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Higher Education Legislation Amendment Bill 2003

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Higher Education Legislation Amendment Bill 2003

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Higher Education Legislation Amendment Bill 2003

Date Introduced: 26 June 2003

House: House of Representatives

Portfolio: Education, Science and Training

Commencement: Royal Assent

Purpose

This Bill will amend the *Higher Education Funding Act 1988* (the HEFA) and the *Australian Research Council Act 2001* (the ARCA) to set new grant levels that will reflect indexation increases and other technical adjustments. It will also make a number of administrative and technical amendments to the ARCA.

Background

The major sources of Commonwealth funds for higher education are Part 2.2 of the *Higher Education Funding Act 1988*, which provides grants for universities, and the *Australian Research Council Act 2001*, which funds the research grant schemes administered by the Australian Research Council. The HEFA provides maximum global amounts for broad categories of expenditure on a calendar year basis. The categories include operating grants (section 17), superannuation expenses (section 20), research and other special purposes (section 23), and capital projects (section 27A). Allocations for individual institutions are the subject of determinations by the Minister, which are disallowable by Parliament. Both Acts are amended annually to adjust grants for movements in prices. Some background information on the indexation of higher education grants is provided below.

Higher Education Indexation

The indexation of higher education grants has become a matter of some controversy with regard to the Commonwealth Government's higher education policy changes announced in the 2003-04 Budget.¹ While endorsing the thrust of the changes, the Australian Vice-Chancellors' Committee (AVCC) criticised the lack of 'a real index that reflects real costs', and urged the government to index higher education funding by the same level as schools' indexation.²

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Higher education grants are indexed on the basis of movements in the Higher Education Cost Adjustment Factor (CAF). The CAF does not measure actual price increases in the sector. It is comprised of two elements:

- 75 per cent is based on the Safety Net Adjustment (SNA) as determined by the Australian Industrial Relations Commission. This component is meant to reflect the salary costs of institutions, which notionally constitute 75 per cent of grants, and
- 25 per cent is based on the Consumer Price Index (CPI). This is meant to reflect non-salary costs, which notionally constitute 25 per cent of grants.³

The proportions given above are ‘notional’ because they bear no relation to the actual expenditure of higher education institutions. In 2001, expenditure on salaries and salary related costs constituted around 59 per cent of total adjusted university operating expenses. For expenses on academic activities only, salaries and salary related costs constituted around 69 per cent of the total.⁴

In the *Higher Education Report for the 1999 to 2001 Triennium*, the Government stated that it would review the salary component of the CAF after the Australian Bureau of Statistics had developed its new Wage Cost Index (WCI).⁵ When asked about the proposed review of the CAF at the 2002-03 Supplementary Estimates Hearings (21 November 2002), the Department stated that indexation arrangements would be considered in the context of the Higher Education Review.⁶ The Funding Paper for the Review discussed indexation issues and noted that some submissions had argued the WCI would be a more appropriate measure in respect of university salary costs. It also noted that full wage indexation may remove any incentive for institutions to seek genuine enterprise based agreements and productivity trade-offs.⁷ The scale of the difference between the WCI and the SNA was indicated in the Overview Paper for the Higher Education Review, which noted that ‘Over the period from August 1997 to August 2001 the WCI increased on average by 3.25 per cent per year compared with the SNA average of 1.55 per cent’.⁸ Actual wage outcomes for university employees have been around 4 per cent p.a. since 1997.⁹

Indexation procedures vary significantly between sectors. For example, the average indexation for schools grants was 5.8 per cent in 2001-02 and 5.9 per cent in 2002-03. The corresponding figures for higher education grants were 2.1 and 2.2 per cent.¹⁰ School grants are indexed on the basis of the Average Government School Running Costs (AGSRC) index. This is derived from total expenditure on government schools, less capital expenditure on buildings and grounds, redundancy payments and Commonwealth Specific Purpose Payments. The AGSRC index therefore reflects actual cost movements for the sector, unlike the higher education CAF. In the language of the Department of Finance, the indexation of schools grants is based on ‘program specific parameters’, while higher education indexation is based on ‘economic parameters’.¹¹

Up to January 1996 higher education grants were adjusted according to movements in the salary and non-salary components of the costs which faced institutions. The link to the

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SNA followed a review of indexation arrangements by the Department of Finance. According to the Higher Education Funding Report for the 1996-98 Triennium, the new approach to indexation was accepted by Cabinet because it was 'simpler, fairer and more rational policy', with the particular objective of ensuring that salary-related indexation fully excluded the impact of productivity-based wage rises.¹² Indexation arrangements for schools were also altered as a result of the review, with redundancy repayments and Commonwealth Specific Purpose Payments being removed from the AGSRC. However, no attempt appears to have been made to completely exclude the impact of productivity based wage increases in the government schools sector from the AGSRC. This inconsistency in the indexation treatment of education sectors has continued since 1995.

HEFA Appropriations

According to the *Explanatory Memorandum*, the Bill increases the overall appropriations made under the HEFA by \$49.368 million in 2002 and \$58.385 million in 2003.

The 2002 increment is said to be for accounting purposes in relation to the Higher Education (HECS) Special Account. The Government makes payments to institutions from this Account in respect of the HECS liabilities of students who elect to defer their contributions and to cover the 25 per cent discount for those students who pay their HECS upfront. Repayments in respect of HECS debts are paid into the Account. The annual shortfall is made up by a Commonwealth contribution to the Special Account: in 2001-02 this payment was \$766 million.¹³ The funds provided to institutions for operating purposes each year are a combination of appropriated operating grants (section 17 of the HEFA) and HECS Special Account funding (Part 4.3 of the HEFA). The amendment will adjust section 17 funding levels to reflect actual, as opposed to estimated, HECS liabilities.

In addition to supplementation funding resulting from indexation, the 2003 increment incorporates additional funding to rebuild the Mt Stromlo Observatory, which was destroyed in the Canberra bushfires. The 2003-04 Budget included \$7.3 million for this purpose.¹⁴

ARCA Amendments

The Bill will increase ARCA appropriations for the period 1 January 2003 to 30 June 2007 by \$436.313 million (not \$436.331 million as stated in the *Explanatory Memorandum*). Around 65 per cent of this increase can be attributed to the move from calendar to financial year funding, with the remainder resulting from the indexation of existing grants. Section 49 of the ARCA contains the annual maxima for funding for approved research programs under Division 1 of Part 7 of the Act. These are currently expressed for calendar years 2001 to 2006. The Bill will replace 2004, 2005 and 2006 with 2004-05, 2005-06 and 2006-07, entailing an additional half-year's funding (\$286.557 million¹⁵).

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The Bill will also amend the ARCA to improve the administration and financial management of the Australian Research Council (the ARC).

Main Provisions

Schedule 1 amends the HEFA to substitute new funding levels for operating grants (**Item 1**), superannuation (**Item 2**), special research assistance (**Item 3**), teaching hospitals (**Item 4**), special capital projects (**Item 5**) and international marketing and promotion (**Item 6**).

Schedule 2 contains amendments to the ARCA. **Items 8 to 13** contain provisions relating to the replacement of the calendar years 2004, 2005 and 2006 with financial years 2004-05, 2005-06 and 2006-07 for funding purposes under the Act.

Item 14 amends section 49 to substitute funding caps for 2003, the first half of 2004, 2004-05, 2005-06 and 2006-07.

Section 50 of the ARCA provides that the Minister must divide the funding cap for a year between categories of research programs. **Item 15** will insert a new sub-section 50(1A) which will allow the Minister to express these funding cap proportions in terms of a range.

Endnotes

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- 1 Documents relating to the Government's new higher education policy can be obtained from <http://www.backingaustraliasfuture.gov.au/>
 - 2 The AVCC's response to the higher education policy, *Excellence and Equity: foundations for the future of Australia's universities* (June 2003) can be downloaded from http://www.avcc.edu.au/news/public_statements/publications/ResponseFinal03.pdf
 - 3 See Appendix A of the *Higher Education Report for the 2003 to 2005 Triennium*, which can be downloaded from http://www.dest.gov.au/highered/he_report/2003_2005/default.htm
 - 4 DEST, *Finance 2002 Selected Higher Education Statistics* (2003), Table 2. This can be obtained from <http://www.dest.gov.au/highered/statpubs.htm#financepubs>
 - 5 DEST, *Higher Education Report for the 1999 to 2001 Triennium* (March 1999), p.207.
 - 6 Employment, Workplace Relations and Education Legislation Committee. Questions on Notice 2002-03 Supplementary Estimates Hearing. DEST Question Nos.E405_03 and E406_03.
 - 7 DEST, *Setting Firm Foundations: Financing Australian Higher Education* (July 2002), pp.38-9. Available from <http://www.backingaustraliasfuture.gov.au/pubs.htm#1>

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- 8 DEST, *Higher Education at the Crossroads An Overview Paper* (April 2002), p.34. Available from <http://www.backingaustraliasfuture.gov.au/pubs.htm#1>
- 9 *ibid*
- 10 Employment, Workplace Relations and Education Legislation Committee. Questions on Notice 2002-03 Budget Estimates Hearing. DEST Question Nos.E028_03, E029_03, E043_03.
- 11 See <http://www.finance.gov.au/budgetgroup/other%5Fguidance%5Fnotes/indexation.html> for the Department of Finance's description of indexation methodologies.
- 12 *Higher Education Funding Report for the 1996-98 Triennium*, p. 92.
- 13 DEST, *Annual Report 2001-02*, p. 147.
- 14 See http://www.dest.gov.au/ministers/nelson/budget03/bud49_130503.htm for the Minister's Media Release on the subject.
- 15 This represents half of the 2006-07 appropriation of \$573.115 million.

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