

Chapter 4

The Abbott Government's cuts to education

4.1 This chapter will examine the Abbott Government's funding cuts to Australia's education system. It will first consider the government's proposed 2014-15 Budget (the budget) measures that would radically reshape the higher education sector into a US-style 'user pays' system. It will then look at the effects of cuts to the funding of schools and the vocational education and training (VET) sectors.

Higher Education

4.2 The committee heard evidence that changes made to Australia's tertiary education by the budget would have serious negative effects on the quality and accessibility of the higher education system.

4.3 The committee is particularly concerned about the following measures which will be discussed in turn:

- the cuts to direct government grants to universities through the Commonwealth Grant Scheme (CGS);
- the deregulation of university fees, which will drive up prices for students so universities can meet the shortfall of funding from lower CGS amounts;
- reduction of Commonwealth assistance for disadvantaged students; and
- proposed increases to the indexation of Higher Education Loan Program (HELP) loans, which will make fee repayments unaffordable for many, particularly given the larger fees universities are likely to charge following deregulation.

Cuts to the Commonwealth Grant Scheme

4.4 The budget contains measures that substantially reduce the funding for Australian universities, including a 20 per cent cut in the CGS.

4.5 The National Tertiary Education Union (NTEU) suggested that the proposed 20 per cent cut to the CGS will translate to a loss between \$41 million and \$209 million for individual tertiary institutions from 2016 to 2020, which equates to an average 5 per cent cut in total revenue for Australian universities, with many regional and outer metropolitan universities facing cuts of more than eight per cent.¹

4.6 Mr Paul Kniest, Policy and Research Coordinator, NTEU, emphasised these cuts will affect every Australian tertiary student, particularly those attending regional universities:

Clearly, it is going to be a massive cut. Once the full effects of those cuts flow through, once all the students enrolled are affected by the cuts—there

1 National Tertiary Education Union research, cited in Senate Education and Employment Legislation Committee, *Report on the Higher Education and Research Reform Amendment Bill 2014 [Provisions]* (October 2014), p. 76.

is going to be a phasing-in period—I think it is going to be over \$2 billion in total. The point about the cuts is that it varies quite considerably between different universities. Universities that are far more reliant on Commonwealth grants, which tend to be the regionals and outer metropolitans, are going to be hit far harder than [those from metropolitan areas].²

4.7 Ms Jessica Dean, President, Australian Medical Students Association (AMSA), told the committee that lower funding for certain programs would lead to skills gaps in professions like medicine:

...the 20 per cent cut in base funding is devastating to the medical students of Australia. Medical deans in the base funding review showed that medical education was already underfunded by more than \$20,000 per student per year. The amount that the government contributes to medical education is lower than other OECD countries. Simply, if we want to produce quality doctors in Australia then we need adequate funding.³

Deregulation of university fees

4.8 Currently, the government sets a cap on how much universities are able to charge for tuition fees. The government has proposed deregulating the higher education sector by lifting this cap and allowing universities and other education providers to set their own fees.

4.9 Some universities have already indicated that this will result in a substantial increase of fees,⁴ especially to cover the shortfall in CGS funding outlined above. As Mr Kniest, NTEU, outlined to the committee:

The government's 20 per cent cut to funding per student means that, on average, universities will have to increase fees by about 30 per cent just to maintain their existing level of funding. In some cases, fee increases are likely to be well in excess of that 30 per cent. We have absolutely no doubt that the cost of some degrees at some universities will exceed \$100,000 if the fees are deregulated.⁵

4.10 This view was supported by Ms Deanna Taylor, National President, National Union of Students (NUS), who said:

I have heard it said, both by the minister himself and by representatives of private providers, that fees could come down. I see no evidence to suggest that any public or private provider is going to reduce their fees on the basis that in 2004, when fees were partially deregulated, basically every single

2 *Committee Hansard*, 16 October 2014, p. 21.

3 *Committee Hansard*, 16 October 2014, p. 50.

4 The University of Western Australia confirmed it will charge \$48,000 for a three year undergraduate degree which is up to triple the current fee. See Senator the Hon Kim Carr, 'Major university confirms \$100,000 degrees on the way', Media release, 23 September 2014.

5 *Committee Hansard*, 16 October 2014, p. 18.

provider and every single university raised their fees to the maximum cap, and that is where they all currently sit.⁶

4.11 Mr Angelo Gavrielatos, Federal President, Australian Education Union (AEU), stated that higher university fees would lead to lower participation rates for disadvantaged and debt-averse groups:

When you cut university budgets by 20 per cent and you uncap fees for one reason and one reason only, and that is to make up for cuts of 20 per cent to the budget, there is plenty of modelling and there are plenty of statements made by vice-chancellors across the country which indicate that fees will go up and in some cases dramatically. Once you increase fees dramatically, it has impacts on access. There are community groups that are debt averse and they will therefore not enrol in universities.⁷

4.12 Mr Kniest, NTEU, highlighted that higher fees would mean less enrolments from certain groups, including women, people from low-socioeconomic (SES) backgrounds, and Aboriginal and Torres Strait Islander Australians:

So the analysis shows that the government's decision to deregulate university fees and the associated debt will impact heavily on all students but, as other modelling has indicated, will impact more severely on women and low-income earners....The other group of people who are going to be severely affected by this are people from low-SES backgrounds, including Aborigines and Torres Strait Islanders.⁸

4.13 Mr Stephen Higgs, Headmaster, Ballarat Grammar, noted that fee increases would deter students from regional areas studying at major universities, which tended to be located in large cities:

Given the accommodation costs involved for country families and their lower financial capacity, the deregulation of fees will shut many students from regional areas out of our major universities.⁹

Reducing assistance to disadvantaged students

4.14 Mr Kniest, NTEU, told the committee that the government's cuts to programs assisting disadvantaged individuals to undertake tertiary study was inherently unfair and would lead to poorer outcomes:

The budget proposes over \$800 million in cuts to equity funding, including a \$509 million cut to Student Start-Up Scholarships and a \$209 million cut to Relocation Scholarships. Those scholarships will be replaced by a new Commonwealth scholarship scheme. In addition to the fact that the new scholarships will be funded directly from increased student fees—students will be paying for the new scholarships through higher fees—we have done some analysis and we have information that shows that the design of that

6 *Committee Hansard*, 16 October 2014, p. 51.

7 *Committee Hansard*, 16 October 2014, p. 33.

8 *Committee Hansard*, 16 October 2014, p. 18.

9 *Committee Hansard*, 16 October 2014, p. 38.

system means that universities with the highest number of disadvantaged students will actually be worse off.¹⁰

4.15 Mr Kunal Luthra, Vice President External, AMSA, stated that, should assistance to disadvantaged individuals were not available, then many would not go to university, as they would be reluctant to take on large debts for their studies. He particularly drew attention to individuals from families where studying at university was not the norm:

We think that, with the higher education reforms, if there is a \$250,000 debt facing you and no-one in your family has ever been to university before, that will be a deterrent.¹¹

4.16 Mr Kniest, NTEU, highlighted particular concerns with cuts to programs for Indigenous students:

The other issue that we want to make a point of is that the budget includes over \$500 million of cuts to Aboriginal and Torres Strait Islander funding which covers equity measures such as education, health and legal services. One of the issues that impacts directly on universities, and Aboriginal and Torres Strait Islanders studying at universities, is that the government appears to have decided that it is going to change the way that it administers the Indigenous Tutorial Assistance Scheme for Tertiary Tuition. This is funding that universities get to provide assistance to Aboriginal and Torres Strait Islander students who are struggling to get through.¹²

4.17 The government has proposed a new Commonwealth scholarship program to support the intake of disadvantaged students to universities. However, Mr Higgs, Ballarat Grammar, told the committee not enough was known about these new scholarships, and so his students were uncertain about their future prospects for support:

There is so little known about these Commonwealth scholarships that it is hard to place any confidence in the extent to which they will support our students.¹³

Lowering repayment thresholds and increasing HELP debt indexation

4.18 The committee heard how the larger fees universities will charge following deregulation will be compounded by changes to the HELP debt repayment arrangements, which will make it more difficult for graduates to pay off loans accrued over the course of their higher education.

4.19 HELP loans are indexed to the Consumer Price Index (CPI), which is currently 2.3 per cent. This means that HELP loans only increase in line with inflation – and not in real terms, no matter how long a graduate takes to pay it off.¹⁴

10 *Committee Hansard*, 16 October 2014, p. 17.

11 *Committee Hansard*, 16 October 2014, p. 52.

12 *Committee Hansard*, 16 October 2014, p. 18.

13 *Committee Hansard*, 16 October 2014, p. 40.

4.20 The budget proposed to index HELP loans with the government bond rate, currently 3.55 per cent. Moreover, the budget further proposed that from 2016–7, graduates will start to repay HELP loans when their annual earnings exceed \$50 638 – rather than the current threshold of \$53 345.¹⁵

4.21 Ms Jenny Lambert, Director, Employment, Education and Training, Australian Chamber of Commerce and Industry (ACCI), informed the committee the government should reconsider lifting the interest rate on HELP loans, as higher rates would particularly hurt graduates with lower salaries:

The really important thing is it can only be up to a certain amount of their salary that they have to pay off the debt, so therefore those that are on low salaries for a long period of time will only have to pay a certain amount, according to their income...That is why the interest rate, for those low-income earners, is so critical, because, if they are taking a long time to pay off the debt, then clearly the interest rate is an issue for them.¹⁶

4.22 Some witnesses noted the increased cost of repaying HELP loans would particularly affect women, as they are more likely to work in occupations with low incomes, such as nursing and teaching, and often take breaks in their career to raise children.¹⁷ Mr Gavrielatos, AEU, spoke of the effects this would have on many female teachers:

The increased debt rate and the increased interest charged could serve as both a disincentive to going into teaching and it could also discourage people from staying in teaching, given that a teacher's earning capacity is not that of other professions and given that conservative state governments across the country are basically shutting down industrial tribunals and putting a cap on any salary movements for teachers.

On top of that is the added negative impact for gendered professions like teaching where women will be impacted because of breaks in service, and therefore there will be compounding effects of interest rates and, more importantly, an even longer period to repay this debt.¹⁸

Vocational Education and Training

4.23 The Parliamentary Library noted that despite the announcement of two new initiatives (discussed below):

...the cost of these measures (\$915.0 million) is more than offset by the cessation of a wide range of programs, resulting in total spending under the

14 *Budget 2014-15: Budget Paper No. 2: Expense Measures*, p. 77.

15 *Budget 2014-15: Budget Paper No. 2: Expense Measures*, p. 77.

16 *Committee Hansard*, 16 October 2014, p. 67.

17 Ms Deanna Taylor, National President, National Union of Students, *Committee Hansard*, 16 October 2014, p. 49; Ms Jenny Lambert, ACCI, *Committee Hansard*, 16 October 2014, p. 66; Mr Paul Kniest, NTEU, *Committee Hansard*, 16 October 2014, p. 17.

18 *Committee Hansard*, 16 October 2014, p. 33.

Building Skills and Capability Programme being reduced by more than 20 per cent, from \$2.8 billion in 2013–14 to \$2.3 billion for 2014–15.¹⁹

4.24 The government claims it has replaced many cuts to VET programs by bolstering the Trade Support Loans initiative.²⁰ However, Mr Lance McCallum, National Policy Officer, Electrical Trades Union of Australia, told the committee Trade Support Loans would not help many apprentices, but would actually place a financial burden upon them at the beginning of their careers:

The government, through its new budget initiative of the Trade Support Loans program, has replaced [the Tools for your Trade] grant with a \$20,000 HECS-style loan for apprentices. We are utterly and fundamentally opposed to the principle of replacing a grant with a loan. We believe it is fundamentally unfair and inequitable policy to place a significant \$20,000 government debt burden on apprentices whose pay is, or could be, well below the minimum wage; it is unreasonable to expect that struggling apprentices could repay a \$20,000 loan and still meet living expenses.²¹

4.25 Other witnesses commented that the government's cuts to VET programs are inconsistent with making benefits such as Newstart contingent upon undertaking 'earning or learning'.²² Mr Dave Oliver, Secretary, Australian Council of Trade Unions (ACTU), explained to the committee that:

At the same time as the government announces an earn-or-learn policy, the budget cuts are to the very programs that support the capacity of people to do just that.²³

4.26 Mr Gavrielatos, AEU, also highlighted that this inconsistency was noted in a paper from the Parliamentary Library:

The cutback in training provision and, in particular, the cessation of programs supporting disadvantaged job seekers to enhance their employment prospects, appears to be at odds with other budget initiatives for young people to 'earn or learn'.²⁴

4.27 Some witnesses were concerned that further deregulation of the VET sector could encourage unscrupulous providers to exploit the government's requirements for

19 Carol Ey, 'Support for skills training' in *Budget Review 2014–15* (May 2014), available at www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview201415 (accessed 20 November 2014).

20 Trade Support Loans are paid in instalments totalling up to \$20,000 over four years. See www.australianapprenticeships.gov.au/trade-support-loans (accessed 1 December 2014)

21 *Committee Hansard*, 16 October 2014, p. 60.

22 ACTU, *Submission 18*, pp 26-27; Ms Sobski, WAVE, *Committee Hansard*, 16 October 2014, p. 27; Mr Gavrielatos, AEU, *Committee Hansard*, 16 October 2014, p. 31.

23 *Committee Hansard*, 16 October 2014, p. 59.

24 *Committee Hansard*, 16 October 2014, p. 31. The Parliamentary Library paper referred to is Ms Carol Ey, 'Support for Skills training' in *Budget review 2014-15* (May 2014).

Newstart recipients to 'earn or learn'. For instance, Mr Kniest, NTEU, told the committee:

...I want to make particular mention of the proposed changes to the Newstart arrangements, where people under 30 will have to wait six months before receiving Newstart. Evidence from the US and the UK indicates that, under those sorts of circumstances, where private for-profit providers have access to public subsidies, they may actually target unemployed youth in that six-month gap, because, if students want to get access to income support through youth allowance or Austudy, they would need to be enrolled in an educational institution. We know that in the UK they are called 'cashpoint colleges', and the massive expansion of student debt and very low completion rates for the most disadvantaged students in the US have been a function of these private for-profit colleges trying to enrol students so that students can get access to Pell Grants, as they are called in the US.²⁵

4.28 Mr Oliver, ACTU, also expressed concern that government policies on Newstart eligibility may lead to a:

...proliferation of what can only be described as mickey mouse providers setting themselves up, enlisting people and using taxpayers' money to run their mickey mouse courses where there is nothing at the end of them. So putting in a requirement that people have to go off and learn could see a further explosion in this area, where you will be sending people down a dead end street at much expense to the taxpayer.²⁶

School Funding

4.29 The budget identified \$80.0 billion in savings in school education and hospital expenditure by 2024-25 and it appears that about a third of these savings will be the result of the proposed changes to the indexation arrangements for school funding with about \$6.0 billion less in Australian Government funding for schools in 2024-25.²⁷

4.30 Mr Gavrielatos, AEU, told the committee that the budget will cut \$30 billion from schools funding over the next ten years.²⁸ The cuts will come from both direct expenditure on funding to schools, as well as by reducing the indexation on future payments to schools under the Gonski model.²⁹

25 *Committee Hansard*, 16 October 2014, p. 18.

26 *Committee Hansard*, 16 October 2014, p. 61-62.

27 Australian Government, *Budget 2014-15: overview*, p. 7.

28 *Committee Hansard*, 16 October 2014, p. 31.

29 *Budget 2014-15: Budget Paper No. 2: Expense Measures*, p. 91; 'Christopher Pyne says budget concerns 'entirely a matter for the States'', 7.30 transcript 15 May 2014, available at www.abc.net.au/7.30/content/2014/s4004718.htm (accessed 18 November 2014).

4.31 Dr John Falzon, Chief Executive Officer, St Vincent de Paul Society, told the committee he was dismayed by the severity and unfairness of the Abbott Government's cuts to school funding:

We are dealing with a complete abandonment of the principles that underpin the Gonski reforms, which are all about providing a needs based formula for funding so that disadvantaged Australians do not miss out on high-quality education. But also there is the promise of sustained funding into the future. These are areas of enormous concern for us. The St Vincent de Paul Society believes deeply in education as a means of addressing inequality. It would indeed be a great tragedy if inequality were to be ramped up as a result of those kinds of funding cuts.³⁰

4.32 Mr Gavrielatos, AEU, told the committee these cuts would jeopardise the education of many students who come from disadvantaged backgrounds:

...by refusing to commit to the two-thirds of the funding that is in the last two years of [the Gonski] reforms, this government is turning its back on its most disadvantaged students and needier students. As a result of that, up to 20 per cent of schools will not reach the minimum resource standard considered necessary to give every child that opportunity to succeed.³¹

4.33 Mr Gavrielatos made it clear the cuts would widen achievement gaps suffered by disadvantaged, Indigenous and rural groups:

...when I talk about a minimum resource standard I am not talking about swimming pools and tennis courts; I am talking about a minimum resource standard considered necessary for schools to implement the programs that will give kids from disadvantaged backgrounds the opportunities to reach their full potential and in doing so close some of the achievement gaps. The achievement gaps of two or three years between advantaged and disadvantaged students is certainly not a source of pride, or two or three years between Indigenous and non-Indigenous students. And the same can be said for students in urban settings compared with rural settings.³²

Committee view

4.34 The committee believes the budget cuts to schools, VET and higher education sectors to be a clear breach of the Abbott Government's pre-election commitment that they would make 'no cuts to education'.³³

Recommendation 5

4.35 The committee recommends the government keep the promise made to the Australian public not to cut education funding.

30 *Committee Hansard*, 16 October 2014, p. 46.

31 *Committee Hansard*, 16 October 2014, p. 32.

32 *Committee Hansard*, 16 October 2014, p. 32.

33 ABC online, 'Tony Abbott promises no cuts to education, health and other areas on the eve of the 2013 federal election' available at www.abc.net.au/news/2014-05-07/abbott-promises-no-cuts-to-education-health/5436224 (accessed 19 November 2014).

Higher education

4.36 The committee is concerned that the government's proposed measures in the area of higher education will lead to a less fair and less accessible higher education system: the 20 per cent average cut in the CGS; the deregulation of university fees; lowering the repayment thresholds and increasing interest rates for HELP loans. These measures must be rejected as they are an affront to the Australian belief of a fair go.

4.37 The deregulation of Australia's universities heralds a US-style user pays model, where \$100,000 degrees will become reality and further education will only be undertaken by the wealthy or by those willing, or able to, take on crippling levels of debt.

4.38 Deregulating fees will drive up the costs of a degree, which would be compounded by the raising of interest rates on government HELP loans for students. These factors would raise the cost of undertaking study to a level that will deter many Australians, particularly those from low-SES or disadvantaged backgrounds, from undertaking further education.

4.39 The government has proposed a new Commonwealth Scholarship Scheme to support the intake of disadvantaged students to universities and improve the equity of the measures. However, the committee was told that not enough was known about these scholarships. In the committee's view these scholarships would seem to confirm the unfairness of the package.³⁴

4.40 The committee notes that on 1 December 2014 the government agreed to retain the consumer price index as the interest rate on the Higher Education Contribution Scheme (HECS).³⁵ The government also agreed to introduce a five-year interest rate pause on education loans for new parents. Further, the government also indicated that other proposals are under consideration, including:

- a targeted university transition fund;
- fee price monitoring by the Australian Consumer and Competition Commission;
- targeting scholarships towards rural and regional students; and

34 For further detail on the relevant legislation please see the Labor senators' dissenting report for the Higher Education and Research Reform Amendment Bill 2014, Senate Education and Employment Legislation Committee, tabled 28 October 2014, pp 67- 101. See also the Australian Greens dissenting report, pp 103-109.

35 HECS was the higher education loans program until 2005, when it was replaced by the HELP program – though many people still use the older terminology to refer to the current scheme. See Dr Coral Dow and Carol Ey, 'Higher Education Loan Program (HELP): a quick guide' at www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1415/Quick_Guides/HELP (accessed 4 December 2014).

- an information campaign for students and potential students on how the system works and the value they get from going to university.³⁶

4.41 While these changes would be a start, the committee believes they do not go far enough and this was recognised by the Senate when the legislation was voted down on 2 December 2014. The committee notes the government's changes do not indicate recognition of the fundamental unfairness of these measures but an acknowledgement of the political reality of getting enough votes to pass the legislation.

Recommendation 6

4.42 The committee recommends the government abandons plans to deregulate fees in the higher education sector.

Recommendation 7

4.43 The committee recommends the government maintain HELP debt repayment arrangements and assistance for disadvantaged and low SES groups.

VET

4.44 The government's budget cuts will jeopardise the future of many young Australians who want to undertake vocational education or training. The committee believes that replacing a grant with a loan under the Trade Support Loans will place a financial burden on them at the start of their career.

4.45 The committee would also like to record its concern that unscrupulous providers may exploit the 'earn of learn' requirements for Newstart recipients.

Recommendation 8

4.46 The committee recommends the government restore funding cuts in the 2014-15 Budget to the VET sector.

Schools

4.47 It is clear to the committee that the proposed changes to school funding will jeopardise the future of all young Australians. The Gonski review stressed the need for an equitable school funding system: one that ensures differences in educational outcomes are not the result of differences in wealth, income, power or possessions.

4.48 The Labor government was able to use consensus among stakeholders to implement a national needs based funding model based on the findings of the Gonski review. Despite promises of a 'unity ticket' on education policy, the Abbott government is unravelling Gonski funding arrangements. Although funding for the first four years will remain as set out under the *Australian Education Act 2013*, after 2017 funding will be indexed to just the CPI. By the government's own projections this will result in a \$30 billion cut to the education sector over the medium term. Such

36 The Hon Christopher Pyne, Minister for Education, 'Government accepts crossbench amendments to higher education reforms', Media release, 1 December 2014; see also the *Mid-Year Financial and Economic Outlook* (MYEFO) (December 2014).

significant cuts jeopardise the widespread improvements in student outcomes that were to be achieved from a strategically funded needs based model.

4.49 The committee believes the government should be ensuring disadvantaged Australians do not miss out on high-quality education and that funding is sustained into the future.³⁷

Recommendation 9

4.50 The committee recommends the government restore the funding cuts to school funding

Conclusion

4.51 There are many measures contained in this government's harsh and cruel budget which will be reviewed during the life of this committee. This first interim report has focused on the effects of the budget on young people: those needing support to stay in school, undertake training or find employment. It also examined the effect of the cuts to education and training organisations and specifically investigated the likely outcomes from budget cuts to just two organisations assisting the disadvantaged and young people who have disengaged or are at risk of disengagement from education, training, employment and the community.

4.52 The committee is particularly concerned that these budget measures target the most vulnerable in the community and the assistance they need. Young people who are disadvantaged and lack the support of their family will be at risk of poverty and homelessness. The measures proposed show a profound lack of understanding of the circumstances faced by the most vulnerable in the community, as well as a lack of empathy and willingness to support them.

4.53 The community recognised and rejected the inherent unfairness in the government's budget when it was released. Despite recent indications that the government may be willing to back down on some aspects of the most unpopular budget measures, such as the GP co-payment or some of the higher education measures, the committee is mindful that this is not a change of heart but merely recognition of a political reality that they will not get these harsh measures through the Senate.

4.54 Furthermore, for all the rhetoric about fixing the budget and Australia being open for business, the OECD has recently cautioned the Australian economy is at risk due to the budget cuts being made too fast and too deep, given economic uncertainties.³⁸

4.55 The committee emphasises that even when looked at in purely economic terms, these measures make no economic sense. The inquiry has revealed these

37 For further information please see the report of the Senate Select Committee into School Funding, tabled 9 July 2014.

38 OECD, *Australia - Economic forecast summary (November 2014)* at www.oecd.org/eco/outlook/australia-economic-forecast-summary.htm (accessed 26 November 2014).

measures will cost the government more over the longer term as vulnerable people lose support and further disengage from education, training and employment, turning to risky and criminal behaviour to make ends meet.

4.56 The committee will continue to examine other measures of concern in the budget to draw attention to its inherent unfairness and its likely effects on the most vulnerable in the community.

Senator Richard Di Natale

Chair