UNIVERSITIES AUSTRALIA
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Universities Australia Submission to the Senate Committee Inquiry into the Higher Education and Research Reform Bill 2014

February 2015

Further inquiries should be made to the Chief Executive:

GPO Box 1142
CANBERRA ACT 2601
Ph: +61 2 6285 8100
Fax: +61 2 6285 8101
Email: contact@universitiesaustralia.edu.au
Web: www.universitiesaustralia.edu.au
ABN: 53 008 502 930

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Executive Summary

On 12 February, the Senate referred the *Higher Education and Research Reform Bill 2014* (the Bill) to the Senate Education and Employment Legislation Committee for inquiry and report. Universities Australia's position in relation to the Bill is unchanged from that developed in response to the original Bill introduced by the Government in August 2014, noting that the new Bill has addressed a number of concerns raised by the sector. An important exception has been in relation to the magnitude of the proposed 20 per cent cut to per student funding. Universities Australia encourages Senators to work with the Government to further amend and pass the Bill in the interests of reducing uncertainty and securing a high quality Australian higher education system that is accessible, financially sustainable, and affordable for both students and taxpayers.

Australia's universities are a critical part of our national economic infrastructure. Adequate levels of public investment help drive Australia's international competitiveness and productivity growth. Universities educate our workforce and underpin our research and innovation capacity. They are the major providers of education services to international students, earning more than $16 billion annually in national income.

Despite strong public support for a well-funded university system, public investment in Australian universities remains inadequate and low compared with other OECD countries. Over recent years, Governments have introduced reforms aimed at improving the capacity of our universities to better meet student demand, foster competition and improve research capability. The introduction of the demand driven system has enabled more students with capability and aspiration to go to university. Further, improvement to the indexation arrangements for all programmes funded under the *Higher Education Support Act 2003 (HESA)* has been a welcome means for maintaining the real value of the national investment in universities.

However, Government commitments to improve the adequacy of university funding have been short-lived. The higher education policy environment has been one of frequent change, and investment spikes followed by funding reductions. This imposes continual adjustment costs on universities and undermines their capacity to plan strategically and their ability to invest with certainty in improving the quality of education services. It also mitigates against the ability of the sector to build research capability and successfully collaborate, secure joint investment and translate research and innovation in the national interest

The *Higher Education and Research Reform Bill 2014* presents an opportunity for universities to build a more predictable and sustainable operating environment for Australian universities that is less vulnerable to government funding uncertainty and frequent, disruptive changes in higher education policy.

Universities Australia supports the current Bill being passed provided there are significant amendments to improve fairness for students and promote the sustainability of Australian universities in securing a high quality higher education system. Universities Australia supports retention of demand driven funding for student places and is strongly supportive of its extension to sub-bachelor courses as the most effective means for assisting underprepared students to pursue their aspiration to obtain a higher education.

Universities Australia welcomes the changes to the reform proposals made by the Government at the end of 2014. The changes reflected in this Bill partly implement changes advocated by the sector in improving fairness and affordability for students and for taxpayers. We strongly support the reinstatement of CPI indexation of HELP debts and the introduction of a structural adjustment fund to assist students, universities and communities with the transition to a fee deregulated system.

Universities Australia is seeking further changes to the Bill, in particular a reduction in the proposed level of the cut to the Commonwealth Grant Scheme. Universities Australia supports passage of the current Bill, ***subject to the Government:***

- reducing the proposed 20 per cent cut to the Commonwealth Grant Scheme;
- increasing the level of funding for structural adjustment to $500 million over the forward estimates; and
- creating an independent expert advisory panel to advise the Government on implementation issues relating to the deregulated system.

While Universities Australia supports the Bill being passed with these changes, some changes made by the Bill would remain of concern. These are:

- the move away from an indexation formula that reflects the real cost of higher education delivery;
- the cuts to the Research Training Scheme and the related introduction of student contributions for research training students; and
- the proposed guidelines on the relationship between fees for Commonwealth supported students and the fees of domestic postgraduate and international students.

In the absence of any strong commitment to increased public investment, discarding the higher education reform proposals in their entirety would jeopardise Australia's global position as a leading provider of higher education and research excellence.

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.

This submission has chosen not to reiterate all of the material included in our September 2014 submission to the Senate Committee Inquiry into the Higher Education and Research Reform Amendment Bill 2014. Useful material on the context and background in which these reform proposals are being considered formed part of that submission[1]. The principles for higher education reform which it outlined are particularly important and deserve reiteration, along with factual material on the level of Government investment in Australian universities.

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.

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;
- ongoing policy instability; and
- restrictive access to alternative revenue streams.

Universities Australia has long made the case for increased public investment in universities and research to be a priority for Government.

Research undertaken in October 2014 for Universities Australia by GA Research found that not only do Australians see the value of universities to themselves, but overwhelmingly believe universities are of great importance to the nation. When asked to rank the importance of universities to the whole of Australia on a scale of 0 to 10, where 10 is extremely important, Australians 18 years and older rated universities on average 8.6 out of 10.[2]

Similarly, the Universities Australia's "Keep it Clever" campaign, launched on 2 April 2014 has enjoyed strong public support. To date, the "Keep it Clever" film has received approximately 3.6 million in unique total reach across TV and online, almost 11,200 people signed a support petition in 2014 and over 6,000 people sent emails to their Members of Parliament expressing their support for increasing

[1] The submission can be found at Universities Australia' website.

[2] From a randomly sampled nationally representative survey of n=2,718.

the level of public investment in universities. The web page showcasing university research has received more than five 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 of the demand driven funding system by the previous government was an historic achievement in expanding opportunity and meeting future labour market needs. However, 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.[3]

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

Government investment in Australian universities

Australian universities are a critical part of the nation's infrastructure. Through teaching, scholarship and research, they contribute to Australia's economic future by supporting innovation, facilitating the development of knowledge based industries and improving the capability of the workforce. They promote productivity growth and international competitiveness.

While Australia has an acknowledged world class university system, continuing with current funding arrangements will see universities struggle to meet the performance and quality expectations of students and employers. Further, it will hinder efforts to strengthen partnerships between our university, business and community sectors and stifle the innovation needed to drive growth. Despite strong public support for universities, public investment remains inadequate.

Previous studies and reviews suggest Australia's tertiary education sector is under-funded compared with our international peers. In 2011, annual public expenditure on tertiary institutions per student was US$7,475 in Australia, 17.5 per cent below the expenditure level in the United States (US$9,057) and almost 19 per cent below the OECD average of US$9,221.[4] In 2011, we ranked 30th out of 31 OECD countries for public investment in tertiary education as a percentage of GDP.

Australian investment in tertiary education – international comparisons

Public debate on university funding over recent months has focussed primarily on the issue of who should pay for higher education and its implications for student access to university. Questions of capacity to pay, the public and private benefits of education, workforce demand and equity deserve the attention they have received.

However, this narrow, largely transactional focus ignores the broader role of universities and the contribution that they make to contemporary Australian life, a critical aspect that too readily goes missing in funding-driven policy debates.

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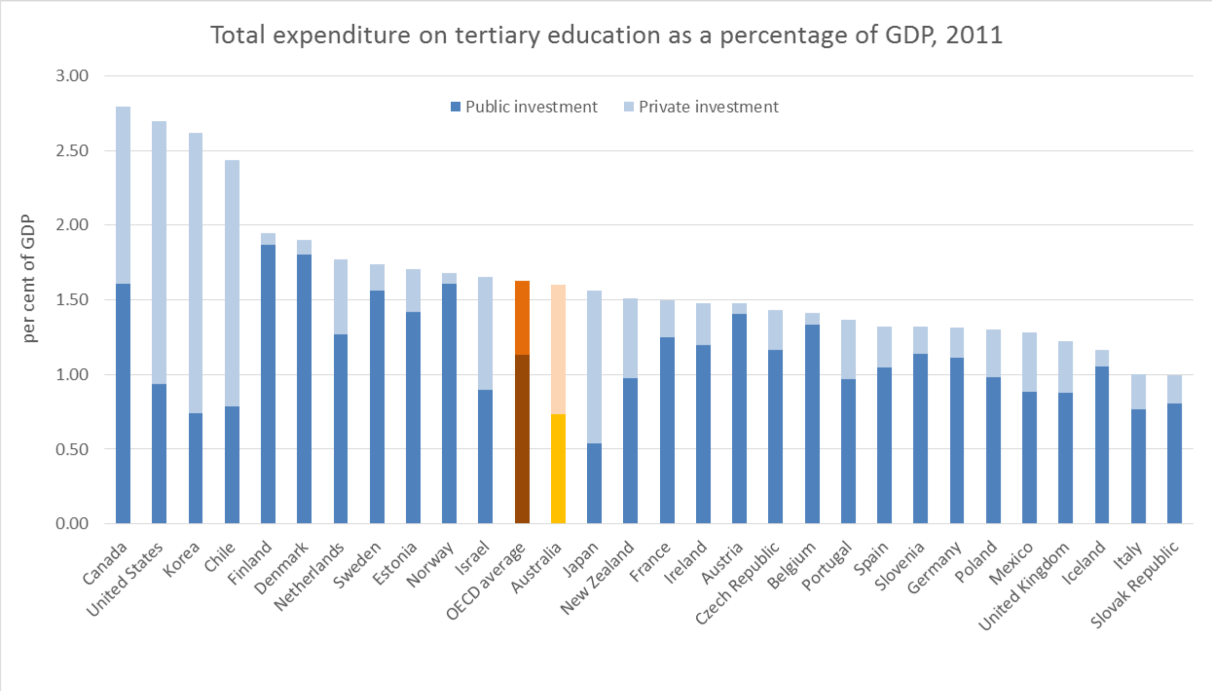
[3] The Government subsequently decided not to proceed with the $2,000 cap on tax deductable self-education expenses (estimated at $514 million over the forward estimates). Of the $ 2.96 billion the previous Government sought to save over the forward estimates, $2.15 billion are yet to be legislated, 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.

[4] OECD 2014, *Education at a Glance,* Table B3.3, p. 249.

Further, how Australia's investment in universities compares with our major trading partners and comparable nations deserves more substantial consideration than it has received. By international standards, Australian investment in universities is middle-ranking at best but declining as competitor nations invest as part of concerted efforts to re-ignite their economies or sustain high levels of growth and development.

According to the latest OECD report, total investment in Australian tertiary education was 1.6 per cent of GDP in 2011, with the public sector investing 0.74 per cent of GDP and the remaining 0.86 per cent of GDP coming from the private sector (see Figure 1).[5]

Figure 1: Total investment on tertiary education institutions as a percentage of GDP



Source: OECD 2014, *Education at a Glance*, Table B2.3, p. 232.

Between 1995 and 2011, Australia's total investment in tertiary education as a percentage of GDP remained relatively static while on average it grew across the OECD countries. In 1995, total investment in Australian tertiary education was above the OECD average. By 2011, it was not.[6] Non-OECD nations, such as Brazil, China and Singapore, have been increasing investment in their universities in recognition of the role they play in developing their economies, making their industries more competitive, improving the living standards of their citizens and improving their global status and influence.

By international standards, our <u>public</u> investment in the university sector is low and falling. Figure 2 shows that:

- Australia is ranked 30 out of 31 OECD countries for public investment[7] in (university equivalent) tertiary education as a percentage of GDP in 2011, down from 25 (out of 30) in 2010; and

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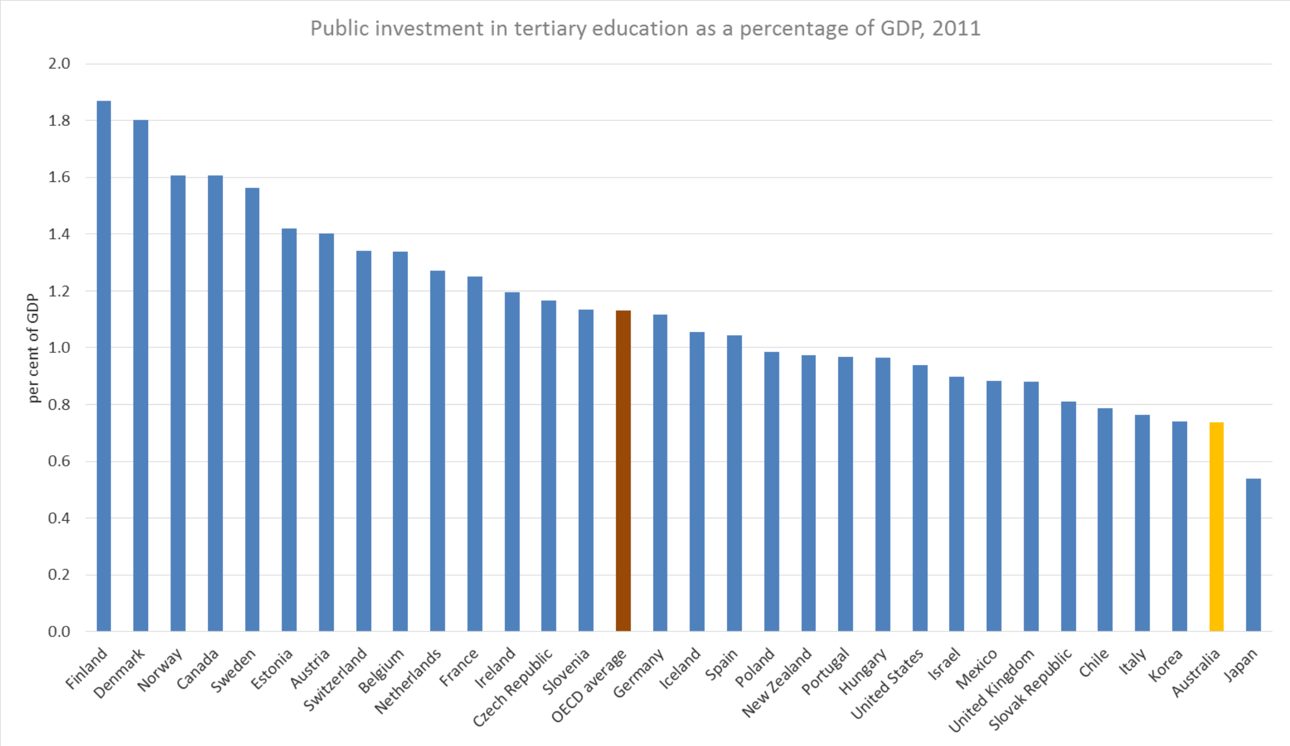
[5] Ibid, Table B2.3, p. 232.

[6] Ibid, Table B2.2, p. 231.

[7] OECD does not include HECS interest subsidies and HECS debts that are never repaid in the calculation of public investment on tertiary institutions. As of 30 June 2013, the Australian Government Actuary estimates that $7.1 billion of

- in 2011, Australia's public investment in tertiary education was 0.74 per cent of GDP, compared to OECD average of 1.13 per cent.

Figure 2: Public investment in tertiary education as a percentage of GDP



Source: OECD 2014, *Education at a Glance,* Table B2.3, page 232.
Note: Public investment does not take account of costs to government of the HELP student loans scheme, which is accounted for as private debt.

Trends in Commonwealth government funding per student

The average amount of Government funding for a Commonwealth supported student place since 1989 is shown in Figure 3. It reached an historical low point in 2002 prior to slow recovery through to 2012 after which repeated savings measures led to a downswing.

The introduction of the demand driven system and changes in higher education indexation arrangements under the previous government resulted in total Commonwealth Grant Scheme (CGS) funding rising by around 43 per cent in real terms between 2007 and 2012 (from $4.27 to $6.12 billion in 2014 dollars). This increase was driven largely by increasing student numbers. Per student funding grew by 12 per cent over the same period. Over this period, the number of Commonwealth supported places increased by almost 120,000 places, representing a 27.8 per cent increase.

In the 2013–14 Budget, a 2 per cent and 1.25 per cent efficiency dividend for university funding for 2014 and 2015 was announced.[8] Combined with a number of other savings measures, this would

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the $30.1 billion outstanding HELP debt will not be repaid. In 2013–14, 17 per cent of new lending, or about $1.1 billion, is not expected to be repaid. While the total cost to Government associated with higher education is not reflected in the OECD indicators, these losses do not translate into additional revenue to universities.

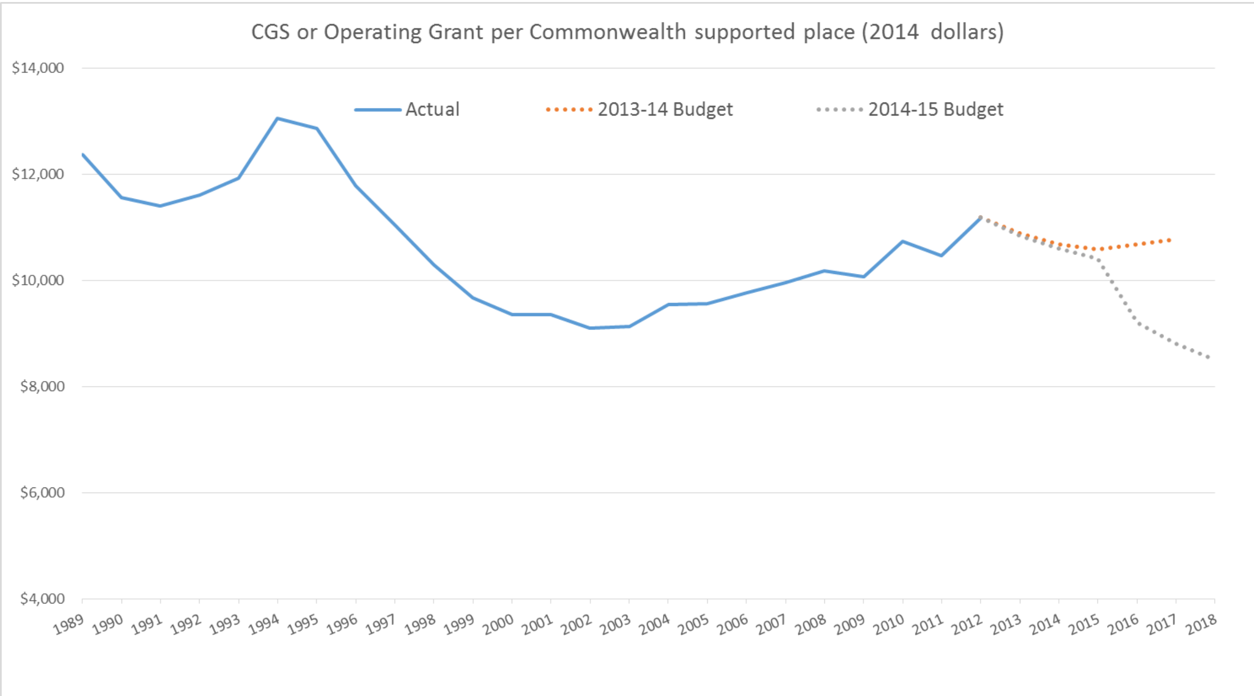
[8] The legislation to apply the efficiency dividend is currently before the Parliament.

have real CGS funding per student decline by 3.6 per cent between 2012 and 2017 (from $11,177 to $10,778 per student in 2014 dollars).

A further 20 per cent on average cut to CGS funding, as announced in the 2014–15 Budget, would result in real CGS funding per student declining by a total of 24 per cent between 2012 and 2018 (from $11,177 to $8,500 per student in 2014 dollars).

The magnitude of these reductions in public funding for student places means that the setting of the level of contributions from students, whether this is done by universities or government, will have a significant impact on the quality of higher education provision and the ability of universities to engage in, and pay for, research.

Figure 3: Government funding per Commonwealth supported place (2014 dollars)



Source: 1989 to 2000 figures are from the *Higher Education Base Funding Review: Final Report* (2011); from 2001, the figures are Department of Education administrative data.

Proposed amendments to the Bill

The main purpose of the *Higher Education and Research Reform Bill 2014* (the Bill) is to amend the *Higher Education Support Act 2003* (HESA) to give effect to a package of higher education reforms. The reforms were originally announced by the Government as part of the 2014–15 Federal Budget, but a number of modifications have been made to those proposals in this Bill.

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.

Universities Australia supports retention of demand driven funding for student places and is strongly supportive of its extension to sub-bachelor courses as the most effective way of assisting underprepared students to pursue their aspiration to obtain a higher education.

Universities Australia welcomes the changes to the reform proposals made by the Government at the end of 2014. These reinstated CPI indexation of HELP debts and introduced a structural adjustment fund to assist students, universities and communities with the transition to a fee deregulated system.

Universities Australia supports the passage of the *Higher Education and Research Reform Bill 2014*, subject to the Government:

- reducing the proposed 20 per cent cut in the Government's contribution to student tuition under the Commonwealth Grant Scheme (CGS);
- increasing the level of funding for structural adjustment to $500 million over the forward estimates; and
- creating an independent expert advisory panel to advise the Government on implementation issues relating to the deregulated system.

While Universities Australia supports the Bill being passed with these changes, some changes made by the Bill would remain of concern. These are:

- the move away from an indexation formula that reflects the real cost of higher education delivery; and
- the cuts to the Research Training Scheme and the related introduction of student contributions for research training students; and
- the proposed guidelines on the relationship between fees for Commonwealth supported students and the fees of domestic postgraduate and international students.

Reducing the 20 per cent cut to government funding rates

Schedule 1 of the Bill reduces the Commonwealth contribution amount 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 new funding tiers from 1 January 2016.

Universities Australia opposes the magnitude of the 20 per cent cut to government funding rates. A cut of this magnitude puts considerable upward pressure on tuition fees as universities seek to recoup the resulting loss. The cut further reduces the level of public investment in higher education when the level of that investment is already well below the OECD average and other nations, including major trading partners, are increasing their levels of public investment.

The 20 per cent reduction in funding rates for each cluster translates into a decline in university revenue over the forward estimates of almost $2 billion. In order to offset this revenue loss, tuition fees would need to increase by an average of approximately 29 per cent.[9]

It is also important to note that although the average reduction in the Commonwealth contribution amount is around 20 per cent, actual changes vary by discipline, ranging 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.

In order to reduce upward price pressure on tuition fees, Universities Australia recommends that the Committee support a substantial reduction in the proposed 20 per cent funding cut to Commonwealth supported places.

[9] Not weighted to take into account the distribution of student load by disciplines.

Additional funding for the structural adjustment fund

Schedule 1 (Item 204B) of the Bill provides a maximum funding amount of $100 million over three years for a structural adjustment fund to assist universities, particularly those in regional areas, to transition to a more competitive market.

In the face of the proposed CGS funding cuts, Universities Australia has been advocating for, and supporting the establishment of, a structural adjustment fund. Given the proposed changes are the most significant policy reform in the sector in more than 30 years, a larger structural adjustment package of around $500 million is required.

Under the Government's reform proposals, it will take time for the new market to stabilise and for universities to adapt to the new environment. An adequately funded structural adjustment package would ensure that universities are properly supported in the transition and help avoid undesirable and unintended consequences. Universities that should benefit from this fund include those that:

- provide higher education to regional and disadvantaged students whose economic status and inability to relocate acts as a barrier to them attending another university;
- operate in a market where there is low capacity to immediately achieve significant additional revenue; and
- are research intensive and deliver research excellence in regions but have a relatively high proportion of students from a low socio-economic background and limited capacity to redirect resources to maintain and support their high cost research programmes.

In May 2009, the previous Government announced that it would provide $400 million in Structural Adjustment Funding over four years, commencing 2010, to assist universities to prepare for the new operational requirements of a demand driven funding system with new quality measures in place. It subsequently approved around $377 million for 13 projects.

The current reform proposals are likely to result in more radical changes to the operations of Australia's universities. The impacts on university revenues will vary between institutions, with considerable uncertainty for some. Adjustments to infrastructure usage and staffing will be inevitable. Considerable planning will be required and institutions will need to make changes to their programmes to ensure they are competitive and remain viable into the future. Universities Australia considers that transitional assistance in excess of that provided for the introduction of the demand driven system will be necessary.

Universities Australia recommends the Committee support an increase to the level of funding for structural adjustment to $500 million over the forward estimates.

Establishment of an independent expert advisory panel

Given the proposed changes are the most significant policy reforms to affect higher education in 30 years, establishing an independent expert advisory panel to provide advice to the Government throughout implementation of the reforms and during the early years of the new arrangements would be beneficial. Universities Australia supports the establishment of an independent expert panel to: (1) monitor the implementation of the changes and the emergence of the market, (2) advise the Government on adjustments, and (3) conduct formal reviews at the 2 and 5 yearly mark. There are a number of alternatives available to the Government in establishing an independent expert advisory panel, including potentially utilising an existing agency such as the Australian Competition and Consumer Commission (ACCC).

There are a number of known consequences of the reforms and there will also be changes that are not anticipated. It will be the role of the expert advisory panel to monitor developments in the sector, raise relevant issues with the Minister and discuss implementation processes. It would provide the government with timely access to independent expert advice to ensure reduce the risk of any adverse consequences arising from the reforms.

This expert advisory panel will also be tasked to conduct post implementations reviews after the Bill is implemented as recommended by the Office of Best Practice Regulation (OBPR). The OBPR has commented on the Regulation Impact Statement (RIS) accompanying the higher education reform package and recommended:

> …As the reforms have been assessed by the OBPR as having a substantial impact on the sector and the economy, the Government's RIS process requires a post-implementation review to be completed within five years of the reforms being implemented.[10]

Universities Australia recommends the Committee support the establishment of an independent expert advisory panel to advise the Government on implementation issues relating to the deregulated system.

Maintaining the current indexation arrangements

Schedule 8 of the Bill replaces the current Higher Education Grants Index (HEGI) with the Consumer Price Index (CPI), which will be used each year to index all grants and regulated student contribution amounts for grandfathered students under the *Higher Education Support Act 2003* from 1 January 2016. This revised indexation arrangement will also apply to all programmes under the *Australian Research Council Act 2001.*

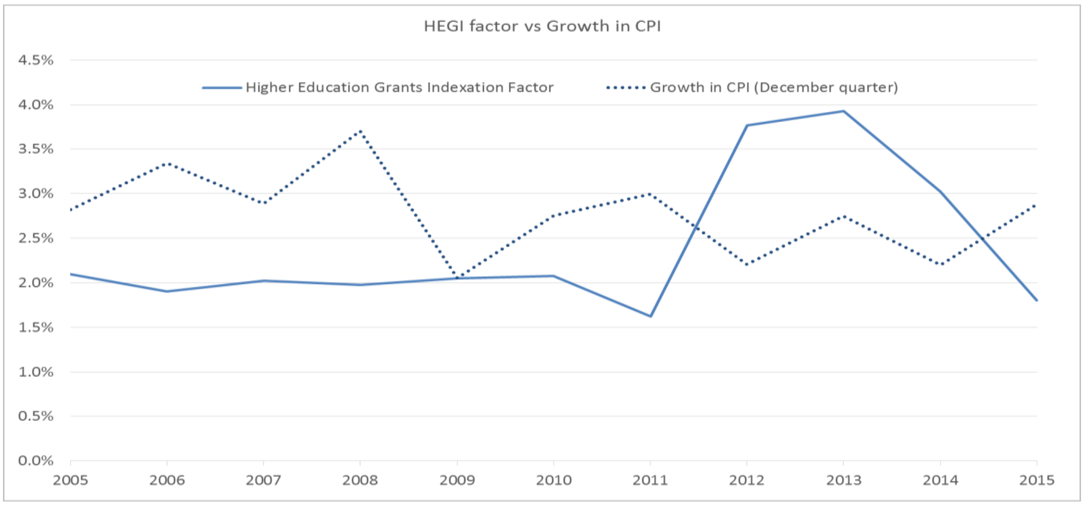
The HEGI was announced in the 2008–09 Budget and implemented a recommendation by the *Bradley Review of Australian Higher Education*.[11] It is based mainly on movements in the Wage Price Index for Professional Scientific and Technical Services, which accounts for 75 per cent of the index. The remaining 25 per cent of the index is based on the CPI.

It is evident from Figure 4 that before the change in indexation arrangements in 2012, the HEGI was lower than the CPI. From 2012 to 2014, it has been higher but this has again reversed for 2015. Universities Australia supports the retention of the HEGI as we consider that it better reflects professional salary movements in the higher education sector and hence the cost pressures experienced by the university sector.

[10] OBPR 2014, *Final Assessment Regulation Impact Statement – Higher Education Reform Package*, October 2014 https://ris.govspace.gov.au/files/2014/10/OBPR-assessment.pdf.

[11] All programmes funded under the HESA were indexed under the existing arrangements from 2012.

Figure 4: Higher Education Grants Indexation factor and growth in CPI



Source: Department of Education 2014, Universities Payment Information System.

The Government expects the change in indexation arrangements from the existing HEGI to the CPI to reduce government funding to the sector by around $200 million over three years from 2015–16. This will put further upward pressure on tuition fees.

Universities Australia recommends that the Committee consider supporting the retention of the existing Higher Education Grants Index to ensure growth in Government funding for higher education closely reflects the increasing costs facing the higher education sector.

Opposing the cut to the Research Training Scheme

The Government announced in the 2014–15 Budget that it will reduce funding for the Research Training Scheme (RTS) by 10 per cent per annum from 1 January 2016.

The Bill allows universities from 2016 to charge RTS students a tuition fee that can be deferred through a HELP loan. *Schedule 5* of the Bill makes it a condition of receiving a grant under the RTS that universities not charge RTS students more than $3,900 for a year of full-time study in a high cost course and $1,700 for a year of full-time study in a low cost course. Whether a course is high cost or low cost will be determined by legislative instrument.

The development of research graduates is a task performed only by the university sector and distinguishes it within the broader Australian innovation and research system. Research students drive Australia's research and innovation capacity. The recruitment of skilled graduates represents one of the most important mechanisms through which industry derives economic benefits from publicly funded research.

Universities Australia opposes the 10 per cent reduction in Research Training Scheme funding and the associated student contribution for RTS students.

Although it is proposed that research students will be able to defer payment of their fees through a HELP loan, there is a risk that the fees will act as a disincentive to undertake research training. The cumulative effect of the new fees for Higher Degrees by Research (HDRs) and the debt acquired while completing an undergraduate degree in a deregulated market could lead to a reduction in the number of students undertaking postgraduate research. A reduction in Australia's research workforce capacity would have a negative impact on our research and innovation performance.

If the government proceeds with the long-awaited review of research training, it will be important to consider not only how to achieve the Government's aim of broadening the skills acquired through research training, but also the fundamental issue of maintaining the reputation of our HDRs internationally. The quality of research training is vital for our research reputation and our attractiveness as a destination for international students.

Australia's low rate of researchers employed in industry is recognised as among our major weaknesses in terms of improving our research translation and innovation performance. Australia delivers excellent research results but it needs to adapt to enable universities and industry to build and maintain the relationships that improve the industry-readiness of research graduates. Reduced investment in university research will hamper the ability of universities to engage with industry, as productive, long-term relationships take time and money to build.

Universities Australia recommends that the Committee oppose the 10 per cent cut to the RTS funding and the commensurate increase in student contribution for RTS students.

Clarifying the guidelines relating to tuition fees for non-Commonwealth supported students

Schedule 1 of the Bill prescribes requirements relating to tuition fees for non-Commonwealth supported students through amendments to the CGS Guidelines. Item 204A of the Bill requires that the tuition fee for a unit of study for a non-Commonwealth supported students must not be less than the sum of:

- the highest tuition fee that the provider would charge a Commonwealth Supported student for the same or a comparable unit; and
- the CGS amount for the same or a comparable unit.

Universities Australia notes that this introduces a requirement that was not previously announced and is likely to impose a considerable burden on universities. There has not been consultation with the sector on the formulation of this rule, its implications for university administration or the consequences of non-compliance.

This requirement has implications for the tuition fees of domestic postgraduate fee-paying students, as well as international students. The deregulatory fee arrangements provide universities with considerable flexibility in how they charge fees and do not require that this occur at the unit of study level. Many courses enable students to elect to undertake a wide range of units within defined programme parameters.

With the option of course based pricing, it is possible that a Commonwealth supported student undertaking a relatively high fee course (e.g. Bachelor of Law) will undertake the same unit of study (e.g. Microeconomics 101) as an international student undertaking a relatively low fee course (e.g. Bachelor of Arts). Ensuring that the rule was never breached in such a circumstance will impose a considerable additional administrative burden on universities. The phrase 'or a comparable unit' is laden with ambiguity and further increases the red tape associated with this rule. How comparable does a unit have to be before the rule applies?

Universities Australia recommends that the Committee considers opposing item 204A and supporting further consultation with the sector on any proposed new requirement concerning the relationships between fees for Commonwealth supported students and the fees of domestic postgraduate and international students.

Conclusion

Universities are finding it increasingly difficult to maintain the standards of quality expected by students, their families, employers and the broader community. This is a consequence of universities receiving insufficient public investment in teaching and research, combined with universities being restricted in their ability to access alternative revenues.

The Committee is encouraged to recommend that the Senate pass the Bill but only with the amendments recommended in this Submission. If the Senate does so, it will position Australian universities to meet the future challenges that they will inevitably face, and enable them to continue to deliver a world-class higher education that is affordable and accessible to all Australians with the desire and ability to obtain a university qualification.