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Universities Australia Submission to Senate Committee Inquiry into Higher Education and Research Reform Amendment Bill 2014

September 2014



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Executive Summary

On 4 September 2014, the Senate referred *the Higher Education and Research Reform Amendment Bill 2014* to the Senate Education and Employment Legislation Committee for inquiry and report. Universities Australia encourages the Senate to pass the Bill with amendments to secure a high quality Australian higher education system that is financially sustainable, accessible and affordable for both students and taxpayers.

The Bill represents the most substantial change to Australia's higher education system in more than thirty years.

The Senate is uniquely placed to craft and shape Australia's higher education policy and, in doing so, create a legacy to be proud of. This cannot be achieved by opposing the Bill outright.

Underpinning every successful developed nation is a high quality, adequately resourced higher education system. Through teaching, scholarship and research, our universities are a critical part of the nation's infrastructure for supporting and driving the knowledge economy to come.

Continuing with present arrangements will see universities struggle to meet the quality and performance expectations of students and employers, constraining Australia's productivity growth. It will lead to an inevitable erosion in our national research and innovation capability and on-going threats of further funding reductions as government funding priorities change. In addition, as Australian universities already derive over 16 per cent of their revenue from international students, it risks over-exposing the sector to the highly competitive and volatile international education market.

While Australia has an acknowledged world class university system, it is at a crossroads. Public investment is inadequate and, despite strong public support for universities, per student funding has been declining over time. Up until now there has been very little ability for universities to recoup losses from government funding reductions through other means.

With public budgets under constant pressure it is difficult to foresee a time when Australian governments will fund universities at the level needed to maintain quality and as recommended by successive government inquiries.

The Higher Education and Research Reform Amendment (HERRA) Bill presents an opportunity for universities to build more predictable and sustainable business models that are less vulnerable to government funding instability and frequently changing policy and budget priorities.

However, changes to the package are required to assure affordability for both students and taxpayers. Most critically, Universities Australia is calling for improvements in three key areas:

- Moderating the proposed 20 per cent reduction in the Government contribution to tuition fees, so as to reduce the upward price pressure on fees;
- Maintaining the CPI interest rate on HELP loans for graduates; and
- An adjustment package to assist students, universities and communities with the transition to a fee deregulated market-based system.

In the absence of any suggestion of increased public investment, discarding the proposals in their entirety would condemn the higher education sector to inevitable decline – in quality, performance, competitiveness and reputation.

Introduction

Australia's university system is diverse, competitive and recognised internationally as delivering high quality education and research. Our university system is a crucial part of the nation's infrastructure, supporting and driving the knowledge economy.

However, the existing university funding model is not sustainable and a new approach is needed. Australia's universities are some of the most efficient in the world but are finding it increasingly difficult to maintain the standards of teaching and research expected by students and the public in the context of:

- declining public investment in teaching and research;
- on-going policy instability; and
- restrictive access to alternative revenue streams.

Universities Australia has long made the case for increased public investment in universities and research as priorities for public investment. According to UA research, 91 per cent of the population consider that a well-funded university system is critical to Australia's economy and national growth¹. Similarly, the Universities Australia's "Keep it Clever" campaign, launched on 2 April this year has enjoyed strong public support. To date, 1.1 million unique viewers have watched the digital "Keep it Clever" film, almost 10,000 people have signed a support petition and over 6,000 people sent emails to their Members of Parliament expressing their support for increasing the level of public investment. The web page showcasing university research has received more than 5 million views.

Despite this widespread and strong support for universities and the critical role they play in driving national productivity and prosperity, governments have not committed the level of resources that independent reports have repeatedly indicated are required.

The introduction by the previous government of the demand driven system was an historic achievement in expanding opportunity and meeting future labour market needs. But when demand for places exceeded budgeted forecasts it sought to reduce higher education budget outlays for student support, research programmes and per student funding by around \$3.5 billion.²

The Government's proposals, with modifications proposed by Universities Australia, represent for the first time in recent years, the opportunity for universities to reconfigure and evolve programme structure and delivery, operational arrangements and financial models that insure against increasingly unpredictable and haphazard higher education policy approaches.

In combination the amendments will mitigate the risk that the proposed changes will deter those wishing to receive a world class university education from doing so.

¹ Link: [Public Perceptions of Australia's Universities](#) (p2).

² The Government subsequently decided not to proceed with the \$2,000 cap on tax deductible self-education expenses (estimated at \$514 million over the forward estimates). Of the \$ 2.96 billion the previous Government sought to save over the forward estimates, \$2.15 billion are yet to be legislated, which includes \$692.5 million for the efficiency dividend, \$278.4 million for the removal of HECS-HELP Discount and Voluntary HELP repayment bonus and \$1.18 billion for the conversion of student start-up scholarships to income contingent loans.

Context and Background

In 2013, more than 311,000 students completed a degree at an Australian university: of those 207,000 were domestic and 105,000 were international students.

Australia's universities are major, productive institutions. They:

- teach 1.3 million students – over 985,000 domestic and 328,000 international students;
- employ 115,000 staff;
- spend more than \$23 billion per year;
- pay \$10.3 billion in wages;
- pay around \$2.96 billion in income and payroll tax;
- underpin the nation's research capability; and
- account for most of the \$15 billion annual income generated from Australia's education export industry – our third largest export and largest non-resources export earner.

Our university graduates supply the labour force with skills, knowledge and productive capability, and contribute to the economic, cultural, intellectual and social fabric of the nation, both now and into the future.

University graduates are worth \$188 billion a year to the economy. Although they comprise only 15 per cent of the population, they contribute approximately one third of the income tax collected³.

Global competition for skills and innovation is escalating and our ageing population is placing an ever greater demand on the working population to generate the wealth needed to support the living standards of all Australians. Our nation's well-being is the product of a strong, high-performing higher education and research system. Put another way and as stated in the Review of Higher Education in 2008 (the Bradley Report),

*“there is an international consensus that the reach, quality and performance of a nation's higher education system will be key determinants of its economic and social progress”*⁴

Despite strong public support for universities and research, and the recommendation by the Bradley Review of the need to increase per student (or 'base') funding by 10 per cent, successive governments have reduced recurrent funding to the point where Australia sits close to the bottom of the OECD ladder for public investment in tertiary education as a percentage of GDP⁵. While university enrolments have tripled over the past 30 years in response to policies aimed at increasing participation, public funding per student declined in real terms by 16.7 per cent between 1994 and 2012.

This is not sustainable.

Fee de-regulation is the logical next step in the evolution in higher education driven by the policies of successive governments that have viewed higher education as more of a drag on the budget than a wise investment in Australia's human capital.

³ Universities Australia estimates.

⁴ Review of Higher Education in 2008 (the Bradley Review), Final Report, page xi.

⁵ OECD 2014, Education at a Glance, p. 232.

It is crucial, however, that higher education reforms do not lead to adverse impacts for the broader community and economy.

University graduates are crucial to meeting labour market needs both now, and into the future.

Graduate numbers have increased significantly over recent decades in response to the growth in employer and community demand for advanced skills and qualifications in order to maintain and enhance business competitiveness.

Optimising the skills and productivity of our workforce, the income and revenue generating capacity of individuals, and the rate of participation in higher education will determine Australia's success in coping with future economic challenges.

In 2012, the (then) Australian Workforce and Productivity Agency (AWPA) discussion paper, *Future Focus: Australia's skills and workforce development needs* identified that, without increased government investment in tertiary education, significant shortages in highly skilled workers would emerge. The report projected that by 2025, the demand for higher skilled occupations is likely to grow at around 1.6 times the rate of lower skilled jobs⁶.

Similarly, a recent report by Boston Consulting Group on workforce supply-and-demand in 25 major economies (including the G20), noted "alarming", trends, and projected significant worldwide labour-force imbalances (mainly shortfalls) by 2020-30⁷. For Australia, the report concluded that if GDP growth is maintained above 3 per cent, we are likely to experience a severe labour shortage by 2030. Growth rates are expected to exceed 3 per cent. In July 2014, the Secretary of the Australian Treasury, Dr Martin Parkinson, suggested Australia's nominal GDP growth would be 3 per cent for 2014-15 and 4.75 per cent in 2015-16. He further noted that this would be below the average growth rate for the past 20 years.⁸

The evidence to support university graduates contributing disproportionately to the well-being of the nation is overwhelming:

- The employment rate for tertiary educated people in OECD countries is 86 per cent compared with 52 per cent for those failing to complete secondary school).⁹
- University graduates typically pay between \$300,000 and \$540,000 more in taxes over their lifetime. With funding per student typically costing Government on average around \$40,000 to \$45,000 per university degree,¹⁰ the increased taxes from university graduates are about eight-fold higher than the upfront amount invested.

⁶ AWPA, 2013, *Future Focus: 2013 National Workforce Development Strategy*, p.16 and Appendix 6.

⁷

https://www.bcgperspectives.com/content/articles/management_two_speed_economy_public_sector_global_workforce_crisis/#chapter1 (Boston Consulting Group 2 July 2014).

⁸ Challenges and opportunities for Australia over the next decade" Speech by Dr Martin Parkinson to the Association for mining and Exploration companies (AMEC) 2 July 2014, page 4.

<http://www.treasury.gov.au/PublicationsAndMedia/Speeches/2014/Challenges-and-opportunities-for-Australia-over-the-next-decade>

⁹ OECD 2014, *Education at a Glance*, p.114.

¹⁰ Universities Australian estimates.

- Australian graduates contribute to the national research effort, the global stock of knowledge, and meet the public need, not just for highly paid professionals but for many of those on more modest incomes such as nurses and teachers.
- Modelling undertaken by the (then) Australian Workforce and Productivity Agency found that each extra \$1 invested in tertiary education resulted in substantial growth in the economy and increases in government revenue of between \$3 and \$12.¹¹

In considering the package being proposed by the Government, Senators need to satisfy themselves that the substantial merits of de-regulation should not be overwhelmed by barriers such as affordability. This can be achieved by key amendments proposed by Universities Australia.

Development of the Australian Higher Education sector

The Unified National System (the Dawkins Reforms) of the late 1980s transformed Australian higher education. The distinction between universities and colleges of advanced education was abolished. Through campus mergers, 63 institutions became 36. A funding model for Commonwealth contributions, based on arbitrary perceptions of the relative cost of courses, came into effect and the Higher Education Contribution Scheme (HECS) was introduced.

By the early 2000s the contribution by students to their tuition was greater than before the mid-1970s when the Commonwealth commenced subsidising students directly.

In the 15 years following the Dawkins Reforms, periods of declining Commonwealth allocations were punctuated by bursts of new funding, often tied to specific developments and programs unconnected to base funding. The two most notable shifts in funding policy over the period were:

- a partial deregulation of fees in 2005, such that universities were able to increase student contributions by “up to 25 per cent”; and
- the introduction by the Coalition Government of domestic full-fee paying undergraduate places that allowed universities to enrol additional students above their Government-mandated load.

The latter policy was abolished by the incoming Labor Government in 2008. This Government promptly commissioned an extensive Review of Higher Education (the Bradley Review). The Review’s report highlighted the threat posed to higher education quality by inadequate funding and investment. It found:

*There are now clear signs that the quality of the educational experience is declining; the established mechanisms for assuring quality nationally need updating; and student-to-staff ratios are unacceptably high.*¹²

The Review’s Recommendations were intended to be implemented as a package. A national regulator was established, participation and equity targets were set, the demand-driven system was introduced and some additional funding was made available to support increased access and equity.

¹¹ AWP 2013 *Future Focus, National Workforce Development Strategy*, page 16 and Appendix 6.

¹² Review of Higher Education in 2008 (the Bradley Review), page xii.

However, despite the recommendation for an increase in per student (base) funding of 10 per cent for teaching and learning, this was not implemented.

As a consequence of long-term decline in per student funding, universities have become more reliant on income streams from international student enrolments. Complacency about the stability and strength of the international student market was rocked in 2009, when a series of attacks on international students and other incidents led to a sudden decline in international enrolments, which coincided broadly with the impacts of the global financial crisis and a strengthening Australian dollar. The combined impact meant billions of dollars were lost in export earnings and the financial vulnerability of the university system to revenue from international education was exposed.

Following repeated requests from the university sector, improved indexation arrangements for the Commonwealth Grant Scheme (CGS) were legislated in 2011 and introduced in 2012. This relieved some of the pressure caused by the erosion of per student funding, but the underlying problem of base funding remained unaddressed.

In 2011 the government also commissioned a new review to investigate the principles and required levels for Higher Education base funding. Echoing the 2008 review, this review's primary finding was blunt:

"Put simply, despite productivity gains and allowing for institutional decisions about priorities, the costs have not just risen, but also the nature of the institutions has changed during the decades on either side of the millennium".

It was noted that universities were struggling, given the funding available to them, to deliver their "fundamental roles of teaching and learning informed by scholarship and a base capability in research"¹³

The Government's response, delivered in January 2013, was to point to previous spending decisions rather than implement the Review's key recommendations. There had been a substantial increase in *overall* higher education funding primarily as a consequence of higher student numbers. However real *per student* funding remained below 1996 levels.

In response to concern over the increasing cost to public revenue associated with the demand driven system, the Government announced, over an 18 month period, a number of reductions to planned higher education spending. The Senate has since opposed some of these proposed changes but if implemented, these cuts would result in per student funding being reduced to 2007 levels and 15 per cent below the levels recommended by the Bradley Review in 2015.

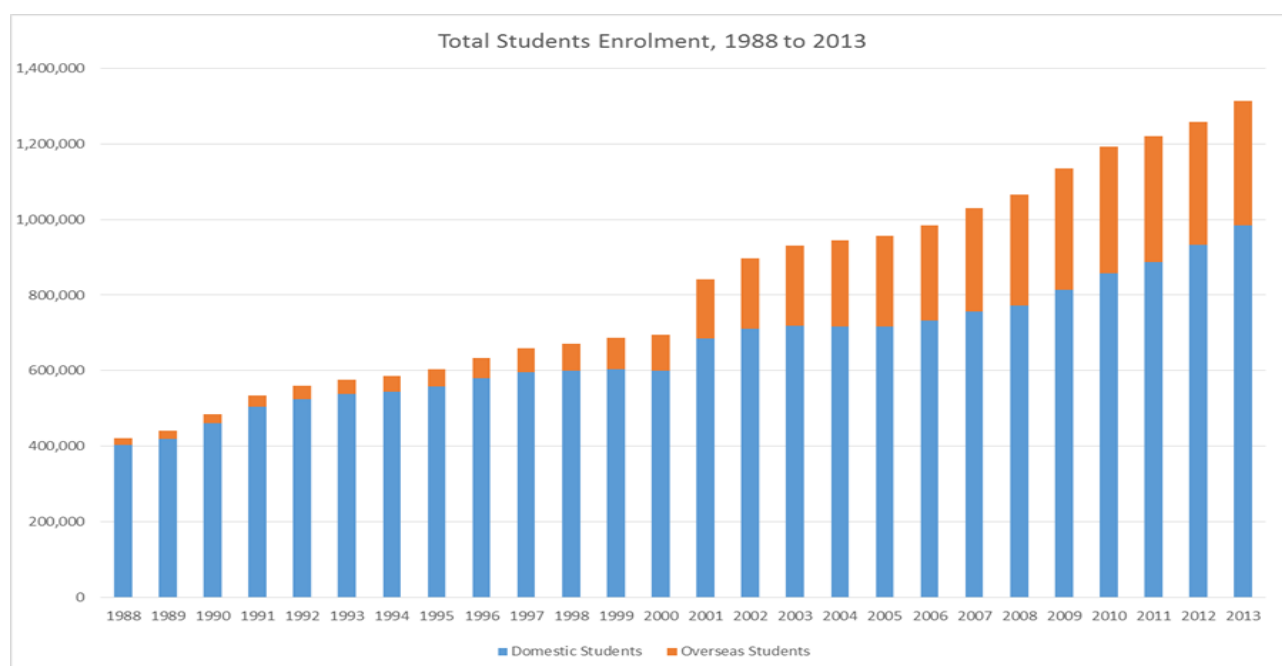
Despite some important advances, the experience of recent years represents a series of missed opportunities to establish a coherent, appropriate and above all, stable higher education funding regime.

¹³ Australian Government (2011), Higher Education Base Funding Review, Final Report, page vii.

Growth in university enrolments

Australian universities teach around 1.3 million students – more than 985,000 domestic and 328,000 international students. Between 1988 and 2013, total enrolments increased by an average of 7 per cent per annum. Domestic student enrolments increased by 3.6 per cent per annum and overseas student enrolments increased by 12.3 per cent per annum.

Figure 1: Total University Student Enrolments, Australia – 1988- 2013



Source: Commonwealth Department of Education, Higher Education Student statistics, UCube.

Australian investment in tertiary education

Total investment in Australian tertiary education in 2011 was 1.6 per cent of GDP¹⁴. This was split between public funding (0.74 per cent of GDP) and private funding (0.86 per cent of GDP).

For the period 1995-2011:

- Real growth in public investment in tertiary education in Australia grew by 22 per cent; and
- Real growth in private investment in tertiary education in Australia grew by 166 per cent¹⁵.

¹⁴ OECD 2014 Education at a Glance, page 232.

¹⁵ OECD 2014 Education at a Glance, page 248.

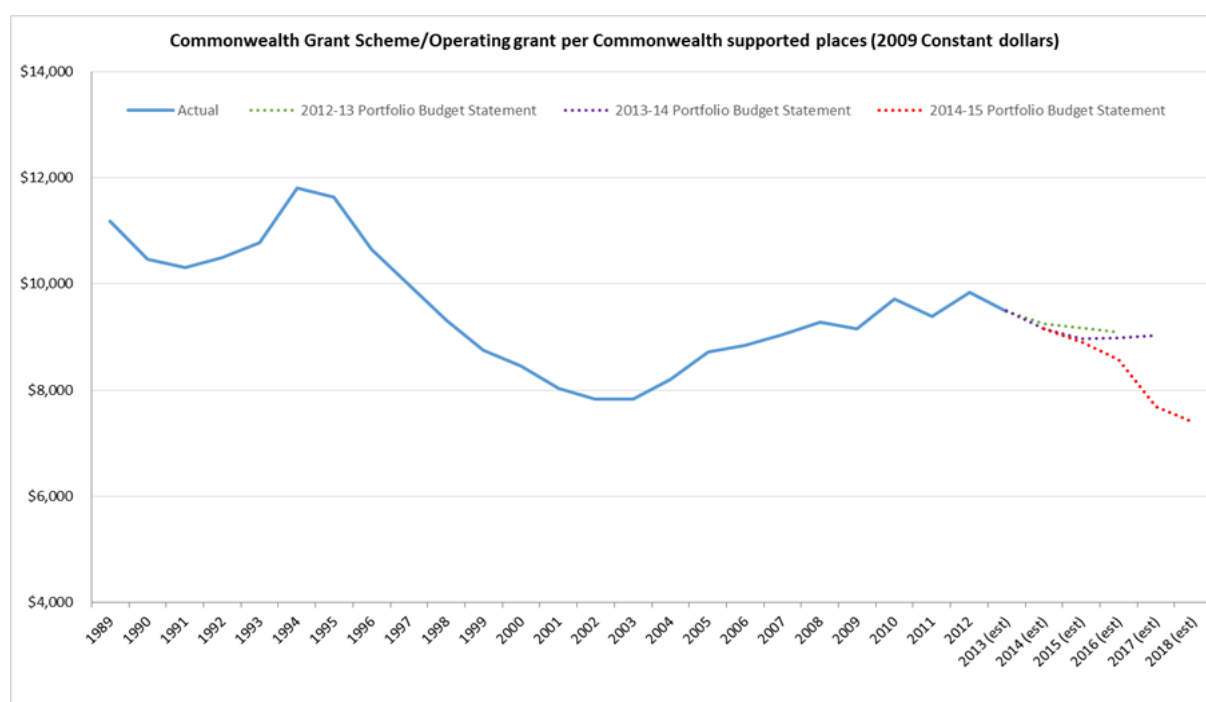
Australia sits in the middle of OECD nations for total investment. Our reliance on private investment, however, is among the highest and our public contribution is second lowest.

Partly as a consequence of the decline in public investment, Australian universities are heavily reliant on income from international education. In 2012, Australian university income from international education accounted for 16.4 per cent of total university revenue, high compared with other countries.

Real government per student funding for university tuition has been declining.

Government funding per student fell by 16.7 per cent in real terms between 1994 and 2012 (from \$11 811 to \$9 843, in 2009 constant dollar terms). This represents a partial and staggered recovery from a low point in 2003 when it fell to \$7,825.

Figure 2: Government funding per Commonwealth supported place (2009 constant dollars)



Source: 2011 Base Funding Review, Higher Education Statistics Data Cube, Portfolio Budget Statements (various years).¹⁶

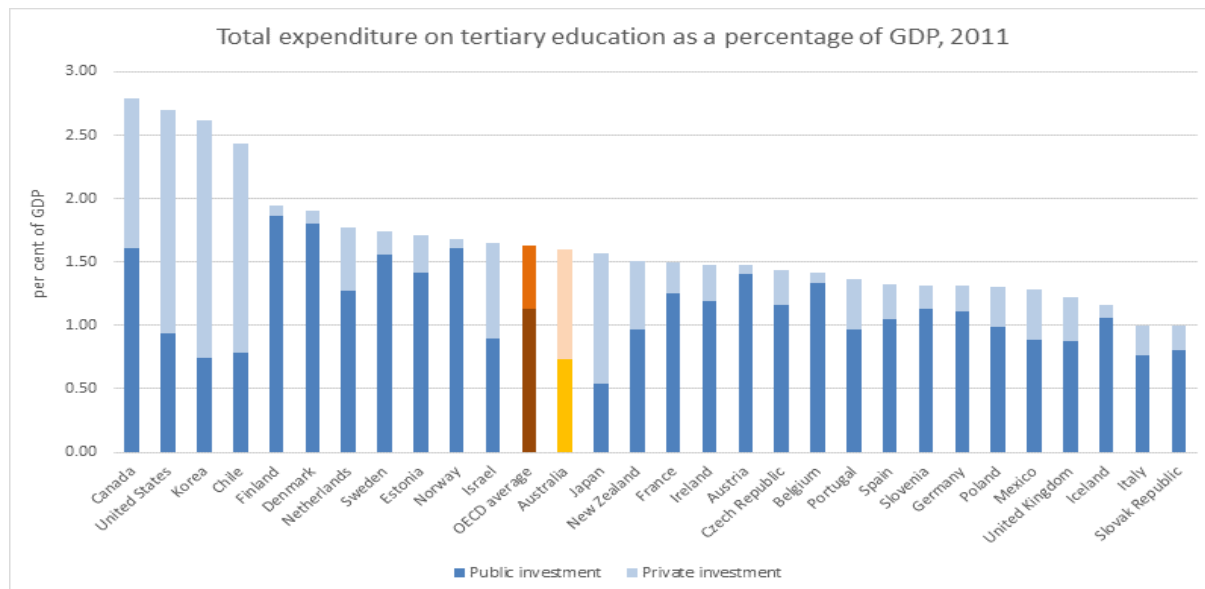
The introduction of the demand driven system and changes in higher education indexation arrangement under the previous government resulted in CGS funding increasing by 39 per cent in real terms between 2007 and 2012 (from \$3.9 to \$5.4 billion). This increase was driven largely by increasing student numbers rather than per student funding, which grew by only 9 per cent over the period.

¹⁶ Funding per student data prior to 2011 is from the 2011 Higher Education Base Funding Review. Commonwealth Grant Scheme (CGS) funding data for 2012 is from the Department of Education's administrative data. Student data is from U-Cube. From 2013, CGS amounts and numbers of Commonwealth supported students are sourced from Portfolio Budget Statements. **Note:** Estimates are indicative and may vary from official figures. This is because estimates have been derived from grants data which are presented in Portfolio Budget Statements by financial year, while student numbers are available by calendar year. For simplicity and consistency, we assume the 2012–13 grants data relates to 2013 calendar year and 2013–14 grants data relates to 2014 calendar year.

International comparisons and trends

Total Investment: Australia's total investment in tertiary (university equivalent) education is equal with the average of OECD nations – 1.6 per cent of GDP.

Figure 3: Total Expenditure on tertiary education as a percentage of GDP



Source: OECD Education at a Glance 2014, page 232.

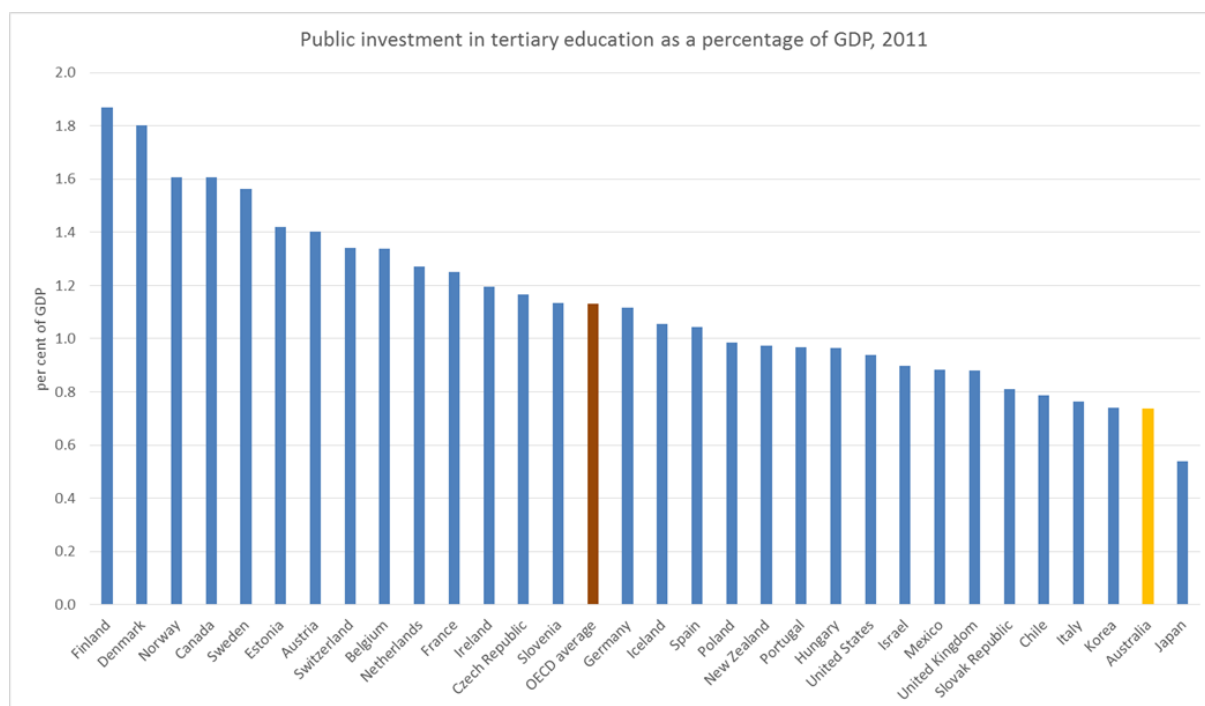
Between 1995 and 2011, Australia's investment in tertiary education as a percentage of GDP increased by 2.1 per cent compared with an OECD average increase of 26.2 per cent.

Australia's investment rose by 9.4 per cent between 2005 and 2011 while the OECD average growth rate was 11.7 per cent¹⁷.

¹⁷ OECD 2014 Education at a Glance, page 231.

Public investment: By international standards our current public investment in universities is low and falling.

Figure 4: Public investment in tertiary education as a percentage of GDP



Source: OECD 2014, Education at a Glance 2014, page 232.

Notes: Data is not available for Germany in 2010. It should be noted, calculations do not take account of costs to government of the HELP student loans scheme, which is accounted for as private debt.

- Australia ranked 30 out of 31 OECD countries for public investment in (university equivalent) tertiary education as a percentage of GDP in 2011, down from 25 (out of 30) in 2010.
- In 2011 Australia's public investment in (university equivalent) tertiary education was 0.74 per cent of GDP compared with an OECD average of 1.13 per cent.
- Real public investment in tertiary education in OECD countries grew by an average of 76 per cent between 1995 and 2011. This compares to growth of just 22 per cent in Australia over the same period. These figures translate to a real annual growth rate of 3.6 per cent for OECD countries, and 1.3 per cent per annum in Australia¹⁸.

Private investment: Real growth in the private contribution to tertiary education was comparable to the OECD average. It grew by 166 per cent between 1995 and 2011, compared to an average OECD growth rate of 149 per cent. These figures translate to a real annual growth rate of 6.3 per cent for Australia and 5.9 per cent for the OECD¹⁹.

¹⁸ OECD 2014 Education at a Glance, page 248

¹⁹ ibid

Educational attainment: There has been a marked increase in university level educational attainment of those aged 25-64 years over the past 12 years – increasing from 27.5 per cent in 2000 to 41.3 per cent in 2012. This rate of growth is consistent with the experience of other OECD nations. For 25-34 year olds the proportion of the population with a university qualification increased from 31.4 per cent in 2000, to 47.2 per cent in 2012, an annual average rate of growth over the period of 3.5 per cent compared with the OECD average of 3.4 per cent²⁰.

Education – a global imperative: Many countries, developed and emerging, including China, India and Brazil, have made education and research one of their highest public policy priorities. The scale of the investment being made by rapidly developing nations reflect the significance that these countries place on the role of research and education in driving prosperity and international competitiveness. While Indian and Chinese students make up a large portion of Australia's international students, both nations are rapidly expanding their university and research capacity.

In September 2014, Times Higher Education (which produces the World University Rankings) identified the characteristics of the world's top 200 universities. Seven Australian universities are currently ranked within the top 200 universities. Comparing the characteristics of the “average” university in the top 200 alongside the Australian universities identified among that group, and the sector as a whole (Table 1, below), suggest Australian universities are very efficient and compare favourably – relying on less general and research funding per academic than their counterparts internationally; teaching more students per staff member; and collaborating extensively on research.

Table 1: Characteristics of the world's top 200 universities: Australia compared

	Average Top 200 universities	Average Australian universities (7) in Top 200	All Australian universities
Annual Income per academic (in USD)*	\$751,139	\$513,839	\$485,024
Student to staff ratio	11.7:1	14:1	21.7:1
Total research income per academic (in USD)*	\$229,109	\$108,308	\$65,701
Proportion of research papers with at least one international co-author	43%	45%	45%

Note: * 2012 data.

Source: TIME World University Ranking, U-Cube, HERDC, Higher Education Finance Report, InCites.

²⁰ OECD 2014 Education at a Glance, page 45.

Australia has generally performed well in international rankings. For instance, five Australian universities are currently listed in the Times Higher Education top 100. While international rankings are limited as a measure of quality, nations with plans to strengthen their university and research systems often express that intent in terms of improving the position of their universities in international rankings. For instance, President Abe of Japan has expressed an ambition to have ten Japanese universities in the top 100 by 2020; in 2013-14 there were two. President Putin has indicated he wants 5 Russian universities in the top 100 by 2020; in 2013-14 there were none²¹. A clear expression of the commitment of these nations to achieve these goals is the real annual growth rate for public funding for universities - Japan's averaged 1.98 per cent between 1995-2011; and Russia averaged 10.74 per cent from 2000-2011. Australia averaged 1.25 per cent between 1995 and 2011²².

Public support

High levels political, media and public interest in the present debate around higher education is welcome, and suggests that higher education and research are of greater interest to many Australians than policy makers have historically thought to be the case.

Almost one million Australians are currently studying at university. University enrolments have tripled over the past 30 years and according to the last Census around 3.27million Australians aged between 20 and 64 years had a university degree in 2011. Further, with more people studying at university the greater the level of interest in policies that potentially impact on affordability and access. The results of public perceptions research undertaken by Universities Australia found people have a high regard for Australia's universities, feeling they contribute greatly to society²³. The research found that:

- 91 per cent believe that a well-funded university system is critical to Australia's economy and national growth; and
- 88 per cent would encourage their child or young people they knew to attend university.

These high levels of support have been reflected in the response to the Universities Australia Keep It Clever communications campaign, launched on 2 April this year.



²¹ <http://www.timeshighereducation.co.uk/world-university-rankings/news/the-formula-for-a-world-class-university-revealed> - citing President Abe and President Putin.

²² OECD 2014 Education at a Glance, page 248.

²³ *Public Perceptions of Australia's Universities*, Universities Australia, February 2013.



To date, 1.1 million unique viewers have watched the digital “Keep it Clever” film, almost 10,000 people have signed a support petition and over 6,000 people sent emails to their Members of Parliament expressing their support for increasing the level of public investment. The web page showcasing university research – *‘how our universities are enriching Australian society, building new industries, keeping us competitive and growing the economy’* - has received more than 5 million views. <http://keepitclever.com.au/category/news/>.

The response to Universities Australia’s communications campaigns indicates there is strong public support for maintaining a strong and sustainable university sector and puts paid to the popular perception of public disinterest in higher education policy.

Principles for Higher Education reform

In opting for change, Universities Australia is seeking a practical and balanced approach to university funding. Universities are subject to the same commercial pressures that confront all large business entities but at the same time are required to deliver a public good in the nation’s best interest. The need to balance these obligations is a complex but dominant feature of the Australian university system. It can only be achieved with long-term, sustainable and predictable funding.

Universities Australia believes that the delivery higher education must satisfy four basic principles:

- Affordability – for students, graduates and tax payers.
- Accessibility - all students who have the ability to succeed at university should not be deterred from doing so.
- Equity – support is available for capable students less well prepared for university participation.
- Sustainability – university business and investment models that are durable, predictable and resilient in the context of fluctuating political priorities.

Taken together, Universities Australia believes the reforms proposed in the HERRA Bill amended along the lines proposed by Universities Australia strike the appropriate policy balance in satisfying the principles outlined above.

Proposed amendments

The main purpose of the *Higher Education and Research Reform Amendment Bill 2014* (the Bill) is to amend the Higher Education Support Act 2003 (HESA) to give effect to the higher education reform package announced by the Government as part of the 2014–15 Federal Budget.

Universities Australia's submission focuses on key aspects of the proposed reform:

- In the absence of growth in public investment, deregulation of student fees is needed to maintain the quality expected by students, their families, employers and the broader community.
- Improvements to the Government's package is required by:
 1. Opposing the proposed 20 per cent cut in the Government's contribution to student tuition under the Commonwealth Grant Scheme (CGS);
 2. Maintaining indexation of HECS-HELP student loans at CPI; and
 3. Providing a structural adjustment package to assist universities, particularly those that serve regional and disadvantaged students and communities, make the transition to a market based higher education system.

Fee deregulation

Schedule 1 of the Bill removes the current maximum student contribution amounts. The relationship between Commonwealth supported student places and international and other domestic fee paying students will be set out in the legislative guidelines.

Under the proposals, all higher education providers will be allowed to set their own tuition fees from January 2016.

In the absence of any commitment to increase public investment to the level required for the maintenance of an internationally competitive university system, the Committee is encouraged not to oppose fee deregulation.

Universities Australia recommends that the Committee support fee deregulation for Commonwealth Supported Places (CSPs), in the absence of a firm commitment to increase public funding for higher education.

Changes to Commonwealth Grant Scheme - the proposed 20 per cent cut to public per student funding

Summary of Government proposal

Schedule 1 of the Bill reduces subsidies for new Commonwealth supported student places by an average of 20 per cent. The Bill also provides that the current eight funding clusters will be streamlined into five funding clusters from 1 January 2016.

Discussion

Universities Australia is particularly concerned with the magnitude of the 20 per cent cut to government funding rates and the upward pressure it puts on tuition fees as universities seek to recoup the losses through increased student fees.

The 20 per cent reduction translates into a drop in university revenue over the forward estimates of almost \$2 billion and a reduction in per student funding of 37.4 per cent since 1994 in real terms. In order to offset this loss, tuition fees would need to increase by an average of approximately 29 per cent.²⁴

Note: Although the average CGS reduction is around 20 per cent, actual changes vary by discipline - from +22 per cent for mathematics and +8 per cent for humanities to -50 per cent for communications (excluding audio-visual), -45 per cent for environmental studies and -39 per cent for social studies.

A recent report (August 2014) by the UK Independent Commission on Fees²⁵ found that, following the introduction of substantial fee increases in the United Kingdom in 2012, total university applications recovered but the number of part-time and mature aged applicants (aged 25+) declined with:

- 41 per cent fewer part-time enrolments overall in 2012/13 than in 2009/10;
- 18 per cent fewer people aged 25+ enrolling in 2013 compared with 2010; and
- 43 per cent fewer people aged 25+ enrolling in part-time education in 2013 compared with 2010.

Given the need to increase the number of people with higher education qualifications to meet projected labour market demand, keeping the cost of education and re-skilling within the reach of people with modest incomes is essential.

Universities Australia recommends that the Committee agree to moderate the 20 per cent cut to Commonwealth Supported Places (CSPs), noting the significant budget savings delivered by the higher education sector over the past decade.

Application of the long-term bond rate to HELP debts

Summary of Government proposal

- *Schedule 1* of the Bill provides for the merging of the FEE-HELP and HECS-HELP loan schemes for all higher education students; removal of up-front payment discounts for HECS-HELP loans and the voluntary repayment bonus for HELP loans; and removes the FEE-HELP lifetime limit and loan fee.
- *Schedule 3* of the Bill changes the indexation rate of HELP debts from the current Consumer Price Index (CPI) to the Treasury 10 year bond rate, capped at six per cent per annum from 1 June 2016.
- *Schedule 4* of the Bill establishes a new minimum repayment threshold for HELP debts. For the 2016–17 repayments are not made for those on incomes of \$50,637 or less.

²⁴ Not weighted to take into account the distribution of student load by disciplines.

²⁵ Analysis of trends in higher education, applications, admissions and enrolments (August 2014, UK Independent Commission on Fees, page 3.

The applicable percentages for the repayment of HELP debts would increase gradually from 2 per cent for annual incomes up to \$56,264 to 8 per cent for annual incomes of \$104,492 and above.

Discussion

The design and parameters of the income contingent loan scheme are crucial.

The introduction of the long-term bond rate of interest (capped at 6 per cent) on HECS-HELP loans would be highly regressive and result in low income graduates, or those taking time out of the workforce, repaying considerably more, and over a longer time period, than graduates earning higher incomes.

The compounding effect would be felt disproportionately by women (who face persistent pay differentials and are more likely to have their careers interrupted by parental responsibilities), and graduates who work in sectors with low or moderate average earnings.

UA supports the continuation of the existing system of CPI indexation of student debt.

However, if a compromise is required to maintain taxpayer affordability, either of two alternatives could be considered:

1. Hybrid CPI/bond rate indexation

This option would apply a combination of CPI and bond rates to index HELP debts. More specifically, CPI would be applied to an individual's HELP debt when income is less than the 4 per cent repayment threshold, and the long-term bond rate (capped at 6 per cent) would be applied for incomes that exceed the threshold.

2. Loan fee and CPI indexation

This option would have a fee of up to 25 per cent of the loan applied to all HELP loans with loan indexation set at CPI.

Universities Australia recommends the Committee support a single HECS-HELP scheme and the retention of indexation at CPI on student debt.

Structural adjustment assistance – UA proposal

Typically, where substantial structural change is brought about by changes to government policy, a package of structural adjustment is made available to assist those affected in making the transition to the new operating environment.

The proposed changes are the most significant to affect the university sector for at least 30 years and, in moving to a market environment, assistance for universities, particularly those serving regional and disadvantaged communities, will be required.

The package would support or assist universities that:

- provide higher education in disadvantaged communities and to regional students whose economic status and inability to relocate acts as a barrier to them attending another university;

- operate in small markets where local campuses, courses, research activities and community engagement programs that meet important public, community and student needs, may be commercially unviable in the short to medium term; and
- are research intensive and deliver research excellence in regions that lack the financial capacity to support high cost research programs.

Under the Government's proposals, it will take time for the new market to emerge and for universities to adapt. As the sector makes the transition it will be necessary to ensure that universities are properly supported so that undesirable and unintended consequences can be avoided.

Universities Australia recommends the Committee support the creation of a package of structural adjustment support, particularly for institutions serving regional and disadvantaged communities, to assist in the transition to a fully deregulated higher education market.

The importance of research

UA, the research sector, business leaders and the broader community agree that stable and properly funded research programs are critical for achieving national economic, social and cultural success.

The HERRA includes several elements with direct and indirect impacts on Australia's research capacity and capability.

The 10 per cent cut to the Research Training Scheme will result in a reduction in the number of students pursuing research careers. PhD qualified researchers drive Australia's research and innovation performance. This reduction will further erode Australia's research capability by reducing the pipeline of researchers entering the system.

UA supports the continuation of the Future Fellowships Scheme announced in the 2014–15 Budget, albeit for half (100) the number of new fellows. Similarly, ongoing funding for the National Collaborative Research Infrastructure Scheme (NCRIS) is crucial, beyond the extra year committed in the 2014-15 Budget.

UA is concerned at Government suggestions that cuts to programs that are not the subject of Parliamentary review including research block grants and research grants programs (such as the Australian Research Council and the National Health and Medical Research Council) would be required should the Senate decide not to support the Government's proposed HERRA cuts.

Universities Australia recommends that the Committee oppose any further reduction in research funding including in providing offset savings for proposed cuts to higher education that do not proceed.

Conclusion

As a consequence of insufficient public investment in universities and research, universities are finding it increasingly difficult to maintain the standards of quality expected by students, their families, employers and the broader community.

The Committee is encouraged to recommend that the Senate amend, in accordance with the UA suggestions, and pass the HERRA Bill without unnecessary delay. In doing so, the Senate will play a critical role in shaping and positioning Australian universities to meet future challenges and deliver world-class higher education that is affordable and accessible to all of those with the desire and ability to obtain a university qualification.