

Chapter 2

Views on the bills

2.1 The proposals in the Medicare Levy Amendment (National Disability Insurance Scheme Funding) Bill 2017 (the Medicare levy bill) and 10 related bills seek to fill the gap left by previous governments in the Commonwealth's contribution to funding the National Disability Insurance Scheme (NDIS), and to ensure the NDIS is fully funded into the future.

2.2 Submitters to the inquiry were unanimous in their support for a fully funded NDIS, with many expressing no opinion as to the appropriate mechanism by which funding certainty should be achieved.

2.3 This chapter examines the evidence received in relation to the NDIS funding gap; and the use of the Medicare levy and the NDIS Savings Fund Special Account to fund the NDIS. The chapter then focuses on the Nation Building Funds Repeal (National Disability Insurance Scheme Funding) Bill 2017 (the Funds repeal bill), as much of the evidence received for the inquiry concerned the closure of the Education Investment Fund (EIF).

The NDIS funding gap

2.4 During the public hearing, Mr Michael Brennan from Treasury, explained how the funding gap in Commonwealth funding for the NDIS was calculated, including how the shortfall over 10 years would accumulate to \$55 billion:

Our estimate of the shortfall is defined as being the difference between projected NDIS expenditure, which is still based on the 2011 Productivity Commission study and its views about medium-term projection, and the two other main sources of funding, namely the pre-existing Commonwealth disability spend and the Commonwealth's share of the DCAF [existing DisabilityCare Australia Fund], which would amount to a shortfall in the 2019–20 year in order of \$3.8 billion and a shortfall over the 10 years, out to 2027–28, with a total of \$55 billion.¹

2.5 To bridge this gap, the Medicare levy bill and the 10 related bills:

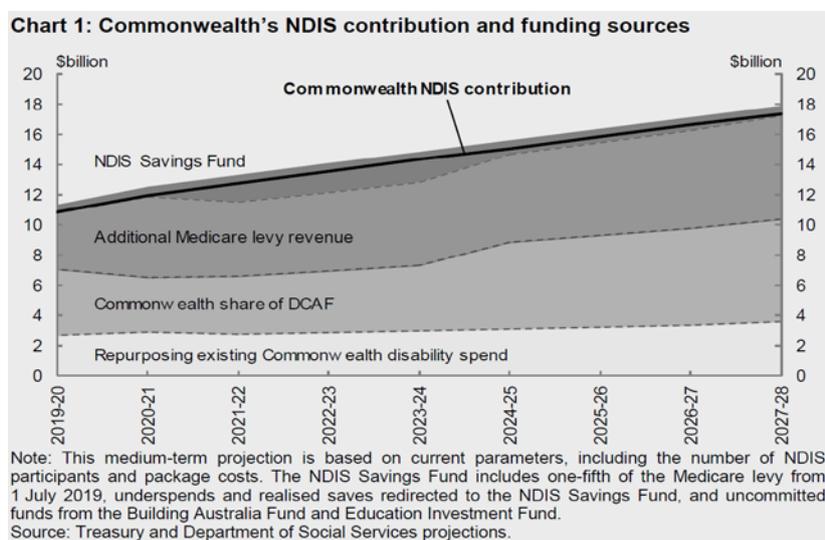
- increase the Medicare levy by half a percentage point from 1 July 2019, resulting in an estimated gain to revenue over the forward estimates of \$8.2 billion;² and
- credit in excess of \$7.2 billion of uncommitted funds from the Building Australia Fund (BAF) and the EIF to the NDIS Savings Fund Special Account once it is established.

1 Mr Michael Brennan, Deputy Secretary, Fiscal Group, Treasury, *Proof Committee Hansard*, 29 September 2017, p. 1.

2 Following which, one-fifth of the revenue raised by the Medicare levy in aggregate will be credited to the NDIS Savings Fund Special Account once it is established.

2.6 The following chart illustrates how these changes will operate to cover the Commonwealth's NDIS contribution and funding from 2019–20 to 2027–28.

Figure 2.1–Chart of Commonwealth's NDIS contribution and funding sources³



Source: Budget 2017–18, Budget Paper No. 1, Statement 3: Fiscal Strategy & Outlook, p. 3-10.

Support for using the Medicare levy to fund the NDIS

2.7 The majority of submitters to the inquiry fully support the use of the Medicare levy to fund the NDIS.

2.8 Recognising that the NDIS is an insurance scheme for all Australians, National Disability Services (NDS) maintained that 'the Medicare Levy is an appropriate channel through which Australians can share the cost of the NDIS'.⁴

2.9 In its submission to the inquiry supporting the use of the Medicare levy to fund the NDIS, Disabled Peoples' Organisations Australia (DPO Australia) highlighted that:

The Medicare Levy is a permanent element of our tax system, where everyone contributes to the cost of essential universal services according to their ability to pay. The Medicare Levy increases the revenue base into the future and provides a high level of certainty that essential, universal services are available when they are needed.⁵

2.10 Ms Therese Sands from DPO Australia, advised the committee that DPO Australia had consistently supported the role of the Medicare levy in providing a revenue base into the future for the NDIS:

We advocated for and supported the 0.5 per cent increase introduced by the Labor government in 2013, and we welcomed the 2017–18 coalition government budget measure to increase the Medicare levy by 0.5 per cent

3 Treasury, answers to questions on notice, 29 September 2017 (received 9 October 2017), p. 2.

4 National Disability Services, *Submission 6*, p. 1.

5 Disabled Peoples' Organisations Australia, *Submission 21*, p. 2.

from July 2019, which is given effect by this bill. A 0.5 per cent increase in the Medicare levy will increase the revenue base for the NDIS into the future and provide a high level of certainty that NDIS funding is secure.⁶

2.11 Ms Kirsten Deane, representing Every Australian Counts (EAC) and the National Disability and Carer Alliance (NDCA) also endorsed the use of the Medicare levy to fund the NDIS, outlining two main reasons for this support:

The first is that we are pleased that securing that source of funding would take it out of the budget cycle. It takes it out of the realm of politics. It identifies a secure, reliable, adequate source of funding to fully fund the scheme. The second reason we support it is that we do think it is fair. The scheme is available to every Australian, should they require it. Should they themselves acquire a disability or should they have a child with a disability, the scheme would be there if they needed it. So we think an increase in the Medicare levy is a fair way to fund it.⁷

2.12 NDS and DPO Australia also agreed with EAC and NDCA that an important benefit of using the Medicare levy to fund the NDIS is that it removes the issue from the budget cycle and political battles; and ensures that its funding is not associated with the need to find savings, or linked to cuts to other essential human and social services programs.⁸

2.13 Similarly, representatives from the Australian Council of Social Services (ACOSS) endorsed raising and reforming the Medicare levy as the best way to fund the NDIS whose costs are projected to rise substantially over the coming decades. Mr Peter Davidson from ACOSS, advised the committee that:

It is fairer than rationing services or raising user charges, which would undermine universality and the insurance principle underpinning the NDIS, and also fairer than proposals to reduce funding for other human services programs to fund the NDIS. While Medicare levy revenues are not strictly hypothecated to these expenditures, the levy instils public confidence that these universal services have a robust source of funding that is not bound too tightly to the vagaries of the annual budget process. It also means that future governments will be held to account to provide those universal services.⁹

2.14 Queensland Advocacy Incorporated, an independent, community-based systems and individual advocacy organisation and a community legal service for people with disability, asserted that it is vital that the NDIS continues to be funded as

6 Ms Therese Sands, Director, Disabled Peoples' Organisations Australia, *Proof Committee Hansard*, 29 September 2017, p. 36.

7 Ms Kirsten Deane, Campaign Director, Every Australian Counts, and Executive Director, National Disability and Carer Alliance, *Proof Committee Hansard*, 29 September 2017, p. 56.

8 National Disability Services, *Submission 6*, p. 1; Ms Therese Sands, Director, Disabled Peoples' Organisations Australia, *Proof Committee Hansard*, 29 September 2017, p. 36.

9 Mr Peter Davidson, Senior Adviser, Economics, Tax and Employment, Australian Council of Social Services, *Proof Committee Hansard*, 29 September 2017, p. 59.

a social insurance scheme and does not become part of welfare funding that is then subject to the whims of the political party of the day:

The NDIS must not become the focus of an ongoing political battle each budget cycle. Rather the Government should take leadership and introduce sustainable measures that will ensure the financial viability of the NDIS into the future.¹⁰

2.15 In contrast, the Australian Nursing and Midwifery Foundation queried whether other mechanisms for funding the NDIS should be pursued:

Tying the Medicare levy to funding the NDIS risks creating a prejudice among the community that disability is increasing health care costs without the benefit of providing increased health services for all.¹¹

The proposed increase in the Medicare levy

2.16 Many submitters agreed with the government's proposal to increase the Medicare levy from 2 to 2.5 percent, from 1 July 2019 to fund the Commonwealth's contribution to the NDIS. For example, noting that the Federal Budget revealed a gap in 2019–20 of \$3.8 billion in the Commonwealth funding required for the NDIS; and that the gap expands to almost \$5 billion the following year, NDS argued that:

The increase in the Medicare Levy will bridge this gap. It will add to existing savings, the Commonwealth's share of the DisabilityCare Australia Fund (also funded through the Medicare Levy) and existing Commonwealth expenditure on disability services.¹²

2.17 That said, some stakeholders queried the comprehensiveness of the levy, and whether the proposed increase should apply to all income earners.

2.18 In June 2017, three peak disability organisations—ACOSS, DPO Australia and the Australian Federation of Disability Organisations (AFDO)—issued a joint statement calling on Parliament to secure funding for the NDIS based on three principles:

- The NDIS must be available to all eligible people.
- Everyone should contribute to funding this universal system according to their ability to do so.
- Through a progressive tax system where people with higher incomes contribute a higher share of their income, and the ability for people to avoid contributing their fair share is restricted.¹³

10 Queensland Advocacy Incorporated, *Submission 1*, p. 6.

11 Australian Nursing and Midwifery Foundation, *Submission 15*, p. 2.

12 National Disability Services, *Submission 6*, p. 1.

13 Disabled People's Organisations Australia, *Media Release: We Call on this Parliament to Deliver Secure, Sustainable and Sufficient Funding for the National Disability Insurance Scheme*, 23 June 2017, <http://dpoa.org.au/joint-statement-to-secure-ndis-funding/> (accessed 4 October 2017).

These principles were endorsed by submissions made to this inquiry by the NSW Council of Social Services and ACT Council of Social Services;¹⁴ and expanded on in ACOSS' submission.

2.19 Support for the universality and insurance principles that underpin the NDIS aside, ACOSS noted that there may be a 'more progressive way' to raise the same revenue proposed in the Medicare levy bill and the nine related consequential bills.¹⁵ Although not endorsing one particular approach over another, ACOSS put forward four alternative options to reform the Medicare levy, each with a view to creating a more equitable tax system that lessens the impact on low income earners and restricts tax avoidance by those who have the means to contribute.¹⁶

2.20 In evidence before the committee, Mr Davidson from ACOSS argued that people are currently avoiding paying the Medicare levy by using various tax shelters, such as holding funds in private trusts. To guard against this, ACOSS proposed that:

...the Medicare levy surcharge thresholds use a broader definition of income than taxable income. In effect what that does is render ineffective each of those tax shelters. So the income is added back in, and people are taxed on the totality.¹⁷

2.21 On this issue, Mr Davidson emphasised that ACOSS have 'been raising the need for broadening the base of income taxes generally, including the Medicare levy, for quite some time'.¹⁸

2.22 In considering the proposed increase in the Medicare levy, the Queensland Government expressed concern that:

An increase to the Medicare levy is, in effect, an increase in personal income tax. At a time where wage growth nationally is restrained the increased levy can be expected to reduce the welfare of individuals and working families.¹⁹

2.23 Another submitter to the inquiry also contended that people aged 65 years and older should also be exempt from the increased Medicare levy as they are excluded from receiving assistance from the NDIS by reason of their age.²⁰

14 NSW Council of Social Services, *Submission 2*; and ACT Council of Social Services, *Submission 9*.

15 Australian Council of Social Services, *Submission 8*, p. 1.

16 Mr Peter Davidson, Senior Adviser, Economics, Tax and Employment, Australian Council of Social Services, *Proof Committee Hansard*, 29 September 2017, p. 62.

17 Mr Peter Davidson, Senior Adviser, Economics, Tax and Employment, Australian Council of Social Services, *Proof Committee Hansard*, 29 September 2017, p. 60.

18 Mr Peter Davidson, Senior Adviser, Economics, Tax and Employment, Australian Council of Social Services, *Proof Committee Hansard*, 29 September 2017, p. 61.

19 Queensland Government, *Submission 23*, p. 1.

20 Name withheld, *Submission 13*, p. 2.

2.24 However, ACOSS brought to the committee's attention the fact 'that almost 40 per cent of households are exempted on the basis of their low incomes' from paying the Medicare levy.²¹ Indeed, in his Second Reading Speech, the Treasurer, the Hon Scott Morrison MP, pointed out that low-income earners will continue to receive relief from the Medicare levy through low-income thresholds for singles, families, seniors and pensioners:

People who are exempt from the Medicare levy, such as blind pensioners and people who are entitled to full free medical treatment for all conditions under Defence Force arrangements or Veterans' Affairs repatriations health card (gold card), will continue to be exempt.

A number of other tax rates that are linked to the top marginal rate and the Medicare levy will also increase in line with this change, and these include increases in the rate of fringe benefits tax and superannuation excess non-concessional contributions tax.

In these bills, the same exemptions, the same carve-outs, the same protections for vulnerable Australians that exist for the Medicare levy exist for the increase in the Medicare levy to fully fund the National Disability Insurance Scheme.²²

2.25 Mr Richard Maher from Treasury, explained the impact of the proposed increase in the Medicare levy on someone earning \$85,000 and someone earning \$50,000 in 2019–20:

Someone on \$85,000 currently pays \$1,700. That would go up by \$425 to \$2,125...A single person on \$50,000 currently pays \$1,000 and their extra contribution from 2019–20 would be an extra \$250.²³

2.26 Further, in terms of progressivity, Associate Professor Ben Phillips advised the committee that the package would improve the progressivity of income for Australia. Associate Professor Phillips explained that the Medicare levy is mildly progressive:

...in that the Medicare levy doesn't kick in until the low \$20,000s. In terms of the way the system works, because it comes in, effectively, with a taper at the lower income, it wouldn't really impact on persons or families under the mid-\$20,000 mark.²⁴

21 Mr Peter Davidson, Senior Adviser, Economics, Tax and Employment, Australian Council of Social Services, *Proof Committee Hansard*, 29 September 2017, p. 59.

22 The Hon Scott Morrison MP, Treasurer, *House of Representatives Hansard*, 17 August 2017, p. 8825.

23 Mr Richard Maher, Adviser, Business Tax Division, Treasury, *Proof Committee Hansard*, 29 September 2017, p. 7.

24 Associate Professor Ben Phillips, Centre for Social Research and Methods, Australian National University, *Proof Committee Hansard*, 29 September 2017, p. 45.

The NDIS Savings Fund Special Account

2.27 Following the proposed increase in the Medicare levy, one-fifth of the revenue raised by the Medicare levy in aggregate will be credited to the NDIS Savings Fund Special Account once it is established.

2.28 The National Disability Insurance Scheme Savings Fund Special Account Bill 2016 (NDIS Special Account bill) would assist in meeting NDIS funding commitments by establishing a new ongoing special account under section 5 for the purposes of the *Public Governance, Performance and Accountability Act 2013*.²⁵ The purpose of the special account is outlined in section 6:

- to assist the Commonwealth to meet its funding obligations in relation to the *National Disability Insurance Scheme Act 2013*;
- to make payments to the NDIS Launch Transition Agency for the purposes of the Agency; and
- to reduce the balance of the Account (and, therefore, the available appropriation for the Account) without making a real or notional payment.²⁶

2.29 In evidence before the committee Mr Michael Brennan from Treasury, confirmed that the intention of the NDIS Savings Fund Special Account was to ensure that the Commonwealth will always be able to meet, as far as the vagaries of all projections allow, the NDIS funding commitments going into the future.²⁷ Mr Brennan explained that the NDIS Savings Fund Special Account is a special account within the Consolidated Revenue Fund (CRF) that provides 'a greater linkage between the revenue that's being raised for this purpose and the expenditure'.²⁸

Credits to the account

2.30 Credits to the account would be committed for a period of ten years and made from a number of Commonwealth sources, while debits would be made for the specific purpose of funding Commonwealth shortfalls related to the NDIS.²⁹ Sources of credit may include:

- underspends and net savings from the NDIS and other portfolio savings, as determined by the Minister for Social Services;
- discretionary decisions by the Prime Minister or the Cabinet (for example, to establish a starting balance at the special account's commencement); and

25 National Disability Insurance Scheme Savings Fund Special Account Bill 2016, subsection 5(2).

26 National Disability Insurance Scheme Savings Fund Special Account Bill 2016, section 6.

27 Mr Michael Brennan, Deputy Secretary, Fiscal Group, Treasury, *Proof Committee Hansard*, 29 September 2017, p. 6.

28 Mr Michael Brennan, Deputy Secretary, Fiscal Group, Treasury, *Proof Committee Hansard*, 29 September 2017, p. 6.

29 Explanatory Memorandum, National Disability Insurance Scheme Savings Fund Special Account Bill 2016, p. 3.

- decisions by the Prime Minister or the Cabinet about identified savings from other Commonwealth portfolios.³⁰

2.31 The government states the NDIS Special Account bill would have a negligible financial impact over the forward estimates. The special account would sit within the CRF and, as such, would not incur any Public Debt Interest or management costs.³¹

2.32 While some participants in this inquiry queried whether the NDIS Savings Fund Special Account was necessary,³² this inquiry is focused on the Medicare levy bill and 10 related bills, and not the establishment of the NDIS Special Account. As noted previously, the Senate Community Affairs Legislation Committee conducted an inquiry into the NDIS Special Account bill and recommended that the bill be passed.³³

The need for long-term funding certainty

2.33 The overwhelming majority of the submissions and participants in this inquiry stressed to the committee the urgent need to secure long-term funding for the NDIS.

2.34 In speaking about the need for certainty in NDIS funding, Ms Kirsten Deane, Campaign Director, EAC, and Executive Director, NDCA put the current situation in context:

For many years, disability was not a very high political priority, and that's how we ended up with a very highly rationed, broken and fragmented scheme. People with disability and their families remember those days and they worry that they will fall to the bottom of the priority list again. That's why the security issue is so important to them. It is not that long ago when security wasn't assured and we were operating in a very broken, highly rationed, fragmented and inefficient scheme. The longer the debate drags on the more anxious people are that that is where we are going to return.³⁴

2.35 This was echoed by a number of other submitters, including Ms Mary Walsh the mother of a son with intellectual disability and complex needs, and a long-term advocate of the NDIS, who took the view that:

I don't believe that the NDIS will ever achieve what it is meant to achieve unless it is fully funded. I believe the best way of doing that is through the Medicare levy. There is no doubt that...there has to be secure funding. And as someone who is dealing with—I no longer have that personal situation but I am working with many families and, at the moment, they are so

30 Explanatory Memorandum, National Disability Insurance Scheme Savings Fund Special Account Bill 2016, p. 1.

31 Explanatory Memorandum, National Disability Insurance Scheme Savings Fund Special Account Bill 2016, p. 1.

32 See for example, Children and Young People with Disability Australia and Young People in Nursing Homes National Alliance, *Submission 4*.

33 Senate Community Affairs Legislation Committee, *National Disability Insurance Scheme Savings Fund Special Account Bill 2016 [Provisions]*, November 2016.

34 Ms Kirsten Deane, Campaign Director, Every Australian Counts, and Executive Director, National Disability and Carer Alliance, *Proof Committee Hansard*, 29 September 2017, p. 56.

stressed out because some of their plans are coming back with fewer funds. There is such a feeling of insecurity around them that I have seen families totally distressed.³⁵

2.36 Ms Therese Sands from DPO Australia declared that 'finalising secure, sustainable and sufficient funding for the NDIS cannot be delayed any further'. Ms Sands told the committee:

There are great risks to allowing sustainable funding for the NDIS to become an election issue, with the NDIS constantly part of political debate and commentary and with community support for the NDIS being eroded. People with disability need certainty so that they can focus on ensuring that the NDIS delivers its outcomes.³⁶

2.37 The committee also heard from Ms Stephanie Gotlib from Children and Young People with Disability Australia, who informed the committee that:

On the ground level, with young people with disability and their families, at the moment I would say there is, due to a number of reasons but due to this ongoing debate about funding, great uncertainty about the future of the scheme. I think there's a strong belief by people that we're heading for caps on the scheme...³⁷

2.38 In evidence before the committee, Ms Kirsten Deane representing EAC and NDCA, also spoke of concerns, confusion and worry about the NDIS that had been raised with NDCA by young people with disabilities and their families. Ms Deane maintained that:

Locking in the funding as soon as possible will...give people certainty. We are four years into the operation of the scheme and we still have not secured an adequate and reliable funding base. This undermines people's confidence in the scheme and that it will be there for them when they need it. Sorting out the funding issue will also allow us to get on with the job of making sure the NDIS is the best it can be.³⁸

2.39 NDS shared Ms Deane's view about 'getting on with the job'; noting that 'with funding secure, the focus must turn to ensuring the NDIS is implemented well to deliver on its great promise for people with disability'.³⁹

2.40 Even those submitters who did not support the proposal put forward in the bills to fund the NDIS recognised the immediate need to secure long-term funding for the scheme. For example, Mr Alan Blackwood, representing the Young People in

35 Mrs Mary Walsh, *Proof Committee Hansard*, 29 September 2017, 29 September 2017, p. 50.

36 Ms Therese Sands, Director, Disabled Peoples' Organisations Australia, *Proof Committee Hansard*, 29 September 2017, p. 36.

37 Ms Stephanie Gotlib, Executive Officer, Children and Young People with Disability Australia, *Proof Committee Hansard*, 29 September 2017, p. 40.

38 Ms Kirsten Deane, Campaign Director, Every Australian Counts, and Executive Director, National Disability and Carer Alliance, *Proof Committee Hansard*, 29 September 2017, p. 55.

39 National Disability Services, *Submission 6*, p. 2.

Nursing Homes National Alliance, while not endorsing the particular proposal put forward in the Medicare levy bill and 10 related bills, agreed that 'the NDIS is a positive reform' that 'needs to be secure'.⁴⁰

Committee view

2.41 The committee believes that a fully funded NDIS is essential to ensure that Australians living with disability are provided with high-quality care, both now and into the future. However, the committee acknowledges that current sources of funding are insufficient to cover the Commonwealth's NDIS contribution, and that this puts Australians living with disability at risk.

2.42 Evidence presented to the committee from the disability sector established that there is an urgent need to secure sustainable and sufficient funding for the NDIS to give Australians living with disability confidence in the system. The committee recognises this need and is confident that the new measures will deliver this certainty without cuts to other essential human or social services.

2.43 The committee agrees with stakeholders that the Medicare levy is a permanent element of our tax system, where everyone contributes to the cost of essential universal services according to their ability to pay. The committee considers that asking Australians to contribute to the cost of the NDIS according to their capacity will ensure the NDIS is guaranteed and secure for current and future generations.

2.44 The committee endorses the findings of the Senate Community Affairs Legislation Committee's inquiry into the National Disability Insurance Scheme Savings Fund Special Account Bill 2016. In particular, the committee considers that this bill will establish a mechanism by which funding intended for the NDIS is secured for that purpose, when and as it is needed.

2.45 The committee is encouraged by the broad support for increasing the Medicare levy to fund the NDIS, and is of the view that the proposed increase in the levy combined with the establishment of the NDIS Savings Fund Special Account is the best way to fully fund the NDIS, and to give certainty to Australians living with disability.

Nation Building Funds Repeal (National Disability Insurance Scheme Funding) Bill 2017 (the Funds repeal bill)

Background

2.46 The BAF and the EIF were established on 1 January 2009 by the *Nation-building Funds Act 2008*, after being announced in the 2008–09 Budget in response to the Global Financial Crisis.⁴¹

40 Mr Alan Blackwood, Director, Policy and Innovation, Young People in Nursing Homes National Alliance, *Proof Committee Hansard*, 29 September 2017, p. 36.

2.47 The BAF aimed to:

...enhance the Commonwealth's ability to make payments in relation to the creation or development of transport infrastructure, communications infrastructure, energy infrastructure and water infrastructure, and to make payments in relation to eligible national broadband network matters.⁴²

2.48 The EIF aimed to:

...enhance the Commonwealth's ability to make payments in relation to the creation or development of higher education infrastructure, research infrastructure, vocational education and training infrastructure, eligible education infrastructure and to make transitional Higher Education Endowment Fund payments.⁴³

2.49 In the 2014–15 Budget, the government advised that the BAF and the EIF would cease operation on 31 December 2014. It also advised that it would establish the Asset Recycling Fund (ARF) on 1 July 2014 to facilitate the government's investment in new infrastructure. The ARF was to include around \$2.4 billion of uncommitted funds from the BAF; and around \$3.5 billion of uncommitted funds from the EIF.⁴⁴

2.50 In May 2014, the government introduced the Asset Recycling Fund Bill 2014 in the House of Representatives to set up the ARF. However, it lapsed at prorogation of the parliament.⁴⁵

2.51 In the 2016–17 Budget the government advised that it would not be proceeding with the ARF. Instead, it advised that it would continue to progress the closure of the BAF and EIF and that:

The uncommitted funds intended for the ARF, including from the BAF and EIF, will instead be credited to the National Disability Insurance Scheme Special Account and used to reduce the Commonwealth's debt and future borrowing requirements.⁴⁶

41 See National-building Funds Bill 2008 and Explanatory Memorandum. It should be noted that the *Nation-building Funds Act 2008* also established the Health and Hospitals Fund (HHF) which closed with the implementation of the Medical Research Future Fund which took effect on 29 October 2015. The remaining commitments of the HHF were transferred to the Department of Health. See Australian Government, Department of Finance, *Nation-building Funds – Overview*, <https://www.finance.gov.au/investment-funds/nation-building-funds/> (accessed 14 September 2017).

42 Building Australia Fund Investment Mandate Directions 2009 [F2009L02897], section 4.

43 Education Investment Fund Investment Mandate Directions 2009 [F2009L02898], section 4.

44 Budget Paper No 2, *Budget Measures 2014–15 — Part 2: Expense Measures*, p. 114.

45 Parliament of Australia, Asset Recycling Fund Bill 2014 (accessed 13 September 2017).

46 *Mid-Year Economic and Fiscal Outlook 2016–17*, p. 157.

2.52 The Funds repeal bill repeals the *Nation-building Funds Act 2008* in its entirety,⁴⁷ which, in effect, implements the government's decision to close the BAF and the EIF. The uncommitted funds in the BAF and the EIF will be transferred to the NDIS Savings Fund Special Account once it is established.

2.53 Representatives from the Department of Finance informed the committee that there is only one payment of \$2 million to be made from the EIF and that beyond that 'no new commitments [had been] made from the EIF since 30 July 2013'.⁴⁸

2.54 As stated above, the NDIS Savings Fund Special Account is intended to be a special fund established as a means of providing a protective mechanism in the event of a NDIS funding shortfall.

2.55 As no evidence was received regarding the closure of the BAF, the next section of this chapter focuses only on the closure of the EIF.

Industry perspective on the Education Investment Fund

2.56 While lending their full support to the effective and appropriate funding of the NDIS, representatives from the higher education sector expressed concerns about the closure of the EIF and the redirection of the uncommitted funds away from higher education purposes. Some submitters and witnesses also cautioned that the loss of EIF funding would be compounded by the measures proposed in the Higher Education Support Legislation Amendment (A More Sustainable, Responsive and Transparent Higher Education System) Bill 2017.⁴⁹

2.57 Higher education stakeholders provided examples to the committee of how EIF funds had supplemented university contributions and other funding to support research infrastructure projects for both higher and vocational education training around Australia. For example, Monash University drew the committee's attention to how infrastructure funding from the EIF,⁵⁰ supplemented by other investment made possible:

- the Green Chemical Futures building, which is 'dedicated to facilitating academic and industrial research within the chemicals and plastics sector';⁵¹ and

47 Nation Building Funds Repeal (National Disability Insurance Scheme Funding) Bill 2017, Schedule 1, Part 1.

48 Dr Stein Helgeby, Deputy Secretary, Governance and APS Transformation, Department of Finance, *Proof Committee Hansard*, 29 September 2017, p. 35.

49 See: Australian Catholic University, *Submission 3*; La Trobe University, *Submission 10*; Flinders University, *Submission 11*; Group of Eight, *Submission 14*; Universities Australia, *Submission 20*; University of WA, *Submission 25*. See also: Senate Education and Employment Legislation Committee, *Higher Education Support Legislation Amendment (A More Sustainable, Responsive and Transparent Higher Education System) Bill 2017 [Provisions]*, April 2017.

50 Monash University, *Submission 12*, p. 3.

51 Monash University, *Submission 12*, p. 3.

- the New Horizons building, which is 'a collaborative research environment creating new multi-disciplinary research opportunities for industry, engineers, scientists, researchers and government in the fields of future manufacturing, modelling and simulation, biological engineering and renewable energy'.⁵²

2.58 Similarly, the University of Sydney highlighted its use of EIF funding to establish the Charles Perkins Centre, the home of the Centre for Obesity, Diabetes and Cardiovascular Disease; and the Sydney Nanoscience Hub 'which houses the Australian Institute for Nanoscale Science and Technology and two core national research facilities (in microscopy and microanalysis, and nanofabrication)'.⁵³

2.59 The University of Melbourne also provided numerous examples of research infrastructure projects that were partially EIF funded. These included the Peter Doherty Institute for Infection and Immunity; the Centre for Neural Engineering; and the Advanced Human Imaging Facility.⁵⁴

Regional Australia

2.60 The Academy of Science noted that disbursements from the EIF had supported numerous critical research infrastructure facilities, including in regional Australia, specifically:

...a \$48 million National Geosequestration Laboratory at CSIRO, the National Institute for Nanoscience, a Centre of Excellence for Transport Technology, and projects designed to ensure sustainable energy for the Square Kilometre Array project in Western Australia.⁵⁵

2.61 Universities Australia also pointed to teaching and research infrastructure around Australia that had been partially funded by EIF, including:

- Charles Sturt University's National Life Science Hub;
- Swinburne University's Factory of the Future;
- James Cook University's Science Place for Northern Queensland at Townsville; and
- investments in vocational education infrastructure in places including Darwin, Dubbo, Echuca and Port Hedland.⁵⁶

2.62 Innovative Research Universities (IRU), whose members are based in outer metropolitan and regional areas, submitted that closing the EIF would 'be particularly deleterious for regional research and education capacity'.⁵⁷ Reflecting on the need for

52 Monash University, *Submission 12*, p. 4.

53 The University of Sydney, *Submission 17*, [p. 1].

54 The University of Melbourne, *Submission 18*, p. 8.

55 Australian Academy of Science, *Submission 16*, p. 1.

56 Universities Australia, *Submission 20*, [p. 4].

57 Innovative Research Universities, *Submission 7*, [p. 1].

the whole of Australia to have multiple sites of research excellence, IRU explained that:

IRU members teach 18% of all students in regional campuses across Australia, a significant student cohort that requires dedicated research facilities and opportunities. Through our research, we contribute to the building of regional research systems across Australia. The impact on regional communities is significant where their universities have the research infrastructure to win grants and tap into research funds such as the Medical Research Future Fund (MRFF)...The infrastructure challenge is particularly acute, with few options to raise funds...The loss of the remaining EIF funds will hinder the universities capacity to deliver across Australia.⁵⁸

2.63 La Trobe University relayed similar concerns about the potential regional impacts of the closure of the EIF:

Without significant improvements in regional education outcomes, there is a high risk that the 'brain drain' of talent from the regions to metropolitan universities will strip our regional and rural communities of the talent they need to actively participate in the transformation to a knowledge economy.⁵⁹

2.64 Likewise, the University of Newcastle, who supplemented their own \$40 million contribution with \$30 million from the EIF and \$25 million from the NSW Government, to establish 'NeW Space' at its Newcastle CBD campus to house its Faculty of Business and Law, presented evidence that:

...NeW Space will deliver \$1.3 billion in economic benefits to the Hunter Region from 2013–2022, including \$200 million in construction to the regional economy. A further \$134 million is estimated to flow annually from the emergence of the Newcastle CBD as a vibrant student hub.⁶⁰

The value of research infrastructure

2.65 Industry stakeholders that appeared before the committee spoke of the wider benefits of research infrastructure to the community, the economy and industry.

2.66 In speaking to the committee, Professor Ian Hume, a Fellow from the Australian Academy of Science, highlighted the potential of transformative research to improve the lives of disabled Australians, such as 'robotics, advanced materials, advances in neurophysiology and advanced computing'.⁶¹

2.67 Group of Eight also highlighted the health and medical outcomes from projects it had led that received funding from the EIF. These included: research into

58 Innovative Research Universities, *Submission 7*, [p. 3].

59 La Trobe University, *Submission 10*, p. 5.

60 The University Of Newcastle, *Submission 19*, p. 5.

61 Professor Ian Hume, Fellow, Australian Academy of Science, *Proof Committee Hansard*, 29 September 2017, p. 28.

the causes of autism spectrum disorder; antibiotic development; the use of crops to develop pharmaceuticals; and the identification of a gene whose discovery will help treat sepsis.⁶² In evidence before the committee Ms Vicki Thomson from Group of Eight, expanded on this, observing that:

EIF has enabled research that has saved lives, enhanced lifestyles and ensured the survival of key economic sectors by modernising and making them more productive. It has created jobs and its benefits have flowed through local economies.⁶³

2.68 As explained by Flinders University, the benefits of investment in research infrastructure relate not only to the provision of high quality research and education:

...but also wider community benefits such as the creation of direct and indirect jobs (including in construction), economic growth and export earnings from international education that support industries such as travel and tourism, retail and student accommodation.⁶⁴

2.69 These views were echoed by others, such as Monash University, who observed that schemes such as the EIF 'have delivered benefit to the Victorian and Australian community'.⁶⁵

2.70 The committee also heard from Ms Catriona Jackson from Universities Australia who described the flow-on benefits of good teaching and research:

Universities are flourishing paths of not just regional communities but communities all over the country, and not just as institutions that employ lots of people. There are enormous flow-in and flow-out benefits, which form an enormous part of national prosperity, quite apart from the contribution Australian universities make to the economy through international education, which sees us as the third largest exporter in it.⁶⁶

2.71 A number of universities also drew attention to the reputation of Australia's universities in the international community, and argued that without the EIF Australia's ongoing international competitiveness would be at risk.⁶⁷ In evidence before the committee, Ms Vicki Thomson from Group of Eight explained that:

...the only way we are assessed internationally is through our research. That is the only ranking we have. And the only way international students and investors can make an assessment as to whether they're going to invest in our universities, our research and our students is around our high-quality

62 Group of Eight, *Submission 14*, p. 6.

63 Group of Eight, *Submission 14*, p. 2.

64 Flinders University, *Submission 11*, p. 4.

65 Monash University, *Submission 12*, p. 2.

66 Ms Catriona Jackson, Deputy Chief Executive, Universities Australia, *Proof Committee Hansard*, 29 September 2017, p. 21.

67 See for example: Flinders University, *Submission 11*, p. 4; The University of Melbourne, *Submission 18*, p. 7; Universities Australia, *Submission 20*, p. 6; and University of Western Australia, *Submission 25*, [p. 1].

university rankings. We saw in the last rankings two universities in China pip us at the post, because they are investing in their research infrastructure.⁶⁸

2.72 Professor Andrew Vann, from Universities Australia and Charles Sturt University, conveyed to the committee that while the higher education sector is more efficient than it used to be, it is reliant on international student revenue which requires the sector to maintain their international research reputation. Professor Vann expressed concern that:

The risk for us is that other countries like China are investing massively in their education systems. Other countries like Canada have invested massively in their research infrastructure in a way that we haven't in Australia, and the risk is that we lose that reputation. There are other places people could go than Australia to study. We do not want to see the system come tumbling down, and there is a risk of that if we aren't able to maintain the investment that maintains our reputation.⁶⁹

Funding sources for research infrastructure

2.73 While being opposed to the closure of the EIF, Australian Catholic University (ACU) explained that they were one of only four public universities who had not received funding from the EIF, but instead funded recent development of buildings and physical infrastructure out of retained surpluses and conservative debt funding:

ACU invested a total of \$450 million in capital works during the period 2010–2015. This was achieved through prudent financial management and careful planning around the introduction of the demand driven funding system.⁷⁰

2.74 In contrast, while some universities have recently funded research infrastructure by generating operating surpluses, the IRU reported that between 2010 and 2015 surpluses for its members had fallen:

Across 2010 to 2015 the surplus of revenue over expenditure has fallen from 13% to 5% as universities have reworked expenditures to focus on ensuring their future sustainability. While between 2010 and 2015 revenue rose 21%, with revenue from students rising much more than revenue from the Australian Government, expenditure has risen 33%, with that on depreciation and amortization nearly doubled, increasing by 95%.⁷¹

2.75 However, as demonstrated above, funding for research infrastructure has come from a variety of revenue resources, other than university revenue surplus (such

68 Ms Vicki Thomson, Chief Executive, Group of Eight, *Proof Committee Hansard*, 29 September 2017, p. 12.

69 Professor Andrew Vann, Deputy Chair, Universities Australia Board, and Vice-Chancellor, Charles Sturt University, *Proof Committee Hansard*, p. 24.

70 Australian Catholic University, *Submission 3*, p. 2.

71 Innovative Research Universities, *Submission 7*, [p. 2].

as state government funding and private investment), demonstrating as Ms Vicki Thomson, from Group of Eight, put it: 'that EIF is but one part of infrastructure funding'. Ms Thomson also informed the committee that all universities would have innovative financing models, including public-private partnership models.⁷² Likewise, Universities Australia observed that:

Australian and international universities, Australian and publicly funded research agencies, international research facilities or collaborators, local and international foundations and philanthropists and multinational corporations all have a track record of co-investing in Australian research infrastructure.⁷³

2.76 Drawing on the work of the Higher Education Infrastructure Working Group (HEIWG) which was established to examine how universities support their teaching and research infrastructure requirements, the Department of Education and Training (the department) informed the committee that:

A key finding of the Higher Education Infrastructure Working Group (HEIWG) report was universities are in the main capable of relying on their own operations to fund and finance their capital investment.⁷⁴

2.77 The department also provided the following examples of universities across the higher education sector that have funded capital research infrastructure projects not involving EIF:

Under a joint venture arrangement between La Trobe University (25 per cent) and Department of Primary Industries (75 per cent), formed to construct, manage and operate a biosciences research centre on university land, a 25 year build-operate-maintain contract was entered into with a private sector company.

Queensland University of Technology (QUT) has entered into a joint venture arrangement with University of Queensland, Mater Medical Research Institute and Queensland Health (each having equal holdings through a unit trust) for the Translational Research Institute Facility. QUT has a licence agreement, originally valued at \$25 million, to occupy the research building for 30 years with an option for a further 20 years at peppercorn rental. QUT makes an ongoing contribution to operational costs.

The University of Melbourne, which received contributions from third party institutes towards the construction of the Neuroscience Building in exchange for the right to occupy space at a peppercorn rental for 42 years.

72 Ms Vicki Thomson, Chief Executive, Group of Eight, *Proof Committee Hansard*, 29 September 2017, p. 10.

73 Universities Australia, answers to questions on notice, 29 September 2017 (received 9 October 2017), p. 1.

74 Department of Education and Training, answers to questions on notice, 29 September 2017 (received 6 October 2017), p. 2.

The capital contributions received by the university have been treated as rental in advance.⁷⁵

2.78 The department explained that less than 20 per cent of infrastructure funding to universities came from capital gains from government. Noting that between 2011–2013, 79 per cent of universities' \$10.6 billion investment infrastructure came from operating surpluses, net of capital grants and after depreciation is added back.⁷⁶ The department maintained that:

Overall the Australian university sector is in a good financial position to continue this practice, with an increase in revenues, solid operating surpluses, and significant cash and investment reserves reported across the sector in 2015. Base funding across the sector has grown from \$7 billion in 2009 to \$12 billion in 2017, an increase of more than 70 per cent. University funding will continue to grow year-on-year (just at a slower rate) and teaching funding (including loans) will increase by 23 per cent over the next four years.

The HEIWG found that, for most universities, their strong balance sheets, richness of assets and low gearing, make these institutions attractive to the capital markets sector.⁷⁷

Government funding for higher education and research

2.79 The committee sought evidence from the department as to what other resources were available to the higher education sector to fund research infrastructure.

2.80 The department confirmed that \$17.2 billion will be provided in funding for higher education and research in 2017 and that this is projected to increase to \$20.2 billion by 2020. While this funding is not dedicated to building education and research infrastructure, the department made clear that it allows 'substantial flexibility for providers who can choose to spend taxpayer funding on various activities, including capital infrastructure'.⁷⁸

2.81 In addition to the \$17.2 billion above, the department also brought the committee's attention to government funding for research that is provided through other portfolios. In particular, the department advised that across all portfolios, an estimated \$10.1 billion was provided for research and development in 2016–17.⁷⁹

75 Department of Education and Training, answers to questions on notice, 29 September 2017 (received 6 October 2017), p. 2.

76 Department of Education and Training, answers to questions on notice, 29 September 2017 (received 6 October 2017), p.3.

77 Department of Education and Training, answers to questions on notice, 29 September 2017 (received 6 October 2017), p. 3.

78 Department of Education and Training, answers to questions on notice, 29 September 2017 (received 6 October 2017), p. 2.

79 Department of Education and Training, answers to questions on notice, 29 September 2017 (received 6 October 2017), p. 2.

2.82 Further, the department advised that, through the National Collaborative Research Infrastructure Strategy (NCRIS) the Australian Government funds national level research infrastructure. Between 1 July 2013 and 30 June 2017, \$678.8 million was provided to support NCRIS projects.⁸⁰

2.83 The department also advised the committee that ongoing NCRIS funding was secured by the announcement of \$150 million per annum (indexed) from 1 July 2017 as part of the Government's National Innovation and Science Agenda. The department commented that this would see over \$309 million provided from 1 July 2017 to 30 June 2019.⁸¹

2.84 The department informed the committee that 26 research infrastructure projects across Australia are currently receiving funding through NCRIS; and provided the following table to demonstrate the projects and funding allocation for 2017–19.

Figure 2.2–NCRIS Operational Funding 2017-19⁸²

Facilities and Projects	Lead Agent	Funding
Astronomy	Astronomy Australia Ltd	\$18,300,786
Atlas of Living Australia	CSIRO	\$9,747,135
Animal Health Laboratory – Collaborative Bioresearch Facility	CSIRO	\$3,076,076
Australian Microscopy and Microanalysis Research Facility	University of Sydney	\$7,540,746
Australian National Data Service	Monash University	\$19,469,363
Australian National Fabrication Facility	Australian Fabrication Facility Ltd	\$25,812,473
ANSTO Nuclear Science Facility	ANSTO	\$13,684,596
Australian Phenomics Network	Australian National University	\$9,246,909
Australian Plant Phenomics Facility	University of Adelaide	\$7,787,745
Australian Plasma Fusion Research Facility	Australian National University	\$761,575
Australian Urban Research Infrastructure Network	University of Melbourne	\$4,402,401
AuScope	AuScope Ltd	\$15,421,894
Bioplatforms Australia	Bioplatforms Australia Ltd	\$29,243,481
European Molecular Biology Laboratory (Australia's associate membership)	European Molecular Biology Laboratory	\$8,200,000
Groundwater	University of New South Wales	\$448,950
Heavy Ion Accelerators	Australian National University	\$3,300,244
Integrated Marine Observing System	University of Tasmania	\$29,563,127
National Computational Infrastructure	Australian National University	\$11,397,257
National Deuteration Facility	ANSTO	\$1,264,086
National eResearch Collaboration Tools and Resources	University of Melbourne	\$10,425,404
National Imaging Facility	University of Queensland	\$6,201,968
Pawsey Supercomputing Centre	CSIRO	\$12,001,813
Population Health Research Network	University of Western Australia	\$9,039,347
Research Data Services	University of Queensland	\$11,000,813
Terrestrial Ecosystem Research Network	University of Queensland	\$12,545,078
Translating Health Discovery	Therapeutic Innovation Australia Ltd	\$7,710,947

Source: Department of Education and Training data. **Total funding: \$287,593,665.**

80 Department of Education and Training, answers to questions on notice, 29 September 2017 (received 6 October 2017), p. 2.

81 Department of Education and Training, answers to questions on notice, 29 September 2017 (received 6 October 2017), p. 1.

82 Department of Education and Training, answers to questions on notice, 29 September 2017 (received 6 October 2017), p. 1.

Committee view

2.85 The committee acknowledges the strong level of interest shown by the higher education sector in the Nation Building Funds Repeal (National Disability Insurance Scheme Funding) Bill 2017.

2.86 The committee fully supports Australia's higher education sector and values the benefits its research delivers to the community, the economy and industry. The committee also recognises that funding from the Education Investment Fund has been used to supplement university revenue surplus, as well as other public and private investment, to establish critical research infrastructure, particularly in regional areas.

2.87 The committee acknowledges the concerns expressed about the closure of the Education Investment Fund and the redirection of the uncommitted funds away from higher education purposes. However, in the committee's view the government provides substantial alternative forms of funding to the sector; which in combination with universities innovative financing models and other public and private investment, is used to establish and maintain critical research infrastructure ensuring Australia's universities maintain their reputation and international competitiveness.

2.88 The committee also notes that the Education Investment Fund was established in 2009 in response to the Global Financial Crisis; that no new commitments have been made from the fund since 30 July 2013; and that the fund was ear-marked to cease operation in the 2014–15 Budget. The committee is of the view that transferring the uncommitted monies from the Education Investment Fund to the NDIS Savings Fund Special Account presents a significant step toward addressing the urgent need to secure long-term funding for the NDIS.

Recommendation 1

2.89 The committee recommends that the bill be passed.

Senator Jane Hume

Chair