National Tertiary Education Union

Submission

Senate Standing Committees on Education and Employment
Education and Employment Legislation Committee

Inquiry into
Higher Education Support Amendment (Cost Recovery) Bill 2018
and
Higher Education Support (Charges) Bill 2018

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Introduction

The National Tertiary Education Union (NTEU) represents the industrial and professional interests of some 28,000 people working in Australian higher education and research.

The legislation before the Committee

According to the relevant Explanatory Memoranda:

- **Higher Education Support (Charges) Bill 2018** (Charges Bill) provides for the imposition of an annual charge on higher education providers to fund the costs of administering the Higher Education Loans Program (HELP).
- **Higher Education Support (Cost Recovery) Bill 2018** (Cost Recovery Bill) – provides for the administration of the annual charge on higher education providers established by the Charges Bill 2018 as well as imposes an application fee on approval by higher education providers seeking eligibility for their students for FEE-HELP.

Our primary concerns relate to the Charges Bill as outlined below.

A Tax on Education

The Explanatory Memorandum to the Charges Bill makes it clear that new charges are a tax. Indeed the need for there to be two separate pieces of legislation (the Higher Education Support (Charges) Bill 2018 and the Higher Education Support (Cost Recovery) Bill 2018) is because laws imposing taxation may only deal with the imposition of that tax.

However, the introduction of this (or any other) new tax would appear to be at odds with a Government that seeks to promote itself as low taxing. Prime Minister Scott Morrison said in his former role as Treasurer in May this year, that *" higher taxes lead to lower growth, less jobs, less investment and less opportunity in the economy."* (The Australian (5 May 2018). Liberal Party policy states that they will "*fight Labor's plan for $200 billion in new and increased taxes*" (https://www.liberal.org.au/our-plan/economy) – yet here we have legislation introducing a new tax on higher education.

The NTEU is of the view, especially in the context of the funding freeze on public investment in Commonwealth Supported Places (see below), that imposition of this new tax on higher education is totally unwarranted. It will further reduce the level of net public investment in higher education and as a consequence reduce opportunities for some aspiring students.

What costs are intended to be recovered?

According to the Explanatory Memorandum to the Charges Bill it provides for an annual charge to be imposed on higher education providers as a tax. It also states that this new tax is to fund the costs associated with the Higher Education Loans Program (HELP) including administration, data collection, analysis and compliance.

However Clause 7 (2) of the Charges Bill specifies:

> *Before the Governor-General makes regulations for the purposes of subsection(1), the Minister must be satisfied that the effect of those regulations will be to recover no more than the Commonwealth's likely costs in connection with the administration of the Higher Education Support Act 2003.*

The administration of Higher Education Support Act (HESA) (2003) goes well beyond the costs associated with the operation of HELP. Section 19 of HESA (2003) outlines the quality and accountability requirements which include financial viability, fairness, the need to enter into funding compacts and academic freedom. While many of these requirements are no doubt captured by TEQSA standards and therefore included within its registration and re-registration processes, these are nonetheless costs incurred by the Commonwealth which from our reading could potentially be captured by this clause.

If the intent of this the new charge (tax) is specifically for the purposes outlined in the Explanatory Memorandum (that is, to recover costs associated with the administration of HELP) then the language in the Charges Bill should be amended to reflect these specific costs.

How much will the new tax raise?

Neither of the Higher Education Support (Charges and Cost Recovery) Bills specifies the maximum value of the taxes or fees to be collected. While no maximum is specified, they do however allow for the taxes or fees to be indexed. The only indication that we have as to the expected size of the tax burden is contained in 2018-19 Budget Papers (Statement No 2) where it is estimated that the new charge (tax) and fees for new providers wishing to offer FEE HELP places together are expected to raise $30.7m in revenue over four years. The annual revenue for 2021-22 is expected to be $11m.

While not specifying a maximum amount (in dollars) that can be raised by the new fees and taxes, the Explanatory Memorandum of the Cost Recovery Bill does, however, say that it is anticipated that the size of the tax (charge) will differ depending on the number of students enrolled. Given that the latest TEQSA Statistics show that over 90% of higher education students attend a university, it is clear that the overwhelming burden of this new tax will be borne by our public universities.

If the Government proceeds with the imposition of the new charge (tax) on higher education, the legislation must state:

- **what the specific costs covered by the new charge (tax) are,**
- **what the maximum value of tax collected in any given year is,**
- **what formula is used to calculate each provider's liability.**

Putting the new fees and taxes in context

As noted above, the NTEU is of the view that the imposition of any new charge (tax) on higher education is totally unwarranted and amounts to a tax on opportunity. While the Government will no doubt argue that these new fees and charges are a relatively modest impost on the sector given the overall level of public investment, we would emphasise that these new charges (taxes) are being imposed at the same as the Government is imposing a freeze on the level of Commonwealth Grants Scheme (CGS) funding for supported places (CSPs). The impact the freeze is discussed in more detail below.

Funding Freeze – the real 'tax' on university funding

As part of the 2017-18 MYEFO, the Government announced that it would:

- freeze the level of CGS funding each university receives in 2018 and 2019, at 2017 levels, and

- increase the total level of CGS funding from 2020 and beyond at a rate equivalent to the increase in the 18 - 64 age population. This additional funding will be distributed between universities on the basis of yet to be determined performance criteria and not on the basis of student load.

The Government has not capped the number of students that a university is allowed to enrol. The Government has effectively abandoned the demand driven system. Funding per student has been replaced by block grants with growth in total funding to be tied to (but not distributed on the the basis of) popoulation growth. There will be no indexation for increased costs.

As shown is Figure 1 below, the funding freeze amounts to a sizeable gap in the level of funding our universities would have received under the denand driven model and what they will recive under the new arrangements. This is effectivelly a cut to the level of public investment in our universities.

The data in Figure 1 shows the NTEU estimates of the level of CGS funding without the funding freeze (business as usual) and with the funding freeze. Under business as usual models, total CGS funding is assumed to grow by the increase in the 18-64 year old population as well as being indexed by the CPI as shown in Table 1 below. The estimates for funding under the freeze keep 2018 and 2019 levesl at 2017 and grow by population from 2020.

The data in Figure 1 show that the size of lost public funding to the sector as a result of the freeze grows rapidy. By 2022 we estimate the amount of lost funding to be over $1billion, and given the nature of the freeze, the size of the gap will continue to widen.

Therefore, while we are opposed to the imposition of new taxes being proposed by the Bills before the Senate, they are nonetheless dwarfed by the imapct of the funding freeze.

As the analysis presented below on the reduction in the real level of funding per student clearly demonstrates, the impact of the funding freeze will very much depend on how universities respond in terms of the number of students they elect to enrol. The funding freeze puts our universities in a Catch-22 situation.

Figure 1

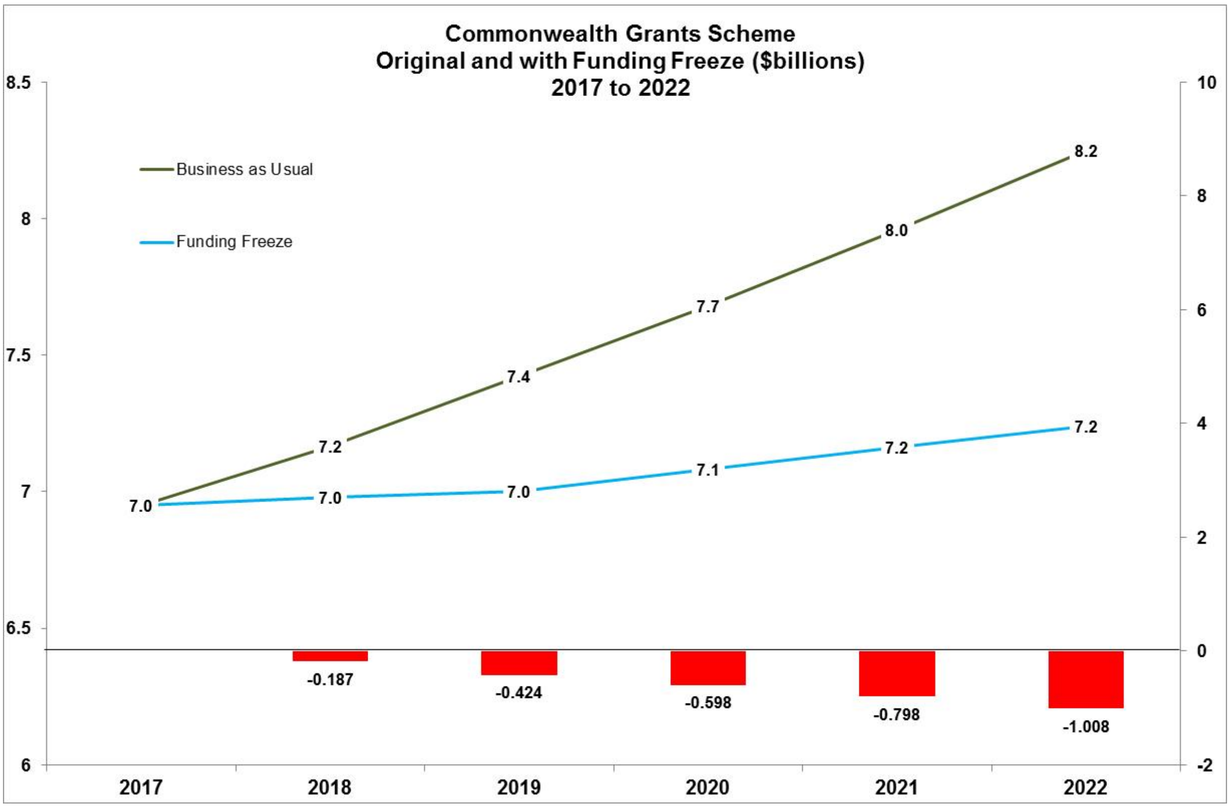


Table 1

Underlying Assumptions	2019	2020	2021	2022
Population Growth (18-64) ABS Series B (1)	1.3%	1.2%	1.1%	1.1%
Consumer Price Index (CPI) (2)	2.25%	2.25%	2.50%	2.50%

(1) ABS 3222.0 - Population Projections, Australia, 2012 (base) to 2101 Series B
(2) Commonwealth of Australia MYEFO 2017-18 Table 1.2
(2) Reserve Bank of Australia Economic Outlook February 2018 Table 6.1

Real CGS Funding per CSP

According to the latest data provided by the Department of Education and Training[1] the real level of Commonwealth (CGS and associated loadings) funding per student in 2018 is estimated to be $11,100 per CSP (2018 values). This represents a real decrease of 4% over the $11,575 per CSP (2018 values) in 2013, the year the Abbott Government was elected.

The following presents an analysis of what impact the funding freeze will have on:

- the level of real (2018 values) funding per CSP, and
- the level of unmet demand for CSPs.

[1] Answer to Senate Estimates Question SQ18-000299.

The outcomes presented below show a number of scenarios which vary depending on how the university sector, in aggregate, responds to the freeze.

- Scenario 1: They maintain the current level of 18 - 64 year olds particpating in higher education by increasing enrolments at the same rate as growth of this cohort of the population.
- Scenario 2: They elect to maintain the real level of Commonwealth funding per CSP.
- Scenario 3: They freeze the enrolment of CSP students at 2018 levels.

The assumptions, and sources, underlying the analysis are shown in Table 1. The analysis also assumes that the disciplinary composition of CSP enrolments over the period 2019 to 2022 remains largely unchanged from that of 2018.

Impacts on funding per CSP and unmet demand under various scenarios.

Scenario 1: Maintaining current participation rates and increasing enrolments in line with projected population increases.

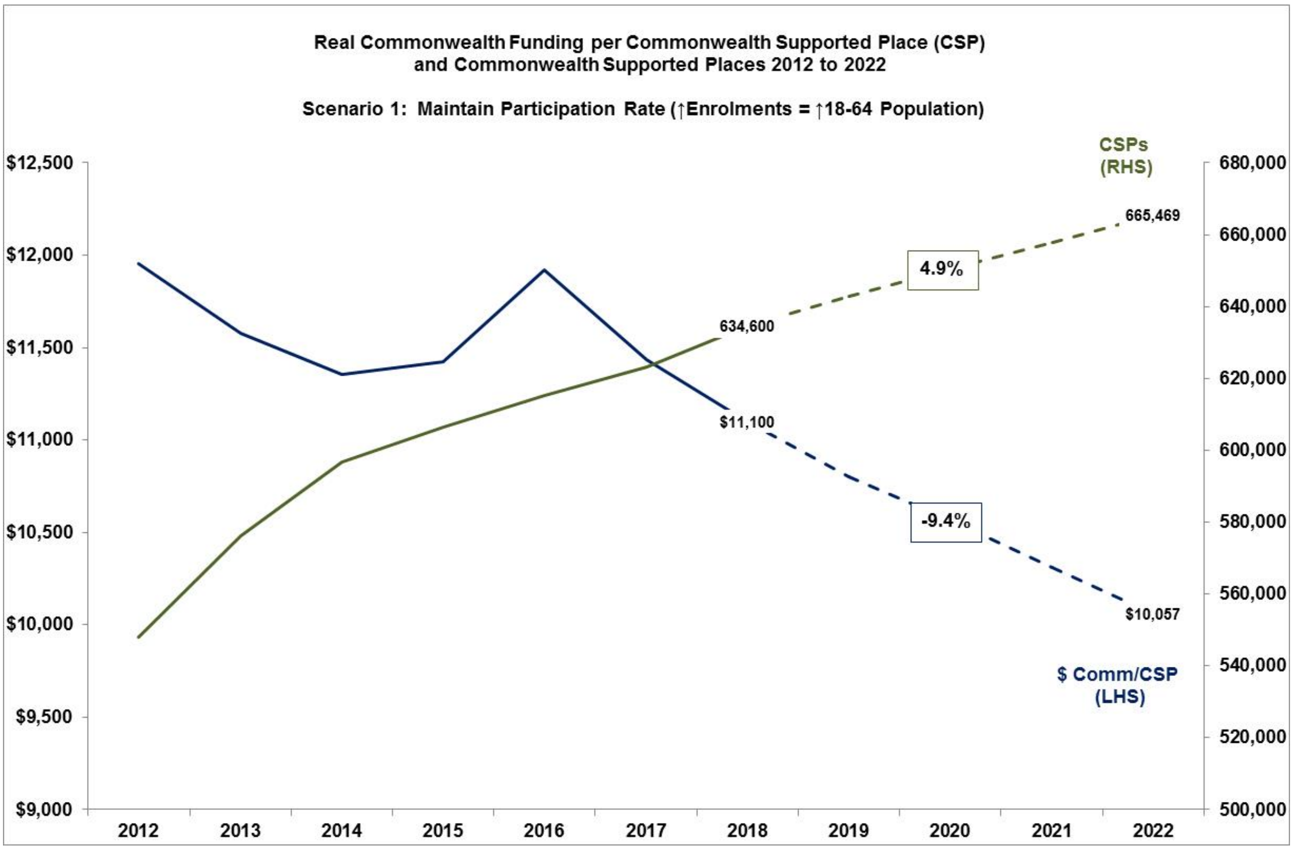
Figure 2 shows that increasing CSP enrolments in line with projected population increases (Table 1) will result in total CSP enrolments rising from an estimated 634,000 in 2018 to about 665,500 by 2022, an increase of 4.9%.

As a consequence, the real level (2018 values) of funding per CSP will fall from $11,100 in 2018 to $10,057 per CSP in 2022. This is a real decline of 9.4% per CSP.

This highlights the major issue associated with the funding freeze and subsequently tying growth of total Commonwealth funding for CSPs to the 18-64 year old population growth beyond 2020. As a consequence, as clearly shown in Figure 2, an enrolment strategy which seeks to maintain the participation rates will result in declining real Commonwealth funding per CSP.

Universities must decide whether they try to maintain participation rates or maintain the real level of Commonwealth funding per student, or adopt a strategy which compromises both.

Figure 2



Scenario 2: Maintaining the real level of Commonwealth investment per CSP.

Figure 3 shows that in order to maintain the real level of Funding per CSP at 2018 levels of about $11,100, enrolments would need to fall by about 4.6% between 2018 and 2022 - from about 634,000 to about 605,100.

Reducing the level of enrolments means that some students who would otherwise have gained entry into university will miss out on a place. The reason for introducing the demand driven funding model in the first place was to overcome problems of unmet demand.

Figure 4 shows the NTEU's estimates of the level of unmet demand that would result if universities followed Scenario 2, where this is the difference between the number of students who would have gained a CSP if enrolments increased in line with the 18-64 year old population (Table 1) and the enrolment levels shown in Figure 3.

The level of unmet demand will reach about 60,000 by 2022.

Figure 3

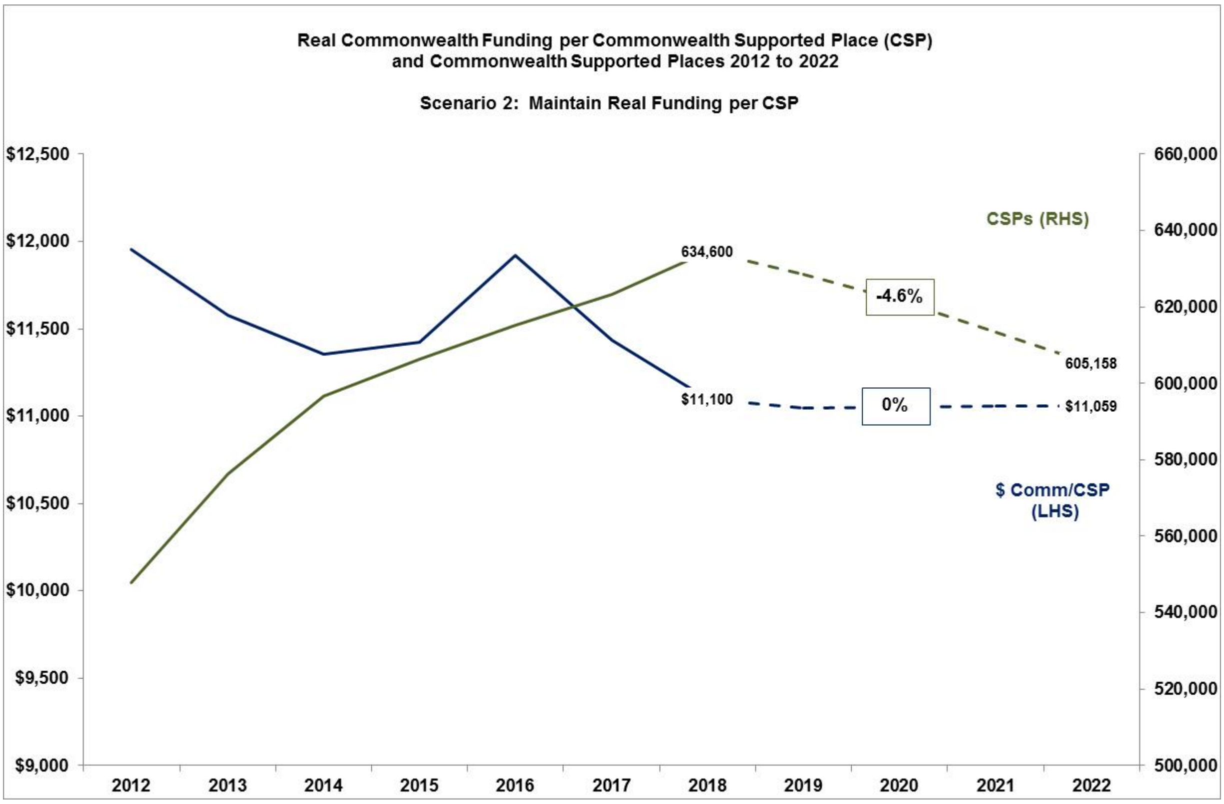
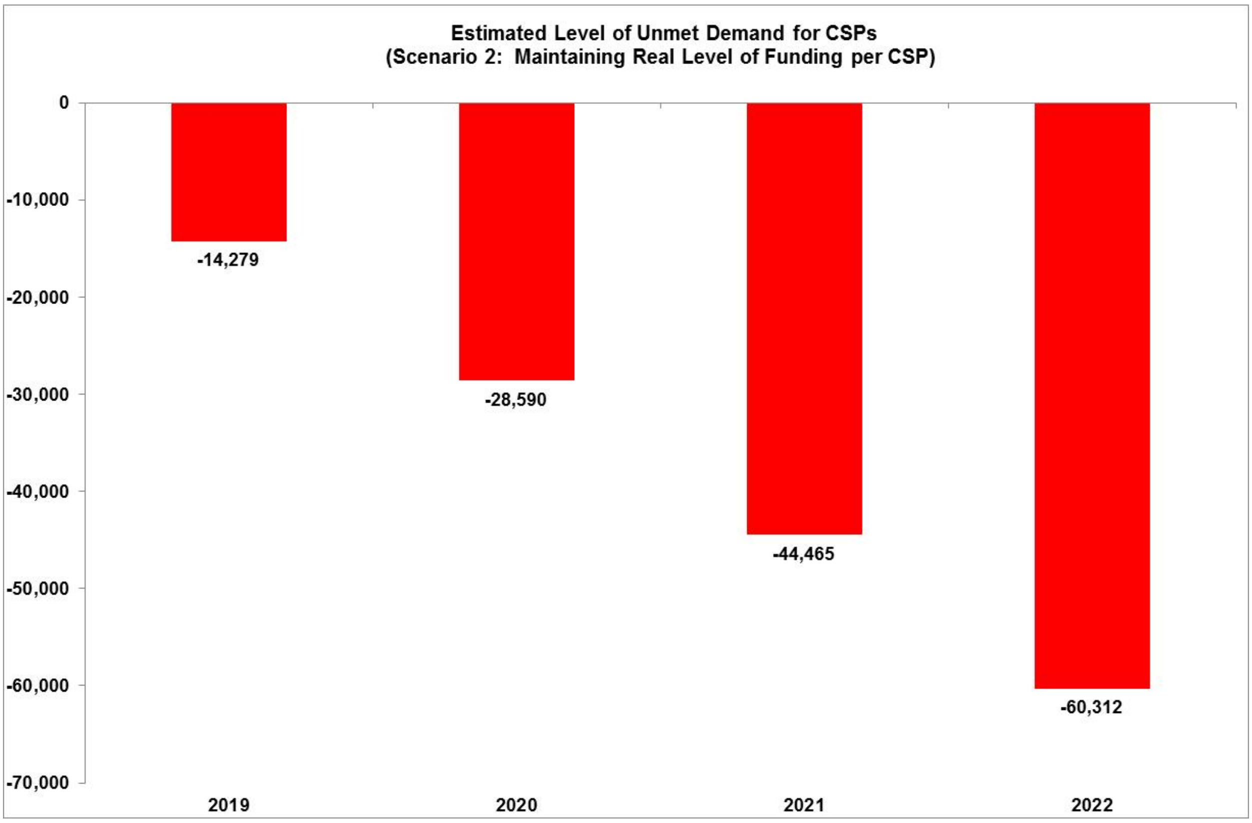


Figure 4



Scenario 3: Zero increase in CSP enrolments.

Figure 5 shows the impact on real Commonwealth funding per CSP should universities elect to maintain their 2018 enrolment levels until 2022. As the data shows, this would not overcome the problem of diminishing real funding per CSP, which would fall by some 5% from $11,100 per CSP to about $10,546 per CSP in 2018 values.

Figure 5

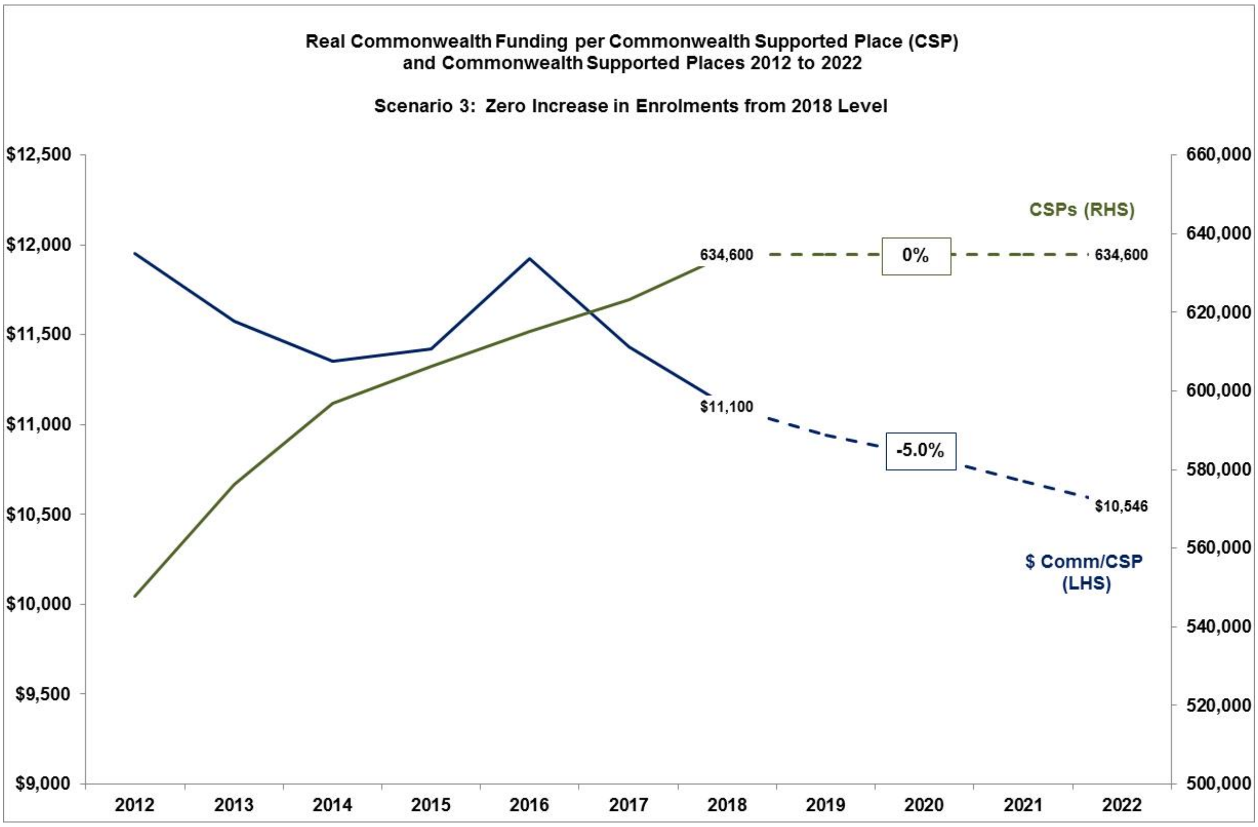


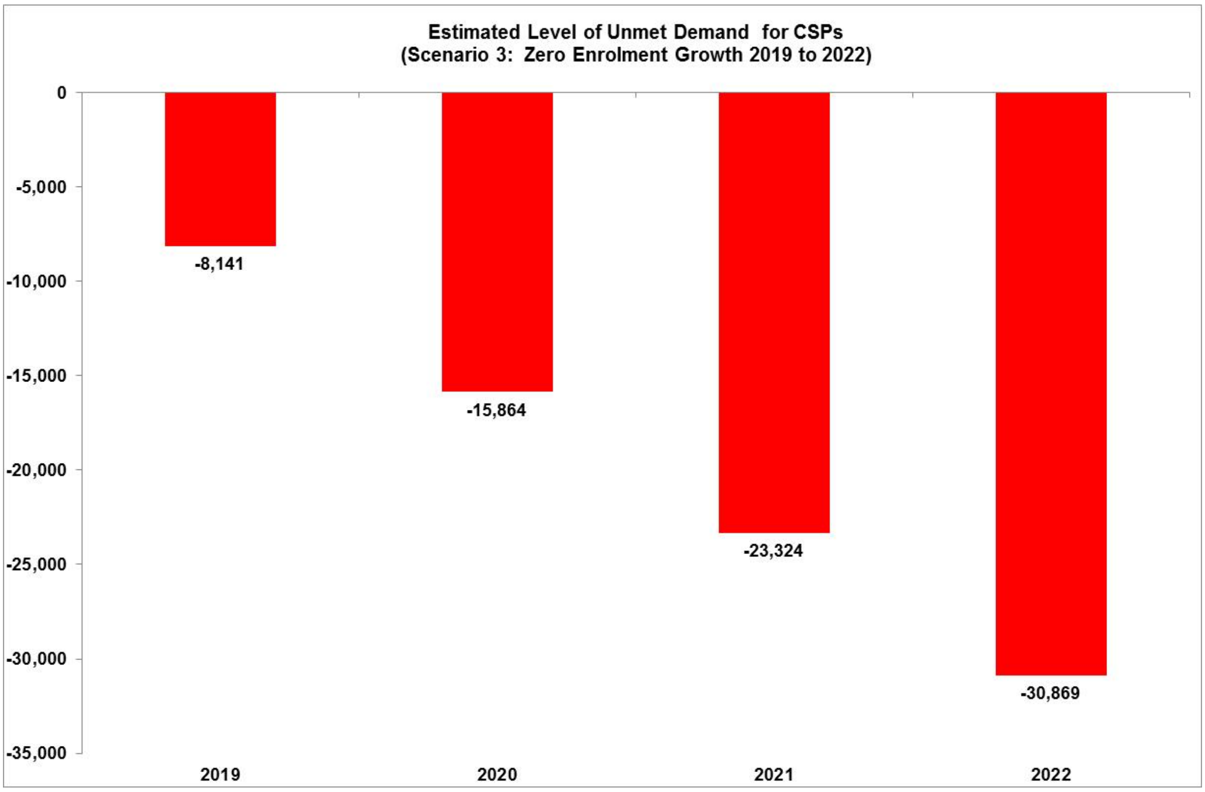
Figure 6 shows that the consequence of maintaining enrolment at 2018 levels means that within four years there would be up to 30,000 eligible candidates unable to find a Commonwealth Supported Place (CSP).

Conclusion

Comparing the projected outcomes for Scenarios 1, 2 and 3 highlights the Catch-22 situation that the funding freeze has not only for universities, but also the Commonwealth. If universities try to maintain current participation rates, they will suffer a real reduction in funding per student. Research including the Base Funding Review and Cost of Delivery Review, show funding per student is already insufficient to cover the teaching and basic research costs.

On the other hand, if universities try to maintain the real level of funding per CSP (Scenario 2), that can only be achieved by reducing enrolments. This will result in very significant levels of unmet student demand. Unmet demand will very rapidly present a major political problem for the Government, as tens of thousands of eligible students fail to gain an offer of a government supported university place.

Figure 6



Scenario 3, highlights the dilemma faced by universities. If they maintain enrolments in response to the funding freeze, both universities (through lower levels of real funding per student) and potential students through high levels of unmet demand will be worse off. This is a Catch-22 situation.

The NTEU believes that, while the Higher Education Support (Charges and Cost Recovery) Bills should not proceed in their current forms, a broader examination of the consequences of the freeze on CGS funding of CSPs must be undertaken as a priority. The present approach, which imposes cuts to public investment by whatever means possible, to meet arbitrary budgetary savings targets, is ultimately unsustainable.