

IRU submission: Higher Education and Research Reform Amendment Bill 2014

Overview

The Innovative Research Universities (IRU) supports the passage of the *Higher Education and Research Reform Amendment Bill 2014* (the Bill) with amendments to address weaknesses in the Government's plan.

The Bill will put in place reforms to higher education that may provide a viable basis for universities over the next decade. The Bill provides a way ahead. It retains open access to government supported higher education. It proposes mechanisms to give universities the resources they need. These combine Government funding with student fees agreed between university and student.

A summary of the elements of the Bill is provided at Attachment 1.

There are five areas in the Government's plan that the Senate should address as it considers the Bill.

1. The funding rates in the Bill will reduce funding per student overall by 20%. This cut should be scaled back to retain reasonable levels of Government investment. The IRU supports the Government's new five funding tiers, which better distribute the available funding than the current dated grouping of disciplines.
2. The proposal to index graduates' HELP debts by the ten-year bond rate rather than the CPI will extend considerably the period of repayment for graduates with lower incomes, particularly those who take time out of the workforce, for example for maternity and parental leave. This needs to change, with the CPI index retained at least for the debts of graduates not earning sufficient income to make repayments.
3. The Commonwealth Scholarships Scheme should pool the eligible funds from all providers as the basis for matching the funds for scholarships with the students for whom they are intended. This will encourage students to choose their university based on their educational preferences.
4. The IRU opposes the reduction in funding for research students pursuing PhDs and Masters. This program creates our future research workforce in industry as well as universities. It needs to grow, not shrink.
5. Universities need support to make the transition to a market based system through a structural adjustment fund. IRU universities serve outer metropolitan and significant non-capital city regions. We need to test how well the potential students in our catchment areas will respond.

The IRU urges the Senate to pass the Bill with the necessary amendments by the end of 2014. Students are now planning their 2015 studies without knowing the funding and fees that will apply to them from 2016.

Structure of the submission

The IRU submission has three sections:

1. why the key changes in the Bill are needed;
2. the implications of the major policy decisions expressed in the Bill; and
3. the precise changes required to the Bill and other Government programs.

To support our submission we attach three previously published IRU papers:

1. Overview and Analysis: *Higher Education and Research Reform Amendment Bill 2014*, 8 September 2014
2. Recovering the lost Government subsidy from students, 16 June 2014
3. Using Eligible Students to Drive the Scholarship Fund, 20 June 2014

1. Why the changes are needed

The members of the IRU have been committed from their foundation to providing effective, high quality, future focused education that meets the needs of a wide range of students, many of whom are the first in their families to attend university. To do so requires sufficient resources.

The IRU accepts a system of deregulated university fees as a consequence of the major reduction proposed in Government funding. It is based on the reality that current revenue from Government and students does not support the high quality university education that universities wish to provide and that students and the public expect.

The ongoing problem is the lack of Government investment per student.

There is a well established gap between the resources available to universities and the resources required to meet the long term set and expected standards of higher education.

Additional Government expenditure has targeted expansion of the system but not depth. The value of funding per student, combining Government and student payments, has drifted downwards consistently since the 1980s.

The Review of Australian Higher Education (Bradley Report)¹ in 2008 concluded that “there are now clear signs that the quality of the educational experience is declining ... student-to-staff ratios are unacceptably high” leading it to argue that “a significant increase in public investment and funding for higher education is warranted”. It proposed an increase of ten percent to the base grants from the Commonwealth but not an increase to student contributions (Bradley, p xii and xv, Recommendation 26).

Bradley recommended that there be a detailed study of the base funding arrangements for universities to provide Government with a coherent case for the necessary level of funding. The Higher Education Base Funding Review (Lomax-Smith)² demonstrated that the gap is real. Its data suggests as much as 20% to 30% additional base revenue is required to match needed expenditure. It reached its conclusion based on current and future requirements for effective higher education.³

In response to these reports the previous Labor Governments expanded investment to support more students, but little went to invest more for each student. Those few elements were the ones whittled away, budget by budget, culminating in the efficiency dividend to apply from 2014, which embedded an ongoing reduction in real value of Government investment.

The current Government is clear that it will not maintain Government funding per student at previous rates. It proposes a 20% reduction to pay for opening Government support to all higher education undergraduate qualifications through any registered higher education provider.

The lesson is clear. Governments will invest in additional students. They will not invest more for each student, regardless of the resources universities need.

A well-resourced, primarily Government funded system is a chimera. Student contributions have grown from around 20% of the resource in the early 1990s through to just over 40% now. The expansion in places since the 1990s has depended on the student payments to offset some of the cost. There is no return from that position.

¹ *Review of Australian Higher Education: Final Report, 2008*

² *Higher Education Base Funding Review, Final Report, 2011*

³ *IRU Renewing University Base Funding The Priority Issues, 29 February 2012*

Restoring limits to the number of students who are funded is not a solution. It would undermine the achievement of the past half-decade. To allow all eligible students a place at university is a fundamental transformation that makes higher education an integral part of the education pathway for Australians. The Kemp-Norton Review of Demand Driven Funding confirmed the value from, and success of, this change⁴.

Hence, IRU will work with the major changes inherent in a system of a base Government contribution combined with student fees set to generate the revenue each university and provider require to provide good quality higher education.

The following section explores the major implications of the proposed changes to inform discussion of the Bill.

⁴ *Report of the Review of the Demand Driven Funding System, 2014*

2. The implications of the major policy decisions expressed in the Bill

A fixed Government contribution combined with deregulated student fees

The funding rates for the Commonwealth Grant Scheme in the Bill should be increased to provide a better balance of Government investment to student payments. The IRU supports the Government's new five funding tiers, which better distribute the available funding than the current dated grouping of disciplines.

IRU members are planning how they will respond to the new arrangements while being very conscious that the final shape of any changes depends on the passage of the Bill.

The need to charge fees higher than current charges is driven by the proposed 20% reduction in Government funding. IRU, along with all university groups, considers the reduction far in excess of a reasonable Government response to its overall fiscal targets. The reduction should be much smaller, investing in the skills, knowledge and social capability crucial to longer-term prosperity and future Government revenue. Retaining a high level of Government investment will permit universities to be more restrained in setting fees.

Since the Government announced its plans on 13 May 2014 there have been many guesses at the level of student fees that universities would charge. Among these the IRU estimated that universities would need to increase the charge across all students by 25% to 30% at an average fee per student of around \$10,500 to recover the reduction in Government grant (see Attachment 2).

All the published modeling is based on extrapolations from current practice, which has two core elements.

- Government funding and student charges are set by discipline, with units of study in disciplines that need similar levels of Government or student investment grouped together into funding clusters and student contribution bands. The units a student studies are not always from the same discipline group for Government funding or for student charges. An engineer may take mathematic units; a scientist may take a humanities unit.
- The total resource, Government plus student, is fixed. Over time the balance has shifted to the student but the total amount is largely driven by estimates of discipline cost differentials from the 1990s.

Under the Government's changes, Government funding will remain based in units of study, with rates set by discipline groupings. The Government has updated the grouping of disciplines into five funding clusters. The IRU supports the new groups which better distribute the available funding than the dated grouping now in use, giving more funding to courses in nursing, education and agriculture whose graduates have a lesser graduate dividend than those in other disciplines.

How student charges are structured will be individual decisions, university by university by non-university provider. We do not know how much fees will be, nor on what basis they will be charged. The major drivers will be the revenue universities need to deliver their full suite of programs the way they best should be, the desire to attract a wide range of students, and the strength, or weakness in the student market course by course.

In 2016 the majority of undergraduate students will be funded and charged under current arrangements. As that proportion reduces to zero by 2021 universities' responses to the changed fee arrangements will become clearer. It is likely that universities will diverge in the resource they seek for particular degrees so that different approaches to charges will emerge. Many institutions are considering setting the fee by the course regardless of which units a student takes. Students from

particular backgrounds or admission paths may be charged different amounts in the same way La Trobe University has announced for its Aspire students.⁵

The extension of funding to sub-bachelor places

The IRU supports extending access to funding to all enrolments in accredited higher education Diploma, Advanced Diploma and Associate degrees.

Sub-bachelor provision is an important mechanism for developing higher education learning skills as the basis for subsequent bachelor study. It targets individuals with the long-term capability for bachelor study who do not yet have the necessary skills and preliminary learning.

Enrolment in Diploma and Associate Degree programs allows a focus on skill development and essential learning that opens the way for successful students to then complete a degree, with credit gained from the previous study. Enrolment in enabling programs provides a shorter pathway focused at skill development but without credit.

Under initial demand driven plans no restrictions were intended on funded sub-bachelor places. In November 2011 the then Minister, Senator Evans, announced that there would be a cap on funded sub-bachelor places, using the alleged negative impact on diploma and advanced diploma delivery in TAFEs as the rationale.⁶

Including these places within the demand driven arrangements as originally intended will have minimal financial impact and improve the effectiveness of funding overall. Students who go on to enrol in a bachelor degree will be given credit for the earlier study and they will be better prepared and so more likely to complete.

Ensuring that the sub-degree pathway is available also reduces the community debate about the suitability of applicants with lower school outcomes entering university by providing a transition process that develops capability for bachelor level study.

Extending eligibility for funding to all registered higher education providers

The IRU argues that higher education providers gaining their first access to funded places should not be given open-ended funding for all enrolled students immediately.

The Bill will give eligibility for Commonwealth supported places to all registered higher education providers if they apply and the Minister approves. It aligns the regulatory and funding regimes.

The extension of access to funding to higher education providers, variously universities, TAFEs, nonprofit bodies, professional bodies, and for-profit providers, carries through Recommendation 29 of the Bradley report that the demand driven arrangements “be extended to other approved providers when new regulatory arrangements are in place”.⁷

The IRU understands that universities have demonstrated the value of demand responsive funding such that the Government can now extend it to all providers. The issues are not about whether to extend but the way in which it is done.

⁵ <http://www.latrobe.edu.au/news/articles/2014/release/la-trobe-caps-fees-for-aspire-students>

⁶ Senator The Hon Chris Evans, Minister for Tertiary Education, Skills, Jobs and Workplace Relations, “Ensuring a sustainable tertiary education sector” 1 November 2011

⁷ *Review of Australian Higher Education: Final Report*, 2008, p158

In 2016 universities will have 30% to 40% of Australian domestic students in the deregulated market, with the remainder being protected students enrolled in 2014 who are able to complete their degree programs under the current funding and charging rules. To compete with providers receiving funding for 100% of their students creates an imbalance that adds unnecessarily to the challenge of judging the best balance of courses and fees under the new arrangements.

Further, it is important to avoid the risk of a small number of non-university providers exploiting access to funding for their students, damaging the reputation of the group as a whole.

The Bill also extends access to Other Grants (Part 2-3) and to funded Commonwealth Scholarships (Part 2-4) to all providers subject to Guidelines. The transition provisions of the Bill (186 and 187) prevent additional providers accessing Other Grants or Scholarships until the Minister makes Guidelines to give them such access. This means that any extension is subject to parliamentary disallowance.

The IRU would oppose the extension of research grants to international universities without additional funding for those programs.

Student loan arrangements

The proposal to index graduates' HELP debts by the ten-year bond rate rather than the CPI will extend considerably the period of repayment for graduates with lower incomes, particularly those who take time out the workforce for example for maternity and parental leave. This needs to change, with the CPI index retained, at least for the debts of graduates not earning sufficient income to make repayments.

The Bill runs together the HECS-HELP and FEE-HELP schemes, mostly retaining the sections for FEE-HELP with an update of name to HECS-HELP. The current FEE-HELP rules to set a lifetime maximum loan and to charge a loan fee are removed. These amendments retain the essence of income contingent loans but structured to support a deregulated fee market.

Potential students will have to assess the long-term implications of the debt to be incurred against their perception of likely earnings. The question that should particularly concern potential students is the terms for the repayment of the loan.

The nature of HELP is to ensure repayment as graduates are able to do so, with acceptance that a proportion of the loans will not be repaid due to students who do not ever earn enough to do so.

The Government's proposed change to the annual index for outstanding debts, from the CPI to the ten year bond rate, pushes the balance towards recovering the full cost to Government of making the loans. This will have the greatest effect on those whose earnings are below the repayment threshold for some years but which then rise sufficiently to require payments. By that point their debts will have increased substantially ahead of inflation.

The IRU opposes the change to the index rate. It is important that prospective students are confident that the loans they incur can be repaid should they earn a graduate level income.

A report from Bruce Chapman and Timothy Higgins⁸ proposes two options for Government that would both achieve the Government's objective to reduce Government costs from the loans and be less regressive to students. One is to add a loan fee, estimated to be 25%, to all loans up front thus increasing the cost to all students. The second is to apply the proposed new index to the debts of

⁸ *HELP Interest Rate Options: Equity and Cost*, July 2014

people who earn enough to make HELP repayments, retaining the CPI index for those with lower earnings.

The second option would protect graduates during the years in which earnings are low and provide additional payments to Government reducing the total cost of the scheme.

IRU would prefer retention of the current CPI index to be applied to all debts. Should the Government hold firm to the need to reduce the cost to it from HELP the second Chapman-Higgins proposal provides a viable solution which IRU would support.

Support for students: Commonwealth Scholarships Scheme

The IRU proposes that the amount destined for the Commonwealth Scholarships Scheme from each provider be pooled and redistributed back to providers based on the proportion of the target group of students each enrolls. Universities would retain the responsibility to decide how to allocate the scholarship funds.

Full details of the IRU proposal are set out in the statement at Attachment 3.

The Government's proposal for the Commonwealth Scholarships Scheme is that all universities and other providers with at least 500 full time equivalent students allocate a portion of fee income to support scholarships for students from disadvantaged backgrounds. Each university would use the scholarship funds it raises to support its students, targeting those eligible. The university will determine how much each student receives and any conditions for use of the scholarships.

Because the funds remain within each institution the driver of the scheme is the fees people not eligible for scholarships pay, rather than the needs of people eligible for support. The likely result is that the more scholarship funds a university has the fewer eligible students it has to support with scholarships.

Further, universities with high fees but low numbers of target students have no incentive to increase the number of eligible students they enrol.

The scholarship program needs to refocus support for the eligible students, ensuring they receive the funds available to use at the provider of their choice.

The IRU proposal makes the student the driver. It means that each of the institutions a target student is considering will have funds to support a scholarship of similar size. Hence the student can decide which university to attend on the basis of the educational value they will receive. It creates the incentive for institutions to increase the enrolment of target students to retain all the revenue their students contribute to the pool.

Under both approaches students' fees are used to support other students: the Government scheme is predicated on funds from students in an institution being used to support other students in that institution; the IRU proposal extends the use to support students in any institution.

The implications for higher education quality

The proposed changes require the national higher education quality arrangements to develop in tandem with the funding and regulatory changes.

There will be at least two new pressure points:

- greater variation in the nature of delivery, with similar programs operating from quite different resource bases; and

- the incentive for additional providers to enter higher education, once Government funding becomes available, and for current, non funded providers to expand their delivery.

The effectiveness of TEQSA will be crucial. Over the past year TEQSA has refocused its arrangements to ensure it targets providers with greater likelihood of risk, such as those new to higher education or those seeking accreditation of new courses in new areas. IRU has separately supported amendments to the TEQSA Act designed to assist it to refocus.

It is important that TEQSA continue to use the standard time frames to respond to applications for registration and for accreditation to prevent new providers and courses being rushed untested into the market. A considered assessment of new providers and new courses helps ensure that they will be effective additions to the options available.

The changed funding arrangements are likely to attract more providers. The increased competition will see some providers flourish, others struggle, and some simply choose to finish up. The quality system will need to be sufficiently robust to work with this, to facilitate provider entry and exit, while ensuring students are not adversely affected.

Supporting research capacity in universities

The cuts to the Commonwealth Grant Scheme affect university research outcomes as well as teaching. The cuts should be scaled back to retain reasonable levels of Government investment.

The reduction in university base funding through the Commonwealth Grant Scheme (CGS) puts pressure on the universities' capability to retain research as an integral activity that can support the research funded through external grants and contracts.

University base funding is the prime source of salary and related costs for most academic staff. The research block grants, which include the Research Training Scheme (see further below), funded through the HESA Other Grant sections, are the other source of ongoing Government funding for research. Research grants through the Australian Research Council and National Health and Medical Research Council and other external sources rely on universities' capacity to support an effective research eco-system.

The 30% differential in CGS funding between universities and other non-university providers highlights the expectation for universities to support research, the reduction in total funds hinders the achievement.

The issue is particularly important for members of the IRU, which were established as research-intensive universities in the outer urban areas of Australia's capitals and in major provincial cities to stimulate economic, social and personal advancement. IRU members are the main counter to the tendency for Australian research and researchers to concentrate in the inner circle of Australia's capital cities.

The universities' research strengthens the social and economic prosperity of their regions, linking them to global opportunities. The focus of IRU members in northern Australia on links to the neighbouring Asian countries is one notable example.

To achieve the outcomes expected requires an effective research eco-system that supports researchers, linking them to researchers elsewhere in Australia and the world. Universities' base funding through the CGS and block grants is critical to doing so successfully.

Hence, as argued above, the CGS reduction should be much smaller, investing the funds retained in the skills, knowledge and social capability crucial to longer-term prosperity and future Government revenue.

Developing Australia's research workforce

The IRU opposes the reduction in funding for research students pursuing PhDs and Masters. To cut it back only puts at risk our future research workforce.

The Government's proposal to reduce the Research Training Scheme (RTS) by 10% would hamper universities' capacity to develop future researchers. It would mean that not only has Government support for research training not increased since the Scheme was created in 2001 it would now decrease.

The number of Australian students undertaking higher degrees by research has been relatively flat for at least a decade. At the same time, international enrolments have increased substantially, particularly in science, technology, engineering and mathematics (STEM) as shown in the Table.

The RTS reduction is not reflected directly in the Bill, since payments for the RTS sit within the funds appropriated for the Other Grants, but Schedule 5 Part 2 is a consequence.

The amendments would allow universities to offset the reduction in the RTS by charging research students. The amendments treat research students solely as students consuming resources for a potential payoff following graduation. It ignores the important, active, contribution research students make to research output whether individually or as part of research teams.

A thorough rethink of the place of research students is required to address the mechanisms by which Government supports their development and their living costs. This should ensure coherence with undergraduate funding where universities are funded for all students who enrol. The Government should be encouraging additional research students not discouraging enrolments.

Postgraduate Research students 2004-2013 by Citizenship and Discipline

(Equivalent Full Time Student Load)

Citizenship	Discipline	2004	2007	2010	2013	% Change
						2004-2013
Domestic	STEM Fields	10,989	10,621	10,542	10,594	-4%
	Other Fields	16,057	16,191	16,978	18,093	13%
	Total	27,046	26,812	27,520	28,687	6%
International	STEM Fields	3,048	4,124	6,791	9,386	208%
	Other Fields	3,278	3,723	5,363	6,212	90%
	Total	6,326	7,847	12,154	15,598	147%

Source: Department of Education Higher Education Statistics Data Cube
STEM Fields include Natural and Physical Sciences; Agriculture, Environment and Related Studies; Information Technology and Engineering and Related Technologies

Ensuring an effective transition for higher education providers

The IRU supports the creation of a structural adjustment fund to support the transition to the new arrangements for potentially adversely affected universities.

The Government's changes to higher education funding and the arrangements for student fees will create much uncertainty as universities, other providers and potential students work out how the new arrangements will operate in practice. Universities need support to make the transition to a full market based system to avoid unnecessary negative consequences that would counter the Government's broad objectives.

IRU members, as universities serving outer metropolitan and significant non-capital city regions, need to test how potential students in our catchment areas will respond.

The potential issues include major shifts in where students enrol, reductions in revenue if students are not willing to pay, the level of fees required to maintain sufficient revenue, undermining of research capability dependent on base funding, and the closing down of special delivery options to target regions which have been explicitly subsidised from the main operations of a university.

A structural adjustment fund will assist universities to make the transition. The fund should support universities through the transition to avoid nationally undesirable outcomes. It should target agreed national issues of importance, but avoid geographically based presumptions of need.

3. Amendments to the Bill and Government policy

Based on the previous two sections of this submission the IRU has identified three areas in the Bill where amendments should be made. These are set out below.

1. Schedule One, item 45: Increase the funding rates in the Table at 33-10 to limit the reduction in Commonwealth Grant Scheme funding to less than 20%.
2. Schedule Two, item 1: new 36-75(4) Amend to reflect that the provider's 'eligible amount' is based on the funds raised nationally to support the scholarships.
3. Schedule Three: Reject the Schedule in order to retain the current indexation arrangements for HELP debts, for at least the debts of graduates not earning sufficient income to make repayments.

The IRU supports other changes to the Government's policy that do not require amendments to the Bill itself but which should be a condition for the Senate to support the Bill. These are:

4. giving up the proposed 10% reduction to funding for the Research Training Scheme; and
5. creation of a Structural Adjustment Fund, which would be administered as an Other Grant.