish to raise with the committee, where we think the implementation of that loan scheme could be improved. The first thing is the issue of which are the relevant institutions for their students to access this scheme. The legislation sets out that it applies to all those institutions listed in the existing table A and table B of the act. This includes most universities, but excludes one university in this country—Bond University. On the basis that this scheme is a proposal to support students undertaking fee based courses and is not tied to public provision of funding for those courses, it seems a strange listing to use. Hence the AVCC believes that Bond University, which is an accredited and established university in Australia, should equally have access to this scheme for its students.

Our second and third points relate to the cap proposed on the amount of debts that students may accumulate, both between HECS and PELS. Our first point is the inclusion of HECS in that cap. The cap and the legislation are proposed to introduce a loan scheme for postgraduate fee paying courses. The issue of the cap has arisen because of concerns about what may happen to fees with the introduction of such a system. The AVCC is not convinced that we need such a cap but, if there is to be one, it should apply to the postgraduate scheme as that is the basis for introducing the legislation and the cap.

There have not been issues raised about HECS debt and the HECS system. Generally people support that system. We do not see the need to include students' HECS debts within that cap. It is a change to government policy on HECS and one that has not been particularly announced or justified.

Our third point comes down more to how the implementation of that cap will work. If a student has hit the cap and they are no longer eligible to receive further PELS or, indeed, HECS loans, it is important that universities are aware of that before the student is enrolled—for both universities and students—to prevent students enrolling in a course when they cannot take out the loan and that is the assumption on which the university has enrolled them. The legislation sets out arrangements for the Commissioner of Taxation to inform the universities where the student is enrolled or has been enrolled, but does not cover the case of a student enrolling in a new institution. Obviously universities will find that out once the student has enrolled and they have made an application. However, we think there should be a more streamlined approach, whereby universities can check, if necessary, in advance and determine whether or not students in fact have hit the cap and therefore are unable to access further loans. They are the three issues that we see with the legislation but broadly we support the legislation and look forward to its passing.

Senator ALLISON—Mr King, I think we have circulated to you a table which goes to the question of postgraduate places. I just wanted to ask you some questions about this, if I could. The table shows 22,000 notional postgraduate course work places in the third column. Of that number, 3,043 were used by institutions for research students and so-called gap places but only 14,663 were actually used for course work students. We have taken these figures from DETYA, so they are not new. That means almost 5,000 HECS places, in the last column, which were notionally available for postgraduate course work students were not used. As most postgraduates are part time, it probably means that figure is more like 10,000 students missing out on funded places. Can you explain why it is that universities didn't use their full potential allocated places for course work students?

Mr King—It is useful to remember the history of why there is an undergraduate target. Previously universities had a target load. They were free to use those across a range of courses—undergraduate, postgraduate, and that includes course work and research at the postgraduate level. Some time in the middle 1990s the government was concerned that the number of undergraduate places was not sufficiently high—that is, there were too many of those places being used at the postgraduate level—and imposed an undergraduate target. That was a minimum. It certainly did not say that the remaining places had to be used for postgraduate, although I can understand why groups such as the Council of Australian Postgraduate Associations see that less as a notional target to be used.

Over the last few years the undergraduate target has tended to rise while the total target has stayed constant, so the proportion of places available has been shrinking. Universities are concerned about that. We would like to see more places available on a HECS basis for postgraduate course work. Universities also have to provide for the undergraduate demand that they also receive. They face the balancing decision of, 'We have these places. How do we best use those?' Each university makes its decision about the allocation. As you can see from that table, while the majority are using some of those places above the undergraduate target to fund some undergraduate places, others are also making full use of what you call the notional postgraduate target amount.

The issue for universities is that they have demand from a whole range of different student groups. They are each making a decision upon what is the best balance of that. Yes, in the postgraduate course work there is capacity to have fee based places; hence, universities are using that. But as a basic policy position the AVCC would like to have more places available on a HECS basis for these postgraduate course work students.

Senator ALLISON—You don't reject the notion that postgraduate course places are helping universities to reduce their unmet undergraduate need?

Mr King—No. We agree that there is a squeeze there. It is a question of balance between undergraduate demand and postgraduate demand and the various ways universities can meet that demand.

Senator ALLISON—That is not much of a balance, is it, if you have what might be 10,000 places not being available for postgraduate work? There is a significant shortfall.

Mr King—Yes. As I said, we would prefer to have more but that comes down to the number of places government makes available for funding.

Senator ALLISON—What is likely to be the trend in terms of those figures over the next couple of years? How will this legislation affect that?

Mr King—The other point is that universities do overenrol. Over the last few years a fair proportion of overenrolment was at the postgraduate level, endeavouring to maintain those places. The future trend is that government has announced small amounts of additional numbers of undergraduate places that will relieve some of the pressure there. The impact of this legislation should be to make fee paying places more accessible to a wider range of people. That will allow universities to, to some degree, rely on those more. We also want to ensure there are HECS places available. The scheme makes a full fee paying place more accessible; nevertheless the fee on the whole will remain higher than a HECS fee for an equivalent sort of course and, hence, while it is more accessible than now, it is still not as accessible as if you had a HECS place.

Senator ALLISON—I wonder if you could consider that in relation to the other table which was circulated, which shows the percentage change in domestic load and shows that there has been an increase only in mathematics and computing, and that there are substantial percentage decreases in other fields. Given that one of the arguments put forward as to why there are declining numbers is that there are insufficient private benefits from postgraduate studies in nursing, community health, education, science, agriculture and the like, how do you reconcile this trend with the stated objectives of this legislation? In other words, is this legislation going to do what the government claims, in your view?

Mr King—The legislation should make potential students more interested in enrolling in these courses by providing them with a loan up-front to cover the cost of the course. If subsequently your income then permits, you will repay it. But the challenge still remains; at some point or other you are going to pay for the course and that has to be considered as to whether it is worthwhile undertaking.

The overall decline in the number of course work places probably reflects the impact of fees over the last few years becoming the predominant manner in which you can access such courses. It may also reflect some assessment, too, of the overall need for such courses versus other opportunities for people. The introduction of PELS should make these sorts of courses more accessible for people who wish to do these sorts of courses but who cannot afford an up-front fee. So it should have some impact of reducing that—

Senator ALLISON—Let us take one example, education, where I think the projections that have made are that we are facing enormous teacher shortages over the next few years in almost every state of Australia. Where are the mechanisms and how do you see us addressing that question?

Mr King—The simple point about PELS is that, to the extent to which you are put off from undertaking a fee based course, it will make it more accessible for you. The broader

issue of whether or not we need more people in some of these courses, and need a lower-fee or a HECS based system for them, is one where we agree that we do need a better mix of HECS and fee paying in a range of these postgraduate areas. In terms of education, in particular to do a graduate diploma, it is one of the areas where universities are not permitted yet to charge fees for that course. That is a protection built in to ensure that there is a continued flow of people who do a graduate diploma in education. Whether the demand is there is an issue for universities. In that particular case this government has actually said that they must be HECS based places. There are other education postgraduate awards which would be fee paying.

The issue in terms of addressing a shortfall in various areas comes down to a balance of universities having sufficient places on a HECS basis and ability to charge fees for a range of other courses. That broad policy position is one we have argued. It is not one, at this stage, that the government has chosen to address but we have it there. We see PELS as one thing that is helpful and useful; we do not see it as actually resolving all the problems that universities face in this area.

Senator ALLISON—Are there ways in which this legislation could be amended to do that? Can you suggest possible improvements?

Mr King—The legislation sets up the schemes for the loans for postgraduate fee paying courses. In that context it achieves that. It does not cover a whole range of other things but that comes down to much broader changes to the system, and I do not think this bit of legislation is really the mechanism to address that.

Senator ALLISON—It may not be the mechanism to address the whole picture but are there ways in which it could be changed to at least give some incentives in the right direction?

Mr King—No. Given that its intention is to set up the postgraduate loan scheme, no. The three points I raised earlier are the areas that we have concern about; otherwise we think that what the legislation is set out to do, achieves what it has to do, and we are happy with it.

Senator ALLISON—Most postgraduate fees are lower than fully-funded places. Indeed, in many courses they are not significantly higher than the undergraduate marginal rate. According to DETYA's own modelling, PELS is unlikely to significantly increase the number of students on average fees. You will be aware that in the current Senate inquiry into higher education a number of universities have given evidence outlining their concerns about the diminishing quality of the learning experience since the cutbacks. Unless universities put up their prices on postgraduate programs, do you really think this scheme will do anything to address the funding crisis in universities?

Mr King—I do not see the scheme as particularly addressing the funding crisis in universities. It is about ensuring that, where there are fee paying places, the group who can access those is all those who have an interest in such a course. The funding issue comes down to the quantum that is there for a particular place. Universities set their fees to cover the sort of income they think they need to run these courses. That varies considerably for a number of reasons. In some cases they are small numbers so they can do it on a fairly marginal basis. Other times they are setting up whole new areas to provide a course and they need to cover significant higher costs there. The scheme is not going to address the funding problems. It is about addressing the capacity of individuals to apply and enrol in this course who might otherwise not do so because the fee is something they cannot afford up-front.

That should have some impact upon increasing the number of students who could enrol, but there is also an issue of exactly what the level of real demand for these courses is. There

may be some increase in people applying, and a university may have some capacity therefore to enrol more students in them. To some degree if they do that, it may help offset some costs for them. If they can increase the number of students at the present rates, then that gives them more money to run the same course, but also at certain points more students need more staff, more resources in other ways.

Senator ALLISON—You would reject the criticism of this legislation as being a possible trigger to increasing fees? You do not suggest that is likely to happen?

Mr King—I know that has been raised. It increases the capacity of more people to pay the fee. There is also quite extensive competition amongst universities in this area. It is one area where the prices have been deregulated. There are 37 to 40 institutions competing in these sorts of areas. The prices range considerably for similar sorts of degrees, the same title, because they offer differing approaches to those courses; hence, while you could say that some may take the opportunity to increase the fee because they know students will be able to afford a bit more, or at least it has gone off into the future and they will not want to worry about it so much, there will be others equally seeking to enrol students who would be looking to do the other thing, to undercut and to use the price competition. I do not see that should lead to any significant increase in the level of fees charged for these courses. The universities' perspective is that it is a way of ensuring that people can afford the fee and do not need to scrounge to find that money up-front. That is the advantage of it.

Senator ALLISON—Most of the criticism of universities coming through that inquiry is that there is plenty of evidence of undergraduate units being in postgraduate programs, shorter courses, increasing staff student ratios and the like. You don't think that that pressure will lead to increases in fees?

Mr King—The fee needs to be a suitable fee to cover the sort of income universities need to run the courses properly, and that is the broad basis on which universities are setting their fees now. If it gets too low you cannot provide the course properly, so it has to be set at a realistic level, and basically the universities are doing that now.

Senator ALLISON—You have argued in your submission that Bond University students should be eligible for PELS. Is Bond a member of your association?

Mr King—Yes, it is.

Senator ALLISON—So you have an interest obviously in terms of your representation.

Mr King—We have an interest supporting the needs of all universities in this country, yes—all universities that are our members, anyway.

Senator CARR—Let's get down to tints here—

Mr King—We do have criteria, that is right.

Senator CARR—membership.

Senator ALLISON—I think one of the arguments you made is that there are precedents, and I think Notre Dame would obviously be one of those.

Mr King—If you look at the list there, it is an interesting list of institutions that for various reasons have received some public funding for places. It is hard to distinguish those institutions from Bond on any other grounds, and it is hard to relate the grounds of receiving public funding for some places to this particular bit of legislation; hence we use that list. It is a convenient list which is in the legislation already. We are suggesting somehow or other that Bond be included.

Senator ALLISON—But Notre Dame, for instance, was provided with funding because of, as I understand it, the lack of teacher training availability in the Broome area. Isn't that the case?

Mr King—Indeed, and I am not arguing against the fact that these institutions receive publicly funded places. The point is that this legislation is about ensuring students in fee paying places have access to an income contingent loan so that they can actually seriously consider taking on those courses. Bond provides appropriate courses, just like any other university in this country. Why should its students be discriminated against in this particular context?

Senator ALLISON—I guess I am suggesting it is because they do not conduct specific courses in specific places which have been identified as gaps in the public provision.

Mr King—But where, for example, Notre Dame has such places, this scheme will not be relevant to them because they are funded places, and those students would be subject to HECS and Notre Dame would receive government funding to support that provision. Notre Dame's other postgraduate course work students—and we have agreed that they equally should have access to this scheme—will have access to it in courses which are not funded by the government. Where Bond runs equivalent courses or other courses at this level, its students, too, should have access to this scheme.

Senator JACINTA COLLINS—Do you have a view on what level the minister is contemplating for the cap?

Mr King—What level might be set for the debt cap?

Senator JACINTA COLLINS—Yes.

Mr King—No, I think would be my simple answer, and I have not heard figures put. I only have my own thoughts. At this point it includes HECS. HECS for a lawyer or medical student can easily reach \$30,000 to \$40,000 by the time you have finished that course. Postgraduate course work fees range quite considerably, about \$6,000 or so at the lower end, in the \$10,000 to \$15,000 for many of them, and some, especially MBAs, go over \$20,000. If it is to realistically allow someone to have an undergraduate degree, combined with some sort of postgraduate course following that of two years or so, you would need to add all those up to set a cap that would not prohibit a realistic sort of career path. If you add all those together you would get quite a high amount.

If you exclude HECS, as we recommend should happen, then you would just be focused upon what is a likely, realistic level of postgraduate course work debt that someone could incur. There is a mixture here of watching that students don't get themselves too far in debt that they cannot repay. If you are going to undertake a rather expensive course, then you have presumably made the assumption or the deduction that you will earn something subsequently to be able to repay that. The government presumably is equally worried that it does not incur large levels of unrepaid debt over time. They are the factors presumably driving the cap. As to what it will be, if there is one—and so far the minister has articulated he does not see a need—that remains in the future. We have put a lot of time into this legislation. We think it is important, if it is to be in there, that it be right to start with and have support for it, but what it will be, we do not know.

Senator CARR—Could I begin, Mr King, with a few simple questions. The AVCC says that Bond University should get access to money, and you have just acknowledged that because they are members of yours. Are there any other possible reasons why Bond University

should get access to PELS? Isn't it the case that they do not currently get access to the HECS arrangements?

Mr King—On your first point, Senator, I have argued a number of things here, and those affect my other 37 members—I am here to represent their interests—and also include our 38th member. Our policy is that students in fee paying places, where they exist, and the structure of the present arrangements allows for such places—they would have to be additional to the HECS places—to make access to those as equitable as possible there should be access to income contingent loans. That applies to all universities offering such places. The fact that Bond does not happen to have any public funded places is, to me, not relevant to this issue. The issue is that they have fee paying places at this postgraduate level as other universities are offering. The comparison there is at the fee paying level, and we think that there should be access to all those students.

Senator CARR—Mr King, as I understand it—and you can correct me if I am wrong—the principle is that the HECS arrangements are restricted to those institutions that are specifically in receipt of public funds by the Commonwealth. That is the arrangement, is it not?

Mr King—For HECS?

Senator CARR—For HECS.

Mr King—HECS is tied in to receipt public funding, yes.

Senator CARR—The Commonwealth is providing considerable sums of money for this scheme?

Mr King—For the PELS scheme?

Senator CARR—Yes.

Mr King—They are advancing money, yes.

Senator CARR—\$995 million?

Mr King—That is right.

Senator CARR—So why shouldn't the same principles apply?

Mr King—But where is the principle? The principle you articulated earlier is that HECS goes with government funding.

Senator CARR—Yes.

Mr King—There is no government funding attached to PELS.

Senator CARR—\$995 million is no—

Mr King—That is the loan scheme for it, yes.

Senator CARR—How much money is the Commonwealth providing for this? Nothing at all, you are saying?

Mr King—No, it is the same—

Senator CARR—It is cost neutral, is it?

Mr King—I am sure you have seen the accrual accounting records which show that it is basically cost neutral, yes.

Senator CARR—Basically? Let us go to that issue.

Mr King—I think they show a slight return.

Senator CARR—They claim that, yes. I take it you have read Professor Chapman's submission to the Senate inquiry?

Mr King—Yes.

Senator CARR—He argues that this proposal effectively involves a real interest rate subsidy of about five per cent and that postgraduates entering this program would in fact be able, in real terms, to get a subsidy of perhaps as much as between four per cent and five per cent on the postgraduate programs, and up to 20 per cent for such programs as the MBAs. Would you agree with that?

Mr King—I would not want to question Professor Chapman's calculations. I assume he has done his—

Senator CARR—Maybe I have got it wrong? That is clearly one way to question it. But is it that sort of general principle, do you think? The arrangements for MBAs are that the fees are obviously much higher—as much as \$100,000—and that for general courses they are much lower, and that the interest rate subsidy principle therefore gives greater advantage to those undertaking an MBA. Would that be true?

Mr King—That is true, Senator. Fee paying places are part of the system as we now have it. As I have advocated earlier, the AVCC wishes to see a proper balance between HECS places and others. With the fee paying places that are necessary, especially at this postgraduate level, we wish to ensure the greatest access to those, and this scheme provides that.

Senator CARR—Therefore, particularly at the big eight universities—I know you treat all your members exactly the same, but they are not all the same, are they?

Mr King—We do not say that they are the same. We say there is quite a diverse range of them.

Senator CARR—The G8 have a particular advantage when it comes to the question of fees and charges, don't they?

Mr King—Do you want to explicate that, Senator?

Senator CARR—Is it not the case that the G8 could be able to charge higher fees and charges because of the prestige factor?

Mr King—No. I think they would claim that the quality of their degrees—

Senator CARR—Of course they would claim it is a matter of quality, but having—

Mr King—You asked me what they would claim, Senator.

Senator CARR—Is it the case that the University of Melbourne, for instance, is able to charge higher fees than the University of Ballarat?

Mr King—I think the empirical evidence would support that assertion.

Senator CARR—Therefore, in fact, this scheme actually advantages those that are able to charge higher fees, would it not?

Mr King—It would allow a greater range of people to apply to go to those universities versus other universities.

Senator CARR—So long as you have the money!

Mr King—No, not as long as you have the money. The point of this scheme is that, if you do not have the money, you are able to borrow it.

Senator CARR—Oh, you can borrow it.

Mr King—That is right, you can borrow it.

Senator CARR—Then we get to the issue of the cap. So long as you can only borrow so much as the cap, underneath the cap figure, is that right? Isn't there therefore a case that, rather than having a cap on the debt, there should be a cap on the fees? Wouldn't that be a more rational way to deal with this issue?

Mr King—I have read the submissions from a number of the other parties who argue for that.

Senator CARR—Yes, it is a view put to the committee.

Mr King—Indeed.

Senator CARR—I am asking for your comment on that.

Mr King—If you look at those submissions, what they are arguing is that they up-front believe that the whole of higher education in this country should be funded from the public purse. Many of my members would be quite happy with that outcome, but the problem is whether it is a realistic option. From that, they are therefore arguing a desire to reregulate and essentially bring these fee paying places back under the public funding heading.

Senator CARR—Yes.

Mr King—We support the need to have more publicly funded HECS places in these areas, but we also accept that, with the relative priorities between these areas and better funding for our base undergraduate courses, this system is one way of ensuring better access to these courses while leaving us with the capacity still to argue the need for greater government investment—as we have done—in the basic government funded places that we now have.

Senator CARR—If we go back to Professor Chapman's assessment and we look at the interest rate subsidies and the way in which the particular G8 universities operate, there is an incentive there for them to increase their fees and there will be a market opportunity for them to increase their fees; therefore, it is likely, under that argument, that fees will in fact increase. Further on, Professor Chapman says that the interest rate subsidy, nonetheless, is an advantage to those particular courses. They can charge more, so it is actually advantageous in equity terms to the same G8 institutions.

He also makes the point that he thinks that the department may well have underestimated the level of bad debt, and therefore the figure of the so-called profits of this scheme of \$36 million, which is the figure we see in the forward estimates, is inaccurate. He says that they are claiming 18 per cent default, and that is in fact too low. What do you say to that?

Mr King—I say that you would probably need to talk to the department about the basis for their estimates of that. They have the knowledge of the existing HECS scheme, they have seen what people earn, the repayment rates, and the level of default. In these courses, people's debt will be higher than under the existing HECS because they are adding it on top, or it is additional to that. That would create some additional level of non-repayment. On the other hand, for the very high-cost courses, people going into those probably have a fairly good chance of earning high amounts later on, and hence being forced to repay it.

Senator CARR—Yes.

Mr King—They would have no doubt made their calculations and estimates on the balance of that. I cannot compare or comment.

Senator CARR—What they tell me—and I am sure it is surprising to you, Mr King, that I have already asked the department this—is that it is not possible to calculate the impact of indexation of revenues on the question of bad debts because it is not possible to calculate individual debtors. But they have, nonetheless, come up with some figures for me. They say that the estimated cost of doubtful debts will go from \$17 million in 2001-02 to \$20 million in 2005-06, with a total bad debt of \$134 million. That seems to me to be a very large sum of money, but it may well be underestimated.

Mr King—Is that all due to PELS?

Senator CARR—That is what it says, yes—PELS. That is just PELS, not to mention the \$6 billion in debts under HECS. Is that right, that \$6 billion?

Mr King—I am sure you have the correct figures, Senator.

Senator CARR—It is something like that. This actually will lead to quite a significant increase in the level of indebtedness of students, won't it?

Mr King—Yes, it means extra debt for those students who take it out.

Senator CARR—Yes.

Mr King—The ones who will be bad debtors or not repay it because their income never gets to a sufficient level will be those who have suddenly got an opportunity to undertake such a course. The fact that they do not go off and earn high incomes subsequently is no reason, not up-front, to give them the opportunity to take on such a course.

Senator CARR—I can see the line of argument you are putting to me, but if we take that \$6 billion debt level at the moment and calculate 18 per cent that is not retrieved—that is the proposition government is putting to us in regard to PELS—

Mr King—The \$6 billion is the outstanding debt right now of everyone who has a HECS debt. Is that what they are saying? Most of that will come back over time.

Senator CARR—They say 18 per cent will not come back.

Mr King—It has been 14 per cent to 18 per cent and it varied on that one, yes.

Senator CARR—Therefore, that it is probably a loss to revenue of about \$1.1 billion, which is quite a significant sum, I would have thought just in HECS. I am raising the question with you because I know how much research the AVCC do on these sorts of things before they put the submissions to us. Clearly they lobby extensively with government on this basis and it could only be on the basis of this extensive research they have undertaken. I am wondering whether or not you do think that the \$36 million is a reasonable figure for the profit levels the government is proposing to us. Do you regard that as reasonable?

Mr King—We think the scheme is a useful, positive scheme. We have also argued more broadly that the government should invest, over the next few years, an additional \$1 billion a year.

Senator CARR—Yes, I have seen that figure.

Mr King—So in that context this is one aspect. The government has chosen to take us up on this one. We are happy with that. We are pleased with that. We are still arguing for the government and, indeed, with your party, Senator, for the remaining funds which we think are necessary for the system.

Senator CARR—The government seems to think that nearly 240,000 students are going to pick up this scheme. Do you think that is a reasonable number? Next year it is 116,000, but many students study part time under this arrangement, don't they?

Mr King—Is that over five years or something, Senator?

Senator CARR—Yes, up to 2006 they say nearly 240,000 people are going to pick it up. I would have thought you would be across this, Mr King.

Mr King—I pay no attention to five-year figures. I prefer annual figures.

Senator CARR—So you do not think we should rely on the government's figures?

Mr King—Adding things up which are ongoing for a period of five years when you have a build-up is a fairly meaningless sort of figure. I ignore them and try to find what is the annual figure applied, which I think is of the order of 20,000 EFTSU, which does relate to the existing sort of level we have there. It assumes that most students will take advantage of it, which would be a sensible financial decision.

Senator CARR—I am pleased that you question the five-year figures because on the EFTSU basis it is 116,000, but on the same question of doubting the forward estimates, the \$36 million which they say represents the impact on the fiscal balance could surely be questioned as well because that is over five years.

Mr King—I am not questioning their underlying figures; I am questioning whether there is much value in adding them up over five years. It is a habit of all governments, Senator.

Senator CARR—Yes, I understand that. I am concerned, though. This is a serious issue for parliament, to make sure the revenues that the government claims are going to be achieved by this are, in fact, met and clearly there are not figures presented to the parliament which might be wrong. It is obviously a matter I am sure you would be concerned about too, as a citizen, because it is your money as much as anyone else's.

Could I turn to the issue of the taxation effects of this, because you and a number of the other submissions have indicated that there could be a taxation issue here. The effect of this arrangement is to remove the tax deductibility effectively, is it not, for students undertaking—

Mr King—Yes, I noticed that some people were arguing for the retention of what is, in some ways, a fairly regressive sort of measure to allow income tax deductions for these sorts of things. The issue with the income tax deductibility—the big issue, which is perhaps beyond the context of this particular hearing—is simply that it applies only when you are doing something directly connected to your present employment; it does not permit you to go off and learn something which will give you a new career. That is an inconsistency which renders the whole thing nice for those who can get it, but otherwise a fairly unhelpful measure and certainly not a very fair one.

The issue here is whether or not people should be able to—I think it would be close to a double-dip, frankly—get the loan, pay it back through the taxation system, but then claim whatever they do pay back as a tax deduction. It obviously therefore advantages those who happen to be in the higher income brackets, because the tax deduction will work to the highest levels as opposed to those who might have only just made it to the threshold for the repayment. I see it as being that the present measure is there and it advantages some people. We have no problems with that; it probably should be broader, if you are going to have such a measure, to cover all retraining and reskilling that people engage in. But if the alternative is to have a system like this, it is probably a fairer and better one.

Senator CARR—Many students work part time and they would be able to claim self-education and related expenses at the moment. In fact, under these arrangements I would have thought the threshold limits are so low that you may well be asked to start repaying the debt even though you are working part time.

Mr King—Yes, that is definitely true.

Senator CARR—Is that not perhaps a measure of unfairness, if you compare them to people who are on HECS liable places?

Mr King—If you are on a HECS liable place and you are a part-time person with, say, an income of \$23,000 you are paying part of your HECS de facto up-front.

Senator CARR—So you do not see it as any particular problem?

Mr King—It is the same issue that is there. Broadly speaking, we would prefer that the HECS threshold was higher than it is.

Senator CARR—You are saying that there should be some differential on the terms of the cap figure for the PELS and HECS—that the limit on student loans should only apply to PELS?

Mr King—Yes.

Senator CARR—That may well have some merit. I am wondering if you could explain to us why you think it is important to distinguish between those two types of arrangements.

Mr King—The impact of imposing that cap, as presently proposed, will be a change to existing HECS arrangements and saying that at some point there is a limit on how many HECS courses you can enrol in over a period; that at some point or other you would hit the limit—and, of course, we do not know where the limit is, as Senator Collins has already asked me. If it was set sufficiently low it could lead to people being unable to complete HECS courses or a realistic and reasonable series of HECS courses. There has not been a big issue with the HECS system.

At this point you can keep on enrolling, come back, go off and earn income, pay back moneys—the system is there. If the university thought you should be enrolled and you had the basis and the need, then you could be enrolled. This suddenly imposes limits upon access to HECS courses. The government has not actually talked about that. It basically does not mention it anywhere here and has not attempted to justify that change. Hence we see no need to include it. The point about a cap is all to do with concerns about the impact on the fee levels universities charge at this area. You have raised those. The cap is there to help protect against that. That is the point of it. That is the way it should be operated.

Senator CARR—I see some submissions here where people are saying that the debt levels could in fact be well in excess of \$100,000 for the course of their education. Would that be a reasonable figure?

Mr King—Certainly it would be possible for people to get there. I doubt that many people would. You start off a HECS course at three to four years at the mid-range, which is the common one. You are looking at \$15,000 to \$20,000 debt on HECS. You might enrol in some courses for two to three years where, at the postgraduate level, it may be at \$10,000 each. That still only gets you to \$50,000, Senator. I do not see many people wishing to have debts much beyond that. Most people have other needs and interests in life.

Senator CARR—I am just trying to find the figure here, because I was quite shocked by some of the claims that were being made about the level of debt that is possible. Perhaps we will come back to that later on. The other issue you are asking us to accept is that you think

the university should have access to students' financial records; you believe the university should be able to access the level of student debt.

Mr King—Not the level, no. What universities need is an effective, quick system. Where they have a concern that a student may be at the cap and hence unable to borrow any more, they should be able to test that proposition quickly and simply. At present, as far as I can work through the legislation in the arrangement proposed, the student would have to formally apply and the university would have to send that off. So having accepted them and tested it, it would be a month or so later or possibly longer—depending on how quickly the taxation commissioner is—that they would find out. At that point what do they do? They can disenrol the student. That is fine in one sense because they might not have committed too much. But if they had set a course up on the basis of that student being enrolled versus another student, the student—who for whatever reasons has got themselves in that position—is faced with either paying the university the full debt, or being excluded from their course.

We are just concerned at setting up a more efficient way of universities being able to test where they have a concern that a student may be at the cap. The test is not how much the student owes—we do not need to know that figure. We need to know whether or not they are below the cap.

Senator CARR—You acknowledge that there might be some privacy concerns here.

Mr King—Certainly there are.

Senator CARR—Can you expand on that.

Mr King—If you are enrolled and if you are proposing to ask for this extension or a further loan, Senator, I think it is reasonable that the bodies involved are able to test whether you are eligible for that loan in a quick and simple fashion. I am not asking for a web site list of all those who happen to be on the cap. We advocate for a way that acknowledges privacy where the student has clearly indicated their intention or desire to enrol that can be tested.

Senator CARR—I am a bit concerned about this proposal you have put forward to us. It may well be better to wait and see how this actually works. The taxation commissioner seems to be the person who is authorised under the law to have access to this sort of information. There are very strict prohibitions on the taxation commissioner revealing this sort of information.

Mr King—The legislation requires the taxation commissioner to inform a university where the student is enrolled. The problem here is that if the student chooses to enrol in a different university that university does not have the same access, or easy access, to that information. So we are only asking that they are able, in a simple way, to find that information out, just as the university the student was previously enrolled in could find out that information. The problem is where, for legitimate or other reasons, the student switches from one institution to another. The taxation commissioner obviously has no capacity to guess where a student might go.

Senator CARR—Explain to me—this is where I am having trouble—why you need to know that the student is approaching that debt level.

Mr King—No, not approaching; is actually at it. Once they are at it, Senator, if they choose to enrol and say, 'I want to borrow more'—and this comes down to a student, for whatever reason, including ignorance or intentional duplicity, seeking to borrow the additional money to pay for that course—if they are unable to borrow the money, what happens then? The university is then faced with the situation where the student may not be able to pay the debt or has to find it up-front. We obviously do not want to start excluding people because

two months into a course, or even one month into a course, we discover the student is unable to pay, or having to make some sort of arrangement between the university and the student to pay that. They would have to exclude the student, or come up with some sort of arrangement along those lines, because once you have been issued the notice about the cap, you cannot borrow any more.

Senator CARR—As I say, I think it is a very serious matter to ask this parliament to accept propositions which clearly have such serious privacy concerns. I need a bit more information on that to explain why that is justified. Finally, can I get your opinion on the arguments presented by the NTEU that PELS is in fact an inferior way of assisting students as compared to HECS. They say that there are real differences between them; that the PELS loan is for the full cost of the course whereas the HECS loan is for a proportion of the course costs, and therefore PELS is more expensive for the students; that HECS loans apply to a fixed fee whereas the fee paid by the student utilising the PELS loan is less predictable and may vary substantially between courses and between institutions.

They say a fee paid under the PELS loan does not carry a 25 per cent discount for up-front payments which apply to the HECS fees. However, a PELS loan, where it is rolled into a student's HECS debt, does include a 15 per cent discount for early repayment and that, unlike HECS, the PELS loans offer no provision for a refund on a hardship basis if a student withdraws from a course after the HECS census dates. They go on to say that these differences reveal, from the point of view of the students, that PELS is an inferior way of assisting students to participate in postgraduate course work. What do you say to that?

Mr King—As I indicated earlier with Senator Allison, the AVCC agrees that there should be more HECS based places in these areas. The differences they are outlining are between being in a funded place where part of the cost is met through HECS but the rest of the cost is met through the government, and fee paying places. This is a way of making those fee paying places more accessible and better. It still puts them on a different footing from the other places, and the differences they describe there are essentially accurate.

Senator CARR—Thank you very much, Mr King.

Proceedings suspended from 10.54 a.m. to 11.11a.m.

McCONVILLE, Mr Greg, Policy and Research Officer, National Office, National Tertiary Education Union

CHAIR—The committee has before it submission No. 9. Are there any changes you wish to make to the submission?

Mr McConville—There is one error I wish to correct on page 3 of the submission, and that is simply a typographical error. In paragraph 4 there is a statement that says, ‘It is more likely that capping student debt will result in some students not being able to access PELS for the full cost of their cost,’ and that statement should read ‘for the full cost of their course’. That is the only amendment we wish to make, Senator.

CHAIR—Thank you. The committee prefers all evidence to be given in public but, if at any time you want to give any evidence, part of evidence or answers in camera, the committee will consider the request. However, such evidence may subsequently be made public by order of the Senate. I invite you now to make a brief opening statement.

Mr McConville—The NTEU welcomes the opportunity to appear before this inquiry and to put forward our very real concerns about certain aspects of the [Innovation and Education Legislation Amendment Bill 2001](#). Our concerns relate primarily to those parts of the amendment bill that introduce the Postgraduate Education Loans Scheme. In articulating our concerns, I wish to firstly provide some context, that being the impact of the application of full fees to postgraduate course work.

In 1996, 77 per cent of postgraduate course work students deferred their fees through HECS but, by 2000, this had dropped to 38 per cent, the remaining 62 per cent paying up-front fees. Over the same period there was also a drop of over 10,000 EFTSU, or 19 per cent, in total postgrad course work enrolments. Indigenous students, along with those from low socioeconomic status and rural and isolated areas, were particularly deterred from pursuing postgrad study by these changes, as were many other students. The introduction of PELS is aimed at alleviating the crisis that has been created by the government in postgrad course work participation. It is difficult to oppose on one level, on the basis that it seeks to provide assistance in an area where there would otherwise be none available.

However, there are specific difficulties with it which I wish to address. Firstly, the differences between HECS and PELS point to PELS being an inferior form of student assistance. As was canvassed with the representative of the Vice-Chancellors’ Committee immediately before my appearance, a PELS loan is for the full cost of the course, whereas a HECS loan is for a portion of the course costs. Therefore PELS is more expensive for students. HECS loans apply to a fixed fee, whereas the fee paid by a student utilising a PELS loan is less predictable and may vary substantially between courses and vary between institutions.

A fee paid under a PELS loan does not carry the 25 per cent discount for up-front payment that applies to HECS fees, but we do acknowledge that when a PELS loan is rolled into a HECS debt it does include a 15 per cent discount for early payment. Unlike HECS, the PELS loans offer no provision for refund on hardship grounds if a student withdraws from a course after the HECS census date. The implications of this are that PELS is more expensive for students than HECS. In addition, students who use PELS will forfeit their right to tax deductibility for study related to income earning activities. This is a particular problem for students involved in such fields as nursing and teaching.

Additionally, it may lead to changes in employer-employee arrangements relating to study. We are concerned that it may act as an incentive for employers to shift the cost of course work to their employees, whereas previously the employer may have supported that involvement. This is particularly problematic if employees are required to undertake postgrad course work by their employer as a prerequisite for ongoing employment or promotion. Conversely, the scheme does open up the potential for rorts by employers and employees. If an employer currently meets the costs of a student's subsidy or offers to do so as part of a salary package deal, there is nothing to stop the student applying for PELS, with the Commonwealth subsequently paying the fee to the institution and the employer subsequently refunding the fee to the student.

In such a way, students receive, in effect, an interest free loan courtesy of the Commonwealth, to be used for any purpose, such as buying a car or paying for part of the renovations on the house, or for travel. But even more concerning is that, if that were paid up-front and rolled into a HECS debt, that loan would be available at negative 15 per cent, and we believe that this provision needs to be looked at very carefully. A further concern that we have is the limit on student debt. We have looked at the experience of other countries, notably the United States and New Zealand, and we support the notion of protecting students from unmanageable debt. However, the effect of sections 106ZD and 106ZJ may in fact have the opposite effect, and I will seek to demonstrate that.

A student may potentially reach the maximum level prescribed by the minister, and we understand that that is a level that will be set entirely at the minister's discretion. It may be that having reached that debt level the institution is issued with a suspension notice under 106ZJ, the implications of that being that the student is left with an incomplete course, no right to continue and no right to enrol in another course, and those conditions would continue to remain in place until such time as the debt was paid. We would question what capacity a student would have to pay a debt in those circumstances in such a way as to enable them to return to study to complete their course. We suggest that that issue is best addressed by limiting the fee charged by the institution rather than by capping student debt, and that that would have the effect of removing what we consider to be the fairly draconian provisions of section 106ZJ of the bill.

A further issue is the fact that the cap on debt applies to HECS liable courses, as well as fee paying postgraduate courses. In the past there has been no limit on the level of HECS debt incurred. This part of the legislation has appeared unannounced, unjustified and undiscussed by anyone, and it represents a major shift in student financing, which we believe gives rise to serious concern. In terms of the application of the scheme to public or non-public universities, our position is that we believe that PELS should be limited to postgraduate students within public universities, and we say that for two reasons: firstly, the potential cost implications of extending that to private universities, given the differentials and fee structures which may exist; and, secondly, because it may increase demand for postgrad courses within private universities on the basis that a loan is now available, whereas previously it was not.

Perhaps a stronger concern is the policy implications of the provision of Commonwealth funding—that is, public funds—to private universities. We acknowledge that this has happened in certain cases, for example in the case of Notre Dame University, and that that happened for very specific, considered reasons relating to the absence of teacher training within rural and remote areas, most notably within the Kimberley region. If PELS were to be applied to private universities, such serious consideration would need to take place on a case by case basis, we believe, and we say that because of the stake that public universities have in matters such as ensuring participation of students from disadvantaged groups.

In closing, I would like to emphasise that the cap on student debt which applies to HECS is an entirely new and potentially dangerous initiative which has appeared in the bill unannounced, unexplained and unjustified. It represents a major shift in student financing. Its ramifications are indeed serious. We are deeply concerned about that matter and we suggest that it ought not be proceeded with. I would be happy to answer any questions that senators may have.

Senator ALLISON—I will start with a question on the likelihood of higher fees being charged as a result of HECS. I wonder whether PELS, predicated as it is on private benefit and not the cost of delivery, will have an impact on fee structure in areas such as engineering and science, where there is already a decline in demand, and on clear public and industry benefit but not necessarily significant private benefit. Can you expand on those areas in particular?

Mr McConville—It is very difficult to say, but in the environment where universities are already cash strapped, it may be that the provision of a loans scheme could have an effect on increasing the level of fees charged by institutions. It is partly for that reason that we put forward the suggestion that the cap ought be applied to the fee charged rather than to the level of student debt.

Senator ALLISON—And with regard to those two areas—engineering and science?

Mr McConville—I would prefer to take that on notice.

Senator ALLISON—Thank you. You mentioned in your submission some anomalies with PELS in relation to employers. Can you expand on that, please?

Mr McConville—Certainly. It is worthwhile to bear in mind the history of the training guarantee legislation. The training guarantee legislation was intended to facilitate the provision of training related to improving the efficiency and productivity of enterprises through a quarantined amount being set aside for training purposes. The bitter experience of that scheme was that there were widespread rorts. There were circumstances where those funds were used to pay for such activities as games of Paintball.

CHAIR—Sorry, to pay for what?

Mr McConville—Paintball. It is a simulated military game, Senator. Rather than using bullets, one uses receptacles filled with paint. There were cases where training guarantee money was expended on those activities. It was also used to fund seminars and elaborate lunches. As a result of widespread concerns of that kind, the scheme was ultimately stopped. I see a parallel—

Senator CARR—Some employers did not want to put money into vocational education. That is another factor.

Mr McConville—That is true, Senator. But I see the capacity for circumstances like that re-arising where employers may seek to provide to an employee, as part of a salary package, the capability to meet the costs of study. That particular employee may be in a position to access PELS. The employer may be in a position to repay it on their behalf. Who knows what would happen with the interest free loan at that point. Our concern in that area is amplified by the fact that, if the PELS debt is rolled into a HECS debt, that would be a loan provided at minus 15 per cent interest because of the 15 per cent discount that would apply with early payment. We do not necessarily see that as being in the public interest.

Senator ALLISON—Your concern is the protection of revenue.

Mr McConville—In one sense. A further concern is the protection of employees because equally there are some employers who may seek to shift the costs of study towards employees because of the existence of the PELS scheme. It may act as an incentive in that regard. An increasing number of employers are sponsoring their employees in postgraduate study. There are a number of bodies establishing themselves in twinning arrangements with universities to have that form of provision available in a way that is geared towards the specific needs of industry. But we fear that the introduction of the PELS scheme may act as a disincentive to employers continuing to provide that level of support. They are our two principal concerns in that area.

Senator ALLISON—You might have some suggestions as to how the legislation could be amended to avoid those anomalies—those incorrect or rather undesirable incentives.

Mr McConville—There would need to be a provision within the bill to provide for an annual review of the PELS scheme. We think the potential for those sorts of arrangements needs to be very closely monitored. Since the abolition of the Higher Education Council there has been an absence of authoritative independent advice available to the government on matters such as this and on matters such as the Higher Education Contribution Scheme.

The annual review of the PELS scheme should have particular reference to the nature of participation in postgrad course work, including matters such as movement of fee levels; participation by persons from equity groups; evidence of misuse by students and other parties, including employers; and, of course, levels of student debt. That would need to be established with a high degree of expertise broadly representative of the sector and well resourced in order to ensure that it is able to carry out thorough reviews which can properly inform future government policy in this arena.

Senator ALLISON—I will move to the research infrastructure and the ARC that the bill implements. The government announced that funding to ARC would double over five years, but in the first year the increase is only an additional \$19 million. Do you have a view about that slow uptake? Can you perhaps compare it with the approach taken in other countries?

Mr McConville—At this stage I limit my comments to saying that we would prefer that those increases in funding be front-end loaded in recognition of the need to invest in research within Australia. That also needs to recognise the fact that the capacity of universities to be involved in entities such as cooperative research centres has been reduced by the fact that their infrastructure has been run down over a number of years. We would say that represents a barrier to their involvement in such innovative research as goes on within cooperative research centres. In terms of how that relates to other countries, I would prefer to take that question on notice, Senator.

Senator ALLISON—Can you also perhaps indicate if you think there is a structural impediment to an earlier uptake, or is this simply a revenue question for the government, in your view? Could a higher level of funds be injected into the system earlier than is being proposed?

Mr McConville—I would not see any dangers in that at all. In fact, it would be welcomed with open arms by many in the sector.

Senator ALLISON—As I understand it, this increase in funding for research infrastructure still leaves infrastructure spending at around 20c in the research dollar, whereas in the States, the United Kingdom and other countries infrastructure represents of the order of 40c in the dollar. Is that your understanding, too? Doesn't that suggest that Australia will still be very uncompetitive in that arena?

Mr McConville—Yes and yes, Senator.

Senator ALLISON—I have one final question. The vice-chancellors want to include Bond in an additional schedule for PELS. Do you have a view about that?

Mr McConville—Yes, we do. We would prefer that PELS be limited to postgraduate students within public universities, for the two reasons that I outlined before. Firstly, there are the potential cost implications, given the differentials and fees between institutions arising from the potential increase in demand for postgrad students to undertake study at an institution such as Bond, on the basis that a loan is now available whereas previously it was not. Secondly, there are the policy implications of providing Commonwealth public funding to private institutions. We believe that ought be limited to specific circumstances where there is a demonstrated need and where that need cannot be filled by public universities. We do not see that that is the case in relation to that particular suggestion.

Senator ALLISON—Thank you.

Senator CARR—If I might continue on that theme for a moment, this legislation actually provides for private providers who have twinning arrangements with public universities, does it not?

Mr McConville—Yes, it does, Senator. That is my understanding.

Senator CARR—For instance, the MBA program that is run through an organisation known as APESMA through Deakin would get funding, would it not?

Mr McConville—Potentially, yes.

Senator CARR—And that is a departure as well from the established principles in the higher education sector, is it not?

Mr McConville—My understanding is that that is the case, yes.

Senator CARR—So there are a few departures here in terms of the ministerial discretion on the cap without a figure being declared in anything we have seen. Are you aware of any figure for the debt cap?

Mr McConville—We are only aware of speculation.

Senator CARR—What is the sort of speculation you have heard, then? That is all we have.

Mr McConville—Well, the figure of a debt of up to \$100,000 has gained some currency around the place. It is something that people seem to comment on. I am not certain whether that is based on any real assessment or whether it is because it is a convenient figure for journalists to report but, in the absence of anything else, it is a plausible figure. I would agree with the Vice-Chancellors' Committee that not many people may reach that level but it is indeed possible to reach that level. We would be very interested in knowing the basis on which the minister would intend to set that cap on student debt.

Senator CARR—You have raised some concerns about the social impact of these arrangements, the equity impacts. I take it you have had a look at Professor Chapman's advice to the Senate committee on higher education. Have you had a chance to look at that?

Mr McConville—No, I have not, Senator. I will be addressing that before next week.

Senator CARR—I would ask if you could take this question on notice. Can you please examine the submission that Professor Chapman has put to the reference committee? Essentially he argued that the government may well have underestimated the cost of bad debts

and that the interest rate subsidy implicit in this legislation will lead to a significant increase in fees because there is a built-in incentive, particularly for the more elite universities. Presumably you heard the Vice-Chancellors' Committee telling us before that all universities were essentially the same in this country and that there would be some competition on fees because universities were the same. Do you agree with that assessment?

Mr McConville—No, I would not necessarily agree with that assessment, Senator. There is quite a degree of diversity in the fees charged between disciplines and between institutions.

Senator CARR—Is there an overriding character to those differences? Can it be said that the fees at the more elite universities, the G8 universities, are in fact higher?

Mr McConville—That may be the case in that certainly some students would perceive participating in a university of that kind as being more prestigious and may be prepared to pay more for it.

Senator CARR—And that they may have an advantage out of this scheme, do you think?

Mr McConville—That is perhaps possible, yes.

Senator CARR—It would follow, I would have thought. The other fact is that you have argued that there is a quite significant departure from the HECS principles in this legislation. My reading of it is that the HECS principles are in fact aimed at ensuring that not all the moneys are collected. They actually set a series of criteria which are premised on the fact that not all debts will be collected and that there will be forgive payment obligations for the relatively poorer former students. Would you agree that that is the implicit assumption of the HECS arrangements?

Mr McConville—Yes, Senator.

Senator CARR—Do you think that applies to this scheme?

Mr McConville—No, I do not believe it does, in particular because of the absence of any provision for a debt to be varied or refunded on the basis of hardship if a student discontinues a course. That is a characteristic of HECS but it does not appear to apply to PELS.

Senator CARR—Thank you for that. I will go through a few issues because I take it you have had a look at the department's estimates of the take-up rates of this arrangement. It claims that 116,000 students are EFTSUs or nearly 240 in numbers terms are likely to take up the scheme. Do you agree with that sort of an assessment?

Mr McConville—I would have thought that was an optimistic assessment, Senator.

Senator CARR—What about their question of doubtful debts? They say \$134 million in doubtful debts. Do you think that is a reasonable estimate?

Mr McConville—It is very difficult to assess that on the basis that we do not yet know what the cap on student debt will be and we do not yet know the basis on which that level will be determined. Because of that I honestly could not comment, but I would question whether any estimates were able to be accurate in the absence of knowledge of that particular methodology.

Senator CARR—Yes. The department has provided me with an answer to a question—for your purposes, if you want to have a look at this, it is No. E360 on the department's lists—which says that the estimated cost of doubtful debts will go from \$17 million in 2001-02 to \$34.3 million in 2002-03, \$33 million in 2003-04, \$29 million in 2004-05 and \$20 million in 2005-06. That is a total of \$134.9 million. Of course, if we work through the assumptions of the 18 per cent default figure on HECS, it may well be a little low, if anything, and that raises

some questions about the effect on the revenues for the Commonwealth, which may not be as accurate. That is essentially what Professor Chapman is suggesting to us—that the department may not have calculated the effects on the revenues to the Commonwealth, and that the claim that it would bring forward additional revenues of \$36 million over four years may not be accurate.

I would ask you to have a look at those figures and to give us an indication of what the union believes to be the adequacy of those estimates. I might also draw your attention to E359, which gives a detailed breakdown in the indexation revenue, the departmental expenses. The departmental expenses, they are saying, will only be \$2.3 million. I would be interested to know whether or not you think that is a reasonable calculation on the cost of administration of the scheme itself. Thank you for that.

Mr McConville—Certainly, Senator. If I could I will comment briefly on those student debt figures. Aside from the validity or otherwise of those figures, the fact that there is almost a doubling of student debt from year 1 to year 2 is a cause for concern because it raises questions about the participation of students in other forms of economic activity in expending, and that may in turn have an effect on the economic multiplier effect of expenditure within university education. As we know, education is one of the highest generators of economic activity for any dollar spent and I would find it difficult to believe that imposing levels of student debt of that kind would have no effect on the economic multiplier effects of university expenditure.

Senator CARR—You see, the interesting thing is that the department's estimates of the number of people that will take up this scheme suggest only a modest increase. If we go through it, in 2002 it is 22,100; in 2003 it is 22,666; in 2004 it is 23,248; in 2005 it is 23,852; and in 2006 it is 24,474. So there is only a very slight movement in the numbers of students taking it up, but the levels of debt do seem to increase quite dramatically; or the doubtful debt, if we use the proper term, does seem to almost double in those first two years, which I find difficult to fathom myself. That is why I am asking you if you could have a look at the figures and come back to us on that detail.

Mr McConville—Certainly, Senator.

Senator CARR—If I could go through to your submission now, you have referred to the drop in the number of postgraduate course work enrolments. Do you think that PELS is an adequate response to that drop?

Mr McConville—No, Senator.

Senator CARR—I presume I can take it from what you have said already that what is pretty obvious is the inadequate nature of the scheme that is being proposed. You say that the system leaves open the possibility of rorting. Do you think it is just a question of bringing the scheme into disrepute, or are there broader implications in terms of whether or not the scheme is so unregulated that it is open to such abuse?

Mr McConville—I think it is more the latter, Senator. I do not believe those provisions have been adequately considered in light of the wide variety of arrangements which exist between employers and employees relating to postgraduate study, and we would say that there would need to be a proper examination of that area to identify precisely what capacity there is for abuse of the scheme and to develop considered measures to deal with those situations prior to them eventuating. As I indicated in answer to a question from Senator Allison, we believe that the implementation of this scheme, in whatever form, needs to be very closely monitored. Our submission goes to that recommendation.

Senator CARR—The problem is whether or not an annual review can be undertaken under the present administrative arrangements. Since the abolition of the Higher Education Council, which presumably is the sort of body you would be talking about undertaking a review, there has been no mechanism to undertake that in current administrative arrangements. In fact, might I suggest you might have to wait for a Labor government to reintroduce a NBEET style body to provide such a vehicle. How would it be done under present arrangements?

Mr McConville—There would have to be new arrangements made that were adequate to carrying out that task. They would parallel somewhat the structures of the Higher Education Council in terms of the breadth of expertise, the level of expertise, the breadth of interests involved, and of course the level of resourcing and support given to that body to ensure that its work is adequately carried out.

Senator CARR—There is this issue of the tax deductibility. I wonder if you could expand further on your view as to the impact of these arrangements on the removal of people being able to claim their self-education expenses as a legitimate tax deduction.

Mr McConville—Certainly. There are two principal discipline areas in which we believe this is a concern, those being education and nursing or, more broadly, health sciences. There are arrangements there where teachers have reached a certain basic qualification level and wish to continue in postgraduate study. Currently, if they are working as a teacher they are able to claim the cost of that study as being related to their work. The removal of that arrangement may well disadvantage many of those people and they would question whether they were able to continue to participate in postgrad study.

Many of them may have been in a position where, say, in one year their study was paid for as a tax deductible arrangement, then they moved to the following year of study and in the meantime this scheme has been implemented and they find themselves having to take out a loan to complete a course, whereas previously they never thought they would have to. We believe that has serious implications for the capacity of people within those industries to be involved in continuing education and lifelong learning, which is of course a mantra of this government. Whilst we do not think that tax deductibility is necessarily the best way to ensure access to further study for those people, at the moment it is a far more effective measure than that which is proposed in this bill. We would not see its removal as benefiting anybody.

Senator CARR—I have two other issues. We have briefly canvassed the question of the prospect of fee increases coming directly as a result of this. In the Senate inquiry into higher education the defence department have put to us their fears that universities would well be able to excessively increase fees if the market provided the opportunity to do so. With the claim that this measure will in fact lead to an increase in fees, do you think it is possible that the sort of concerns that have been expressed more widely about excessive increases in fees do actually have some basis?

Mr McConville—Yes, I believe they do. The context provides a lot of information about that basis. The reductions in operating grant funding to universities imposed since 1996 have placed many universities in very difficult positions. The accompanying increases in student to staff ratios have placed significant workloads on staff. That is reaching crisis point in many universities. There was a recent study released which indicated that the likelihood of university staff suffering health effects as a result of stress at work is twice that within the general population. The likelihood of those health effects being serious is three times that within the general population.

Within that environment universities are increasingly recognising that they need to do something about the situation of their staff. They are caught in an environment where some of those workload increases are associated with chasing new revenue. If there were a way for universities to gain new revenue without having to do a great deal of work to chase it, I am sure they would take that opportunity, given the difficulties which currently exist within staffing arrangements, within student-staff ratios, within resources and within infrastructure. I believe that capacity is there, Senator. Perhaps a significant injection of funds to the operating grants at universities might alleviate our concerns in that arena. But, in the absence of any other injection of funds, we believe that capacity exists.

Senator CARR—You say the response then is to cap fee levels.

Mr McConville—Correct, Senator.

Senator CARR—How would that affect universities? Take the G8 universities—and of course regional universities. What sort of impact do you think it would have in terms of the relative advantage or disadvantage?

Mr McConville—By capping the level of fee that is able to be charged, the capacity of a university to charge an excessive fee is reduced. It would mean that differentials in student expectations about the status of a particular university might not be as much of an issue as it otherwise would. I accept the suggestion that is implicit within your question—that is, there are some perceived advantages and disadvantages between some universities and others. Regional universities are in a particularly difficult position, as are the regional campuses of some metropolitan universities. Putting in place a cap on the level of the fee would reduce the capacity for those inequities to be exacerbated.

Senator CARR—Finally, you have made a number of criticisms of the proposal. You have suggested a number of amendments, some of which the committee obviously may find favour with, others they will not. Notwithstanding all of that, should this bill pass?

Mr McConville—Yes, simply on the basis that postgraduate students are in such a difficult position now, in the absence of any adequate support. Many would see this as providing an opportunity that otherwise would not exist, but there needs to be a recognition of the context. The context is the funding difficulties within universities and the fact that there has been a dramatic decline in participation in postgraduate course work study.

Senator CARR—Thank you very much.

CHAIR—Thank you for appearing today.

[11.50 a.m.]

BYRON, Mr John, President, Council of Australian Postgraduate Associations

DAVISON, Ms Kate, National Education Officer, National Union of Students

HENDERSON, Mr David Norman, National President, National Union of Students

MANN, Ms Karen Cherie, Research Officer—Projects, Council of Australian Postgraduate Associations

PRATT, Ms Angela, Vice-President, Council of Australian Postgraduate Associations

CHAIR—I welcome representatives of the Council of Australian Postgraduate Associations and the National Union of Students. The committee has before it submissions Nos 6 and 10. Are there any changes you wish to make?

Mr Byron—I am not sure which is which, Senator. Is the CAPA one No. 6?

CHAIR—Do you have any changes to your submissions?

Mr Byron—I have to CAPA.

CHAIR—Could you just let us know what the changes are.

Mr Byron—On page 7 in the first paragraph underneath our tables, DETYA is incorrectly spelt. We would like to correct that to D-E-T-Y-A. That is our only change there.

CHAIR—The committee prefers all evidence to be given in public but if at any time you wish to give any evidence, part of evidence or answers to any questions in camera, you may make the request. The committee will consider the request but such evidence may subsequently be made public by order of the Senate. I now invite you to make a brief opening statement. Perhaps if we go to CAPA first.

Mr Byron—Yes, Senator. The focus of our opening remarks will be on those aspects of our submission which concern the proposed Postgraduate Education Loans Scheme, or PELS. CAPA acknowledges that PELS will help make postgraduate course work education available to some potential students who are presently excluded under the current up-front fully deregulated fees regime. However, the PELS scheme is not without significant fundamental shortcomings. We wish to outline four of these here. The first is that while PELS will remove the up-front part of full fees for postgraduate course work, the increased capacity to borrow is expected to lead to increased prices. Therefore, PELS will not necessarily lead to increased accessibility or affordability overall, because debt incursion for considerable course work fees remains a significant disincentive to taking up study.

PELS misses the mark because it does not remove the feature of the current regime which is the real deterrent to postgraduate study: unregulated high fees for postgraduate course work. Furthermore, the consequences of this for those who can overcome this barrier by virtue of ability to pay is that PELS entrenches the philosophy of a system where students and their families, not government and employers, foot the entire bill for postgraduate course work education.

Ms Mann—Precisely because PELS will not remove the features of the current regime, which makes potential students most likely to stay away, PELS does little, if anything, to improve the access to postgraduate course work of those already most likely to be excluded: those belonging to identified equity groups. This is exacerbated by the fact that there is no provision in the proposed scheme for funded equity based PELS exemptions to offset its deterrent effects. Furthermore, there remains an absence of any form of income support for postgraduate course work students.

Another factor in the PELS scheme which is likely to act as a major deterrent—not just to potential postgraduate students but also to higher education students generally—is the arbitrary provision contained in schedule 4 of the legislation granting the minister the power to cap the total student borrowings from HECS, OLDPS and PELS. Given the already existing trend to package professional entry courses into undergraduate and postgraduate components, students may well be deterred from entering at the undergraduate level by the possibility that they may never complete their program of study because the cap could be applied part of the way through it. We understand that our colleagues from the National Union of Students will address these issues in more detail.

Ms Pratt—CAPA is concerned that PELS may lead to a further decline in the quality of Australian postgraduate course work. Since this is not an issue covered directly in our submission, we wish to speak to it briefly here. It is our analysis that in the discipline areas where PELS may significantly increase demand, PELS will be regarded by universities as a revenue raising opportunity. This is because of the imperative of universities to find alternative sources of revenue as a result of cuts to university operating grants. It is expected that universities will engage in practices such as the repackaging of undergraduate courses for postgraduate course work in order to minimise the costs and maximise the revenue that the PELS scheme will create.

These practices are already rife in the deregulated postgraduate course work market, as is the ‘race to the bottom’ effect, where competitive pressures lead to many problematic practices. These include reduced subject load, lower entry standards, shorter time frames and recognition of courses provided at below the higher degree level. In this case it is likely that PELS may do little to improve the quality of Australian postgraduate course work.

Mr Byron—In conclusion, the Postgraduate Education Loans Scheme (1) entrenches the notion that students, rather than government and employers, should pay the whole of postgraduate course work education costs; (2) does not address the inequities faced by the most disadvantaged; (3) will hasten the decline of quality in standards currently taking place in Australian postgraduate course work education; and (4) does not provide adequate funds where courses are expensive and/or prospective students do not have high disposable incomes; for example, professional development for nurses and teachers. Therefore, this scheme does not meet the government’s stated aim of maximising Australia’s innovation capacity because it does not provide affordable and equitable access to initial qualifications and continuing professional development to all of the most able.

Ms Pratt—Accordingly, CAPA recommends that the shortcomings of PELS that we pointed out both here and in more detail in our submission should be addressed through several measures—first, significantly and immediately increase operating grants to universities; preferably move into a fully public funded system for all higher education. Failing this, institute a much more equitable balance of contribution between government, industry and students than the current breakdown of zero per cent, zero per cent, 100 per cent. This could be achieved by extending the HECS scheme to postgraduate course work and reintroducing an industry funded places scheme for postgraduate course work. Finally, failing this, at the very least delete schedule 4 of the proposed legislation and replace it with an alternative mechanism for limiting the Commonwealth’s liability on PELS and introduce an alternative which is less arbitrary, more equitable and which does not restrict student access to higher education.

CHAIR—Thank you. We have the opening statement from the National Union of Students.

Mr Henderson—The National Union of Students considers the Postgraduate Education Loans Scheme, PELS, to be the most significant part of this legislation. As it is currently formulated, we consider it to have wide ranging and far-reaching consequences for tertiary study in Australia. It is our firm belief that these consequences are detrimental to any notion that a higher education system should be one that is public, accessible to all and of good quality. One of our strongest concerns is that the legislation, as it is drafted currently, for the first time will place a limit on the amount of HECS liability that any student in Australia can incur during study. All things aside, this component of the legislation is completely unnecessary. There is no reason to link the introduction of a new postgraduate loans systems with the existing Higher Education Contributions Scheme.

As PELS is to be structured in the same way as HECS, we would like to stress again our belief that the repayment threshold of around \$22,000 per annum is simply too low. Many prospective postgraduate students are mature age Australians already in the work force earning well above the \$22,000 threshold. For these very low income earners the threshold provides an immediate up-front fee of at least \$600 to take up further study. This is absolutely a disincentive to study and needs to be addressed in this legislation.

Ms Davison—NUS continues to argue that higher education fees, if they must exist, need to be regulated. In an unregulated market for postgraduate courses, PELS will act as a market imperfection, so to speak, and has the tendency to artificially lift the price of courses. Undoubtedly, the group of eight universities will be able to easily raise postgraduate course work charges, knowing that an interest-free loan lessens the blow.

In a century in which lifelong learning is likely to be more important than in previous ones, where the ability to easily retrain oneself will be essential, postgraduate courses are more important than ever. As such, Australia cannot afford for these courses to be the preserve of only those who are not debt averse. In particular, it cannot afford for low income earners, desperate to improve their educational levels, to be slugged with up-front fees for which PELS, as it is currently proposed, does nothing to solve.

Mr Henderson—The National Union of Students understands PELS to be the thin edge of the wedge for higher education. Already the current budget has PELS style loans for overseas trained professionals completing undergraduate courses. It seems obvious that PELS is designed to slowly replace HECS. This is an unacceptable element of this legislation and, for the 650,000 students whom we represent, we urge the Senate committee to think carefully about the implications the passage of this legislation will bring. Thank you.

CHAIR—Thank you very much.

Senator ALLISON—Can I go to the proposition you put that this legislation is likely to see an increase in fees. On page 7 of CAPA's submission you draw on DETYA's modelling which shows that PELS is unlikely to significantly increase the numbers of students or average fees. Given the concerns that have been expressed for quite some time now about the lack of resources for postgraduate work, is there not an argument that perhaps increasing fees would be desirable, just to provide those extra resources, particularly in science, agriculture, nursing and teaching, for instance?

Mr Byron—An increase in revenue to universities would be desirable to fund education. Both of our submissions state quite clearly that that revenue should be sourced purely from students. I might refer to the DETYA figures that we quote. The point we are trying to make there, or tease out, is that the section demonstrates that DETYA have had to arrive at projected uptake figures in order to keep the figure in column 3 constant which, necessarily, includes an estimated annual debt that is on a slight decline over the next five years, which hardly seems

plausible. In fact, I have not heard anybody arguing for that proposition, other than the implication of these figures. It seems clear that the projected uptake and costs accordingly have been retrofitted around a projected budget estimate. In fact, nobody has any idea how many people are going to take this up. It may well be a great deal more. It seems to me that the only way to responsibly institute a system like this is to regulate it.

Senator ALLISON—Earlier this morning I circulated a table which shows the percentage change in students participating in postgraduate course work.

Senator CARR—Did I receive a copy of this table that has been circulated?

Senator ALLISON—You were handed one, Senator. Do you have a view as to why it is that there is such a differential change and what factors are involved in addition to full fees?

Mr Byron—Yes, I do have a view. As some people, who are apologists for this system, have advised the committee the whole idea is that if people feel they are able to undertake a sizeable loan on the basis of a cost-benefit analysis into the future for an increase in their personal revenue, then this system—and if you can get hold of the cash, the existing system—makes sense. These figures indicate it only makes sense for people pretty much in the maths and computing arenas. A similar table published by CAPA in the *Australian Universities Review* last year of the previous set of figures had business administration above the line and that is also now just below the line. So even people in that arena are not finding it a viable cost-benefit analysis of the incursion of this kind of debt. PELS does absolutely nothing to alleviate that.

Senator ALLISON—Do you think it will be possible to amend the legislation to provide some suitable triggers or incentives to alter that change which we have seen over time?

Mr Henderson—Regulation of fees would be a nice amendment. The reregulation of postgraduate fees would be the only thing to adequately and truly fix that problem.

Mr Byron—Our recommendation 4 includes some dot points that suggest mechanisms to address that concern including the number and distribution of PELS places in university profiles and negotiations with instructions to DETYA to ensure that universities provide adequate places across all disciplines and, further, provide Commonwealth funding for each PELS place in a manner that ensures that high cost disciplines are adequately subsidised. I draw the committee's attention to the fact that this suggestion would apply to this PELS legislation which, in our view, would be inferior to our first two proposals, which are scrapping fees altogether or reintroducing HECS.

Senator ALLISON—Yes. You suggest the capping of fees. How could this be done?

Mr Byron—Again, through the reregulation of postgraduate course work. Currently that is the case with undergraduate course work—although, I note the differential HECS system is an imperfection in that capping regime.

Senator ALLISON—You make a recommendation on electronic communications with students. Can you explain why it is you think this provision in the bill is problematic?

Mr Byron—In our view, there should be a choice provided for people to choose the mode of communication. It is not necessarily a level playing field as far as electronic communication is concerned. People from various equity minority groups, in particular, might feel less comfortable communicating via electronic means. The most obvious are people with disabilities that affect their ability to either read or type email. That is only the most obvious. People that fit into other categories have lower uptake of these technologies. Schedule 5 of

this legislation seems to adopt as its operating premise that everybody has equal access to those modes of communication, which is not the case.

Apart from that, this technology does not come cheaply or free. For those of us who work in government and universities, we are perhaps a little accustomed to having these things made available to us, but many people who do not enjoy access to that infrastructure would have to provide it themselves. There is no proposal here for the government to help people install a computer and Internet access in order to access this electronic communication and that, too, is an inequity.

Senator ALLISON—Yes. Thank you.

Senator CARR—Both CAPA and NUS have made quite damning criticisms of the proposals that are before the parliament at the moment. You have suggested a number of amendments. Notwithstanding the possibility that the committee may choose to recommend some of your amendments, or may not, if the parliament chooses not to accept any amendments, do you still believe this PELS scheme or the legislation supporting this PELS scheme should be carried? I ask both of you to give us an answer to that question.

Mr Henderson—I think PELS will provide some alleviation to the students who are not debt averse but, overall, I think this is a very disturbing trend for higher education to take. NUS cannot support a system which has already been taken into the undergraduate sector in terms of the overseas trained professional places, which seeks to further remove the notion that it is the public's responsibility to be providing education at every level—postgraduate and undergraduate—and shift the full cost of those courses onto students. The National Union of Students considers this to be complete anathema as to what our society should be doing. It thinks the passage of this bill unamended would be quite devastating to the whole sector.

Senator CARR—So I can be clear about this: NUS is advising this committee that they do not want this bill passed if it is not amended?

Mr Henderson—Yes, that is correct.

Senator CARR—You disagree with the NTEU on that?

Mr Henderson—Yes.

Senator CARR—What about CAPA? What is the view of the organisation?

Mr Byron—CAPA reckons that the PELS legislation should not pass in its current form.

Senator CARR—That is, in your opinion, the view of the membership of CAPA, is it?

Mr Byron—I have not gone out and asked all 142,000 of them, Senator.

Senator CARR—No, but presumably you have representative decision making processes.

Mr Byron—Exactly.

Senator CARR—What I am asking for is the position of the organisation and you have said it should not pass.

Mr Byron—That is right, in its current form.

Senator CARR—Yes. Thank you for that. Obviously we will seek advice from a range of sources. I will ask questions and it may well be that both organisations wish to comment on them. Even though some comments are related to specific submissions, I think there are certain common themes running through both submissions. This is to both of you. You argue that the effect of this arrangement is to shift the cost of training to students and away from employers and from governments. You say there is potential for rorts in this arrangement.

Both submissions make reference to that. In particular, I notice the submission from CAPA on the question of rorts says:

The absence of regulatory measures provides the condition of possibility for institutions to introduce 'boutique courses', which fold luxury items into the fee structure to enable them to be covered by PELS. A Graduate Diploma in Archaeology featuring a 5-star, first-class 'study tour' of the Eastern Mediterranean is entirely plausible under such an arrangement.

You also say that taxpayers' funds should not be used to fund the provision of luxury accommodation to executives undertaking residential components of all-inclusive MBAs and graduate diplomas. Could you comment on those two issues—the effect of the transfer in terms of costing and the capacity for rorting. Please expand on what you have put to us.

Mr Byron—With respect to your first question, Senator, the shifting of costs, it is not CAPA's assertion that PELS will introduce shifting costs. That has already happened. The current system with a fully deregulated market based fee setting regime has already seen that shifting of costs take place. PELS will entrench it, particularly by the efforts of people to present it disingenuously and, in my opinion, dishonestly, to convey the idea that it is quite similar to HECS. It may have the effect of easing in people's minds any concerns they might have about the unfairness of the origin of the revenue that is underrunning postgraduate course work education currently in Australia. It will not introduce the shift but it will entrench it and perhaps make it more acceptable.

There is a clear public benefit to postgraduate course work education, as mentioned by previous respondents to this inquiry. That is currently expressed through the taxation legislation that allows people tax deductions for postgraduate course work study that is relevant to their current mode of employment. That does not seem to be argued by people, that there is a clear public benefit. There is also a clear industry benefit. This was even mentioned by the minister in the second reading of this legislation in the House, where he referred to the skilling of the work force as a benefit. It seems onerous for students and their families to continue to fund the whole of the costs of postgraduate course work education when everybody seems to agree that there is at least some public and industry benefit. As Angela mentioned, the zero, zero, 100 ratio for inputs of the costs of postgraduate course work is well out of proportion to the outputs which seem to be, at the very least, something more evenly distributed between those three groups.

Ms Pratt—We make it quite clear in our submission that shifting the burden of postgraduate course work education to students means you are entrenching a system where postgraduate course work education is available to those who can pay. What that means is the groups currently excluded will continue to be so, which means the entrenchment of a philosophy, if you like, for postgraduate course work education which is not equitable. Further, as the table circulated by Senator Allison demonstrates, this kind of system leads to a decline in the diversity of postgraduate course work that is both on offer and which is taken up. It is CAPA's view that a system which does not embrace the principles of equity and diversity should be resisted.

Mr Byron—There are also quality implications. Members may have read the submission made by the University of Melbourne Postgraduate Association. It refers to a master of dental science at that university that saw a decline in acceptances of offers of enrolment of prospective students from 71 per cent to 60 per cent after the fees had been increased from \$15,000 per year to \$18,000 per year. The faculty's response to the decline in acceptance of offers was to reduce the entrance standards so there is a clear correlation between an increase in fees and the existence of the completely deregulated environment and a reduction in standards.

Senator CARR—Do you want to say anything further on the first issue about the cost shifting?

Mr Henderson—Yes, definitely. Whilst it is true to say that costs will be shifted by PELS, I think we also have to look at the very real implication of costs rising under PELS. It is quite fair to say that many Australians love the credit card and that access to more credit will inevitably mean greater money to spend on postgraduate course work which will ultimately lead to the fees increasing for these courses. This Senate committee needs to really look at the diversity across the system and the disproportionate funding that some campuses receive over other campuses.

When the group of eight universities with large sandstone reputations have the capacity to say to any prospective students, ‘Oh, but you can get an almost unlimited loan from the government to pay for our whopping fees,’ then there is going to be quite a shift away from regional universities, away from the newer universities into these already very privileged campuses. That would further create very big differences in funding, in status, in prestige and would disproportionately affect low income earners and various other equity groups across the sector. Unless PELS is fixed to be a cap on the fees rather than a debt, I cannot see how this will not happen.

Ms Davison—We have referred in our submission to our position that fees are often not necessarily set by the cost of the course itself but by market forces which are involved in that. So we see that potential as quite a serious implication of this legislation, that universities will be able to basically increase the fees of particular courses on the basis that, as David mentioned, they are a more prestigious style of university.

Senator CARR—Thank you. Before you go on with this issue of the rorting, Mr Byron, you draw attention to the submission from the Melbourne University postgraduates on the dental program where they say the increase in fees had led to a decline in the standards, insofar as there was a decline in the number of people taking up the program and that led to a decline in the entrance standards.

Mr Byron—The response of the faculty to the low take-up, in order to get the numbers that they were looking for, was to lower the entrance standards so they could make offers to a greater number of people.

Senator CARR—What evidence do you have to support the claim that the entrance standards were lowered at Melbourne University dentistry? I notice this is on page 2 of the submission from the Melbourne University Postgraduate Association.

Mr Byron—That is right. I do not have at hand the evidence to support that statement, Senator, but I can take it on notice.

Senator CARR—Could you, please, because that is obviously a serious matter. As I am looking forward to seeing Professor Gilbert next Friday—

Mr Byron—I understand.

Senator CARR—I would be interested to put it to him. I would be delighted to put it to him, actually.

Mr Henderson—Senator Carr, a good question to put to Professor Gilbert would be, ‘What has happened at the University of Melbourne in terms of its full fee undergraduate places?’ which it offers prospective students, where the entrance scores are considerably lower than the HECS liable courses. I think the same will happen with PELS. Because you

can charge more money for these places, it opens up the number of prospective applicants, which almost automatically will mean a decline in the entrance standards for those courses.

Senator CARR—What is the difference in the fees?

Mr Henderson—For example it is 99.3 for a HECS place; 95 for a full fee undergraduate place; for physiotherapy it is 98.7, I think, and about 96 for the full fee place. For arts it is a much bigger drop, from about 88 for the HECS down to 80? I would need to check those. They would probably still be here.

Senator CARR—Can you get back to me on those matters by next Friday.

Mr Henderson—Sure.

Senator CARR—I appreciate that. What has been said to us here is that PELS covers fees as set by the institution, whereas the rate of HECS is set by the Commonwealth government—in effect, there is an ability to defer payment made, students to pay more than they would in an up-front system, institutions may be tempted to increase their fees unrealistically. Do you see that as another device by which there can be disadvantages to students, particularly students at regional levels? Is that the sort of proposition you are putting to us?

Mr Henderson—Definitely.

Ms Davison—Not only that, Senator Carr, but also the declining standard of the education that people are receiving within the classroom as well, as a result of the point we mentioned about lower entrance scores.

Senator CARR—I would be interested to see any further material that you have on that claim. That would be very helpful. Thank you. On the issue of the rorting, how widespread do you think such a proposition is likely to be? For instance, can you tell me what you believe to be the proportion of postgraduate students that are in fact assisted by employers now?

Mr Byron—I do not know the figures. Apparently it is not terribly high. There are different trends in the way in which employees or students are supported to undertake postgraduate course work. The breakdown on gender lines indicates some interesting things, as well. From the rorts point of view, I only raised the rather fanciful grad dip in archaeology example to point out that this regime, without any regulatory mechanisms, does nothing to prevent that being an outcome. I am not proposing that Australia's public universities will rush around to do such a course—

Senator CARR—You are not going to set yourself up as a consultant or anything and advise on rorting arrangements?

Mr Byron—That is an excellent idea. My term finishes on 31 December, Senator. I am looking for new work so I will take that on board. It certainly was not intended to be a flippant suggestion; it is entirely plausible. It was probably underscored by the reference to the existing arrangements where people are accommodated in fairly comfortable circumstances when they are doing residential blocks of MBAs and DBAs. I have personal knowledge of people who have had that, and I have had no objection to that on the basis that they have been paying their own fees, their own way and are incorporated into that kind of thing. But, as soon as it becomes something publicly funded, the taxpayer is going to have a right to know what they are lending money to people for. If it includes five-star accommodation at quite comfortable in-house seminars at business schools, for example, then I imagine there will be a few people on talkback radio and in tabloid newspapers who would be interested in that. I do not think that is something any of us in the sector are interested in seeing happen, but it is an outcome that is almost certain, in my view.

Senator CARR—What about AUS? Do you have any further concerns about the regulatory support for this scheme?

Mr Henderson—You only have to look on campuses at the moment where there are courses that have a greater proportion of students who are full fee paying compared to courses that do not. I am an arts commerce student and the level of resources given to the commerce faculty as opposed to the arts is tremendously different. I think PELS will accentuate that much further. The business schools across the country are infinitely more resourced than the rank and file HECS faculties. I do not think it was thought about very much when this legislation was designed that MBA students, DBA students and advanced certificates in plastic surgery, for example, are highly expensive courses that are designed only to increase the earning potential of the students who complete them. They cost a lot of money. They will now be open to a government loan that is interest free, whereas traditionally they have been paid by the employer but will now be shifted to the student.

Senator CARR—The final question I want to address is the issue of the effects on taxation and self-education expenses. You both made an issue of this. It is an issue that has been raised by a number of other submissions. Can you expand on what you believe to be the impact of this scheme for current existing students particularly, but perhaps in the future students who otherwise might be able to claim self-education expenses?

Mr Byron—One of the observations made by Mr King from the AVCC was that tax deductibility will mainly only impact significantly on people with high incomes and presumably with the implication that people like us should not really care about them. But at the other end of the scale are people whose lives are affected by tax deductibility, because it affects the figure that becomes their total taxable income, which may well have an effect on eligibility for other sorts of welfare support. In particular, I am thinking of sole parents who are trying to study to further their prospects and people on pensions and the like where tax deductions do make a difference at that end of the income scale as well.

I suppose it is more a view we are taking that the current tax arrangements recognise the validity of postgraduate course work and the sort of communal benefit for people training themselves within what they currently do for a living, but do not recognise retraining. Given that it has been commonplace since I was in short pants that people will have more than one career in their lifetime, that seems to be quite an anachronism to me. Furthermore, as our submission states, it is our view that education through accredited courses offered by universities in Australia is likely to have broad social benefit, whether that social benefit manifests itself in economic terms or not. Therefore, people educating themselves and finding themselves in a better educated, more widely educated society, is in the broad public interest and ought to be recognised through similar tax arrangements to those where people are gaining improvements in their own current working environment.

Mr Henderson—We would concur with CAPA on that. We would just like to add again the comments we have made about linking PELS with HECS in terms of the limit on the debt and the current repayment structure for any PELS loan being the same as HECS. We have enormous difficulty with that, particularly the repayment threshold being so low. It is almost half the average male weekly earnings now. If you take the view that there is a private benefit of education that should be contributed through the personal income tax structure, then one would normally consider that would start to kick in that average earnings, if it has benefited you more than the average. The repayment threshold for PELS and HECS is very low and I think it will act as a large disincentive to low income earners to take up further study.

Senator CARR—You are asking us to regulate fees. You are saying that there should not be a cap on debt but there should be a cap on fees, which is a proposition that has been put by a number of people here today. Irrespective of the principle of the regulation of fees—and, as you know, there is considerable material on the Labor Party's position on these things which have been spelt out in the platform—how do you do that as opposition senators in legislation of this type? Do you concede that this would be better done by government through the department with the full advice of the department? What sort of mechanism could you introduce to legislation other than the broadest of powers to administer a scheme of regulation? How could you introduce a sufficiently prescriptive mechanism by way of legislative amendment?

Mr Byron—I am not an expert legislative draftsman but the bill before us today seeks to amend the Higher Education Funding Act, which was the initial instrument for the introduction of the HECS, which is something akin to what we are talking about. I assume that any opportunity to amend that act could include a shift in emphasis to reintroduce postgraduate course work under the auspices of the HECS system, which would be the simplest way of doing what we are talking about.

Senator CARR—Yes, Mr Byron, but my understanding of the arrangement was that that is a delegated authority on the parliament. It is not necessarily a prescriptive provision in the Higher Education Funding Act.

Mr Henderson—That could be changed.

Senator CARR—How would you draft one?

Mr Henderson—You could revoke the delegated authority, the delegation.

Senator CARR—I just want to be clear about this because it is a question I scratch my head about. How does the parliament prescribe particular programs and the level of regulation for fees within both the graduate and undergraduate level? Is it not best done by way of a delegated authority to the government of the day, the executive of the day?

Mr Henderson—If the government is unwilling to do that through delegated authority, then the onus is on the opposition to draft sufficient amendments to restrict the—

Senator CARR—I see, and then call upon a conservative minister to implement it?

Mr Henderson—Yes.

Mr Byron—It seems to me we have two questions here, Senator, one of which is the reintroduction of the system of regulation—which is presumably a parliamentary privilege—and the other, which is what precise levels and what more fine-grained arrangements are arrived at under the delegated authority.

Senator CARR—That is essentially the question I am asking you.

Mr Byron—I suppose my answer is both—one for the system of regulation and the other for the specifics. But, if you are asking for a proposed amendment, I will have to take that on notice.

Senator CARR—I think you should do that. I must say, I have yet to see one that would allow both provisions—that is, the principle and the detail—to be covered in such a way that was not open to serious, quite profound legal challenge.

Mr Henderson—What about the amendment to abolish fees?

Senator CARR—To abolish fees?

Mr Henderson—Altogether, yes.

Senator CARR—It is an interesting idea. Thank you very much for your appearance here today.

Mr Byron—Thank you, Senator.

Mr Henderson—Thank you.

Proceedings suspended from 12.31 p.m. to 1.52 p.m.

ANDRUSKA, Ms Aurora, Assistant Secretary, Schools Resources Branch, Department of Education, Training and Youth Affairs

EVANS, Mr Christopher John, Assistant Secretary, Budget and Coordination Branch, Schools Division, Department of Education, Training and Youth Affairs

GIFFING, Mr George Michael, Principal Government Lawyer, Legislation Section, Legal, Business Assurance and Investigations, Corporate Division, Department of Education, Training and Youth Affairs

GOONREY, Mr Michael, Director, General Recurrent Grants, Department of Education, Training and Youth Affairs

KIMBER, Mr Murray Keith, Director, Literacy Section, Department of Education, Training and Youth Affairs

MORAHAN, Ms Stella Maria, Director Institution Financing, Department of Education, Training and Youth Affairs

MUTTON, Mr William Raymond, Assistant Secretary (Funding), Higher Education Division, Department of Education, Training and Youth Affairs

WEDDELL, Ms Di, Acting Assistant Secretary, Literacy and Special Programmes Branch, Department of Education, Training and Youth Affairs

CHAIR—I welcome representatives of the Department of Education, Training and Youth Affairs and I invite you to make a brief opening statement.

Mr Evans—The [Innovation and Education Legislation Amendment Bill 2001](#) has been introduced for the primary purpose of legislating for the government's January 2001 Backing Australia's Ability policy statement as far as the policy applies to the higher education system. The bill has several secondary purposes related to Commonwealth funding for schools, changes to the Higher Education Contribution Scheme and associated schemes, and a transfer of funds between sections of the Higher Education Funding Act 1988 for the purposes of the Research Training Scheme.

In relation to Backing Australia's Ability, the bill provides additional funding in 2002 for 2,000 new university places a year in priority areas for Australian Research Council grants, for project-specific research infrastructure and for systemic research infrastructure, and establishes the new Postgraduate Education Loan Scheme. In relation to the secondary purposes of the bill, it provides additional funding for establishment grants for new non-government schools in 2001 to 2004 and for strategic assistance for non-government schools. It transfers \$14.8 million in 2001 from general operating grants for use in the Research Training Scheme. It gives the minister discretion to cap the overall level of indebtedness in relation to HECS, PELS and OLDPS. It permits the use of electronic forms of communication between students and institutions and vice versa for several of the purposes of the Higher Education Funding Act 1988.

The bill was originally on the autumn 2001 program as the [States Grants \(Primary and Secondary Education Assistance\) Amendment Bill 2001](#). The bill, to correct an error in the funding amount, provided for non-government school students with disabilities. The original bill was varied to become the Innovation and Education Assistant Amendment Bill 2001 primarily to implement the government's new innovation statement, Backing Australia's Ability.

I would like now to make some comments in relation to establishment grants. Part 1 of schedule 2 of the bill amends the table in schedule 7 of the States Grants (Primary and Secondary Education Assistance) Act—the schools act—to replace it with a new table which increases the funding limits on the amount of establishment assistance available to new non-government schools in line with current estimates. Total funds of \$4,726,000 were provided in the schools act for the 2001 to 2004 program years. This amount is to be increased to \$14,260,000.

The government recognised that there would be a shortfall in funds required and has dealt with the situation by means of the amendment. The amendment increases the cap on funding, rather than directly increasing the per capita funding for individual schools. It ensures that sufficient funding is available to pay all new schools their full entitlements to 2001 to 2004. The amounts in schedule 7 of the act were an estimate of the demand on funding, based on figures of \$500 per student in the first year of operation of a newly commencing school, and \$250 per student in the second year of the school's operation. The estimates use 1999 commencing school student enrolment statistics.

The department did not review the establishment grants amounts until later in 2000 after the passage of the bill through the House. Until then there had been no requirement to look at the figures contained in schedule 7. However, around the time of processing the October 2000 general recurrent grant payments, which were based on final 2000 census data, the shortfall of the amount for establishment grants became apparent. It was found that while the number of new school commencements was relatively constant, average enrolments in 2000 were more than double those in 1999. There were 1,692.4 census enrolments for 40 new schools in 1999 for an average of 42 students per school, compared to 3,399.4 census enrolments for 37 new schools in 2000, or an average of 92 students per school.

There were a small number of schools established in 2000 with relatively large enrolment numbers. For example, one new school that opened in 2000 had 847 enrolments, another had 338 enrolments, and yet another had 197 enrolments. As well, additional allowance should have been made for new non-systemic schools that lodged applications after 11 May 1999 and were approved for funding in 1999 and 2000 as they were entitled to establishment grants.

The States Grants (Primary and Secondary Education Assistance) Bill 2000, the schools bill, was introduced in the House of Representatives on 29 June 2000. The bill included the new element of establishment assistance. Debate on the bill resumed in the House on 4 September. The bill passed the House on 6 September 2000 and included amendments moved by the government to update schedules as a consequence of 2000 AGSRC amounts. There had been no focus on reviewing the amounts available for establishment grants until around early October, after the bill had been passed in the House.

Under payment arrangements approved by the minister, 50 per cent advance payments are to be made to eligible schools at the beginning of the year, with the balance of their entitlement for the year being paid in October, based on their actual census enrolments for that year. As at 14 June 2001 grants totalling \$749,200 had been paid to 49 schools. This funding has comprised 50 per cent advance payments totalling \$592,850 for 33 new non-systemic schools that applied for funding after 11 May 1999 or for 2000, and 50 per cent advance payments totalling \$156,350 for 16 new systemic and non-systemic schools that have applied for funding in 2001 and have been approved to date. Against the appropriation for 2001 of \$859,000 this has left a balance of \$109,800.

A further six new school applications have been received in 2001 and more are expected. It is estimated that the establishment grant for 50 per cent advance payment entitlements for

these six applications totals \$244,500 or \$134,700 in excess of the remaining allocation. When these further schools are taken into account along with the 50 per cent adjusting payment due in October for all eligible schools starting in 1999, 2000 and this year, the department estimates that the total requirement for establishment grants for 2001 will be \$3,693,000. Most of the new schools that have already applied in 2001 have received or will receive their 50 per cent advance payment. However, some that have applied or are still to apply will not receive a 50 per cent advance payment unless the amendment is passed, and there are no funds to meet the October payment for any of the schools.

Therefore, delays in the passage of the amendment will mean that some new schools with entitlement to establishment grants will not be paid until much later in the year, defusing the purpose of the grants, which was to assist new schools with their recurrent costs in their formative years. Thank you.

CHAIR—Thank you. Questions, Senator Allison.

Senator CARR—Hang on a minute. I think we have already discussed this, Mr Chairman.

CHAIR—No, you made a statement.

Senator CARR—We have been patient all day. You have gone to the Democrats on every witness today.

CHAIR—That is because they ask very few questions.

Senator CARR—I think we—

CHAIR—Senator Allison, you have the floor.

Senator ALLISON—Mr Evans, can you indicate what sort of school it was that you referred to earlier as having 847 students? This is a first intake in a new school, presumably.

Ms Andruska—The school was the Australian Islamic College at Kewdale in WA. It had an enrolment of 847 students.

Senator ALLISON—Do you accept that the incentive in this legislation encourages schools which have greater numbers of students in the first and second year than those that might start with a smaller group of students? It seems to me highly possible that this is a manipulable situation whereby there is a greater incentive for non-government schools to start with larger numbers of students. If you start with 30 students in first year, 60 in second year, but eventually build up your numbers substantially over the next few years, you are much worse off than a school which does it all in the first year. My question relates to whether there is an opportunity for schools to set up separate campuses or separate offshoots of an existing school: is there anything in the legislation which would prevent that? Is it the case that the ones that have been cited by you today, Mr Evans, are in that category?

Ms Andruska—The first thing I would say, as has already been explained, in terms of how we got the estimate wrong, we based our numbers on the 1999 experience, which showed an average number of students. With respect to the 2000 experience, because of the size of those particular schools and the one that you have just asked about being the largest school, the average was obviously much higher. So far this year I think the figure was 42 students in the 99 figures.

Senator ALLISON—Yes, I understand those figures. I am asking about the particular circumstances of that school with 847 students. That is a good sized school.

Ms Andruska—That is a good sized school.

Senator ALLISON—To be starting with that number on day one would suggest that those students have not been gradually built up.

Ms Andruska—What I was going to say was that in terms of the applications we have had for this year, the average number is 73. Obviously it is going to vary. Yes, from my experience of new schools, that is exceptional in terms of the size of that particular school. I do not have any further information about why the circumstances were such that the school opened with such a large number. I can only assume because of the nature of the school or the characteristics of the school there may have been a parent body working towards the development of that school for some time, or maybe students were being educated across a range of schools and, with the availability of an Islamic school, it brought a number of students together to that school. But it is just my own supposition.

Mr Evans—Senator, as you might appreciate, to commence a school with over 800 students you would have to have had fairly substantial classrooms and infrastructure there. Whilst I take your point about the amount of establishment grants being paid to a school of that size, it also would reflect on the level of planning that had gone into preparing and opening a school and the number of students and classrooms and infrastructure it would need.

Senator ALLISON—Let me ask it another way. If a school had already been established and decided to set up an offshoot across the road—say, a secondary school junior campus—would it qualify under those circumstances as a new school?

Ms Andruska—A junior campus would not. We have regard to a range of criteria when trying to establish whether a school is a new school.

Senator ALLISON—Does it include a transfer of students out of one school into a school, which would be a new school, but related to the original school?

Ms Andruska—There have been some instances where we have had to look very closely at exactly the situation you are describing. But in a general sense, in a case where an existing school closes and reopens and claims to be a new school, if it is possible to characterise the school as being in substance the previous school, we would not regard it as new. For example, a mere change of name, even if registered with the appropriate state authority, would not be considered sufficient to convert an existing school into a new school. In this case we would look at factors such as whether there is evidence that the school actually closed—that is, education ceased to be provided; staff ceased to be employed; school buildings sold or leased to another body; whether the approved authority ceased to operate the school—that is, it was wound up or it sold the buildings; whether the new school has the same registration number as the old school; was it subject to all state registration requirements normally applicable to a new school; whether the new body running the school employs the staff, has the right to operate in the school buildings and on what basis. We would look at all those factors.

Senator ALLISON—Having said all that, what is to stop a school from closing down effectively, selling off the school buildings and the site and moving to another site with a new registration number, same students, but in all other senses a different, new school?

Ms Andruska—If it met all those requirements then it could be seen as a new school.

Senator ALLISON—Is that the case with this Islamic school?

Mr Goonrey—Senator, no, it was not. It presented to us as a new school with a new approved authority, a quite separate location to existing Islamic schools. The ownership of the school was different to, I think, existing schools, so that we did look at the issue of whether this was a new school and it presented like one of the key factors. If the legal structure is such

that it is a different owner, a different approved authority to existing schools, then that would be one of the indices. Another would be the employment of teachers and so on.

Senator ALLISON—Where were all these 800-odd students prior to this year?

Mr Goonrey—I do not have any information on that, Senator.

Senator ALLISON—Wouldn't that be a question you would ask in your examination of whether this was really a new school or not?

Mr Goonrey—I think in my experience a number of these Islamic schools have started up with rather large populations and they could come from right across a city, from both existing government and non-government schools. As Ms Andruska said, this was certainly larger than normal, but we did not pursue that issue at the time.

Ms Andruska—One of the things we have been tracking is the kind of schools that have been opening up as new schools over the periods, particularly since the abolition of the new schools policy, and looking at whether there are any main areas that the new schools are coming from. Quite consistently and as, I think, you would expect over each of the years, Catholic and Christian schools and Anglican schools generally tend to be the main areas, but back in 1998 there were a number of Islamic schools. In 1999 and 2000 they were not a major feature of new schools.

Senator ALLISON—The other school you mentioned, Mr Evans, with 338 enrolments: what school was that?

Mr Evans—Senator, that was the Christian College Institute of Senior Education at Highton in Victoria.

Senator ALLISON—Did the same circumstances apply there? This was just a new school that did not take students from an existing Christian school somewhere else?

Mr Goonrey—If recollection serves, Senator, I think it was a new senior secondary school, so that it would have been taking students following the normal stream through from other existing schools.

Senator ALLISON—Were these students who went into the senior college previously in the school that served years 7 to 12?

Mr Goonrey—I think they were in a number of schools that served that area.

Senator ALLISON—The government did not take any steps to find out where the students in this case were from?

Mr Goonrey—My recollection, Senator, is that we did look at the issue, did ask the school what was the nature of their clientele. I do not recollect the answer specifically, but I think we were satisfied at the time, in looking at the whole of the circumstances of the school, that it was a new school.

Senator ALLISON—What information led you to be satisfied with the situation?

Mr Goonrey—I think going back to some of the factors that we have alluded to earlier: looking at the sum total of those factors; who owned the school; who ran the school; who employed the staff; where the school was located compared to other schools; separate state registration. They were the sorts of factors we were looking at. I would be quite confident in saying, for example, it was registered by the Victorian registration authority as a new school.

Senator ALLISON—But this is a senior school or a senior campus and you do not have a picture of where those students were prior to this year, those 338 students?

Mr Goonrey—A number came from existing schools. There were a number of existing Christian schools.

Senator ALLISON—Existing Christian schools?

Mr Goonrey—Yes—in the area. My recollection is that not all students came from those schools. Some came from other schools and from further afield.

Senator ALLISON—So it is possible that those students are entered into, say in this case a Christian school, year 7 through to year 12, there were establishment grants paid for those students, they moved out to another school, and another set of establishment grants would have been applicable?

Mr Goonrey—Could I say, Senator, in relation to this that these schools were established before there had been any announcement of the establishment grants.

Senator ALLISON—But it would have been possible, would it not, if such a school was established when these establishment grants were first made available, for a student to receive those establishment grants twice—double-dipping, if you like?

Mr Goonrey—In fairness, Senator, we would look a lot closer at these sorts of arrangements now that establishment grants are available. At the time, we had no knowledge that it was an issue.

Mr Evans—Senator, because the establishment grants have only just come in there is no possibility that there has been any double-dipping up until now, because we are only paying in respect of the current set of enrolments. So, in that sense, I cannot see that that could be. Of course, there is no incentive for the student, because the money is paid to the school, to be hopping from one school to another.

Senator ALLISON—But there is incentive, is there not, for the school to divide up, as it were, the school population and establish new schools in order to take advantage of the establishment grants.

Mr Goonrey—Senator, in response to something you were suggesting earlier, if a school has one campus or a number of campuses and separates that campus out to become a new school, we would approve that as a new school but it is clearly laid down in the guidelines that that new school would not be eligible for establishment grants. A school amalgamating or a school formed from a separation is not eligible for establishment grants.

Senator ALLISON—How do you make that determination? What are the factors you use?

Mr Goonrey—You would be starting with an existing funded school and, in the normal course, schools would present as separating or amalgamating.

Senator ALLISON—But how can you know that if you do not chase where the students come from and where they go?

Mr Goonrey—We would be tracing the registration, in particular, which would be a starting point. But, as I say, Senator, these are new issues rather than issues that were at the top of our minds at the time that we were approving these schools.

Senator ALLISON—So for these establishment grants there is no need for the schools to report on what they use the money for? Is that correct? It does not have to be for buildings?

Mr Goonrey—It would have to be for recurrent purposes.

Senator ALLISON—What are purposes which wouldn't qualify?

Mr Goonrey—Capital.

Senator ALLISON—Capital?

Mr Goonrey—Capital, yes.

Senator ALLISON—What does that mean?

Mr Goonrey—Mostly expenditure is divided into either capital or recurrent expenditures, Senator.

Senator ALLISON—So establishment grants are not for capital works?

Mr Goonrey—No.

Senator ALLISON—Is that what you are saying?

Mr Goonrey—Yes.

Senator ALLISON—Cannot be used for capital works?

Mr Goonrey—Cannot be used for capital works.

Senator ALLISON—How do you know they are not used for capital works?

Mr Goonrey—We, through the financial accountability, would require certification that the grants were used for recurrent purposes or recurrent expenditure in relation to the school. We would be relying on a qualified accountant in terms of signing that statement or that certificate.

Senator ALLISON—So there have been guidelines developed, instructions given to schools along these lines, explaining what it is that is required?

Mr Goonrey—Part of the agreements that all schools have entered into is schedule 2, which I think Ms Andruska read into the record last week, which sets out what the purposes of establishment grants are, so that schools have agreed to those conditions in those agreements.

Senator ALLISON—But what were their instructions with regard to verifying that?

Mr Evans—Senator, Mr Goonrey indicated that schools are required, as a condition of their financial reporting, to acquit the grants that they have received. So, to that end, there is a requirement that they have to report back to the department that the funds have been expended for the purposes for which they have been provided for. To that end, an accountant has to be satisfied that the grants have been applied for recurrent purposes and in the context of the guidelines that have been developed for the establishment grants resulting from the program.

Senator ALLISON—And the notification comes back to the department?

Mr Evans—Correct.

Ms Andruska—Just to clarify the issue about whether capital expenditure can occur with recurrent funds, maintenance and general sort of operation can be used with general recurrent grant funds. I just wanted to make that clear distinction.

Senator ALLISON—Yes. And advertising for new students, that would qualify?

Ms Andruska—The things that qualify are teaching and ancillary staff salaries, professional development, curriculum development, and maintenance and general operation provisions.

Senator ALLISON—So that would exclude advertising for new students?

Mr Evans—Advertising could be of a recurrent nature, so I believe advertising would be acceptable, Senator.

Senator ALLISON—Advertising would be acceptable?

Mr Evans—Would be acceptable.

Senator ALLISON—Okay. If I can move to—

Senator CARR—Hang on a minute. The opposition is entitled to at least half the time here. We have had a nice little meander through these issues. We have not actually addressed any of the substantive questions in this bill. I would like to know when the opposition is going to get its time.

CHAIR—Senator, you can have all of my time, and Senator Allison still has not finished her questions. Through today, I have given her the first opportunity and then given you the rest of the time, which has been far more than half of the time, and you still have that opportunity. So Senator Allison can just finish her questions, and then we will go to Senator Carr.

Senator ALLISON—Thank you. Mr Evans, you will be aware that a contentious issue with the implementation of the government's white paper, *Knowledge and innovation*, was the decision to remove HECS liable places for research students—the so-called gap places. On 18 July last year, the minister in a press release said that the research gap places had 'arisen largely because institutions had diverted funds from undergraduate places to offer research places on a HECS-liable basis.' He also said that often the provision of these additional places is at the expense of undergraduate student places, denying our young people access to a university education. Now, that is not correct, is it? Could you confirm that for us today? Isn't it the case that the gap places were legitimately coming out of the notional postgraduate load, and in the year 2000 there were just under 5,000 notional postgraduate course work places that were used for undergraduates and, while the universities are not obliged to use these places for postgraduates, and there are good reasons for prioritising undergraduate access, the minister's argument to justify the gap place strategy is in fact misleading, isn't it?

Mr Mutton—Senator, obviously it is not incorrect. What the minister is saying is that universities had places allocated to them. Some of them allocated far more places to research than was consistent with their capacity to deliver quality research supervision and training. So there was a considerable distance between, in some cases, the number of Australian postgraduate awards received on the basis of their performance in research and research training, compared with the total number of research students they had. Concerns were being expressed, in the sector and elsewhere, that research training was going on in places where the capacity was simply not there. The new system awards HECS exempt places—slightly more than there were before—on the basis of performance, so that quality and numbers are brought closer into alignment.

Senator ALLISON—Quite a lot of criticism of the legislation has been expressed today on the basis that it is likely that HECS places for postgraduate courses would be likely to be phased out once PELS is in place. How do you respond to that?

Mr Mutton—There is no intention to do that. The minister has made no statement to that effect and that is not the intent. Universities have discretion, as you have just indicated, to allocate places between undergraduate and postgraduate places. There is a total target for all kinds of targets, and an undergraduate target, so they have to provide a certain number of undergraduate places. But I think that sort of criticism is based on the premise that they may use all of those places for undergraduates, so undergraduates would benefit at the expense, they are saying, of postgraduates who currently get HECS. It would be a matter for government policy. If the government felt that universities were moving too far away from an

appropriate provision of fully subsidised places at postgraduate level, then it could intervene. I think there is a recognition, for instance, in teacher education that there is a need to protect a certain number of places as HECS liable places for particular needs. That would be a case of monitoring, as it has been in the past.

Senator ALLISON—What about HECS places currently mandated for initial vocational entry qualifications, for education and nursing? Are they going to be retained or will they have to look to PELS?

Mr Mutton—They are not currently mandated. The arrangement is that under the guidelines universities are not able to charge fees for students undertaking courses leading to initial qualifications in teaching and nurse education, and that is unchanged. So there is no change.

Senator ALLISON—The relative funding model explicitly recognises that there are quite different cost drivers across the disciplines. Differential HECS also partly recognises this and, although the inclusion of law in the top band is based on potential private benefit, there has been concern expressed that the PELS does not and cannot take costs into account so simply relying on markets will create enormous problems in high cost areas with high industry and public benefit but comparatively low private benefit, for example engineering and science. Could you comment on this tension in the PELS proposal and what impact you think it will have on disciplinary areas such as science and engineering?

Mr Mutton—PELS is going to make it easier to access courses where fees are already unregulated and have not been regulated since 1994, so it is certainly not going to make things worse. It is going to make things better and, as I have just said, there will continue to be HECS liable places at the postgraduate level.

Senator ALLISON—It has also been suggested that there is a need for additional funding to institutions to underpin the cost relativities in postgraduate course work. Do you accept that necessity?

Mr Mutton—If they are offering postgraduate course work places on a fee paying basis they should recover the full cost.

Senator ALLISON—It has been argued by the AVCC that the HECS debt should not be included in a PELS debt. Is there a feasible way of doing this, would you say?

Mr Mutton—You could do it. It would change the nature of the scheme somewhat. I think their concern relates to the cap. The legislation provides for the possibility, discretion for the minister, to impose a cap on the total debt, HECS plus PELS, that a student can have accrued at any given time, and they are suggesting that that cap should apply only to the PELS part, not to the HECS part. The logic behind the cap, which I emphasise the minister has said he has no intention of applying at the moment and would be a disallowable instrument anyway, was that there may be a need to do two things: one is to in an indirect way dampen any pressure on the price. There is no assumption that that would be a problem, which is why he is not talking about imposing it at the moment, but that may be a problem. The other is if it were thought that the debt students were entering into was becoming imprudent, so limiting it in that way. It makes sense, therefore, to combine the two rather than look at them separately.

Senator ALLISON—Thank you.

CHAIR—Thank you. Senator Carr.

Senator CARR—Mr Evans, you are the ranking officer here?

Mr Evans—There are several people at the table that are of equal rank, Senator.

Senator CARR—Who can speak for the whole department?

Mr Evans—I am happy to.

Senator CARR—Where is the departmental submission to this inquiry?

Mr Evans—The department did not put a submission in on this bill, Senator.

Senator CARR—Mr Evans, why not?

Mr Evans—It is judged that there was information on the public record, both the second reading speech and the explanatory memorandum. There had been some conversations about elements of this particular bill at Senate estimates as well.

Senator CARR—Who judged it?

Mr Evans—It was a departmental judgment, Senator.

Senator CARR—So the department decided not to put a submission to a Senate inquiry into a bill? Is that what you are telling me?

Mr Evans—I am saying on this occasion the department chose not to. The department is here today and there have been other opportunities that the department has presented before the Senate in aspects of—

Senator CARR—When was the last time the department chose not to put a submission to a Senate inquiry into a piece of legislation?

Mr Evans—I would not know, Senator. I would have to take that on notice and come back to the committee.

Senator CARR—Well, let me just remind you that there has never been an occasion.

Mr Evans—That might be the case. I am not sure, Senator.

Senator CARR—Was the minister involved in the decision not to put a submission to this inquiry?

Mr Evans—I would have to find out for you, Senator.

Senator CARR—Come on, Mr Evans. Are you going to tell me that you don't know whether the minister was involved in the department not making a submission to an inquiry—an unprecedented act.

Mr Evans—I expect the minister was not involved.

Senator CARR—Not involved?

Mr Evans—That is correct.

Senator CARR—So I can then say it is the department that is showing contempt for this parliament, can I?

Mr Evans—No, Senator, the department is not showing contempt to the Senate.

Senator CARR—Well, how else would you interpret it? You have refused to put a submission to this inquiry because in your judgment we have enough information available to go on. For the first time since these inquiries have been established, the department has chosen not to put a submission—

CHAIR—Not written submissions, Senator, but Mr Evans did make a fairly extensive opening statement, so he can just take questions.

Senator CARR—Mr Evans, why isn't that contemptuous?

Mr Evans—Senator, as I indicated, there is information on the public record, both in the form of the bill that is before the Senate, also in the context of the explanatory memorandum and the second reading speech. In addition, Senator, there were opportunities whereby the department met with the shadow spokesperson to discuss elements of the bill. There was a conversation that was had, I know, between the minister's office and the Democrats, and there was written material also provided to the Democrats, so I believe there have been ample opportunities for the department to provide written materials answering a number of questions that have been raised by members of the opposition, and, in addition, we are meeting today with you, Senator, and providing information—

Senator CARR—I am pleased that you have graced us with your presence, but it would have occurred to me that on every other occasion there has been legislation, those sorts of discussions take place, those sorts of positions are put in an explanatory memorandum, those sorts of issues are canvassed at senate estimates and the department still feels it fit to put a submission to this committee. Now, what I am suggesting to you, Mr Evans, is that it is contemptuous for the department not to put a submission, and it strikes me that it was not just the department involved, but you have told me I am wrong, that the minister was not involved. Am I clear on that, Mr Evans?

Mr Evans—I hear exactly what you are saying, Senator, but in no way is the department being contemptuous of this committee.

Senator CARR—Yes, and you are also telling me that the minister was not involved?

Mr Evans—I am, Senator.

Senator CARR—What about any of his officers?

Mr Evans—I don't believe so, Senator. This is a departmental submission.

Senator CARR—Entirely a departmental responsibility?

Mr Evans—That is right.

Senator CARR—Thank you. I asked a series of questions last week on these matters and I understood the department was going to come back to me with answers. Where are those answers?

Mr Evans—Senator, if I can read a response that was provided to you at Senate estimates on 7 June, in response to a question, the response to you was: 'We will undertake to take it on notice but get it to you in a timely sense, certainly before the 26th,' and I interpret the 26th to be 26 June.

Senator CARR—I see.

CHAIR—Senator, as you know, there was a time at the estimates when officers had to return answers, and we are not to that time, so it is not fair to ask.

Senator CARR—That is true, but I understood the department to provide me with advice on matters relating to this inquiry before this inquiry, and since there is no submission—

Mr Evans—Senator, if there is a question that you have that you want to ask of us now, we will—

Senator CARR—Clearly I have a number of questions, Mr Evans, a great many.

CHAIR—Well, please ask them, Senator.

Senator CARR—In fact, since the government is so anxious for us not to pursue these matters, it may well be that you have to go back into the chamber and get further time.

CHAIR—Senator, we are quite keen for you to pursue these matters.

Senator CARR—Let me just start with a proposition.

CHAIR—Order! All senators had a chance to ask questions. Senator Allison has, and she has had half an hour; now you have half an hour and the allocated time is one hour.

Senator CARR—That may well be a position that you will get to argue to the chamber.

CHAIR—We do not need to argue it, Senator; it is very straightforward.

Senator CARR—Can I ask you some questions I asked last week. When did you decide that the formula, the appropriation that you put to us in the state grants bill, was wrong?

Ms Andruska—We discovered that in October.

Senator CARR—In October.

Ms Andruska—On 15 August it is census day. The census data is collected. We then use that census data to make the final October payments of general recurrent grants to all schools and systems. It was at that time, when we were finalising those payments, because that was the first time we had the final 2000 figures, we thought it would be prudent to revisit the estimates we had provided, based on the latest available data we had. That was in October.

Senator CARR—Thank you. When was advice provided to the minister that the figures in the legislation were wrong? The state grants bill last year, which was not passed until 7 December: you discovered that they were wrong in October—when did you tell the minister?

Ms Andruska—I cannot recall when we told the minister, but the minister was not involved in the decision to—

Senator CARR—No, that is not my question. My question, Ms Andruska, is: when did the department tell the minister that the bill he had before the parliament was wrong?

Ms Andruska—I don't know the answer to that, but the decision was taken, given that the forward estimates were updated to reflect the information that we now had, that there was a framework before the parliament for covering the funding of non-government schools, the SES arrangements, establishment grants and so forth, that an amendment in terms of the fact that it had already passed the House, that an amendment early in this year would be the best way to take it forward.

Senator CARR—Can I put it to you that the parliament consists of two chambers. I know this is a shock to you and I am sure the last time I looked in—

CHAIR—Senator, could you just be civil in asking your questions.

Senator CARR—No, it just strikes me that if the government chose to introduce amendments and the bill was not passed until December, the government introduced amendments on the question of supplementation for strategic initiatives, why didn't the government introduce amendments on this matter when you knew the legislation was wrong?

Mr Evans—Senator, the amendments that were introduced by the government last year were to change the price basis for the legislation from 1999 prices to 2000 prices. Those amendments were made before the bill left the House.

Senator CARR—Sorry, Mr Evans, I have been a senator here just for a few years I know—and I may have a lot to learn—but I can tell you now I have seen the government introduce amendments to legislation in the Senate. I have seen those amendments considered by the House. Given that this bill bounced backwards and forwards several times, it is not

unreasonable for me to expect that if you found an error you would amend your own legislation. Would you agree?

Ms Andruska—In this particular instance—because, as you said, it was bouncing backwards and forwards and there was a keenness to see the bill passed—there was a decision taken that to have an amendment at that time may further delay the bill, a bill that contained some \$22 billion for government and non-government schools, where there was quite a lot of building pressure for the bill to be passed to give schools certainty about what the funding arrangements would be. We had adjusted the estimates at the earliest opportunity, so the forward estimates reflected the increased funding that would be required based on the information we had, which was that the estimates that were in the bill were wrong. The forward estimates were updated. The policy framework existed which described the funding arrangements for non-government schools, including establishment grants, and so the decision was taken that we would use the earliest opportunity in 2001 to put an amendment through which would then update and give us the authority to have that level of funding required to be able to fund both the 50 per cent payment early in the year and then later the October 50 per cent payment for establishment grants.

Senator CARR—Ms Andruska, what all that boils down to is that you knowingly had this parliament pass legislation that was wrong. In October you knew the figures in the bill were wrong but you made a decision—you, as the department made a decision—that the bill should proceed without amendment clearly, you say, because there was uncertainty. A political decision was taken because you thought it might delay the bill further. Is that the case?

Ms Andruska—A decision was taken to not put an amendment through.

Senator CARR—Did the minister make that decision?

Ms Andruska—No.

Senator CARR—Or did you, as the department, make that decision?

Ms Andruska—The department made the decision.

Senator CARR—So you are telling this committee that the department is making political judgments which go to the issue of a new bill requiring a 300 per cent increase in the appropriation. That is the proposition you are putting to me, isn't it?

Mr Evans—Senator, what we are saying is that the policy framework that was set in the legislation is unchanged by this amendment. The amount of the \$500 and the \$250 is not changed. What we are saying, Senator, is that it was the view of the department that the money appropriated in the act was sufficient to manage the program in the early part of 2001 and the department would make, at the earliest opportunity, attempts to come back before the parliament to increase the appropriation. That is what we have done, Senator.

Senator CARR—Sure. Now we have, in recent times, a discovery by this department that there was an oversight in terms of the forward estimates on the EBA. That was the position you put to this committee during estimates.

Mr Evans—Sorry, Senator, I am not sure—

Senator CARR—The position in terms of the forward estimates, the costing arrangements for the government's program announced in February—do you remember I asked you a question on that? You told me it was an oversight on why the EBA had been excluded from those calculations.

Mr Evans—No, Senator, I said to you at the February hearing that the amounts for the EBA would appear in the budget figuring and they did appear in the budget figuring.

Senator CARR—They did not appear in the position that was put out publicly in February because it was an oversight. If necessary I will pull up the relevant question. The word ‘oversight’ appears in the answer. Do you agree?

Mr Evans—I accept what you are saying, Senator.

Senator CARR—We have a clear acknowledgment by the department that in terms of the strategic assistance amounts the bill was wrong and that you had to apply supplementation. There was an error. Now we have a third error in regard to the proposition about the establishment grant figures—that was wrong—and that is three. That is not bad for any department—three errors. How many more are there? Have you got any more waiting for us to discover, or perhaps more bills for us to consider?

Mr Evans—Senator, what I would say here is that the department has been very open and comes to this Senate committee and to the parliament. If there was an issue then we have raised it and brought it back to the parliament. We are talking about an act, as you would be aware, Senator, that appropriates some \$22 billion.

Senator CARR—So a few hundred million here or there does not really matter?

Mr Evans—Senator, we are talking here of the order of possibly about \$10 million.

Senator CARR—Sure, or \$14 million actually, isn’t it, this proposition?

Mr Evans—I am looking at the difference, Senator.

Senator CARR—I see, the difference, the error, the error factor.

Mr Evans—No, the adjustment factor.

Senator CARR—I see, the adjustment factor. The EBA, the oversight factor—how many was that? It was 140 something, wasn’t it?

Mr Evans—It was always 140, Senator.

Senator CARR—The strategic initiative assistance: what was the error factor there?

Mr Evans—Much less, Senator.

Senator CARR—Much less, but the fact remains that we have got substantial sums of money and my calculation that it may well be hundreds of millions of dollars might not be too far from the truth.

Mr Evans—I would not agree with that, Senator.

Senator CARR—No, all right. Let me turn to the question of the way in which you have calculated these decisions. You told me at the estimates last week that the number of student enrolments had doubled between 1999 and 2000 and this led to the error in the calculation. Is that right—doubling?

Ms Andruska—The average in 1999 was 42 students per school, compared to an average of 92 students per school, but what we did in forming the estimates was not to look at the number of new schools, but to look at the number of enrolments in new schools, so the total amount of enrolments rather than numbers of new schools.

Senator CARR—Yes. In fact, you are expecting 70 new schools this year, are you not?

Ms Andruska—No, we are expecting 30—

Senator CARR—39 so far, but 70 for the full year 2001.

Ms Andruska—No, I think we have 19 so far.

Mr Evans—Senator, I think what you are seeing there is what we might term a pipeline effect. Because the establishment grant pays an amount to a school in year 1 and in year 2, the estimate of 70 is picking up the number of schools over a two-year period, not the number of schools started in any one year.

Senator CARR—So in 2001 you expect 70; in 2002, 70; in 2003, 37? Would that be right?

Ms Andruska—Yes, that is correct.

Senator CARR—Thank you. In 2004, 37?

Ms Andruska—That is correct.

Senator CARR—Thank you. If the number of students is doubled, that is a 100 per cent increase. Is that fair?

Ms Andruska—If you compare 42 to 92, it is a little bit—

Senator CARR—No. No, the number of students: it is now per capita. It is \$750 per child over two years, isn't it?

Ms Andruska—Yes. I think the figures that we have you before are that there were 1,692.4 census enrolments for 40 new schools in 1999.

Senator CARR—Yes, sure.

Ms Andruska—Compared to 3,399.4 census enrolments for the new schools in 2000.

Senator CARR—Okay. Thank you very much. Why, then, if you have a 100 per cent increase in the number of students, have you increased the funding by 330 per cent?

Ms Andruska—Because, in addition, there were a small number of schools established in 2000—I think we have been over this—having relatively large enrolment numbers, and we have based it on the fact that if this trend was to continue—and we have spoken with Senator Allison about those numbers in some of the new schools that opened in 2000—

Senator CARR—Yes. Yes, you have a couple of big ones—

Ms Andruska—Yes.

Senator CARR—but my projections and, as I understand it, the projection I have seen from you, do not add up to 330 per cent, do they?

Ms Andruska—The other element which Mr Evans read out in the opening speech was that there was the additional allowance which should have been made in the original estimates for the new, non-government, new non-systemic schools that lodged applications after—

Senator CARR—So there is an additional area there I have not fully understood? Is that what you are saying?

Ms Andruska—11 May 1990 and were approved for funding in 1999 and 2000—they were also eligible for establishment grants.

Senator CARR—So we have a 330 per cent increase in the first year, about 300 per cent in the second year, and that is basically how it works, isn't it, and then it drops back a bit?

Ms Andruska—Yes, 262 per cent, 128 per cent, 128 per cent.

Senator CARR—But it would be a mistake for me to try and find that in the number of students because there are other factors involved? Does that follow?

Ms Andruska—It is the number of students and the factors that I just spoke about.

Senator CARR—I see. So there are additional factors. It is not a per capita arrangement at all, then, is it?

Ms Andruska—It is a per capita arrangement.

Senator CARR—Well, if it was a per capita arrangement you would see a consistent trend, surely—the number of students multiplied by \$500 plus \$250 in the second year.

Ms Andruska—What I have just said is those new schools that were new schools after the May budget in 1999, plus those new schools in 2000, are also eligible for establishment grants. So, for the first year, not only will we have the new schools in 2001, but we also have the new schools in 2000 and in 1999, post the May budget. Mr Evans spoke about a pipeline effect. Obviously they will also get funding in 2001, and then it will drop back to just those schools that are new.

Senator CARR—I see. What we have, then, is a situation where we go from these very large increases, based on this annual increase—that is your estimate, isn't it? We have a one-year annual increase?

Ms Andruska—We based it on the year 2000 enrolments.

Senator CARR—Right. Then you go on to say that the number of students will drop back. What is the evidence for that?

Ms Andruska—No, not the number of students will drop back. What I am saying is that in 2001 and 2002 we are going to be making payments for new schools—

Senator CARR—Yes, I understood that. For 2003 the amount drops back.

Ms Andruska—but also new schools in 2000 and in 1999, after May. In the future, you will only have in any one year the number of new per capita payments for the number of new schools in any two-year period. What we have in 2001 and 2002 is 3½ years worth, or in 2001, 2½ years—

Senator CARR—So this is why in 2001 we get 5,600 students; 2002, 6,000 students; 2003, 2,600 students, and then in 2004, 4,500 students, but the figures in the bill do not suggest that pattern, do they?

Ms Andruska—I am not sure where those figures—

Senator CARR—Well, the figures are 330 per cent, just under 300 per cent, and downwards. That is clearly not consistent with the number of students that your projections suggest will appear in the schools.

Ms Andruska—I do not have in front of me what you are reading off, so I am not sure—

Senator CARR—Can you confirm that your projection is that in 2001 there will be 5,686 students; in 2002, 6,515 students; in 2003, 2,632 students and, in 2004, 4,300 students?

Ms Andruska—I do not have those figures.

Senator CARR—Are they right or wrong?

Ms Andruska—I do not know. I would have to take your figures and—

Mr Evans—Senator, we do not appear to have the figures that you are reading from. If we could get a copy of them, then we would come back to you and confirm whether the department believes—

Senator CARR—Yes, why don't you take those figures I have given you—take them on notice, because I am not in the habit of providing you with documents from what I understand

to be your own sources. But maybe that is another mistake—perhaps I have the wrong department or something. Can I perhaps ask you then: how did you work out the projections?

Ms Andruska—Just based on the 2000 figures.

Senator CARR—And they are, what, estimated guesses?

Ms Andruska—We have assumed that there will be an average of 92 students—

Senator CARR—Is there any suggestion that that is just a lumpy year, with a couple of big schools coming onstream? How do we know that that is typical of the rest of the quadrennium?

Ms Andruska—We do not know. We do not register new schools; the states do. Some states—the ACT, for example—have a two-year notification requirement. Some states would have some idea about the number of new schools coming on and the size that they would propose to be, but that information we would not have. We do not know until schools are actually operating.

Senator CARR—Yes, I have got the impression—I will put it to you this way. You have had a couple of big schools come onstream—it is pretty unusual: 847 students for a school. That is an establishment grant of \$635,250, isn't it, on your figures? That is what that school would get?

Mr Evans—It would be of that order, Senator.

Senator CARR—Yes. I have not seen it, by the way, in any of the figures you have presented to me, so I presume it is a bit of bad luck on their part to be established last year and not this year. Is that how it works?

Ms Andruska—No, they will—

Senator CARR—They do get the 287?

Ms Andruska—They will get that funding.

Senator CARR—They will?

Ms Andruska—Yes, they will.

Senator CARR—Well, that is quite a Christmas present for them, isn't it!

Ms Andruska—As I said to you before, that is why it is lumpy at the beginning, because it includes not only the new schools in 2001 but the new schools in 2002 and those established after May in 1999, because those schools in 2000 and in 1999 were funded based on their SES score.

Senator CARR—Yes. I see the point you are making. It just strikes me—and I will put it to you this way—that we have a small number of very large schools, atypical, in one year being used as the foundation year for the forward estimates, so it is a somewhat opportunistic device that is being used here. I only presume the minister is involved, because I would not expect Commonwealth public servants to be involved in this rather opportunistic device used in that particular year to justify what appears to be a massive expansion in the establishment grants of over 330 per cent.

Mr Evans—Senator, you use the point of a large number starting in one year as the basis of our projection. I cannot see any other way to come up with a realistic estimate of what might be the likely occurrence next year, other than to use the latest available information.

Senator CARR—That is my point. How do we know it is realistic?

Mr Evans—Senator, can I just go on to add that if it turns out that the estimate of 92 students that we are using as the basis for our projections for 2001 out to 2004 is on the high side, then simply there will be an underexpenditure against this particular item. We cannot transfer the moneys to another item to use in another way.

Senator CARR—I'm pleased to hear it!

Mr Evans—It is very clear that the guidelines provide for the payment of \$500 in year 1 and \$250 in year 2. It will just transpire that there will be an underspend.

Senator CARR—Yes.

Mr Evans—If it were to go the other way, Senator, we would have to come back and explain to you why the figure is more than 92.

Senator CARR—What strikes me, Mr Evans, is that you have used one year with atypical features to it as the methodological basis to ask this parliament for a 300 per cent increase in this particular spending line.

Mr Evans—Senator, we need that money. That money is necessary to pay schools that have an entitlement this year. That is the first instance. The figures for 2000 are the latest available figures and, as I said to you, Senator, I do not see any way other than to use those as the best estimate for the outyears.

Senator CARR—I put it to you that that methodology is flawed. As I say to you, I am not blaming the department here, although you are very quick to grab responsibility. I trust you will do that after the election when these issues come up again. I do think that the question of the minister's office does loom pretty large. You are telling me the minister's office had nothing to do with the presentation of these forward estimates—the decision arrived at to ask this parliament for a 330 per cent increase in funding?

Mr Evans—I will answer your question in two ways, Senator. Ms Andruska indicated that the department became aware that there was an underprovision for this particular item. It was then a requirement for us to put forward legislative bids for the sitting, and in preparing those bids they have to go through the minister's office. So in that sense it is brought to attention that the department needs to seek additional funds.

Senator CARR—So the minister's office was involved in the decision.

Mr Evans—They have to be in terms of any legislative bids.

Senator CARR—That is good. In terms of the decision though, to increase by this level, he has obviously ticked off on the legislation. Were any questions raised about the flawed nature of the methodology?

Ms Andruska—Not that I am aware of.

Mr Evans—Senator, we are saying that what is before you is the department's projection.

Senator CARR—Best guess would probably be more appropriate.

Mr Evans—Best projection of the requirements for establishment grants for 2001 to 2004.

Senator CARR—Okay. Well, as I say to you, it does strike me as a strange basis on which to base your forward projections on enrolments. Can I come to the issue of the accountability. Last week I said to you that the guidelines were so vague that essentially you could drive a horse and cart through them and claim it as recurrent grants, and that all you needed to do was to get an accountant—and we all know that they are impeccable in their integrity, given HIH

experience and given One.Tel. We all now acknowledge that accountants are above criticism when it comes to the question of audited accounts.

CHAIR—Do you have a questions, Senator? You are running over time.

Senator CARR—I am just putting a point to Mr Evans: I put the view to you that under these arrangements the guidelines were so broad that a school principal could kit himself out with a new suit and do it at the expense of the Commonwealth. You told me, did you not, that that is fair go, that is the way it works?

Mr Evans—Senator, I think you put it in the context that a principal could, as part of his salary package, go out and buy a suit. I put it to you, Senator, that would not be any different from what a government school principal could do.

Senator CARR—Except there are no establishment grants for government schools, are there?

Mr Evans—State governments may have establishment grants.

Senator CARR—Is there from the Commonwealth? Is there an establishment grant for a new government school from the Commonwealth?

Mr Evans—No, Senator.

Senator CARR—That is why I say it might be a bit discriminatory in its approach.

CHAIR—Mr Evans, I presume that is because state governments set up state schools.

Mr Evans—That is right; correct, Senator.

Senator CARR—But that is the case, though. It is a discriminatory arrangement, surely.

Mr Evans—No, Senator. You are just pointing out the fact that there is nothing from the Commonwealth but we are not saying what the state provides.

Senator CARR—Senator Allison went through a number of issues with you in terms of the recurrent arrangements and what defines a new school. One thing missing from that exchange was the simple proposition that there is no need to apply for establishment grants. That is the case, isn't it? It is automatic?

Ms Andruska—Yes, it is automatic.

Senator CARR—And you said to me that this was an issue of the funding needing to be used for recurrent purposes. Could I have a copy of the educational guidelines and the financial guidelines that cover the expenditure of this money. Do you have it with you?

Mr Evans—I do not have the accountability arrangements with me, Senator. I will get them to you.

Senator CARR—Thank you. I understand you have legal officers with you. That is right, isn't it? You have legal officers with the delegation today?

Mr Evans—There is an officer from the legal branch.

Senator CARR—Can I get a legal definition of recurrent costs?

Mr Evans—In providing that advice, Senator, we would need to look at the provisions of the states grants—

Senator CARR—I am sorry, I thought you had a legal officer here. I am sure he would be able to help me with this. What is the legal definition of recurrent costs?

Mr Evans—I can read it out for you, Senator, if you like.

Senator CARR—No. I want the legal officer's opinion. Mr Evans, you are very qualified, I know, in many things but I think the legal officer might be more qualified in matters to do with the law.

Mr Giffing—I am the principal government lawyer—

Senator CARR—There we go! It is remarkable the proximity to these matters. Truth is so close.

Mr Evans—Senator, I take offence!

Senator CARR—I think we understand one another, Mr Evans.

Mr Giffing—I do believe some of the officers in the schools division might have more detailed knowledge of where to find further provisions. The basic definition in the States Grants Act is 'expenditure relating to the ongoing operating costs of schools'.

Senator CARR—Quite open, isn't it?

Mr Giffing—I presume there is either a definition of operating costs or it is a term of art that is understood.

Senator CARR—Thank you very much. What you need is an accountant to stay that the money has been expended for the ongoing costs to the school. That is the fact, isn't it?

Mr Evans—Ongoing operating costs.

Senator CARR—It is a very broad term, is it not, Mr Evans?

Mr Evans—Senator, I believe could probably go back a number of quadrenniums and find that that is the same term that operated 12—

Senator CARR—You never had this sort of money being handed out to the non-government sector in such an indiscriminate way with guidelines so broad that essentially all you need is any accountant who is prepared to put his name on a bit of paper to say that it is in accordance with the guidelines—and there it is. Christmas comes via the Commonwealth.

Mr Evans—Senator, whilst operating grants were not a feature of the 1997-2000 quadrennium, operating grants for non-government schools had operated from about 1982 onwards.

Senator CARR—That is true, but they were allocated to the school. They were not allocated for \$750 per child. That is the case, is it not?

Mr Evans—I believe you are correct, Senator.

Senator CARR—And the figures involved were nothing like the sort of money that is being proposed here today.

Mr Evans—Then again, Senator, the amounts of money that are provided through this legislation are significantly increased overall for government and non-government schools.

Senator CARR—You are dead right there: \$14 billion for non-government schools is a lot of money. I agree.

CHAIR—Order! It being now 3 o'clock, this concludes the hearing. I thank the officers for appearing today.

Committee adjourned at 3.00 p.m.