

IRU submission: *Higher Education and Research Reform Bill 2014*

Overview

The Innovative Research Universities (IRU) supports passage of the *Higher Education and Research Reform Bill 2014* (the Bill) with amendments to:

- complete the suite of amendments previously proposed by the IRU to the *Higher Education and Research Reform Amendment Bill 2014*, beginning with a much lower Government saving from the Commonwealth Grant Scheme; and
- address cross bench Senators' concerns about the potential negative consequences of introducing fee flexibility.

With these changes, the Bill would provide a viable basis for universities over the next decade. It would ensure open access to government supported higher education can continue for the long term. It would give universities the resources they need from the combination of Government funding with student fees agreed between university and student.

The IRU submission below addresses:

1. the context for the inquiry;
2. the major areas for change in the Bill;
3. why a major change to higher education resourcing is needed; and
4. the impact of the changes from the HERRA Bill and the major changes still required to the Bill.

The substance of the IRU submission to the *Higher Education and Research Reform Amendment Bill 2014* remains relevant and is largely not repeated in this submission.

1. Context

The *Higher Education and Research Reform Bill 2014* is the second Bill to introduce a suite of major changes to the funding and regulation of higher education and research. The first Bill, the *Higher Education and Research Reform Amendment Bill 2014* was subject to considerable scrutiny before the Senate voted against it in December 2014.

The second Bill is substantially the same as the first, with a series of amendments addressing some of the issues that universities and other groups had raised.

It is clear that the provisions in the Bill permitting universities to set the level of fee they charge students while receiving Government funding are considered too open ended by significant numbers of Senators. This is the message given to the IRU in advocating the need for universities to have a better future resource base.

The IRU acknowledges the need to improve the arrangements for fee flexibility if it is to be supported, which we will address in our submission to the related References Committee inquiry.

2. The changes required to the Bill

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

- i. 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.
- ii. There should be amendments to address concerns with the impact of fee flexibility.
- iii. Instead of reworking the Higher Education Participation Programme to designate funds for Government Scholarships, 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.
- iv. The reduction in funding for research students pursuing PhDs and Masters should be abandoned. The Research Training Scheme creates our future research workforce in industry as well as universities. It needs to grow, not shrink.
- v. Universities need support to make the transition to a market based system through a structural adjustment fund of \$500 million over three years. The Government has gone part of the way necessary to create a fund that targets universities, including some IRU members, in regional areas of Australia. An effective transition fund needs to be open to all universities to make a case for funds that will assist them transit to the new arrangements. It is foolish to define in advance which types of regions will need assistance.

3. Why a major change to higher education resourcing is needed

From their foundation, the members of the IRU have been committed 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.

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 IRU accepts a system of flexible university fees is the most realistic mechanism to provide the resources needed based on the clear evidence that Government investment will not increase to the extent required.

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 long term outcomes for higher education.

Over three decades, additional Government expenditure has targeted expansion of undergraduate places and greater support for research. As a result total Government investment has steadily grown, with major increases over the past five years but 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

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

for higher education is warranted". It proposed an increase of ten percent to the base grants from the Commonwealth (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. Its major investment was the 2009 package *Transforming Australia's Higher Education System*, in response to the Bradley review of higher education and the Cutler review of national innovation system.

Of the sixteen initiatives in that package only four target improving the resources for universities to do better in teaching students, three of which were subsequently reduced in scope⁴:

- a per student loading for low SES enrolments, which continues but whose value was reduced in a 2012 budget decision;
- raising student contributions for nursing and education to match those for humanities. This was an increase in student payments supported by HELP;
- performance funding, targeting teaching and learning outcomes and participation improvement by under-represented groups. The larger scheme to rewards learning outcomes was abandoned in the 2011 budget and mid-year financial update; and
- effective indexation, to ensure the value of funding is maintained not reduced year by year. The value of the indexation change would be undermined by the planned efficiency dividend announced in 2013, which would embed an ongoing reduction in Government investment.

The impact of these measures was to halt the slide in funding per student in recent years but not address the gap Bradley and Lomax-Smith identified.

Other factors also affect the high level data. An important outcome of demand driven funding was strong growth in science, technology and health science disciplines⁵. A side effect of this is that the funding per student rises because those areas receive above average funding.

The current Government is clear that it will not maintain Government funding per student. It proposes a 20% reduction to pay for opening Government support to all higher education undergraduate qualifications through any registered higher education provider. Again expansion of access has priority over investment in the quality of the student outcomes.

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.

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

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

⁴ *Transforming Australia's Higher Education System*, Commonwealth of Australia 2009, Appendix One

⁵ IRU *Demand driven system fuels growth in science and technology students*, March 2013

Restoring limits to the number of students who are funded is not a solution. It would undermine the fundamental 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 change⁶.

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.

4. Improving the Bill: from HERRA to HERR and outstanding matters

The revised Bill which the Committee is considering contains changes to address problems with the original Bill. These changes in part address the IRU concerns but leave substantial issues outstanding.

HELP repayment

Retention of the CPI to index Higher Education Loan Programme (HELP) debts removes a major problem with the first package. It ensures that the amount students commit to pay is the amount which they will pay over time as their earnings justify payment. It avoids the spectre of rapidly increasing debts where indexation exceeds payments.

The introduction of a five year indexation pause on HELP for the primary carer of a child less than five years old will further assist graduates with young families, whose debt otherwise grows despite temporary limited capacity for earnings.

The level of Government Investment

IRU, along with all university groups, considers the 20% reduction to the Commonwealth Grant Scheme 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.

Ensuring an effective transition for higher education providers

Universities should be supported to make the transition to a system open to all providers and fee flexibility through a structural adjustment fund for universities committed to raising higher education attainment in outer metropolitan and rural regions.

The Government has committed \$100 million to date, with a focus on regional areas. \$500 million is required, which would be consistent with the 2009 package's \$402 million for transition.

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.

⁶ *Report of the Review of the Demand Driven Funding System, 2014*

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. The funds should be for a set period to ensure they support transition and are not an ongoing prop. Once in place the need to supplement funding to address any weaknesses will be a question for future Governments.

Support for students: Commonwealth Scholarships Scheme and changes to the Higher Education Participation Programme

Schedule 9A of the Bill would amend the Other Grants Guidelines (Education) to renew arrangements for the Higher Education Participation Programme (HEPP). These changes need to be considered in concert with the proposed Commonwealth Scholarships Scheme and the change of the previous Government Start-Up Scholarships into an additional HELP-like loan.

The HEPP changes would create three programme elements.

1. Rework the current low SES loading into a new Higher Education Participation (Access and Participation) Programme.

The details of how funds would be allocated are not explicit in contrast to the current Guidelines. The Government has indicated that the allocation would be similar to the current programme but with a threshold level of low-SES enrolment required to be eligible for funds.

IRU members expect to meet the threshold but have some concerns that threshold's focus on proportion of students understates the role of some larger universities with considerable numbers of low SES students. It also reduces the pressure on the universities with currently low level of low-SES enrolments to improve the balance of their student cohorts.

2. A new Higher Education Participation (Scholarships Fund) Programme to provide Government scholarships for students who most need them to meet costs of living while studying.

The current scheme supports scholarships where universities use funds in that way. The change determines in advance that funds will be used for scholarships. The intent appears to be to offset the perverse distribution of the proposed Commonwealth Scholarships Scheme, which would be better achieved by the IRU proposal set out below.

3. A new Higher Education Participation (National Priorities Pool) Programme to support sector wide initiatives.

A small allocation for national projects could be useful for ongoing work to improve access to universities.

Instead of altering HEPP to create Government allocated scholarships the IRU continues to argue 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.

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 Programme 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.

23 February 2015