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Higher Education Funding Amendment Bill 2002
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Inquiry into Higher Education Funding Amendment Bill 2002

1 Introduction

The National Union of Students' comments about the Higher Education Funding Amendment Bill 2002 relate to the proposed extension of the Postgraduate Education Loans Scheme (PELS) to four private providers of higher education, Bond University, Melbourne College of Divinity, Tabor College in Adelaide and Christian Heritage College (i.e. Part 2 (Items 8-21) of Schedule 1, "Post-graduate education loan scheme" in the Bill). We are concerned in general about the extension of public funds to private educational institutions, however there are also particular concerns about the institutions in question. We will outline our position through first establishing that PELS is a form of public subsidy.

2 PELS as Public Subsidy

It is clear that PELS is not a subsidy to the student in the same way as the Higher Education Contribution Scheme (HECS). PELS enables a postgraduate Coursework student to borrow the entire cost of their degree from the Federal government, to be repaid on an interest-free basis by income contingency. Unlike HECS, universities retain the ability to set fees for postgraduate courses, with fees ranging anywhere between $5,000 and up to $28,000.

As such, it has been argued, notably by the Minister for Education, Science and Training, Dr Brendan Nelson, that the Bill does not extend public funds to private institutions.

> "This [Bill] gives students at these institutions access to postgraduate study loans on the same basis as other students, but does not make the institutions eligible for public funding."[1]

Although the Bill does not provide funding in the way an operating grant does, NUS will argue in this section that the Bill provides an indirect yet clear public subsidy to these institutions and to students attending these institutions in at least 3 important ways:

- the government and, in turn, the taxpayer, bears the cost of bad debts incurred largely because some former students' lifetime incomes will be too low;
- an implicit subsidy to the student through an interest-free loan;
- the resulting opportunity cost to the government and taxpayers.

Many of these arguments have been made by the government in the Innovation and Education Legislation Amendment Bill 2001 Inquiry process, where PELS was originally proposed by the Coalition for all postgraduate Coursework students. We will elaborate on this below.

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[1]Hon. B. Nelson, Minister for Education, Science and Training, Second Reading Speech, Higher Education Funding Amendment Bill 2002, Hansard, 5 June 2002, p.3115.

2 a) The Impact of Bad Debts

There is quite a significant level of bad debt associated with the recovery of HECS contributions from students. The Government, in its discussion of its Innovation and Education legislation Amendment Bill 2001 stated that the bad debt ratio under HECS has varied from 13.5 to 18.0 per cent over the five years since 1996, with an average of 16.1 per cent.[2] Previous to this, Harding calculated in 1995 that the total repayments remaining uncollected under the original HECS scheme (with distinctly more generous repayment conditions) would be around 15 to 25 per cent[3]. The government further estimated bad debts over the five-year span of the Innovation Bill at $134.9 million, or 13.6 per cent of the amount lent to students. NUS believes that this ratio could in fact be much higher for PELS than estimated because of the higher degree costs involved and, in most instances, the longer period before PELS repayment commences, compared to HECS.

These figures show that it is reasonable to expect s similar ratio of bad debts under the proposed extension of PELS to the four private providers. DEST has estimated that extending PELS to these four institutions will result in around 2,000 students borrowing approximately $18.7 million over the four years following the introduction of the Bill.[4] With a 13.6 per cent projected ratio of bad debts, taxpayers will have to bear a cost of around $2.54 million over the four years. Put simply, this is the equivalent to the government handing $2.54 million of fees to these four institutions on behalf of individuals who choose private and non-secular education. If this Bill opens the flood gates to extending PELS to other private institutions in the future, as we argue it does, this cost will multiply. It is unreasonable to expect taxpayers to bear the financial burden of individual choices to forgo the public education system.

2 b) Implications of an Implicit Subsidy in PELS

Professor Bruce Chapman argues, in his submission to the Higher Education Review, that PELS contains within it a subisidised component by virtue of being an interest-free loan, with a deferred, income-contingent repayment schedule.

In analysing the implications of this policy change it is critical to recognise that the postgraduate charge facing a student who can pay with an interest-free loan is necessarily different to the fee received by the university. This is because the university receives the money at the time of enrolment, but the student repays the debt later. Critically, the absence of a real rate f interest in the debt means that in financial terms

[2] Department of the Parliamentary Library, Innovation and Education Legislation Amendment Bill 2001, *Bills Digest* No.126 2000-01, p.11.
[3] Harding, A., "Financing Higher Education: An Assessment of income-Contingent Loan options and repayment patterns Over the Lifecycle', *Education Economics*, 3(2), pp. 173 – 203, 1995????
[4] Hon. B. Nelson, Minister for Education, Science and Training, "Government Deliver on Higher Education Commitments" (Media release), www.dest.gov.au, May 14, 2002.

the student will necessarily be facing a lower impost than the actual charge. In other words, there will be a government-financed subsidy. [5]

Chapman argues that the level of the subsidy depends, in large part, on the students' expected future income and the level of their current undergraduate HECS debt.[6] The longer the period before repayment commences, and of repayment itself, the longer the interest-free period the student enjoys. Thus the value of the total repayments made by the students, in today's prices – or the present value – decreases proportionate to the time taken to repay the debt. Chapman's economic modelling suggests that the public subsidy implicit in PELS ranges between 17.35 and 46.7 per cent, depending on the individual student's profile.[7]

In *Setting Firm Foundations*, the third paper released in the current Ministerial Review of Higher Education, the Department of Education, Science and Training (DEST) states that any extension of HECS and PELS-type schemes would result in increased levels of support by the government. DEST then goes on to question the kinds of limitations that should be imposed on these schemes to limit the resulting "overall increase in government subsidy".[8] It has been suggested that the proposed Bill does not entail financial outlays for the government. However, it seems apparent that supporting the extension of an interest-free loan scheme to private educational institutions is equivalent to supporting the extension of public subsidy to private providers.

2 c) Opportunity costs associated with PELS

The other side of the public subsidy coin is the opportunity cost to the government and the taxpayer. These costs result for two major reasons:

- not charging a real rate of interest and ;
- the inability to invest those funds elsewhere.

We have demonstrated that PELS is a public subsidy in more ways than one, and this is one of the major reasons why we would not support the proposed Bill in its current form. However, NUS could not support the Bill if it were amended to enable recovery of the full extent of the implicit subsidies. The next sections will outline our other concerns with the proposed Bill.

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[5] Chapman, B., *A Submission on Financing Issues to the Department of education, Science and Training Inquiry Into Higher Education Reform*, Submission 317, Higher Education Review, 2002, p.15.

[6] Under the original provisions of PELS, a student does not begin repaying their PELS debt until they have repaid their HECS debt.

[7] The implicit subsidy received by a 22-year old woman student with an unpaid HECS debt of $10,000 is 46.7% (40.5% for 22-year old male student). Comparatively, it is estimated at 17.3% for a 32-year old male student with no HECS debt. Chapman, op.cit. pp. 17 –18.

[8] Department of Education, Science and Training, *Setting Firm Foundations: Financing Australian Higher Education*, 25 July 2002, p.40.

3 Accountability

Extension of public funding to private educational institutions like Christian Heritage College or Melbourne College of Divinity or even a current beneficiary, Notre Dame University, is fraught with many problems. Public funding to universities is underpinned by expectations of accountability to the democratically elected governments and representatives, and broadly to taxpayers. There is a further ability for the government and taxpayers to be involved in the governance, academic and administrative processes of universities. We will briefly discuss a few of the means through which the government holds public universities accountable.

3 a) Governance Structures

Examples of this intervention include state and federal representatives on university governance bodies; various state legislative measures pertaining to the establishment and purposes of universities; tabling of annual and financial reports to state and federal government departments, and the ability to introduce further reporting requirements as necessary; monitoring the establishment of courses, external research centres, corporate entities, fundraising foundations, monitoring the quality of teaching, learning and research, and setting of research priorities. These kinds of government involvement mean that, in essence, universities are on a shorter leash than widely believed. However, this level of government involvement in university operations is imperative if the higher education institution is to remain accountable to the general populace, continue to provide quality and accessible courses to students, and conduct relevant and original research. The Board of Directors of Tabor College (Adelaide) is a body of seven including three staff members (currently the Principal, Executive Director and the Head of Distance Education), two Ministers of Religion, a business representative and a medical doctor.[9] All members are appointed, rather than elected, and the Board conspicuously lacks students and government representatives. As an incorporated body, Tabor is expected to present an annual audited report to its members and the state government's relevant corporate affairs agency. However, neither elected students and staff nor representatives from state or federal governments are in a position to shape the Board's policy and operations directly.

3 b) Conditional Funding

Public funds come with strings-attached for good reason. These strings are not possible for private higher education providers, by definition. Neither the Government nor any elected representatives can expect this kind of institutional accountability to taxpayers from private institutions. This Bill does not outline any accountability provisions nor any mechanisms to monitor quality of course offerings. The Minister for Education has not outlined any special measures DEST will undertake to ensure accountability of the same level as public universities. (It will already prove difficult for DEST and the Minister for Education to ensure that fees for postgraduate degrees do not increase unreasonably with the introduction of PELS. For instance, University of Melbourne is set to increase fees for

[9] D. Slape, Executive Director, Tabor College (Adelaide), personal conversation, 2002.

some postgraduate courses by 57% next year.) It is unfair to suggest one set of standards for public recipients of public subsidy, and private recipients of public subsidy. Reporting and requirements are relaxed, instead of being made more stringent for institutions over which public control is limited.

The various forms of public funding that universities receive (operating grants, equity funds, capital development funds, etc) are tied to certain expectations of public universities. To isolate one particular aspect of that funding context, PELS, and extend it to private institutions in return for nothing by way of accountability is nonsensical. This network of funding arrangements, accountability requirements, and extension of knowledge and skills for public benefit, tied into the idea of a public higher educational institution, shows the anachronistic nature of the PELS sections of the proposed HEFA Bill.

3 c) Quality

There have been widespread concerns about quality of course offerings in universities today, as outlined in *Universities in Crisis*[10]. The government has the ability to address these concerns about public universities through Inquiries and Reviews like the "Crossroads" Review, launched by the Minister. However, neither the Australian taxpayer nor the government has the ability to impose quality controls, minimum academic standards or the like on any of these four institutions. Yet it will be obliged to provide public subsidy to these institutions, if this Bill is supported.

4 Courses for Public Need

The Minister has stated that the extension of PELS will extend the access of students to higher education. In his second reading speech, Dr Nelson stated, "The extension of PELS to these four institutions levels the playing field for competition in fee-paying coursework degrees and further extends opportunities for institutions to provide and students to undertake fee-paying postgraduate coursework."[11] This Bill extends access to particular non-secular institutions for the provision of a very limited set of degrees. It does nothing to extend to fields of study that are in greater demand (or in greater need) in areas of biological and molecular sciences, postgraduate nursing and midwifery, education, physical sciences or engineering. Instead of extending PELS, or equivalent funds in other areas, to areas that promote lifelong learning, important research and scholarship development or provide significant public benefit, this Bill extends funds to institutions, which often have limited objectives. For example:

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[10] Senate Employment, Workplace Relations, Small Business and Education References Committee, *Universities in Crisis*, 2001

[11] Hon. B. Nelson, Minister for Education, Science and Training, Second Reading Speech, Higher Education Funding Amendment Bill 2002, Hansard, 5 June 2002, p.3115.

"Our mission is to promote Christian unity and revival by providing quality Christian education to people of all nationalities and to be a witness to the majesty of Christ." [12]

Students, in dire need of additional places at broadband public universities, are overlooked in this Bill, in favour of private institutions with limited objectives and often, already-considerable sources of income.

5 Equity

Similarly, equity concerns will go un-addressed in relation to these private institutions. Departments of Education (or their various incarnates) have for years set guidelines for funding of equity and support programs for indigenous enrolments, students from lower socio-economic backgrounds, rural and isolated students, women and other marginalised groups as necessary. It is able to mediate these kinds of equity and scholarship programs through conditions attached to public funding, or by placing indirect yet effective pressure on universities. These avenues are not open to the federal (and state) governments for private providers. In addition to student equity issues, all 4 institutions proposed for inclusion are exempt from anti-discrimination policies, equality of employment opportunity provisions and are under no obligation to take measures to improve access to disadvantaged groups.

6 Particular institution-specific concerns with relation to public/private and secular/non-secular divide

We find it deeply concerning that all but one of these institutions is non-secular. It is alarming that the government is considering the extension of public subsidy to providers that are exclusionary to many groups in society by definition. The Australian constitutional democracy is based on secular principles that do not privilege any particular set of religious beliefs, let alone any particular religious institutions. Extending PELS to the 3 religious Colleges raises at least 4 (related) questions:

- Should Australian taxpayers be subsidising the religious training of teachers and clergy?
- Should other private and/or non-secular institutions have access to public funds?
- Upon the extension of PELS, should other forms of public subsidy (e.g. HECS) be offered to these organisations?
- Why privilege these 3 organisations, above the scores of other private and/or non-secular education providers?

In response to 1) and 2), NUS strongly recommends that a strong stance be taken against taxpayer money going to non-secular institutions. This Bill undermines the liberal democracy that Australians have come to expect. We are concerned that this is the thin end of the wedge, and unless it is rejected now, will lead to further public funds being opened up to other non-secular institutions. (Incidentally, there might be a greater public outcry if one of these 3 Colleges happened to be of the Islamic or Hindu persuasion.)

[12] Tabor College (Adelaide), Mission Statement, www.adelaide.tabor.edu.au, 2002.

In response to 3) and 4), extending PELS to these 3 Colleges will undermine the ability of any political party, in government or opposition, to argue against extending other forms of public subsidy to these institutions. A separate schedule is proposed in order to limit the eligibility of these institutions, however, many institutions are cross-listed in more than one schedule of HEFA. Indeed, it is proposed that Bond be listed in the new schedule, in addition to its current listing in the RTS schedule. It will also be difficult to refuse public subsidy to other private and/or non-secular providers of similar standing to the 3 proposed colleges. The Bill needs to consider either no public subsidy for any private providers or to extend public subsidies to private providers that comply with some general set of guidelines. It seems odd (or perhaps politically motivated) to single out 3 particular non-university institutions over any others.

There seems to be a level of speculation that Bond and MCD are of different calibre to Christian Heritage and Tabor. NUS is concerned that the example of extending HECS places to Notre Dame will drive a decision to extend PELS to Bond, while opposing the extension to others. It must be remembered that the general accountability, equity, quality and public benefit concerns outlined earlier apply to Bond in the same way that they apply to the other 3, and Notre Dame. NUS opposed the introduction of HECS places to the Fremantle campus of Notre Dame and would urge that Bond not be given any special treatment. Although the extension of funds to Notre Dame may have been something of an aberration under HEFA, there is no reason why this aberration must be made a pattern. A stronger precedent is established if Bond is also added to the list of private institutions that currently receive some funds from the public purse. The fact remains that Bond does not and does not have to comply with national protocols, which are being considered by the Queensland State Government, nor is it publicly accountable.

MCD is sometimes also seen as an exception because it is an established theological college (est. 1910), which has articulated to the University of Melbourne since 1993. If MCD were treated as an exception because it is closely linked to Melbourne, NUS would argue that it should be funded as part of Melbourne. Either it is an autonomous, private and non-secular provider (in which case it would be subject our concerns as raised earlier) or it is, for all intents and purposes, a part of Melbourne University (in which case it should not be funded separately). We are also concerned that extending PELS for these reasons to MCD may enable other private institution to set up articulation arrangements with public universities in order to receive public subsidies. Although MCD's arrangement may not have been motivated by these concerns, future arrangements between private providers and public universities could be.

<u>Conclusion</u>

Upon consideration of issues of accountability, quality, and equity, there do not appear to be compelling reasons supporting the extension of PELS to the four private institutions. This Bill seeks to fund four institutions with very limited charters and degree provisions. The clear financial cost involved with this scheme could be targetted towards areas of greater need in the public university system, such as creating more places in Nursing.

Recommendation

That Part 2 (Items 8-21) of the Higher Education Funding Amendment Bill 2002 be opposed and removed from the Bill.

References

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