

LABOR SENATORS' DISSENTING REPORT

AN UNCONTROLLED EXPERIMENT: THE AMERICANISATION OF THE AUSTRALIAN UNIVERSITY SYSTEM

Introduction

1.1 The Abbott Government's plan to Americanise the Australian university system must be rejected. It is the antithesis of the Australian ethos of a fair go. Australians believe, justly, that fairness in higher education is under threat as a result of the proposals outlined in the Higher Education and Research Reform Amendment Bill 2014 (the bill). The provisions in this legislation will see \$100 000 degrees become the reality as Australians will have to deal with unprecedented education costs, and crippling debt which will take decades to pay off.

1.2 Australia's university system is an invaluable national asset, a powerful enabler of human potential and creator of national wealth. The role of the higher education system – in particular the 43 universities that sit at its core and educate 93 per cent of its students¹ – is to advance knowledge and scholarship, aid the national research and innovation enterprise and meet the country's labour force needs. It does this while balancing the policy goals of excellence, access and participation. It has an international reputation founded on the quality of the institutions and the courses they provide. In the words of Professor John Quiggin, Australian Laureate Fellow in Economics at the University of Queensland:

Australian higher education over the past 30 years has been a huge success story. We have greatly expanded the number of students completing university education. We have done so through HECS in a way that has avoided the huge burdens of debt that characterise other systems. We have surpassed, in particular, the United States in terms of the proportion of the age cohort completing university education, and we have done so while maintaining very high standards. Our leading research universities, on all rankings, compare very favourably with the state flagships in the US—the leading state universities. More importantly, the next tier down—the places that do not make the top 100 lists—still have research-active faculty, still have high standards and they compare incredibly favourably with the second-tier state universities, community colleges and for-profits that educate, or fail to educate, the lower tier of students in the US. Many of these are, as I have detailed in my submission, complete disaster areas. We have big success there.²

1 Tertiary Education and Quality Standards Agency, Statistics report on TEQSA registered higher education providers, 2014, p. 3.

2 Professor John Quiggin, *Proof Committee Hansard*, 7 October 2014, p. 7.

1.3 Australia has an undisputedly world-class higher education system. The Abbott government is proposing radical reforms that will jeopardise this standing. There is no evidence-base to support their proposals. In proposing these changes the Government is not driven by what is best for Australian students and society at large, they are driven solely by ideological obsession. They are embarking on a dangerous experiment and leaving Australian families and students to foot the bill.

1.4 In economic terms higher education is Australia's largest non-resource export industry, earning in excess of \$15 billion annually. But the future prosperity of the sector is not a given – it depends on our ability to maintain Australia's reputation, which in turn depends on maintaining quality.

1.5 Australians rightly have a great deal of confidence in our public universities – 74 per cent expressed support for universities in surveys conducted in 2014³. A thirst and aspiration for a university education for themselves and their children is directly related to this confidence and widespread support for the public university system. This aspiration is under attack by the Abbott government.

1.6 The previous Labor government's reforms resulted in remarkable shifts in participation in the sector. From 2008 to 2012, attainment of a bachelor level degree by people aged between 25 and 34 increased from 31.9 per cent to 36.8 per cent⁴. Participation in the sector amongst people from disadvantaged backgrounds is at an all-time high, up to 17.1 per cent. There are 890 000 students at Australian universities today and one in every four of them is there because of Labor's initiatives in government. Indigenous student numbers have increased by 26 per cent; regional student numbers by 30 per cent. Compared to 2007, there are an additional 36 000 students from low income families in universities.

1.7 Contrary to the assertions found in the majority report, real revenue per student to universities increased under Labor. Department of Education figures reveal a 12.3 per cent increase between 2007 (\$9951) and 2012 (\$11 187) – an extra \$1236 in resourcing per student for universities. Overall, Labor lifted Government investment in universities from \$8 billion in 2007 to a budgeted \$17.7 billion in 2017. Research funding increased, with research block funding rising – in real terms – by more than 15 per cent. Labor introduced proper indexation for universities. The bottom line is this: if Labor had kept the funding model introduced by the Howard government, universities would be worse off today to the tune of \$3 billion per annum. The Abbott government's proposal, as costed by the Parliamentary Budget Office, would cut an unprecedented \$18.2 billion in funding over the next decade.⁵ On the Department of Education's own figures this would see a reduction in Commonwealth funding of over \$2000 per student, per year of study in real terms.

3 Andrew Norton, Grattan Institute, *Mapping Australian higher education 2014–15*, October 2014, p. 71, <http://grattan.edu.au/wp-content/uploads/2014/10/816-mapping-higher-education-2014.pdf> (accessed 28 October 2014).

4 Australian Bureau of Statistics, *Education and Work, Australia* (cat. no. 6227.0), May 2013.

5 Parliamentary Budget Office, *Projections of government spending over the medium term*, August 2014.

1.8 The Senate must not place Labor's achievements at risk. The Abbott government's budget cuts and the provisions of the bill represent real threats to participation, attainment and the quality of the system. The Senate should heed the words of Professor Stephen Parker, Vice-Chancellor of the University of Canberra:

My fundamental point is: we should not be taking risks with this. In the absence of evidence, modelling and time for consultation, we should be taking this carefully. The stakes are very high.⁶

1.9 Whether this legislation is worthy of support depends on these questions:

- (1) Will this legislation ensure the maintenance of a higher education characterised by access based on merit not money?
- (2) Will it lead to a more sustainable and innovative university system?
- (3) Will it meet our national labour market and broader economic needs?
- (4) Will it maintain quality, promote excellence and safeguard the reputation of our international education industry?

In Labor's assessment, the bill fails on all four counts.

A breach of trust and good policy process

1.10 Despite the government's assertions to the contrary, this has been deeply resented by the Australian people. There has been a strong negative reaction amongst stakeholders and the community to their proposals. This is not surprising given the factors at play. Namely, the complete lack of consultation surrounding the government's package, the scale of the cuts and the regressive impacts of the proposed policy on students and graduates – present, past and future. The deep unpopularity of the changes reflects both the callous and short-sighted nature of the policy itself and the fact that it goes against everything the Coalition promised in Opposition. There is profound community outrage and shock that the government is pursuing these proposals. A recent Essential poll⁷ found 63 per cent opposition to deregulating university fees, a level of antipathy matched in other published opinion polling. Australians understand the way these changes will play out in families, in communities, in cities and towns. This understanding was best represented by Ms Laura Wey of the ANU Students Association:

I am also a child of migrant parents, from a low SES background, survived the public school system, had to move interstate for my degree and, if you had not noticed, I am also a woman and a student. I think the difference between what the vice-chancellors are saying and what we are saying is that they are so far removed from the negative effects that this is going to have.

6 Professor Stephen Parker, Vice-Chancellor, University of Canberra, *Proof Committee Hansard*, 7 October 2014, p. 35.

7 Essential Report, Government Decisions, 7 October 2014, <http://essentialvision.com.au/government-decisions-2> (accessed 28 October 2014).

I have a younger sibling who is in year 12 now, his first HSC exams on Monday and he is looking to go to university. This issue is very real for him; it is very real for me and my family.⁸

1.11 The Budget night announcement of the most radical shake-up of higher education in 30 years came out of the blue. The Abbott Government gave no indication in its statements either prior to or immediately after the 2013 election that it was anticipating radical change in higher education. The Prime Minister, then Leader of the Opposition, promised in 2013:

In an era of busy government and constant change, it's insufficiently recognised how often masterly inactivity can be the best contribution that government can make to a particular sector. A period of relative policy stability in which changes already made can be digested and adjusted to (such as the move to demand-driven funding) is probably what our universities most need now....

...we will be a stable and consultative government. If we put in place a policy or a programme, we will see it through. If we have to change it, we will consult beforehand rather than impose it unilaterally and argue about it afterwards. We understand the value of stability and certainty, even to universities.⁹

1.12 Prior to the Budget there was no consultation with the university sector, its students or staff on the future shape of the system. Indeed, the Budget announcement completely contradicted the Liberal Party's election policy document, *Real Solutions*, which blandly promised:

We will ensure the continuation of the current arrangements of university funding.¹⁰

1.13 This position was supported by multiple public statements by senior Coalition figures. Then Shadow Minister for Education, The Hon. Christopher Pyne, said in a media release on 26 August 2012 that:

While we welcome debate over the quality and standards in our universities, we have no plans to increase fees or cap places.¹¹

1.14 The then Leader of the Opposition, The Hon. Tony Abbott, said on the 5 September 2013:

I can assure your listeners that there will be no cuts to health, no cuts to education, no cuts to pensions, no change to the GST.¹²

8 Ms Laura Wey, *Proof Committee Hansard*, 10 October 2014, p. 16.

9 The Hon. Tony Abbott, then Leader of the Opposition, *Address to Universities Australia Higher Education Conference* 28 February 2013.

10 Liberal Party of Australia, *Real Solutions*, January 2013, pp 40–41.

11 The Hon. Christopher Pyne, then Shadow Minister for Education, Media Release: Coalition will not cap places or raise HECS, 26 August 2012, <http://www.pyneonline.com.au/media/media-releases/coalition-will-not-cap-places-or-raise-hecs> (accessed 28 October 2014).

12 The Hon. Tony Abbot, ABC AM, 5 September 2013.

1.15 After the election the Minister for Education again stated that fee deregulation was not being contemplated:

... we're not going to raise fees ... the education budget as forecast over the next four years will not be cut by the Coalition, that's very clear.....we want university students to make their contribution, but we're not going to raise fees.

1.16 Even when pressed by the interviewer the Minister further said:

Interviewer: Why not raise [university] fees ...?

Pyne: Because we promised we wouldn't before the election ...¹³

1.17 It is quite clear that the extent of the Abbott government's cuts and its measures to increase university fees came as a complete surprise to the Australian people. This is particularly the case because, as the Reverend W. J. Uren, Rector, Newman College, The University of Melbourne, submitted, the current system has been serving Australia very well:

The present HECS system and regulated fees has been remarkably successful both in promoting accessibility to tertiary education and sustaining the appropriate standing of Australian universities in the international market.¹⁴

1.18 The argument now being made by the Abbott Government that there was adequate consultation and warning of the Budget measures does not stack up – especially when compared to the processes surrounding previous radical changes in higher education. The Dawkins reforms in the late 1980s saw extensive consultation and a formal green and white paper process. The Howard Government's 2003–04 Budget decisions on higher education reform were informed by a review of higher education policy, which was announced by the then Minister for Education, Science and Training, the Hon. Dr Brendan Nelson, in April 2002. The Crossroads review held 49 forums in all capital cities between 13 August and 25 September 2002. Seven issues papers were published and a total of 728 submissions were received. The process was also supported by a Productivity Commission research report, *University Resourcing: Australia in an international context*, released in December 2002, which compared 11 Australian universities with 26 universities from nine other countries.

1.19 Reflecting on this process during the Inquiry's hearings, the former Secretary of the then Department of Education, Science and Training, Professor Peter Shergold, said this approach was necessary because a previous attempt at reform without consultation had comprehensively failed:

When I was at the department and working with Minister Brendan Nelson, as I remember it, the government had already approached university reform under David Kemp on one occasion, and—

And the submission was leaked.

13 The Hon. Christopher Pyne, Sky News, 17 November 2013.

14 Rev. W. J. Uren, *Submission 16*.

And it foundered. So, we wanted to make sure that we went through an extensive process.¹⁵

1.20 There can be no comparison between the level of consultation on previous successful attempts at higher education reform and the complete lack of consultation, research and discussion involved in the development and presentation of this package. On this basis alone, the Senate should be wary.

1.21 The University of Technology, Sydney (UTS) pointed to the lack of consultation and short implementation timeframe and urged the Senate to think carefully:

UTS would urge the Senate Education and Employment Committee to consider...An appropriate period of consultation to consider both potential changes and transition mechanisms – The Government’s reform package is the largest set of changes to higher education in its history...It would be unprecedented to massively restructure one of Australia’s leading industries in just six months. A 12 month period was recommended by the Federal Government’s Commission of Audit.¹⁶

1.22 This sentiment was echoed by Deakin University:

Deakin University believes there should be further investigation of the unintended consequences of these policy changes for future students, for all universities including regionally-focussed universities.¹⁷

1.23 The Regulation Impact Statement associated with this bill claims that a number of prior reviews amounted to a consultation process for this policy. However, each of these reviews covered only a subset of issues, and none was portrayed as leading to a major overhaul. Nor were these reviews structured to deliver input to such major reform. Indeed, two of the three reviews the government refers to as being “consultative” for its package were conducted by the previous government, which had a clear agenda of improving quality and access in higher education, including through substantially increased public funding. The only so-called consultation process commissioned by the Abbott government itself was a review of the demand driven system. The government commissioned former Liberal Minister, The Hon. Dr David Kemp and Mr Andrew Norton, Higher Education Director at the Grattan Institute, to conduct this review. The terms of reference were narrow and, therefore the review was unable to make recommendations on unrestrained student fees. As Mr Norton said at the Committee’s hearing on the bill:

Some of the submissions did raise issues around fees and government funding, but because that was not in our terms of reference we did not consider it.¹⁸

15 Professor Peter Shergold, *Proof Committee Hansard*, 7 October 2014, p. 81.

16 University of Technology Sydney, *Submission 96*, pp 1–2.

17 Deakin University, *Submission 71*, p. 5.

18 Andrew Norton, *Proof Committee Hansard*, 9 October 2014, p. 26.

1.24 There was no indication from the report or from the government response to the report that changes of a radical nature were about to be proposed.

1.25 The only indication the government was proposing any sort of change came from a series of speeches delivered by the Minister for Education from April onwards. The first of these speeches was delivered in London to a centre-right think tank – the Policy Exchange – where he praised the United States’ higher education system, and indicated that he was looking at the recommendations of the Kemp-Norton report.¹⁹ There was no indication in that speech that the Minister was considering far-reaching changes to fees, Commonwealth subsidies, HECS, research training or indexation. It appears that the government simply expected the sector to divine its intentions through implication and allusion. As Vicki Thomson, of the Australian Technology Network of Universities told the inquiry:

There was no formal consultation. I think you could read the tea leaves of where we were headed.²⁰

1.26 We note that the best practice consultation guidance note issued by the Office for Best Practice Regulation makes no reference to tea leaf reading.²¹

1.27 The majority report’s reasons for supporting these changes are unconvincing at best. There is nothing at the heart of this package that will assist universities to maintain their competitive edge in international education, to enhance research excellence, or to deal with economic and societal changes. The twin motivations seem to be the need to justify a massive cut in higher education investment and an ideological obsession with privatisation. The legislation will continue to propel Australian society down the American route: the low road of increasing inequality of access, opportunity and outcomes that the Australian people neither need nor want. This is certainly the opinion of Professor Stephen King, a former Commissioner with the Australian Competition and Consumer Commission, who has described the package as ‘a recipe for disaster.’²²

1.28 The Senate should be particularly wary about the impacts of this package on equality. There is little doubt that it will accelerate wealth inequality in Australia. Not only would this be criminal socially, it would be retrograde economically. Economist Thomas Piketty has found that the acquisition of higher education in the United States has become the domain of the rich, at the expense of the aspirations of working class Americans:

19 Christopher Pyne, Speech at the Policy Exchange, *Education: Our competitive challenge*, 28 April 2014, <http://www.policyexchange.org.uk/modevents/item/education-our-competitive-challenge-with-the-hon-christopher-pyne-mp-australian-minister-of-education> (accessed 28 October 2014).

20 Vicki Thomson, Executive Director, Australian Technology Network of Universities, *Proof Committee Hansard*, 7 October 2014, p. 27.

21 Office of Best Practice Regulation, Department of Prime Minister and Cabinet, *Guidance Note: Best Practice Consultation*, July 2014.

22 Professor Stephen King, quoted in University fee deregulation a ‘recipe for disaster’, *The Australian*, 24 September 2014.

Research has shown that the proportion of college degrees earned by children whose parents belong to the bottom two quartiles of the income hierarchy stagnated at 10-20 per cent in 1970-2010, while it rose from 40 to 80 per cent for children with parents in the top quartile. In other words, parents' income had become an almost perfect predictor of university access ... the average income of parents of Harvard students is currently about \$450,000, which corresponds to the top 2 per cent of the US income hierarchy. Such a finding does not seem entirely compatible with the idea of selection based solely on merit. The contrast between the official meritocratic discourse and the reality seems particularly extreme...²³

1.29 Instead of slugging graduates, dividing university communities, corroding the social licence of our public institutions, and degrading our nation's economic stability and social fabric, the government should fund universities adequately rather than, as unrestrained student fees would, widen inequality.

Is there a university funding crisis?

1.30 The fact is that the only funding crisis for universities is that created by the Abbott government in order to justify its ideological agenda of deregulation and privatisation. If passed this legislation will result in a 20 percent cut in the Commonwealth Grant scheme. Education Department figures reveal that real (in 2014 dollars) per student funding will decline from \$10 832 in 2013 to \$8500 in 2018.

*Figure 1: Real Commonwealth funding per student place*²⁴

	2012	2013	2014	2015	2016	2017	2018
Real Commonwealth Contribution per student place (2014 dollars)	11,187	10,832	10,600	10,400	9,200	8,800	8,500

1.31 Australian universities depend on funding from Commonwealth and state governments for more than 60 per cent of their revenue. The Grattan Institute's *Mapping higher education in Australia 2014-15* report finds that in 2012, total university revenue was \$25.4 billion. Public spending on higher education is largely delivered through direct grants to institutions, primarily for: teaching and learning; student loans or HECS; student income support payments paid directly to students;

23 Thomas Piketty, *Capital in the Twenty First Century*, p. 485.

24 Department of Education, *supplementary answers to questions on notice*, 24 October 2014.

and competitive and block grants primarily for research.²⁵ The government proposes to cut spending, or growth in spending, in all four of these broad areas. The impact promises to be profound, leading to cuts of \$18.2 billion over ten years.²⁶

1.32 It is this profound cut, which the UTS estimates may result in a 30 per cent reduction overall, that has prompted many university vice-chancellors to cautiously support fee deregulation. The extent of their reluctance is clear from a number of submissions, including those of the Australian Technology Network and the Innovative Research Universities group.

1.33 Those groups supporting deregulation – particularly the Group of Eight²⁷ and Universities Australia²⁸ – have based their argument on an assertion that government investment per student has declined by 14.4 per cent since 1994. Their case is intellectually dishonest because it fails to account for the changes in student contribution levels made as a part of the Crossroads reform process beginning in 2006. The figures mentioned in the Inquiry reveal that per-student funding declined predominantly under the Howard government, which reduced funding by 24 per cent. However, Universities Australia’s analysis does not take into account the fact that the government’s share of funding fell from 80 per cent to 60 per cent as a part of the Crossroads process. It also fails to take account of substantial increases in research funding in recent years – a major oversight given that a primary argument for increasing student fees is the alleged need to cross-subsidise research activity.

1.34 The Department of Education’s figures show that, under the Rudd and Gillard Labor governments real per-student funding increased by 12.4 per cent between 2007 and 2013. The efficiency dividend announced in the 2013–14 Budget would have moderated this to some extent for a limited two year period, but this measure has not been approved by Parliament. In addition, these figures do not take into account the impact on universities of the establishment of the Higher Education and Grants Indexation measure which is estimated to have benefitted universities by \$3 billion from 2007 to 2012. Neither do they take account of the increase in research block grants, increases in the funds available to universities through competitive grants from the Australian Research Council (ARC) and National Health and Medical Research Council (NHMRC), or the establishment of Sustainable Research Excellence grants, instituted to help meet the indirect costs of research.

1.35 The 2013–14 Budget cuts were proposed to help pay for an investment in needs based funding in Australian schools – known as the Gonski plan. As the current government has abandoned this plan, Labor’s position is that these changes should

25 Andrew Norton, Grattan Institute, *Mapping Australian higher education 2014–15*, October 2014, p. 41, <http://grattan.edu.au/wp-content/uploads/2014/10/816-mapping-higher-education-2014.pdf> (accessed 28 October 2014).

26 Parliamentary Budget Office, *Projections of government spending over the medium term*, August 2014.

27 Group of Eight Australia, *Submission 46*.

28 Universities Australia, *Submission 60*.

also be abandoned. The government has been unable to legislate these cuts through the Senate, and is unlikely to do so, based on the current stated positions of crossbench Senators. Labor continues to oppose these cuts.

1.36 The 2014–15 Budget cuts, as evidenced by Universities Australia’s submission, would see per student funding fall by 24 per cent by 2018.²⁹ The cuts would affect all grants because of changes in indexation arrangements. In addition, the Research Training Scheme, the ARC and equity funding all face cuts. Analysis by the National Tertiary Education Union (NTEU) of the government’s proposed 20 per cent cut to the Commonwealth Grants Scheme suggests that institutions will individually lose between \$41 and \$209 million over the four years beginning in 2016. This equates to an average 5 per cent cut in universities’ total revenue, with many regional and outer metropolitan universities facing cuts of more than 8 per cent.

1.37 The NTEU has also noted that the explanatory memorandum to the legislation understates the real impact of the cuts, due to what is known as the pipeline effect:

The first point to note regarding the extent of these savings is that they underestimate the full impact of these cuts, as a number of the major changes will take several years to work their way through the system as a result of the pipeline effect of reduced funding rates for students commencing studies in 2016.³⁰

1.38 Similarly the impact of these changes on the size of the HELP debt, doubtful debt and other cuts such as those affecting indexation and the research training scheme, will be greater over time than advertised either in the budget papers, the portfolio budget statements or the explanatory memorandum.

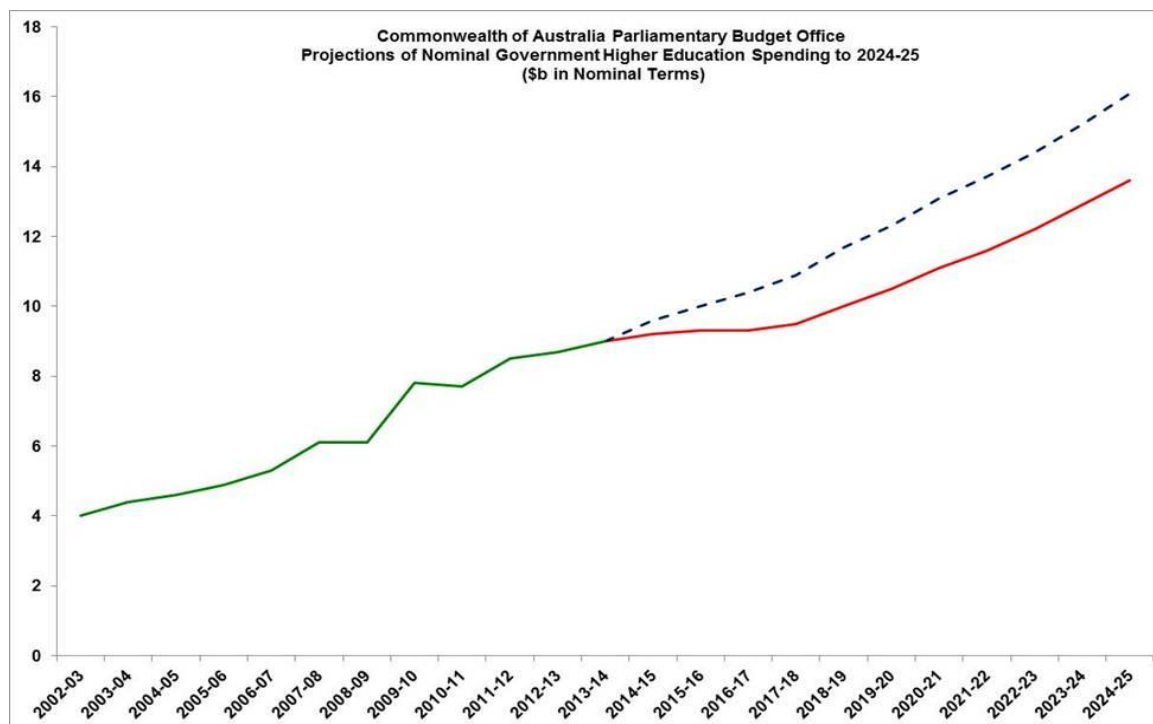
1.39 As noted above, the Parliamentary Budget Office, in its report *Projections of Government spending over the medium term*, has estimated the impact of the Budget’s measures on higher education will be an \$18.2 billion withdrawal of funding over ten years. This will exacerbate Australia’s already poor performance in terms of public investment in higher education. The Organisation for Economic Co-operation and Development (OECD) ranks Australia as equal second last amongst its members in terms of public investment in tertiary education at 0.8 per cent of gross domestic product (GDP). By contrast, the private contribution to higher education in Australia is already the fifth highest in the OECD at 0.9 per cent of GDP.³¹

29 Universities Australia, *Submission 60*.

30 National Tertiary Education Union, *Submission 111*.

31 Organisation for Economic Co-operation and Development, *Education at a Glance 2014*, p. 232.

Figure 2: Nominal Government Higher Education Spending Projections to 2024-25³²



1.40 Under the existing funding arrangements, universities as a whole are performing well financially. The NTEU analysis of 2012 financial data suggests that, collectively, the Australian university system has a positive operating result of \$1.8 billion. Only two universities recorded a deficit in that year. However, the scale of the Abbott government's cuts could place university finances under pressure. The lack of information on their eventual impact is a profound concern. For good reason, some universities have refused to rule out campus or course closures.

1.41 By seeking to deregulate fees the Education Minister is effectively opening Pandora's box. The Minister's department has not undertaken any modelling as to the average cost of degrees under a deregulated system, or charted other potential effects of such radical changes to the existing system. Given the scale of the changes proposed, and the projections of massive fee increases by those outside government who have undertaken modelling, this is reckless, irresponsible and potentially damaging governance by the Liberal-National government.

1.42 There is little evidence that university finances are at a tipping point. We note the analysis offered by Professor John Quiggin:

The current university funding situation is unsatisfactory and inadequate, but is not at a 'tipping point' in which radical reform is necessary to stave off collapse. In the short term, restoration of the funding policy prior to the

32 Parliamentary Budget Office, *Projections of government spending over the medium term*, August 2014, http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/reports/Projections_of_Government_spending_over_the_medium_term (accessed 28 October 2014).

2013 cuts would be sufficient to stabilize the financial position of the university sector as a whole.³³

The Australian university system – world class

1.43 The Australian university system consistently ranks as amongst the best in the world. The recent Times Higher Education Rankings places Australia as equal fifth in the world in terms of rankings – equal with the Netherlands. In the words of Phil Baty, Editor of the Times Higher Education World Rankings, 'Australia does not have just a few world-class universities, but a world-class system.'³⁴

1.44 The excellence of Australian universities is not an accident. It is the result of decades of public investment by Commonwealth and State governments. Australian universities meet national needs. They address skill shortages. Higher education attainment is increasing. Research performance is on the rise. Student satisfaction with teaching is also improving. And graduates, no matter the university they attend, achieve better employment outcomes than non-graduates. Overall, the system provides excellent value for public investment by delivering fair, accessible education and excellence in research. This includes value to the taxpayer:

One extra dollar invested in tertiary education grows the economy by \$26 and grows tax revenue by \$8.³⁵

1.45 Australian universities also sit at the centre of our extraordinarily successful international education industry. It is our highest earning service export, with the latest data for the year ending June 2014 indicating a 12 per cent increase in enrolments compared with the same period in 2013. However, as the Chaney Report makes clear, there is increasing competition for inbound students from major competitors in markets where Australia has hitherto enjoyed advantages.³⁶ The Senate should remember the events of 2008 and 2009 where provider failures and immigration scams caused overseas students and foreign media to question the quality of an Australian education. Changes that create the perception of diminishing quality in Australian universities will be damaging.

1.46 Universities face significant challenges in the years ahead: a minor baby boom demographic from 2020; disruption to educational and business models driven by online learning; and other societal challenges which the legislation does little to aid. In fact, the withdrawal of public investment, including the government's proposed abolition of the Education Investment Fund, may hurt universities' capacity to respond to these and other unknown challenges. Labor does not buy the argument that students and their families should accept large fee increases to cover funding cuts, equity scholarships, infrastructure and an expansion of university research ambitions.

33 Professor John Quiggin, *Submission 20*, p. 3.

34 Liam Fitzgibbon, Australian unis improve in world rankings, *The Australian*, 2 October 2014.

35 University of Technology Sydney, *Submission 96*, p. 1.

36 Australian Government, Department of Education, International Education Advisory Council, *Australia – Education Globally (Chaney Report)*, 27 February 2013.

The real challenge: participation and diversity – Australia could do better

1.47 In creating calamities of their own making, the Abbott government's proposals also distract from and exacerbate the real challenges facing higher education: chief among these the need to increase participation, attainment and equity. The previous government's reforms have enabled 190 000 extra students attend Australian universities. The Rudd and Gillard governments adopted a target of a bachelor degree or higher for 40 per cent of 25–34 year-olds, and this has already been met in some parts of the country. In major cities (40.6 per cent), amongst females (40.8 per cent), in the ACT (49.4 per cent) and Victoria (42.2 per cent) the target has been reached. In NSW it is on the verge of being realised (38.1 per cent).

1.48 But more needs to be done. Other states have lower attainment rates of between 26.8 per cent and 29 per cent. Males have an attainment rate of 29.6 per cent. And regional attainment rates are between 16.2 and 20.5 per cent. Low-SES participation in university education is now over 17 per cent. These figures suggest that the government needs to pay more attention to lifting attainment in underperforming markets. Labor Senators doubt that the government's proposals for unrestrained student fees will assist in this endeavour. Nor do we expect that uncapping sub-bachelor degrees will assist in any great measure. According to the Regional Universities Network:

We do not expect an extremely large growth in sub-bachelor and bachelor places at regional universities as a result of the proposed reforms, due to the thin market, and due to the fact that the introduction of the demand driven system in 2012 absorbed much of the existing demand for bachelor places.³⁷

1.49 Indeed, the Department of Education's evidence to the committee has confirmed that their Minister's repeated claim that his policy will lead to an additional 80 000 students in Australian higher education by 2018 is a vast exaggeration. The Department told the Inquiry that 48 100 of the 'new' students are expected to be in sub-bachelor places, with 35 500 in bachelor level place. But it made clear that the vast majority of these students are occupying places that already exist – with private providers and public TAFE institutions. While the providers don't currently receive per-place federal government funding for these students, the students themselves can access FEE-HELP, enabling them to avoid up-front payment of fees. On analysis, the '80 000 new students' claim comes down almost entirely to the provision of government support to existing students in existing places – providing a windfall gain for private providers.

1.50 Aside from assertion and spin, the majority report has presented no evidence that the bill will address any of the outstanding issues in university participation – especially when combined with the cuts to equity programs delivered in the 2014–15 Budget. Labor Senators can only conclude, therefore, that the proposed legislation

37 Professor Peter Lee, Chair, Regional Universities Network, *answer to question on notice*, 15 October 2014.

could do irreparable harm to fairness in Australian higher education with no offsetting benefit in supporting access and diversity.

Repeating mistakes of the past: Australian and international experience with fee deregulation

1.51 Australia has a system in which student contributions to the cost of their university education are capped. The Higher Education Contribution Scheme (HECS) was envisaged as a national insurance system where the student paid a proportion of the cost of the course if – and only if – they gained private benefits in the form of an above-average salary. The proportion of the course that students would repay was initially set at around 20 per cent. The Howard government changed the name of the program to the Higher Education Loan Program (HELP), expanding its remit by introducing FEE-HELP for students studying in private higher education, and introducing repayment thresholds that fell well below the average weekly wage.

1.52 Under the Crossroads reforms, students' share of course costs rose to on average 40 per cent. The current government says its policy will increase this proportion to 50 per cent, but this goal does not require removing the cap on fees. Indeed, it is likely that degree inflation will see that proportion increase significantly. This proposition is supported by evidence from the first university to announce how it would set its fees in a deregulated environment. The University of Western Australia said in its submission to the inquiry that, in 2016, it would have a blanket fee of \$16 000 a year for domestic undergraduate students. For science students, this will represent a 57 per cent contribution; for design, 64 per cent; for arts, 73 per cent; and for commerce, almost 90 per cent.³⁸

1.53 This contrast between rhetoric and reality is not surprising when we consider Australia's prior experience with deregulation of student fees. In the 2003–04 the Howard government announced that it was partially deregulating student fees, allowing universities to increase fees by up to 30 per cent.³⁹ A newspaper article shortly after the Budget indirectly quoted the then Minister for Education, The Hon. Brendan Nelson:

Education Minister Brendan Nelson has said that introducing fee flexibility would mean some course costs would rise, some would drop and others would stay the same, according to demand.⁴⁰

1.54 In an opinion piece in June 2003 the then Minister for Education, the Hon. Brendan Nelson wrote:

Universities will determine HECS fees within a range from \$0 to a maximum set by the Commonwealth. Some institutions may increase the

38 University of Western Australia, *Submission 45*.

39 Australian Government, *Budget at a glance*, May 2003, http://www.budget.gov.au/2003-04/at_a_glance/html/at_a_glance.htm (accessed 29 August 2014).

40 Sophie Morris, Architect of HECS tips big fee rises, *Weekend Australian*, 17 May 2003, p. 11.

tuition fees in some disciplines. Some institutions have already indicated they would like to reduce their fees or make no change at all.

This measure is in direct response to representations made to the Government by the 38 vice-chancellors. Institutions argued that greater freedom to vary fees was vital to better reflect student demand and diversify their missions. It will give students greater choice, enable them to make informed decisions about which course they believe will offer them the best value and bring them from the periphery to the centre of the university experience.⁴¹

1.55 During debate on the Appropriation Bill (No. 1) 2003-04, the then Minister for Education, the Hon. Brendan Nelson said:

The decision on whether or not to increase HECS is a decision to be taken entirely by the university. Some university vice-chancellors have already said that they will not be changing their HECS charges. Some of them have said that they want to offer more scholarships—so some students will not have to pay any HECS at all. Other universities are obviously looking at it with a view to increasing some of their HECS charges. But it is quite wrong for critics to say that every HECS charge is going up by 30 per cent in every institution.⁴²

1.56 These claims from 2003 are almost carbon copies of the claims Minister Pyne has been making since May 14 this year.

1.57 However, the experience was considerably different from the spin. On the first year of effect – 2006 – all except two universities raised fees to the maximum allowed. The following year the two universities that had not raised fees to the maximum in the first year did so in the second. There were no price signals; no variation to reflect student demand; no sign that students were making informed choices based on price. This was a massive failure for fantastical economic theory, just as removing all restraints on student fees will be. University administrations and financial flows were better off, but students were not the beneficiaries.

1.58 It is clear that removing all restraints on student fees will be an uncontrolled experiment. Professor John Dewar told the committee that:

... there is no national system that I am aware of that is proposing to move precisely to what we are proposing here.⁴³

1.59 There are very few examples of other countries implementing these types of changes. There is little evidence and experience that decision makers and regulators can draw on to manage this journey into dangerous waters. We are concerned that the government has made this decision not based on evidence, but on belief and trust. This

41 Brendan Nelson, We can vault the Crossroads, *The Australian*, 4 June 2003, accessed 29 August 2014.

42 Brendan Nelson, Main Committee: Appropriation Bill (No. 1) – consideration in detail, *House of Representatives Debates*, 18 June 2003, p. 1695.

43 Professor John Dewar, *Proof Committee Hansard*, 8 October 2014, p. 16.

concern was not ameliorated by evidence presented at the Inquiry's hearings, where not a single witness was able to present evidence to support their assertions. Indeed, Mr Paul Wappett, Chief Executive Officer of Open Universities Australia, confirmed that he had 'no evidence whatsoever' to support his assertion that fees would fall in a deregulated market. Rather, he was relying on 'faith' and 'belief.'⁴⁴

1.60 The Department of Education has repeatedly said that the government has not commissioned any modelling or done any detailed analysis of the likely movement of fees.⁴⁵ However, it has clearly made some assumptions about average fee increases, which underpin Budget projections on HELP liabilities.⁴⁶ The Senate has every right to be suspicious about the government's refusal to release the analysis or assumptions on which it has based its policy. As discussed further below, this is concerning not only in relation to the potential impact of higher fees on students, but also the potential for a blow-out in HELP debt.

New Zealand

1.61 Senators might also find it curious that the supporters of these changes fail to mention the New Zealand experience. In 1991 the then Nationals government allowed universities to set their own student fees, along with an income contingent loans system (like HECS) introduced to assist students to pay. The experience was that fees trebled, as did the value of student loans. In 2001 a Labour government introduced fee caps and these have remained in place under the current Conservative government.⁴⁷

American Experience

1.62 Some participants in this debate have identified the United States as a country whose system can teach Australia much. They say that deregulating student fees will lead to US-like diversity, downplaying the negative impacts of US-style higher education – particularly those relating to inequality. The fact is that the US has some of the best universities in the world, but also many of the worst. In comparing the Australian and US systems, UTS noted:

Australia graduates a similar percentage of young people as the US college system, yet we have on average much higher quality. The US has more than 10,000 colleges and universities, whose quality varies dramatically from quite low standard schools to the small number of world leading institutions such as Harvard and Yale. And further, in the fully deregulated US market,

44 Mr Paul Wappett, Chief Executive Officer, Open Universities Australia, *Proof Committee Hansard*, Friday 10 October, p. 32.

45 Robert Griew, Associate Secretary, Department of Education, *Proof Committee Hansard*, 10 October 2014, p. 70.

46 Department of Education, *answers to questions on notice*, 20 October 2014, p. 10, p. 18, p. 22.

47 John Grundy, Will Australia learn from New Zealand's mistakes in higher education, *The Conversation*, 10 October 2014, <http://theconversation.com/will-australia-learn-from-nzs-mistakes-in-higher-education-32669> (accessed 13 October 2014).

fee levels have been rising at twice the rate of inflation for the past decade and student debt is spiralling out of control.⁴⁸

1.63 Student loan debt and fee inflation are significant social, economic and political problems in the US; student debt has quadrupled in the last ten years, and 38.8 million Americans have debts totalling more than \$960 billion.⁴⁹ Student debt is now greater than credit card and automotive loan debt. The National Centre for Education Statistics has found that:

Between 2001–02 and 2011–12, prices for undergraduate tuition, room, and board at public institutions rose 40 per cent, and prices at private non-profit institutions rose 28 per cent, after adjustment for inflation⁵⁰

\$100,000 degrees will become a reality for Australian students

1.64 It is clear that, under the proposals contained in the bill, for the vast majority of Australian students and prospective students, the cost of higher education will rise significantly, especially given that universities will have to cover the cost of the 20 per cent cut to the Commonwealth Grant Scheme, fund Commonwealth Scholarships, absorb lower indexation and properly fund their research programs. Evidence to the committee indicated that universities will have to raise fees by an average of 25 to 32 per cent, as a minimum, to cover these costs. And fee inflation will not be moderated by competition:

It is very unlikely that we are going to see most Australian universities actively compete and sell on price. We are not going to see universities say, ‘Come to Flinders or come to Swinburne because our degree is \$1,000 cheaper than the university up the road.’... It is very unlikely that we will see universities aggressively compete on price and lower their prices in order to attract students to their institution.⁵¹

1.65 It is much more likely that universities will seek to compete, or differentiate, on prestige, course offerings, student experience and other such factors – much as they do already. As Andrew Norton has said:

Prestige fills an information vacuum about the long term benefits of attending particular universities, but prices charged in deregulated markets suggest that prestige drives fee inflation.⁵²

48 University of Technology Sydney, *Submission 96*, p. 2.

49 Federal Reserve Bank of New York, *Student Loan Debt by Age Group*, 29 March 2013, <http://www.newyorkfed.org/studentloandebt/index.html> (accessed 16 October 2014).

50 Institute of Education Services, National Centre for Education Statistics, *Fast Facts: Tuition costs of colleges and universities*, <http://nces.ed.gov/fastfacts/display.asp?id=76> (accessed 16 October 2014).

51 Andrew Dempster, Director, Government Relations, Swinburne University, *Proof Committee Hansard*, 10 October 2014, p. 7.

52 Andrew Norton, University fees will have to match their value, *Australian Financial Review*, p. 47, 13 October 2014.

1.66 As noted above, the scale of price increases facing students has been signalled by UWA's announcement that it will charge a flat fee of \$16 000 for its three year base undergraduate degree.⁵³ It has justified its fees on the basis of its prestige:

Pricing is commensurate with UWA's standing as one of Australia's leading universities, and one of the world's top 100 universities.⁵⁴

1.67 The contention is that students who wish to attend a high prestige university should expect to pay high fees. Labor Senators argue that the Senate should reject this elitist notion, and insist that equity remains at the heart of higher education policy. It is clear that price gouging, fee inflation and the prospect of debts in the order of \$100 000 or more before a graduate starts earning enough to start paying back their HECS-HELP debts are a very real probability.

1.68 The government has advanced deceptive arguments that graduates should pay more for tertiary education because of the private benefit they receive. The notion flounders thrice. First, because in a progressive tax system those who earn more pay a greater proportion of their earnings in tax – and this includes many, though not all, graduates. Second, because the current funding arrangements recognise the existence of both a private and a public benefit to higher education. And third: because the private contribution to higher education in Australia is already very high by international standards.⁵⁵

1.69 Moreover, the figures the government uses to argue the private benefit from higher education are contestable. Those figures compare lifetime salary outcomes for graduates with a bachelor level qualification, on the one hand, with those who have only a Year 12 qualification on the other. With post school qualifications becoming more common, comparing Year 12 and bachelor degree qualifications is specious.⁵⁶ ABS figures show that for some Certificate III or IV graduates – namely those in engineering, ICT, science and electrical trades – lifetime earnings may exceed those of school teachers and nursing professionals. In the words of Geoff Sharrock of the LH Martin Institute:

And as post-school qualifications become mainstream, the simple school leaver versus graduate comparison is becoming less and less relevant as a

53 UWA runs, like the University of Melbourne, general degrees at the undergraduate level, along with professional degrees at the postgraduate level.

54 University of Western Australia, *Submission 45*, p. 4.

55 Organisation for Economic Co-operation and Development, *Education at a Glance 2014*, p. 232.

56 A 2013 report from the Australian Workforce and Productivity Agency looked at four economic growth scenarios, what kinds of skills the nation now has and what it will need. One of its findings was that, 'In the three higher-growth scenarios, qualification holding is expected to exceed 70% by 2025.'

basis for any policy that frames the issue as a zero-sum contest between student interests and taxpayer interests.⁵⁷

1.70 Andrew Norton, on whose work the government is basing its inflated claims of a \$1 million premium, confirmed in the committee's hearings that he has also concluded the comparison with Year 12 qualifications not the most valid or useful.

The impact of fee deregulation on students and the labour market

1.71 Considerable concern has been expressed about the impact of unrestrained student fees, the changes to the treatment of HELP debt and cuts to teaching subsidies for particular disciplines and careers. The inquiry heard from organisations representing both well paid and not so well paid professions. Submissions and oral evidence were received from the Australian Nurses and Midwifery Federation (ANMF), the Australian Medical Association (AMA), the Australian Education Union (AEU) and the Australian Veterinary Association (AVA).

1.72 The ANMF gave evidence that nursing is a predominantly female profession (92 per cent) and highlighted modelling produced by Universities Australia that Nurses could face a repayment time on debt of up to 24 years. Registered nurses are educated through the higher education system, and have generally lower earnings expectations and outcomes than some other professions. The committee was informed that Australia faces a shortage of up to 109 000 registered nurses by 2025:

One of the things we need to do so much better in this country is health workforce planning. We need to make sure that we balance those two systems of how many people we are allowing demand to put through university with what our needs will be now and what our future needs are.⁵⁸

1.73 The ANMF submission makes the point that the issues of unrestrained student fees and workforce supply in vital care professions cannot be separated:

Nursing and midwifery is a vitally important part of the economy on a number of fronts: workforce, social, economic and international. The government's proposed Bill: Higher Education and Research Reform Amendment Bill 2014 demonstrates a failure to understand or accept the importance of the tertiary education by choosing to pursue a tired and often discredited free enterprise, user pays system and damn the results.⁵⁹

1.74 The AMA expressed its opposition to the measures in the bill, in particular unrestrained student fees, noting:

The evidence also indicates that, in relation to medicine, a high level of debt is a factor in career choice, driving people towards the better-

57 Geoff Sharrock, Million-dollar degree pay-offs: how real are they?, *The Conversation*, 17 October 2014, <http://theconversation.com/million-dollar-degree-pay-offs-how-real-are-they-32858> (accessed 28 October 2014).

58 Annie Butler, Assistant Federal Secretary, Australian Nurses and Midwifery Federation, *Proof Committee Hansard*, 8 October 2014, p. 23.

59 Australian Nursing and Midwifery Federation, *Submission 104*, p. 11.

remunerated areas of practice and away from less well paid specialties like general practice.⁶⁰

1.75 The AMA contended that there was little evidence that price competition was likely in the training of medical practitioners:

Medicine is a much sought after qualification, and there is significant potential under the new policy for an explosion in the costs of a medical degree and the levels of debt that medical students will incur.... With high demand for places, we see no reason that competition will keep fees under control for medicine.⁶¹

1.76 Given current practice, the AMA expected that students would leave university with debts of over \$250 000, noting that Bond University already charges \$330 000. The AMA noted that Health Workforce Australia expects that by 2025 the health workforce will be in balance, but there will remain shortages in geographic areas and specific specialities:

Encouraging doctors to work in these areas and specialties will be much more difficult if they are saddled with high levels of debt, undermining the significant effort that has been made by current and previous governments to expand doctor numbers as well as attract graduates to work in underserved communities and specialties.⁶²

1.77 The AEU spoke to the inquiry about its concerns with the bill. These focussed on the worry that there would be a downward pressure on the quality of teacher education, as well as increased costs that would 'act as a disincentive and discourage people from going into the profession.'⁶³

1.78 The AEU was particularly concerned about the proposed changes to indexation of HELP debt:

The increased interest that would be charged on HECS will be such that it will represent an additional debt burden for our members. In a gender profession like teaching, the impact will be disproportionate on women. It will also impact on future generations, particularly those who come from communities and backgrounds that are debt averse. That will discourage them from entering the profession.⁶⁴

60 Dr Stephen Parnis, Vice President, Australian Medical Association, *Proof Committee Hansard*, 9 October 2014, p. 7.

61 Dr Stephen Parnis, Vice President, Australian Medical Association, *Proof Committee Hansard*, 9 October 2014, p. 7.

62 Dr Stephen Parnis, Vice President, Australian Medical Association, *Proof Committee Hansard*, 9 October 2014, p. 7.

63 Angelo Gavrielatos, Federal President, Australian Education Union, *Proof Committee Hansard*, 8 October 2014, p. 48.

64 Angelo Gavrielatos, Federal President, Australian Education Union, *Proof Committee Hansard*, 8 October 2014, p. 48.

1.79 Around price controls the AEU made the point that previous experience showed, in school education, that there will be little downward pressure on price:

Experience tells us that there is no downward pressure on price; price always increases. And if you want an example of that you look at the private school market in Australia, which received incredible increases in funding under the Howard government's funding system yet continued to increase its fees well in excess of CPI each year, despite the increases in funding as well. It is a furphy that [competition] will keep price down.⁶⁵

1.80 Considerable concerns were raised about the quality of teacher education. The AEU contended that the experience of the deregulation of the VET sector, particularly in Victoria, showed that quality assurance is problematic when a large number of private providers enter the market, in response to the availability of public subsidies for private profit. The AEU also contended that efforts to improve the quality of teacher education would be impeded by the passage of the bill.

1.81 Evidence received by the AVA demonstrated that there is already a profound oversupply of veterinary scientists. Many vets do not work in the profession and those who do work as veterinarians earn significantly less than practising lawyers or doctors. A veterinarian's starting salary is around \$47 000 and the average salary in 2011-12 was \$77 000.

A veterinary science degree takes five to seven years of study, depending on the university, is one of the most expensive courses for universities to provide, leads to a relatively low income and is predominantly undertaken by women. As a result, the higher education reforms will impact veterinary students more than any other student group.⁶⁶

1.82 The AVA cites evidence that veterinary degrees are already underfunded by the Commonwealth and fears that student fees could increase by more than the cost recovery basis of 32 per cent. Modelling produced by the AVA shows that \$100 000 degrees and lengthy payback periods on in excess of 30 years could be a reality under the government's proposals. As with medicine, this would discourage veterinarians from practising in some of the areas of greatest need, socially and economically.

1.83 Many stakeholders have raised problems with the proposed cluster funding changes, and their perverse impact on engineering and science subjects. Submissions have noted that science and engineering suffer a 30 per cent cut in the new cluster funding arrangements. This has sparked comment and opposition from some universities,⁶⁷ Engineers Australia⁶⁸ and the Australian Council of Engineering

65 Angelo Gavrielatos, Federal President, Australian Education Union, *Proof Committee Hansard*, 8 October 2014, p. 50.

66 Australian Veterinary Association, *Submission 125*, p. 2.

67 For example University of Western Australia, *Submission 45*, p. 4.

68 Health Gilmore and Matthew Knott, Fears uni cuts could stifle infrastructure, *Brisbane Times*, 3 June 2014.

Deans.⁶⁹ Professor Battersby of Federation University, in the hearings, feared for engineering and science in the future at his university:

... Basically, that means we would have to close down engineering and science, because there would not be too many regional students who would want to pay that. We have to look for mechanisms to cross-subsidise in order to keep science—environmental science, for instance—and engineering flourishing. The pity of this of course—you have visited it recently—is that we have just had the benefit of having built a brand-new engineering and science precinct at the university. It is a model for regional Victoria. We do not want to get into a situation where we have no students to occupy that building.

It would be a profound loss of capacity, I would have thought. The brief from Universities Australia points this out—loss of capacity in universities such as yours. Would you agree with that?

Not only a loss of capacity but a loss of regional aspiration. We have the biggest engineering and science facility in regional Victoria—brand-new, funded by the Commonwealth. It sets aspiration for regional high school students, who visit it frequently. If you take that out of operation, you will have a major impact in regional Victoria on the aspirations of students wanting to do science and engineering.⁷⁰

1.84 Such a loss of capacity would fly in the face of the Prime Minister’s rhetoric, as Leader of the Opposition, on the importance of science and engineering:

More graduates, particularly in the “hard” disciplines of maths, science and engineering, mean a stronger economy and prosperity for all. That’s why reasonable public investment in higher education is not dudding poorer people to help richer people: it’s strengthening our human capital in ways that ultimately benefit everyone.⁷¹

1.85 It is unclear whether, if we move to a system where young Australians will be weighing up course costs, debt and returns on investment how we can be sure that the nation trains the nurses, teachers, or scientists we need. We are particularly concerned about the large cuts in Commonwealth funding for science degrees. Given that scientific qualifications have been identified as crucial by, amongst others, the Chief Scientist,⁷² we fear that signals that value scientific literacy lower than other pathways could lead to unfortunate workforce outcomes.

1.86 It is clear that there is significant opposition amongst bodies representing professionals, particularly in services sectors, to the government’s measures in this

69 Andrew Trounson, Engineering deans see fees backlash, *The Australian*, 23 June 2014.

70 Professor David Battersby, Vice-Chancellor, Federation University, *Proof Committee Hansard*, Friday 10 October, pp. 5-6.

71 The Hon. Tony Abbott, then Leader of the Opposition, *Address to Universities Australia Higher Education Conference* 28 February 2013.

72 Australian Government, Office of the Chief Scientist, *Mathematics, Engineering and Science in the National Interest*, May 2012.

bill. Unrestrained student fees, coupled with university cuts and unfair changes to HELP, will have major effects on the labour market. The Senate should heed the warnings of these groups and should not support unrestrained university fees.

Let it rip - equity under unrestrained student fees

1.87 Equity is a key focus in higher education policy. The previous government had a clear commitment to increasing the participation of a range of equity groups, including low-SES, regional and remote students, and Indigenous Australians. A fair higher education system is a key test as to whether this bill is worthy of consideration. There is considerable debate on the impacts of the proposed legislation on Australians from regional, outer suburban and interface communities, but many of the submissions from regional universities were clear on this point:

UON's view is that fee deregulation has the potential to damage participation rates in higher education, potentially reversing the growth in equity group participation and success which many universities, including UON, have achieved. ...

Reduced CGS subsidy alongside deregulation risks the prospect of significantly higher fees which, combined with higher debt and interest rates, may act as a deterrent to students, particularly those from 'non-traditional' backgrounds.⁷³

1.88 We are not convinced that tinkering with the package to pool scholarships or to institute a regional adjustment fund can address this fundamental concern or make this package fair.

1.89 The government has proposed its so-called Commonwealth Scholarship Scheme as a measure to improve the equity of the package. We make two observations. First, if this package is fair, why are these scholarships so desperately needed? Second, the design of these funds will serve simply to entrench existing social and economic divisions. As noted by Federation University in its submission:

The Bill's proposed reforms will leave the University with proportionately less funding than previously to support its core student cohort, namely disadvantaged students, than capital city based providers. Indeed, under the proposed arrangements, the University will have proportionately fewer funds to support a larger proportion of its students.⁷⁴

1.90 The central concern expressed by some universities, commentators and regional communities is that large, elite universities will be able to use the scholarship funds as a measure to entrench existing market power, poach students and otherwise maintain existing patterns of disadvantage.

1.91 At first blush the Commonwealth Scholarship Scheme seems like a nice idea: take care of the poorest so talent does not go to waste. But think about where the money would come from and you can see it is actually an absurdity. The fee revenue

73 University of Newcastle, *Submission 119*, p. 8.

74 Federation University, *Submission 72*, p. 6.

will be paid either up front, or deferred and repaid through the tax system. The wealthiest students (actually, their parents or their family trusts) will be able to pay up front and incur no interest. In real terms they will therefore pay the least towards this scholarship pool. The vast majority of the scholarship fund will be supplied by the wide middle ranges who defer payment of their exorbitant fees. A very significant portion of these will be working at full stretch for decades to come, just to make the sacrifices this government demands in order to fund their own education. Inevitably, some of these will be quite poor, but not quite poor enough to gain one of these scholarships themselves. How can we expect these students to pay for someone else's education as well as their own? And pay for the rest of their working lives?

1.92 There is something brazen about the government proposing to call this scheme a Commonwealth Scholarship. Firstly, not one cent of Commonwealth money will contribute towards the scheme. Two, the mechanism for funding is effectively a tax on other students. Third, the very existence of higher fees generates the need for a new type of scholarship – for fee exemptions or discounts - scholarships not currently provided by government. We cannot escape the conclusion that the policy trajectory is one where the government is seeking to shift the costs of student welfare from the Commonwealth treasury to the pay packets of ordinary Australians through the HELP system.

1.93 We already have a system that has worked very well for many decades that asks the wider community to help pay for the proper running of our public university system, including access to it by the neediest in our community. It is called progressive taxation and adequate public funding.

Regional adjustment package an admission of failure

1.94 Calls for a regional adjustment package and pooling of scholarship funds, most prominently from the Regional Universities Network (RUN), are an admission of failure. There is a fundamental inequity at the heart of the bill. After the Budget the Minister for Education claimed that his package would particularly benefit regional universities and students. This claim was directly contradicted by Professor Kwong Lee Dow:

In poorer communities, including regional and rural communities, families will not be able to meet these higher fees.... So the institutions will have less funding and become less competitive over time.⁷⁵

1.95 According to Professor Battersby of Federation University:

....deregulation will not be sufficient or satisfactory in terms of the mechanism to redress the funding shortfall. In this regard we think it is important to acknowledge that in many parts of regional Australia there is already evidence of market failure relating to regional higher education. This is certainly evident in the regions we serve, which is the western region of Victoria and Gippsland. If there was not a market failure, then we

75 Andrew Trounson, Uni reforms hurt regional students and unis: Lee Dow, *The Australian*, 29 July 2014.

would not be seeing participation rates in regional communities about half of what they are in capital cities. In our view, deregulation and the application of market forces by themselves will not rectify market failure in regional communities.⁷⁶

1.96 Deakin University described to the committee the reasons regional universities and campuses would be adversely affected and the likely implications:

Regional campuses by definition operate on a smaller scale than metropolitan campuses. ... This is easily demonstrated in the contrast between our Geelong and Burwood operations. ... The combined impact of a significant increase in fees and thin populations of regional areas means the declines in Geelong and Warrnambool may compromise the University's current financial sustainability. To limit the impact one option is to relocate or duplicate disciplines from Geelong to Melbourne. This is not in the best interests of the taxpayers of regional Victoria and it contravenes the spirit of the legislation under which the University was founded.⁷⁷

1.97 RUN and Group of Eight amongst others have advocated for a competitive regions fund.

...we ask that there be established a competitive regions fund to acknowledge that the market is not even, is not uniform across Australia and to acknowledge the thin markets in which we operate.⁷⁸

1.98 There is however little agreement on how this fund should operate, for how long and how much funding should be allocated. RUN suggests \$140 million a year⁷⁹ for ten years or longer. Others suggest a shorter time period. The compromises that the various parties are now seeking risk creating a patchwork system of university support – a hodge podge of funding mechanisms that lacks policy coherence.

A debt sentence for students and taxpayers

1.99 The origins of the current HELP student loan scheme go back to the Hawke government, which, in line with recommendations of the Wran Committee (Report of the Committee Funding 1988), introduced HECS in 1989. With a flat contribution across all undergraduate disciplines, with no real interest rate applicable to loans, and requiring modest repayments only when a graduate's income reached average weekly earnings, HECS was generally regarded as fair and equitable. It was broadly supported by the public, in large part because repayments commenced only when income rose to above-average levels and thus, it could be argued, graduates were benefitting financially from their higher education qualification. Later research showed that, with

76 Professor David Battersby, Vice Chancellor, Federation University, *Proof Committee Hansard* 10 October 2014, p. 23.

77 Deakin University, *Submission 71*, pp 3–4.

78 Professor Peter Lee, Vice Chancellor, Southern Cross University, *Proof Committee Hansard*, 7 October 2014, p. 36.

79 \$100 million a year for the fund and \$40 million a year in pooled Commonwealth scholarships.

its modest parameters, HECS did not deter students from enrolling in higher education.

1.100 In 1997 the Howard Government made significant changes to HECS, introducing differential charges across disciplines, raising charges across the board and lowering the repayment thresholds. The rates at which repayments were made also increased. While there was an initial drop in applications for places at many universities, these changes – which were essentially incremental – did not have lasting deterrent effects.

1.101 The measures contained in the bill related to the current HELP scheme, however, are not incremental, but fundamental. They:

- Introduce a real interest rate, equivalent to the Government ten-year bond rate (capped at six per cent);
- Reduce further the initial income threshold for repayment;
- Are accompanied by an average 20 per cent reduction in Commonwealth subsidies (forcing universities to raise tuition fees in order to meet costs); and
- Are made simultaneously with a move to deregulate undergraduate tuition fees, meaning that there are no caps on what universities and other providers can lawfully charge undergraduate students.

1.102 In a climate of unlimited tuition fees and of a real interest rate proposed for loans, students face the prospect of spiralling debt. For those who take time out of the full-time workforce (especially women) and for those who, for one reason or another, earn less than the \$50 000 repayment threshold for substantial periods, debt will grow rapidly. This means that unemployed or under-employed graduates, those with disabilities those with qualifications in particular low-earning disciplines such as the arts will be especially disadvantaged. For the one in four university students who drop out of their courses – and leave university without a qualification – the prospect of an income that hovers around \$50 000 to \$60 000 could mean a lifetime of debt, as mandatory payments barely keep up with the interest on their loans.

1.103 There are real implications in this for graduates' life choices and for the economy more generally. These include the capacity of graduates to purchase a home. A significant HELP debt would be a factor taken into account by lending agencies and also, naturally, by graduates themselves in deciding whether they are in a financial position to take out a housing mortgage. An analysis of the government's package by the Melbourne Institute of Applied Economic and Social Research concluded that:

Even in the absence of any increase in fees from university fee deregulation, the package of other measures results in an increase in the time to repay loans of over ten years for some groups of graduates. Increases in fees of the magnitude envisaged here as part of the fee

deregulation element of the package increase the additional time to repayment beyond 15 years for some individuals.⁸⁰

1.104 In addition to the impact on individuals, there is a significant public policy issue around the level of debt not expected to be repaid – known as doubtful debt – consequent on the proposed HELP measures. Professor Bruce Chapman noted in his evidence to the committee:

The problem, as I see it, is that doubtful debt is a cost to the taxpayer but the universities are essentially controlling what that cost is going to be because the doubtful debt is a direct function of the loans that are outstanding and if the universities control what those fees are then that they will ultimately be controlling the levers that determine what that doubtful debt is and what the taxpayers pay. It is akin to a blank cheque being handed from the government to the universities on the matter of doubtful debt.⁸¹

1.105 Professor Chapman's colleague, Dr Timothy Higgins, added that doubtful debt 'will go through the roof'.⁸²

1.106 Partly as a result of concerns about the 'blank cheque' being proposed with taxpayer dollars, many commentators and vice-chancellors have discussed moderating the impact of fee deregulation through a variety of mechanisms. Andrew Dempster, from Swinburne University, gave evidence describing four mechanisms that have been proposed:

An advisory committee – proposed by Universities Australia – to monitor the implementation of the reform package and advise the government on any policy changes that are required.

An annual student HECS-HELP loan limit. Higher education providers would be free to charge more than, the same as or less than the loan limit. This arrangement would operate in a similar way to the current arrangement for FEE-HELP, except that the FEE-HELP limit is a total, not annual, cap.

A price regulator – with a body such as TEQSA, the ACCC, or a new body – could be tasked with monitoring prices for degrees offered by higher education providers and disallowing inappropriate or excessive prices on the basis of clear and objective criteria.

The government could continue to set maximum student contribution, as is currently the case.⁸³

1.107 The University of Newcastle – which stated point blank in its submission that it does not support fee deregulation – recommended that, if deregulation were to be

80 Chris Ryan, *Impact of the Australian Higher Education Funding Reforms*, Melbourne Institute of Applied Economic and Social Research Policy Brief No. 2/14, August 2014, p. 2.

81 Chris Ryan, *Impact of the Australian Higher Education Funding Reforms*, Melbourne Institute of Applied Economic and Social Research Policy Brief No. 2/14, August 2014, p. 2.

82 Dr Timothy Higgins, *Proof Committee Hansard*, 9 October 2014, p. 56.

83 Andrew Dempster, Swinburne University, *Proof Committee Hansard*, Friday 10 October, p. 2.

supported by the Parliament, there should be 'an "elevated" cap on student fees for a transitional period, to allow for market certainty and protect students from excessive price inflation.⁸⁴

1.108 The fact that these proposals have been floated highlights the fundamental contradiction at the heart of the package. In the words of Angelo Gavrielatos of the Australian Education Union:

It is just ridiculous. On the one hand we want to deregulate the thing and on the other hand we want regulatory frameworks to deal with the impact of deregulation.⁸⁵

1.109 It is clear that market failure in higher education is not a possibility, but a certainty.

Alternative proposals for HELP indexation

1.110 Students will pay one way or another, no matter what proposition the government advances for changes to the treatment of HELP debt. We note that all the alternative propositions are reported to have a similar budget impact as the government's iniquitous proposal to charge a real interest rate. No matter the merits of the various proposals all are inferior to the current situation from an equity point of view.

1.111 In response to stakeholders' widespread opposition to the imposition of a real interest rate on HECS, the government sought some possible policy alternatives that would reduce the cost of the scheme to the taxpayer. These included:

- A "hybrid" model, which would allow for indexation of HELP debt at the Consumer Price Index (CPI) when a graduate's income is below the initial repayment threshold and at the bond rate when income rises above the threshold; and
- A "loan fee plus CPI" model, which would index outstanding loans to CPI but apply a surcharge on the loan that would cover the cost to Government of lending at concessional rates (the current FEE-HELP model).

1.112 As Dr Higgins noted at the Inquiry hearing,⁸⁶ the second of these options involved a real difficulty: setting an appropriate surcharge which would be cost neutral, given the changing parameters of the ten-year bond rate and changing fee levels. There are risks that particular borrowers might be overcharged; or, on the other hand, that the surcharge would be insufficient to cover the cost of providing the loan.

1.113 The government has noted that the first of these options would lead to difficulties for the Australian Taxation Office (ATO) in applying two different

84 University of Newcastle, *Submission 119*, p. 9.

85 Angelo Gavrielatos, Federal President, Australian Education Union, *Proof Committee Hansard*, 8 October 2014, p. 49.

86 Dr Timothy Higgins, *Proof Committee Hansard*, 9 October 2014, p. 57.

indexation mechanisms.⁸⁷ Aside from these difficulties, the fact is that neither alternative is fair or equitable and both options involve sharply increased costs to graduates who borrow from the government to pay their tuition fees. These costs could be avoided, of course, by paying fees upfront, but that choice is only available to students whose families can afford the substantial charges. Those from middle- and low-income families would have no choice but to take out a loan.

1.114 Labor does not believe that, in Australia, access to higher education should depend on family income. The current HECS-HELP scheme, which has no real interest rate, enables anyone who qualifies to undertake university study that is affordable. The government's proposed changes to HELP, and the two alternative options advanced, must all be rejected.

Cuts to research training and fees for PhDs

1.115 The bill would see funding for the Research Training Scheme (RTS) cut by more than \$173 million over four years – a 10 per cent reduction. The bill allows universities to recoup this shortfall by charging PhD students up to \$3 900 per year in fees, which students could borrow through HECS-HELP.

1.116 The RTS supports Australia's brightest and most academically driven students to do research that benefits the nation. PhD students are the cream of the crop; the first class honours graduates who choose to dedicate three or more years, and often the rest of their working lives, to expanding human knowledge. During their doctoral studies, early career researchers are often responsible for the breakthrough ideas that deliver new technologies or wholly new ways of seeing the world.

Graduate research students form a key part of Australia's research workforce and provide a significant contribution to national and institutional research outputs. These students support long-term strategic national interests and often at a cost to themselves through lost income and opportunity. ... It is our view that the low financial support for this group of students, if it is combined with the introduction of a student contribution, would lead to a downturn in those undertaking research degrees and will have a significant negative impact on the country's research workforce.⁸⁸

1.117 In many cases, the opportunity costs of undertaking a PhD are high. Even for those who receive an Australian Postgraduate Award, the gap between this support and the wages they would otherwise be earning is substantial. Furthermore, for many students, this cost is not recouped through higher lifetime earnings.

This measure sets out to recast research students as students consuming resources for a potential payoff following graduation. The contribution of [higher degree by research] candidates to the public good is typically not matched by a private benefit.⁸⁹

87 Regulation Impact Statement, Higher Education and Research Reform Amendment Bill 2014, p. 93.

88 Monash University, *Submission 101*, p. 2.

89 James Cook University, *Submission 89*, p. 2.

1.118 Evidence from the Council of Postgraduate Associations in the Inquiry's hearings paints a vivid picture:

The full-time PhD experience is an isolating one, with increasing uncertainty of employment outcome and no guarantee of scholarship support. A PhD student chooses to weather these pitfalls in order to contribute to the nation's knowledge in a unique field of research. To add an extra hurdle by charging fees on research degrees will only further discourage our future research leaders. This change, at its very essence, embodies charging individuals to come to work.⁹⁰

1.119 This is the context for the near-universal opposition to the RTS measure from institutions that have made submissions to the inquiry. The University of Newcastle and RMIT echo the sentiments of most:

This measure does not align to national objectives to build Australia's research, innovation and entrepreneurial capacity.⁹¹

This is another regressive policy and goes against a long tradition of public investment in research training in Australia.⁹²

1.120 The government's own Legislation and Financing Working Group agreed with this assessment and recommended that 'this measure not proceed, with savings found elsewhere if needed.'⁹³ While Labor does not agree that alternative savings should be found within the higher education system, we wholeheartedly agree that this short-sighted measure must be dropped.

Threats to research funding

1.121 In addition to direct cuts to the RTS, the government has also attempted to create a false and spurious link between the 'reforms' contained in the bill and ongoing funding for two completely separate research programs. These are the National Collaborative Research Infrastructure Strategy (NCRIS) and the Future Fellowships program. It does this in two ways.

1.122 First, it has included in the bill a measure to amend the *Australian Research Council Act 2001* (the ARC Act) to increase the agency's funding envelope (Part 1 of Schedule 5), enabling it to deliver on the government's welcome decision to make the Future Fellowships program ongoing (albeit with a reduced number of fellowships). Labor Senators note that amendments to the ARC Act to reflect government funding decisions are standard operating procedure and consider that such measures should not be tied into highly contested legislation such as the bill.

90 Ms Meghan Hopper, National President, Council of Australian Postgraduate Associations, *Proof Committee Hansard*, 10 October 2014, p. 23.

91 University of Newcastle, *Submission 119*, p. 6.

92 RMIT University, *Submission 117*, p. 3.

93 Regulation Impact Statement, Higher Education and Research Reform Amendment Bill 2014, p. 53.

1.123 The Minister has also stated that, if the current package is not legislated, funding for NCRIS will cease. The mechanism underlying this bizarre threat only became clear at Senate Estimates on 22 October, when the Department of Education advised that the one-year extension of NCRIS funding to 2015–16, which was announced in the Budget, has not been included in an appropriation bill to date. The reasoning behind this move is that the 'offset' for the NCRIS funding in 2015–16 is delivered through the higher education changes. Labor Senators are appalled by the mismanagement of this world-leading research infrastructure program on two levels. First, it demonstrates that the government has totally failed to comprehend the need for funding certainty for major research infrastructure, if it is to be efficiently managed and key personnel are to be retained. How can NCRIS-funded facilities plan for 2015–16 when the program's funding only one year out is being held hostage to a highly contentious overhaul of the university sector? Second, the fact that the Budget only included one additional year of NCRIS funding becomes even more concerning in light of the Department's evidence, which implies that further offsets would be required to maintain NCRIS funding beyond 2015–16.

1.124 With a review of NCRIS imminent, but not yet underway, Labor holds grave concerns for the program's future. But we will not give in to the government's attempted coercion and agree to radical higher education changes that would see students slugged with a debt sentence, in order to secure just one more year of NCRIS funding. Labor's position is that the government should provide security of funding for the highly successful NCRIS and Future Fellowships programs, regardless of whether the bill is passed.

Privatising Australian higher education risks large scale rorting and exploitation

1.125 The government plans to extend the existing demand driven system to non-university higher education providers (NUHEPs), including those in the public TAFE system and private providers. This would mean that Commonwealth subsidies would be available for all accredited courses at providers registered by the Tertiary Education Quality and Standards Agency (TEQSA) and complying with funding agreements, including for-profit providers.

1.126 This ideologically-driven move threatens to open a Pandora's Box. Australia's experience in international education presents a lesson: unless regulation and monitoring are thorough and assiduous, there are real risks that rogue operators will succeed in rorting the system. When this happens, the reputation of the sector as a whole is at risk. Speaking about recent experience of deregulation in the vocational education and training sector in Victoria, Ms Pat Forward of the Australian Education Union told the Inquiry:

What is troubling, particularly in terms of the experience that the TAFE and VET sector brings to this Bill, is the opening up of the market. It has been accompanied by some of the most appalling practices by private providers who, because of the inadequacy of the regulatory system, and the rapidity with which the market has opened up, have been engaged in what can only be seen as deplorable practices. They exploit students through the delivery of lower-level qualifications, as these providers have accessed more and

more public funds, and cherry-pick delivery. Where they deliver anything – a lot of them have been delivering very little – they focus on the high-turnover end of the market.⁹⁴

1.127 While the Commonwealth's regulator in higher education, TEQSA, has potentially robust capacities, Senators should remember that the government, in the 2014 Budget, delivered a cut of over 40 per cent to TEQSA's funding. As a result, the Agency is shedding significant numbers of staff, just when it faces considerable new challenges.

1.128 So far, as TEQSA officers told the Inquiry, there has not been a significant upsurge in approaches by new providers seeking registration in a bid to enter the new, subsidised market. But in the future it is reasonable to predict that such approaches will occur and that the numbers concerned could be substantial. As the Victorian experience illustrates, a strong regulator is a vital condition for a healthy market and – more importantly – a healthy higher education system that enjoys national and international esteem.

1.129 There is a touching sense of confidence in the capacity of TEQSA to manage this new system. This is especially ironic in that many of those who are now expressing unconditional belief in TEQSA's capacities, were less than twelve months ago calling for urgent legislative change to rein in its excesses. We note that legislation to improve the operations of TEQSA remains on the Senate notice paper, where it has languished since this committee reported on that bill in June 2014.

1.130 If the government's plans are realised, Australia would essentially have a voucher system of funding undergraduate education, where Commonwealth subsidies become no more than vouchers, cashable with a myriad of providers, dubious or otherwise. This is a recipe for decline, if not disaster.

Funding for sub bachelor degrees

1.131 By means of the bill, the government seeks to extend Commonwealth subsidies to sub-bachelor qualifications including associate degrees and higher education diplomas and advanced diplomas. Coupled with the extension of Commonwealth Supported Places to non-university providers, including public TAFE institutions, the plan contains the potential for cost-shifting from the states and territories to the Commonwealth. This could happen where TAFE providers, driven in part by funding starvation, convert TAFE-level courses to higher education courses. To do this, they would need to satisfy TEQSA that each course met its Threshold Standards but, where this was achieved, TAFE providers could receive funds from an additional source – preferable, perhaps, to extremely uncertain state-government financial support. Mr Martin Riordan, CEO of TAFE Directors Australia, told the Committee that upwards of 15 or 20 per cent of Victorian TAFE diploma provision has now shifted into the higher education sector. As he noted, '[t]hat is a real

94 Pat Forwood, Australian Education Union, *Proof Committee Hansard*, 8 October 2014, p. 51.

disappointment for industry because they are not seeing the technical competency sign-offs...⁹⁵

1.132 The Australian VET system across Australia is in crisis due to funding cuts meted out by state governments and, in some jurisdictions, to a proliferation of private VET providers – of varying quality – that are undercutting public TAFE providers.

1.133 It is not the role of the Commonwealth to address the dereliction of public funding for TAFE by Liberal/National State governments. It would be advisable for the Commonwealth and States, through Council of Australian Governments (COAG) processes, systematically to address the crisis in VET. This is a long process that is not aided by ad hoc policy making. The real prospect that such cost-shifting could occur is no doubt partly due to the separation, following the 2013 election, of VET from Higher Education in the machinery of government changes.

Institutional autonomy

1.134 Some have suggested that fee deregulation will get the Commonwealth out of the affairs of universities; that, somehow, universities will be able to chart their course free of interference from the Federal Cabinet or Commonwealth Department of Education. This proposition is clearly false. Adherence to the rhetoric of freedom and autonomy has not stopped Commonwealth Ministers, and indeed the Prime Minister, from seeking to influence the investment strategy of the Australian National University (ANU), as was evidenced at Senate Estimates on Wednesday 22 of October. The interference by the Prime Minister, Treasurer and Cabinet Ministers into the autonomous decisions of the ANU Council demonstrates that universities should not expect that the passage of bill will usher in a new era of freedom – quite the opposite. Universities will be subject to more interference as they make fee-setting decisions that may be politically inconvenient to the government of the day. It is a recipe for more conflict between universities and the Liberal-National government, rather than less.

Failing the national interest test

1.135 Should this legislation be supported? The key test here is the national interest test. Are these changes fair? Are they necessary? Will they lead to accessible, affordable university education for both the student and the Commonwealth? Will they help or hinder in meeting workforce needs in a range of careers and disciplines? Will they protect the 'strength-in-depth' of Australia's university system and its enviable international reputation for consistently high quality? Labor Senators contend that the evidence can only lead us to answer 'no' to every single one of these questions.

1.136 This legislation is clearly not in the national interest. It would change the Australian higher education landscape profoundly for the worse. The altered landscape would be one characterised by substantial and growing inequality of access and outcomes for students. Australia's international reputation for a high-quality higher education system would be threatened risking a multi-billion dollar export

95 Martin Riordan, TAFE Directors, *Proof Committee Hansard*, 8 October 2014 p. 41.

industry. Australia's economic prosperity would be undermined, along with our capacity to meet the high-skill workforce needs for the future. This legislation must be rejected in its entirety.

Recommendation 1

1.137 Labor Senators recommend that the Senate rejects this bill.

Recommendation 2

1.138 Labor Senators call on the government to introduce separate legislation to deal with the non-controversial matters in this bill, namely provisions to extend the Future Fellowships program, changes to HECS for certain New Zealand citizens and the change of name for Federation University.

**Senator Sue Lines
Deputy Chair**

Senator the Hon. Kim Carr