

Chapter Two

Shifting the costs of higher education

Within the Commonwealth Grant Scheme, we are concerned about the shift in the burden of funding from the Commonwealth to students... We are not convinced a shift of this magnitude is justified, and while it is impossible to specify a 'correct' public:private funding mix, international benchmarks suggest that students in the Australian system are not under-contributing. We would be concerned, therefore, if the burden on students were to increase markedly from the current level in terms of percentage GDP expenditure.

Professor Deryck Schreuder, Vice-Chancellor and President,
University of Western Australia¹

2.1 This chapter is about the central elements of the *Backing Australia's Future* policy and its implementing legislation. It also focuses on the Government's claim that this is a 'reformist' package, with a radical approach to addressing the pressing financial need of universities. The Committee sees two related flaws in the structure of the funding arrangements provided in the Higher Education Support Bill. The first is the lack of any continuing mechanism for adequate indexation of Commonwealth grants which will allow for sector growth and fair access to higher education. The second is the excessive level of cost shifting to students and their parents which will be a disincentive for enrolments, stall growth in the sector and adversely affect both the labour market and national economic performance. Together, these flaws make the Government's policy unsustainable.

2.2 The Government has taken a look at the demand on the national accounts for increased funding for higher education and decided not to invest in public education. This assessment is based on the erroneous assumption that there is widespread resistance to increased public expenditure on education and other government responsibilities. The Government argues, therefore, that an increasing proportion of the costs of higher education must be met by students and their families who can, or will be able, to meet these costs through loans. The policy, and the legislation which implements it, is a cost-shifting exercise.

2.3 The Higher Education Contribution Scheme has been in operation since 1989 but has never had the support of the Australian Democrats who regard education as an investment for the future with benefits to the broader community and the individual. It is worth mentioning that the direct beneficiaries of this investment repay the costs of obtaining an education through higher taxes when employed. It is worth noting that

1 Submission No. 368, University of Western Australia, p. 2

the Australian Democrats were the only party to oppose the introduction of the HEAC in 1986 and the HECS in 1988, and have campaigned and voted against all subsequent attempts to increase and distort this scheme.

2.4 What is radical about this current development is the very considerable level of student debt which is the result of cost shifting. There is a strong possibility that the strategy will fail because of over-optimistic assumptions about the extent to which would-be students will take on debt to the degree required to fund the sector to the level it needs.

2.5 This chapter is made up of several sections, each dealing with a distinct finance aspect of the package.

The decline of indexation

2.6 The issue that all universities agreed on in their submissions to this inquiry was the urgent need for the return of full indexation of Commonwealth grants. The committee also noted that such enthusiasm, as there was for access to HECS increases and the imposition of direct student fees, was a direct response to the increasing shortfall in Commonwealth grants. If indexation was to bring in a smaller amount of revenue, then there was some salvation in HECS top-ups and fees.

2.7 Full indexation remains the elusive hope of universities under the current government. The committee notes that the ministerial issues paper, *Financing Australian Higher Education*, published as part of the *Crossroads* review, posed the question ‘Should public funding to institutions be indexed? If so, what measure of indexation should be used?’² The issues were only briefly canvassed in the paper, but the Government’s position was hinted at in comment on a suggestion for the return of adequate indexation. The comment was:

Several other submissions also point to the need for revised indexation arrangements, including full wage indexation. However, this may remove any incentive within the sector to seek genuine enterprise based agreements and identify individual organisational priorities and productivity trade-offs. Nevertheless this issue raises legitimate questions. Is there a need to make any discount to full wage indexation explicit and a known parameter? In terms of ensuring that future financing arrangements are sustainable and stable, should the relativities between components be known and maintained?³

2.8 The Government’s answers to these questions have been, first, to affirm the reservation that indexation is incompatible with enterprise agreements because it provides insufficient incentives for wages productivity. The second supplementary question is academic if the first reservation is confirmed. The Government would

2 DEST, *Financing Higher Education*, 2002, p. 36

3 *ibid.*

always argue that future financing arrangements are stable so long as the rate of indexation reduction is signaled in legislation, as it is until 2007 in the legislation before the Senate. Beyond that, as the committee was told, no one could make projections.⁴

2.9 Submissions received from the Australian Vice-Chancellors' Committee (AVCC), the National Tertiary Education Union (NTEU), the National Union of Students (NUS) and others indicate strong support for the principle of indexation and are therefore resoundingly critical of the current indexation arrangement.

2.10 Following on from the previous comment on the Government policy on indexation, the committee believes that the Government's refusal to maintain full indexation is part of an undeclared industrial relations strategy to reduce, over time, the proportion of staff on long-term contracts. Full indexation would allow long-contract positions to be routinely filled upon resignation and retirement of incumbents and for new positions to be created. The Government's view was that this would fail to impose on universities the same kinds of staffing discipline that the Commonwealth Public Service was subjected to in the first two terms of the Coalition Government. As noted elsewhere in this report, the Government favours 'flexibility' in matters relating to employment and conditions of employment, which is code for temporary contracts and privatisation, with only a core of continuing employees, mainly in managerial positions. As the chapter on industrial relations explains, there are serious consequences for universities as an indirect result of the Government's refusal to provide adequate indexation.

Background to the indexation issue

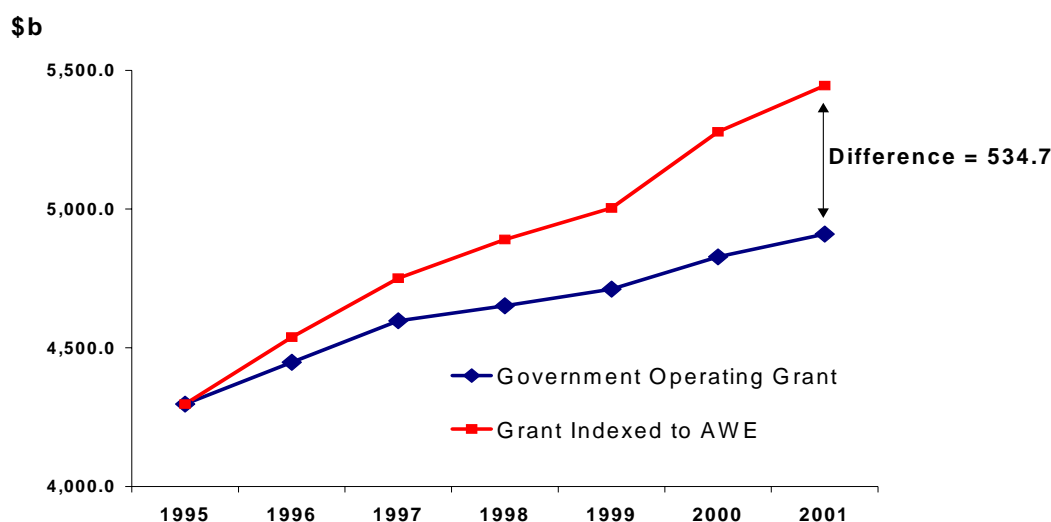
2.11 The current system of indexation of university operating grants was introduced in 1995 by the Keating Government. Prior to this the base operating grants were adjusted to take into account actual salary and non-salary movements. The introduction of enterprise bargaining arrangements in January 1996 led to a change in the system of indexation. The Indexation Rate (Cost Adjustment Factor) is determined by a notional salary component of operating grants (75 per cent) which is indexed annually on the basis of the Safety Net Adjustment (the minimum allowable adjustment to wages for low paid workers who do not achieve a higher rate of increase) as determined by the Australian Industrial Relations Commission as a proportion of Average Weekly Earnings, and by a notional non-salary component (25 per cent) which is indexed annually on the basis of the Treasury Measure of Underlying Inflation. This measure is derived from the CPI but removes elements affected by seasonal and policy factors. Actual CPI has been used since 2001. The notional salary component of the indexation for universities between 1995 and 2001 increased at less than half of the rate of economy-wide measures such as the Average Weekly Earnings (AWE).

4 Mr Bill Burmester, *Hansard*, Canberra, 17 October 2003, pp. 117119

2.12 Professor Bruce Chapman, of the Australian National University, noted that around 75 per cent of university costs are directly related to salaries. He explained that the Government has not adjusted outlays to allow universities to index salaries in line with community changes in real wages. He asked the question: what would university revenue provided by government have been since 1995 if changes in average weekly earnings had been used as the adjustment factor instead of changes in the safety net?

2.13 This question is answered in the graph below. The analysis by Burke and Phillips suggests that universities have had to adopt blunt measures to maintain relative salaries, and these measures have probably resulted in a deteriorating quality of education in universities.⁵

University Base Grants: Actual Funding Compared to an AWE Index⁶

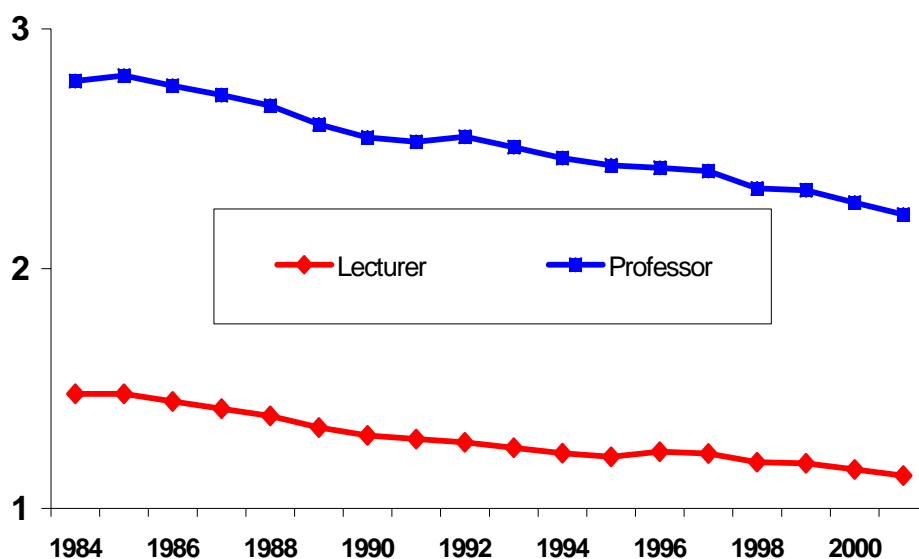


2.14 Yet, as Chapman has also pointed out, the blunt measures have not worked well. There has been a twenty year relative decline in academic salaries, as shown in the graph below.

5 Submission No. 403a, Professor Bruce Chapman, *Higher Education Financing Issues*, Economics Program, RISS, Australian National University, August 2003, p. 14

6 Source of graph: Burke and Phillips, *Funding Issues for Higher Education*, Monash University, October 2001

Academic Salaries as a Proportion of Average Weekly Earnings⁷



The call for adequate indexation

2.15 In arguing for an 'effective indexation mechanism', the Australian Vice-Chancellors' Committee has argued what every vice-chancellor knows to be the case:

Each year the Government indexes universities' operating grants, including HECS, to reflect cost increases in providing university teaching and research. If the rate of indexation falls behind the real rate of cost increases, then there is an effective cut in resources. Over a long period, the cut can build to substantial proportions. Due to the inadequacy of the index, each year the effective value of university funding drops.⁸

2.16 The AVCC places concerns about indexation at the top of its list of key concerns about the policy package. It argues that the failure to introduce an adequate system of indexation will undermine the value of the government's investment to date in higher education. It fears that if there is no improvement to indexation, the purchasing power of universities' core grants will not be maintained into the future and the sustainability of universities' will be put at risk in the latter part of the Government's ten year package.⁹

7 Salaries figures from Academic Salaries Tribunal data to 1996 ANU academic salaries data and ABS AWE series, 6202.0

8 Submission No. 417, AVCC Supplement: *Excellence and Equity, et al*, p. 29

9 *ibid.*, p. 5

2.17 The NTEU regards the failure to improve indexation arrangements as a structural flaw in the package that will compel universities to increase student fees and charges.¹⁰ This view is shared by Professor Bruce Chapman, who says:

Leaving the indexation rule unchanged will necessarily mean that students will contribute an increasing proportion to the financing of higher education, perhaps considerably so.¹¹

2.18 Professor Chapman further argues:

In the context of enterprise bargaining [the indexation arrangements] are very unlikely to mean there will be the maintenance of public sector financial support to facilitate the nature of wage and salary adjustments that will happen in an enterprise bargaining system. I think you only need to understand the indexation changes from 1995 to 2003 to have a good sense of why universities feel like they have been in trouble. They have been in trouble essentially because the wage bargains have exceeded the cost adjustments by roughly 1½ or two per cent a year. If you do that over nine years then you get a shortfall—which we have currently—of the order of \$600 million to \$700 million compared with what there would be if the adjustment process was in accordance with percentage changes in average weekly earnings, which it has not been.¹²

Comparison with Commonwealth schools grants

2.19 A number of submissions point out the anomalous differential between the indexation base for school grants and those applying to universities. 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 Cost Adjustment Factor.¹³ 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’.¹⁴

2.20 The AVCC has pointed out the inequity of the difference between the indexation provided to the school sector and that applying to universities, as did several vice-chancellors in individual submissions. That gap was considerable. The

10 Submission No. 466, National Tertiary Education Union (NTEU), pp. 1516

11 Submission 403, (covering letter, 17 August 2003), Professor Bruce Chapman, p. 1

12 Professor Bruce Chapman, *Hansard*, Canberra, 10 October 2003, p. 26

13 Kim Jackson, Bills Digest No. 4, 2003-04, *Higher Education Legislation Amendment Bill 2003*, Parliamentary Library, p. 2.

14 <http://www.finance.gov.au/budgetgroup/other%5Fguidance%5Fnotes/indexation.html>

schools index has been increasing by 5 per cent or more in most years compared to 2 per cent to 2.5 per cent for the university index. The AVCC claims that the difference between the two is worth about \$130 million on universities' 2003 funding, a difference that compounds each year an inadequate index is used.¹⁵

2.21 Placing universities on the same indexation basis as Commonwealth schools has considerable support, including support from the Vice-Chancellor of the University of Technology, Sydney, Professor Ross Milbourne who told the committee:

I cannot for the life of me understand why we cannot have the same indexation that is given to the funding of public schools. If that happened, most of the issues that might come out of this package would evaporate because the extent to which universities would have to vary average HECS levels would be less and they could do so much more within that framework for equity and diversity issues. I do not understand why we cannot have the same indexation as schools because, over time, the government investment in higher education as a percentage of GDP will dwindle dramatically if that does not happen.¹⁶

2.22 In the UTS submission, Professor Milbourne further argued that:

Indexing University operating grants to average weekly earnings can easily be afforded within the Federal Budget. In any given year, government revenues rise by more than average weekly earnings because tax collections raise the rate of earnings and in addition some tax payers are pushed into higher tax brackets. Tax 'cuts' usually brings the growth rates of average earnings back into line with government revenues. If operating grants are not indexed at this rate, the share of expenditure on higher education relative to government revenue and GDP will fall over time. It is already below the OECD average.¹⁷

2.23 The inadequacy of the current indexation arrangement is evidenced through the fact that, whenever the rate of indexation falls behind the real rate of cost increases, there is an effective cut in resources. As the AVCC put it: 'Over a long period, the cut can build to substantial proportions. Due to the inadequacy of the index, each year the effective value of university funding drops'.¹⁸

2.24 The committee received abundant evidence of the adverse consequences of the current indexation arrangement on the quality of education, infrastructure and campus life generally. The assessment of the RMIT Student Union is typical of the views of many other student representative bodies at other universities:

15 AVCC, *Excellence and Equity*, etc., p. 29

16 Professor Ross Milbourne, *Hansard*, Parramatta, 22 September 2003, p. 3

17 Submission No. 341, University of Technology, Sydney, p. 1

18 Submission No. 417, AVCC, p. 29

The quality of education has gone down, with two out of five students being dissatisfied with the quality of their course. RMIT's ability to improve equity outcomes on campus has stalled. Resources on campus are stretched and campus conditions are deteriorating. Student staff ratios have climbed dramatically, and students have reduced access to feedback from their lecturers. The library has inadequate staff and is unable to provide textbooks for students. Students are suffering under increased debt burdens and inadequate income support with more forced into paid work than ever before, taking time away from their studies.¹⁹

2.25 The individual submission from Olivia Murphy, a third year Arts-Law student at Sydney, reveals how the extent of deteriorating infrastructure is reaching scandalous proportions. She submits that:

When I was in first year, I always made sure that I was ten minutes early to my Arts lectures, and stayed close to the door when the lecture theatre emptied out before my class. I knew that unless I elbowed my way to the front of the crowd, I would have to spend the lecture sitting on the steps in the aisle, or on the floor beside the lectern, with a notepad balance on my knees. If my lectures followed each other and I couldn't get to the second until five minutes before it started, I would occasionally have to stand outside the open door and try to guess what the lecturer was saying. In hot weather, those at the back of the lecture theatre invariably fall asleep before the lecture's midpoint, due to the lack of oxygen in the theatres. In a second year English class, when it was raining heavily outside, I noticed that water was running down into the c. 1958 electric projection box beside me. After being yelled at by the lecturer for interrupting the lecture in my efforts to move seats, there was the sound of ripping and a large section of the ceiling caved in, covering the back row in a soggy black muck of plaster, gum leaves and pigeon droppings. The next week, this hole was repaired with electrician's tape and plastic sheeting, under which students continue to sit, over a year later. There are not enough chairs and desks in the rooms for the number of students in tutorials. Classes are only offered once a week due to a lack of funding, so for thousands of students, a timetable clash which prevents them from attending all the lectures for a class they remain enrolled in is a usual part of life. I have had two such clashes, and it is impossible to ever catch up completely. Subjects are offered not every year, but only in alternate years, and are constantly being cut due to lack of teaching capacity, as staff who leave are not replaced. In an honours preparation course last semester, I was taught postmodern theories of textual scholarship by an expert in Medieval poetry, who was even less happy about the situation than her class was. The library drastically reduced its purchases and periodical subscriptions in 1996, making it increasingly difficult to find recent scholarship. Its opening hours fail appallingly to allow for the fact that the majority of students work and have very little free time during the working

19 Submission No. 437, RMIT Students Union, p. 5

week, and need a library that is open late at night, early in the morning, and over the whole weekend.²⁰

2.26 The Institution of Engineers, Australia, also draws attention to the actual condition of ‘austerity’ in our universities. It says:

Commonwealth funding for universities has fallen sharply over the last twenty years. Few industries have been subject to such a sharp financial adjustment as the tertiary education sector... The short-term health of the university - its ability to “make-do” with swelling class sizes, or part-time, low paid lecturers, or without replacing laboratory equipment or replenishing the library, or by accepting increasing numbers of fee-paying students, or by directing faculty activities away from teaching and scholarship towards entrepreneurial energies – may be its worst enemy is the need to make a case for increased public revenues.²¹

2.27 This description of declining conditions and infrastructure crisis is fairly typical of accounts provided by other submissions and witnesses, with library and laboratory conditions and crowded class rooms a recurring theme.

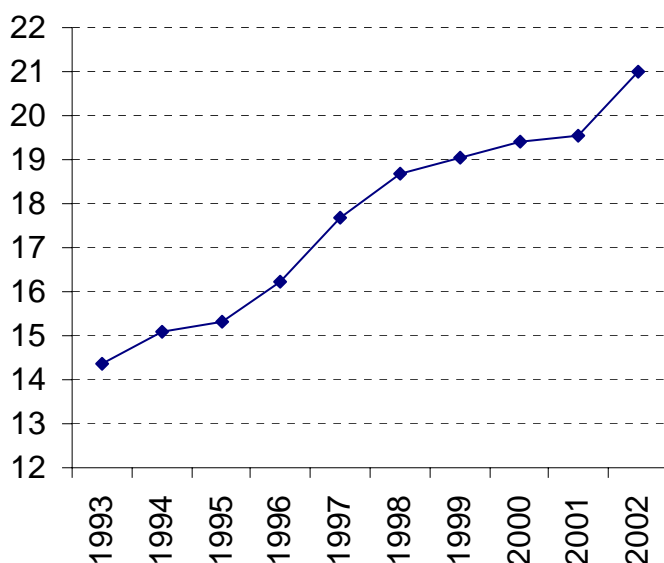
2.28 Universities that cannot increase their fees enough to cover salary costs will be forced to take measures that further erode the quality of higher education and further retard its potential. These measures may include increasing the cost of student fees and charges, the rationalization of courses and research, and even the closure of campuses. Clearly, the core principles of the proposed reforms – sustainability, quality, equity and diversity – are not reflected in this situation.

2.29 Student-teacher ratios are another recurring issue. The rate of increase of student numbers is not being matched by the rate of increase of staff numbers. The latest available figures, for 2002, place the student to teacher ratio at 20.4:1. This represents a 7 per cent deterioration on the 2001 figure. The ratio has worsened by around 40 per cent since 1990, when it was 12.9:1. The student-staff ratio is a telling indication of the diminishing value of indexed grants, particularly since 1996.

20 Submission No. 344, Ms Olivia Murphy, p. 23

21 Submission No. 347, Institution of Engineers, p. 9

Student to Teaching Staff Ratio 1993-2002²²



Conclusion

2.30 The committee concurs with the view of Professor Gavin Brown, the Vice-Chancellor of the University of Sydney, when he says:

...the most significant defect [in the reform package] is the lack of an effective mechanism for indexation of the government contribution.²³

2.31 The committee believes that it is for this reason, mainly, that the financial positions of most universities over the long-term are not sustainable. Further in this chapter, on the new sources of revenue which the Government has opened up to universities, it will be argued that there is a large amount of wishful thinking on the Government's part. It is likely that only those universities in the Group of Eight, and not all of those, will be able to access the revenue streams from HECS and private fees that are promised by the Government. For most universities, these revenue streams will be trickles. The committee believes that a further infusion of funds will be necessary beyond 2007 as a result of the Government's inaccurate income projections. In the meantime, universities will have, in the absence of full indexation, yet more years of uncertainty before them.

Recommendation

It is recommended that the Wage Cost Index (Education) be used in the formula to index university grants in order to provide the funding required to maintain

22 http://www.avcc.edu.au/policies_activities/resource_analysis/key_stats/student_staff_ratios.htm

23 Submission No. 105, University of Sydney, p. 3

and improve educational quality without increasing the fee burden on students and their families. The Australian Greens and the Australian Democrats support an increase in indexation, equivalent to that in public schools.

The Commonwealth's contribution: the Commonwealth Grants Scheme

2.32 Until now, the Commonwealth has notionally funded universities on a historical basis which has its origins in an exercise embarked upon at the end of the 1980s, and resulted eventually in a structure known as the Relative Funding Model (RFM). The idea of the RFM was to strike a series of rates, expressed in a matrix, which accurately reflected the average per-student teaching and associated costs by discipline cluster and level in higher education. These rates were then applied to universities, according to their enrolments by discipline and level of course.

2.33 The purpose was to level the playing field so that old historical anomalies – based on the former location of each institution vis-à-vis the old ‘binary divide’, for instance – were eliminated in the Unified National System brought about by the Dawkins reforms. The crucial point here is that this exercise was at least notionally an *empirical* one. It was designed to ascertain the actual costs, based on a survey of a range of institutions and institution types, to be applied to all universities so that a level playing field was created.

2.34 In practice, the exercise was far from purely empirical. Vested interests and political considerations, as well as extraneous policy pressures, shaped both the original draft cost matrix and the final outcome. However, the committee notes that the intention of the model was to reflect actual teaching costs and fund universities so that they could adequately meet those costs. Over time, institutions have shifted the balance of their student load and concomitant changes in Commonwealth funding levels, subject to annual negotiation as part of the Profiles process, which have only partly reflected these shifts. Universities have been able to enroll more students, for instance, by moving their enrolments into ‘cheaper’ courses.

2.35 HECS has not been a direct contribution to institutions, designed to defray these costs, but a uniform payment on the part of graduates to the Commonwealth in recognition that they had benefited financially from their higher education, and that has been argued that they should contribute retrospectively to its cost. Under the proposed new arrangements, universities would essentially have one major ‘customer’ – the Commonwealth – and thousands of minor individual customers – the students. How institutions balance their finances will depend on how they manage these two income sources.

2.36 The committee emphasises that the intent and the shape of the proposed new Commonwealth Grants Scheme (CGS) differs starkly from that of both the Relative Funding Model exercise itself and its outcome.

2.37 With the CGS the Government is in effect setting *prices* rather than reflecting *costs*. As the sole buyer of teaching services in the new purchaser-provider model, the Commonwealth has the power to set these prices, for different kinds of courses, as it chooses. For instance, it had decided to set the price for Law at a very low level, while that for Agriculture is much higher, both in dollar terms and in terms of the proportion of the actual cost of providing these courses. The considerations it has brought to bear in making these pricing decisions can only be guessed at: they are not transparent or explicit.

2.38 However, it should be noted that, for pragmatic reasons, the Government has based much of its pricing structure on the old Relative Funding Model. This is because, if it departed too radically from this base, the Commonwealth funds to be made available to each institution would vary wildly and uncontrollably from the status quo of existing levels. Already we see that some universities stand to lose badly from the imposition of the new funding arrangements. This outcome would have been much more widespread if the RFM had not, by and large, provided the basis for the new prices.

2.39 However, since the new CGS funding will be allocated on the basis of actual enrolments by discipline (instead of, as now, on a historical base within which institutions enjoy considerable flexibility), the real effects of the prices set twelve years ago by the RFM will be hit hard, and the rough and ready nature of some of the accommodations necessitated by the politics surrounding that process will become apparent.

2.40 Use of the RFM as a basis for the CGS price matrix is fraught with practical difficulties that will only become apparent as the new scheme, if introduced, actually takes hold of funding allocations. The fact remains that the prices set as the basis of the CGS do not reflect actual costs, but do reflect historical anomalies and constraints on the one hand and the Commonwealth's sole-purchaser power on the other. The committee fears that the underpinnings of this funding model are unreliable as a firm base for university funding, and that unforeseen consequences of this inadequacy will certainly ensue.

2.41 The committee notes these points reinforced in the Phillips Curran report to MCEETYA:

Because the Commonwealth contribution rates have been set to replicate the status quo, they build in the policy anomalies that have arisen through the accumulation of past decisions, especially the introduction of differential HECS rates. These anomalies are evident in a cursory examination of the Commonwealth contribution rates for each discipline cluster shown in Table 2.1. The Commonwealth contributions vary by a factor of three between a low of \$1,509 for a full-time law student and a high of \$16,394 for a full-time student in agriculture... Clearly, there is no link between the rates and either the costs of the courses or their public benefit. Because the CGS will fund all eligible load in a discipline cluster at the same rate, regardless of institution, there will no longer be any over- or under-funding. This means

that currently over-funded institutions will lose Commonwealth funding and underfunded institutions will gain. The effect of this will be cushioned by the fact that the balance of each institution's course funding derived through HECS will not be affected by this adjustment and will be determined by the institution itself. The adjustments will also be cushioned by the foreshadowed increases in the Commonwealth course contribution.²⁴

2.42 Melbourne's Victorian College of the Arts is but one casualty of the changed funding regime. Under the new arrangements the internationally renowned arts college is facing a \$5.4 million funding cut, over 30 per cent of its annual budget.

2.43 A reduction of this magnitude would severely compromise the operation of the school, and would be a tragic blow to the cultural future of the nation.

Recommendation

That to ensure that the Victorian College of the Arts retains its current level of funding, without the requirement that the University of Melbourne cross-subsidise its operations, and while retaining its affiliation with the University of Melbourne, consider transferring VCA funding to DCITA, in order to recognize its parity in terms of quality of education and training with the AFTRS and NIDA in New South Wales.

Recommendation

That the Commonwealth Grants Scheme be rejected while universities, such as the University of Western Sydney, the Victoria University of Technology and the University of South Australia, receive less under it (excluding any potential increases conditional on meeting unreasonable industrial relations and governance provisions and any transitional funding) than under existing operating grants.

Changes to the Higher Education Contribution Scheme (HECS)

2.44 With indexation in long-term decline, the funding of universities will depend much more on the Higher Education Contribution Scheme for its core funding. HECS is to be the new 'base funding' under the Government's policy: the means of securing cost shifting from the public account to the individual. The committee is of the view that this strategy is unsustainable because the level of debt to be born by individuals and families, on top of current mortgage and other debt. Nor will the 30 per cent extra HECS payment permitted under the legislation be the final adjustment. Such imposts always increase over time. We will rapidly reach the maximum level of HECS debt that economists are able to justify.

24 Phillips Curran, *Independent Study of the Higher Education Review: Stage 2 Report*, (Hereafter: Phillips Curran report), vol. 2, p. 8

2.45 HECS was originally adopted in 1989 as a deferred payment income contingent option intended to be a way for students to contribute to the cost of their university education. As a funding arrangement it has been generally well accepted. In the 1996-97 budget, changes were made to HECS which have proven in hindsight to have been an evolution toward the proposals in this bill. They were that charges were increased; a three level charge system replaced the uniform charge; and, universities were allowed to charge fees for undergraduates not accepted under HECS, up to 25 per cent of the HECS numbers in a course.

2.46 The changes proposed in the Higher Education Support Bill, involving a further 30 per cent increase in HECS has emerged as a serious concern of many submissions and witnesses. These concerns relate mainly to issues of access and equity. If equity is one of the four cornerstones on which *Backing Australia's Future* is based, the Government has failed the test in the key elements of its so-called reform. Indeed, equity is seen as a core principle on which reform should be based. The committee endorses this view and shares the fears of many that the *Backing Australia's Future* package will produce an outcome that makes access to university education even more difficult for people of working class backgrounds, and for people who are disadvantaged. Worthwhile and genuine reform should make university education more accessible to these groups, not more difficult.

2.47 The Stage 2 Report Phillips Curran report commissioned by the Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA), concluded that the *Backing Australia's Future* package could have a number of effects on access and equity for Australians in general and particularly for disadvantaged Australians. The Phillips Curran report found that the package offered little increase in access or participation. It listed other possible negative consequences First, the package might serve to restrict some students' access to the institution and course of their choice because of differential fee levels operating across universities and courses; second, it may lead to an increase in the HECS deferral rate due to the potential 30 per cent increase in fees; third, it would constrain access for some students due to the time limit within the Learning Entitlement; and, fourth, would have some regressive effects as a consequence of certain aspects of the new undergraduate fees policy.²⁵

2.48 After the proposed introduction of the new Commonwealth Grants Scheme in 2005, the average student's contributions will be somewhere between 44 per cent and 56 per cent of the cost of their education, depending on the extent to which universities increase fees above current HECS rates. Assuming all universities charge the equivalent of HECS, students' contributions will vary from 81 per cent for a law student to 25 per cent for a student enrolled in agriculture. Even students enrolled in education and nursing, which have been identified as national priority areas and therefore receive additional funding, will still pay 35 per cent and 28 per cent of their

25 Phillips Curran report, vol. 2., p. 3

course costs respectively.²⁶ Table 1 shows the estimated HECS charge in 2005 and the maximum fee a university will be allowed to levy on students²⁷.

Student contributions under CGS

Discipline Group	HECS Charge	Maximum Fee	Estimated Average Cost	Student Contribution	
				HECS	Max Fee
Law	\$6,427	\$8,355	\$7,936	81%	105%
Accounting, Administration, Economics, Commerce	\$5,490	\$7,137	\$7,971	69%	90%
Humanities	\$3,854	\$5,010	\$8,034	48%	62%
Mathematics, Statistics	\$5,490	\$7,137	\$10,427	53%	68%
Behavioural Science, Social Studies	\$3,854	\$5,010	\$10,490	37%	48%
Computing, Built Environment, Health	\$5,490	\$7,137	\$12,882	43%	55%
Foreign Languages, Visual and Performing Arts	\$3,854	\$5,010	\$12,945	30%	39%
Engineering, Science, Surveying	\$5,490	\$7,137	\$17,793	31%	40%
Dentistry, Medicine, Veterinary Science	\$6,427	\$8,355	\$21,849	29%	38%
Agriculture	\$5,490	\$7,137	\$21,884	25%	33%
Education *	\$3,854	\$3,854	\$11,132	35%	35%
Nursing *	\$3,854	\$3,854	\$13,587	28%	28%
Weighted Average for all students				44%	56%

2.49 Under the new Commonwealth Grants Scheme, the Commonwealth will make a set contribution to the cost of educating students in various discipline clusters. In addition to the basic Commonwealth contributions, each university has the right to charge its own fees. The level of fees that a university is allowed to charge can vary

26 Submission No. 466, National Tertiary Education Union, p. 25

27 A full explanation of the data and methodology can be found in the NTEU Briefing Paper, *Student Contributions to the Cost of their University Education*, May 2003

from \$0 to a maximum of 30 per cent above the equivalent HECS charge in any given course.

2.50 The revised HECS scheme is the main instrument for raising additional funds for universities. The committee does not believe that other sources of revenue will be nearly as reliable as the revised HECS, and any of the ‘jam’ that comes from full-feeing paying domestic students will go mainly to Group of Eight universities. In Chapter One the committee discussed the issues of public benefit and private benefit in relation to university fees, and this bears mainly on the issue of HECS. The committee heard an interesting perspective on this issue from the NTEU submission from the University of New England:

Both because there are some people who are genuine in their belief that graduates should make a financial contribution to the cost of their education, and for the sake of the argument, let us accept that the significant private benefit accruing to individuals should be recognised by a higher financial contribution made by those graduates who earn higher incomes. The problem is—and always has been—that the attempt to extract a higher contribution from graduates is a highly selective aspect of public finance over the past fifteen or twenty years. Certainly, there have been other categories of citizens subjected to user-pays principles in this period; however, in the bigger picture at least, the requirement on graduates to pay a higher contribution because they earn a higher income and therefore have a greater ability to pay, is a stark contradiction of the more general argument that successive governments have advanced in the last two decades: not only is the HECS requirement on graduates contradictory of the more general de-emphasis, since the mid 1980s, on the principle of ‘ability to pay’; the fact of the matter is that this higher contribution has been required at a time when the actual tax system has become considerably less progressive.²⁸

2.51 The committee was ‘on the road’ with this inquiry when the Government announced a \$7 billion surplus on the current account, a news item which interested a number of cash-strapped vice-chancellors at the time. While accepting the central argument of this submission, the committee makes the point that even without an effective progressive income tax rate, sufficient revenue is raised to cover the demands of important national expenditure. The main weakness lies in the distribution policy.

2.52 The National Union of Students told the committee that the new HECS arrangements were among its core concerns. The central objection was that the partial deregulation of HECS created another variable funding mechanism to allow universities to compete in an education market.²⁹ The committee shares the skepticism of the NUS about the Minister’s claims that some universities might drop their HECS

28 Submission No. 441, NTEU (University of New England), p. 2

29 Submission No. 411, National Union of Students, p. 15

rates. Deregulation theory may allow for this possibility but no commentator has given credence to the likelihood of it occurring. The NUS submission commented:

However, it is almost certain that many universities will opt for the full 30% increase in high demand courses. NUS predicted that some of the high status universities would be entirely shameless about moving rapidly to apply the full 30% increase across the board (apart from the protected areas of nursing and education). A recent Sydney University Senate meeting considering this proposal was shutdown by student protesters. However, a secret meeting scheduled early the following morning voted 9-8 to go for the 30% fee increase across the board. Even more disturbing was that the fee hike was justified on the basis of maintaining 'brand image' rather than improving quality. So the logic goes that universities will increase their fees to appear as first rate institutions.³⁰

2.53 NUS also offered the view that there would be pressure on other universities to follow the benchmark set by the 'elite sandstones.' It quoted the comment in *The Age* on 15 July 2003, by the Chancellor of RMIT, Professor Dennis Gibson, that Sydney University's decision to increase HECS by 30 per cent had put pressure on other institutions to charge students more for their education. 'It's going to be a very hard decision, Professor Gibson said, 'Can we afford to have our big brothers charging lots of fees and us having low fees?' Professor Gibson said the fact that there was a marketing position that goes with price was an important factor in considering fees.³¹

2.54 Vice-chancellors had different ways of telling the committee about the hard choice they would have to make. If Professor Gibson of RMIT appeared unperturbed about HECS increases, this view was not shared by some others. Professor Janice Reid, Vice-Chancellor of the University of Western Sydney had this to say:

The most worrying possibility for us is that if any of those [campus closures and other stringencies] outcomes were to be avoided we would have to look at raising HECS. Five years ago our board of governors set its face against charging full fees for undergraduate places. It has not revisited that position. I expect it will examine it but I do not expect there will be any sympathy on the board of trustees to introduce full fee paying places. As 20 per cent of our places are in nursing and education, which are protected in terms of HECS increases, we would have to raise HECS very substantially for other courses—possibly to the full 30 per cent—if we were to avoid staff losses, campus closures or course closures.³²

2.55 The committee also heard evidence of another pressure bearing on universities, particularly in rural and regional areas which takes a different point of

30 *ibid.*, p. 16

31 *ibid.*

32 Professor Janice Reid, *Hansard*, Sydney, 22 September 2003, p. 29

view to the NUS perspective, but which also sees serious disadvantages in increased HECS charges:

We are concerned that the partial deregulation of HECS will put pressures on institutions that will force them to discount their HECS rates. There are already indications that at least one of the major universities in Victoria will raise its HECS fees by the full 30 per cent across the board. Professor Gilbert indicated that the University of Melbourne is thinking about doing it on a large scale. We are concerned that there are one or two institutions in Victoria at least, both within the city, in the metropolitan area, and outside of it, which will be forced to discount their HECS rate either to maintain their student load or to keep the quality of their student load up to acceptable levels. In the case of regional institutions, the level of discount would have to be only a very small way below the standard HECS rates for it to eliminate completely the regional loading that those campuses and universities are going to get. So the second major point I want to emphasise is that a number of the measures proposed in this package create the danger of the development of a seriously inequitable system.³³

2.56 It is evidence such as this which causes the committee to reflect on the legislation as ‘a leap into the unknown’. The consequences of the policy implementation cannot be confidently predicted except in the sense that they are highly unlikely to go the way the Government intends.

2.57 The committee has followed with some interest the Government’s attempts to suppress internal DEST research, produced in 2002, and regarded by independent academic researchers as methodologically sound, which concluded that while the higher education opportunities for low socioeconomic status (SES) have increased over the years, their participation rates remain unchanged. A small sampling also showed a decline in the number of male SES students. The report concludes that any future changes to HECS arrangements will need to be carefully designed to minimize their effects on groups more sensitive to student charges.³⁴

2.58 This DEST research was never formally released, possibly because it is very cautious advice about the care needed with HECS policy was to be disregarded in almost spectacular fashion in *Backing Australia’s Future*. Attempts have been made to discredit the research. The committee does not believe the conclusions drawn in the paper to be other than cautiously indicative. DEST’s suppression tells us more about the nervousness of the Government in selling its radical policy than the unanticipated consequences that will occur as a result of it. Furthermore, the committee found that others were coming to less equivocal conclusions than the DEST researchers.

33 Dr Terry Stokes, *Hansard*, Melbourne, 2 October 2003, p. 17

34 DEST draft paper (Aungles, Buchanan, Karmel and MacLachlan), *HECS and Opportunities in Higher Education*, 2002, p. 2

2.59 The committee heard evidence of research done in western Sydney which suggests that DEST research is both conservative and timely.

When we surveyed a lot of our families and students in relation to HECS to see whether that was having any impact on decisions to go to university, the general theme was, 'We don't like to go into debt. We like to pay fees up-front if we can.' Extrapolating from that and from a number of conversations I have had with community members, local government, students and parents over the last few months, I think there is enormous anxiety and a degree of bewilderment about what this means for them. The kind of comment you get is: 'Child 1 and child 2 went to university and we are so proud of them. They were the first in our family ever to go to university. We came out from Vietnam as boat people. It is just wonderful to think that we can have these opportunities, but we are not sure about child 3 now. We don't know whether we can support them to the same extent, and we don't know whether it wouldn't be better for them to go out into the work force straight from school.' If that becomes a trend and if those are the kinds of assumptions that underpin people's decisions, it will be tragic if we see students who are very able and very keen to go to university being discouraged from doing so by either the prospect of debt or their family's reaction to the prospect of debt.³⁵

2.60 The committee heard a great deal about debt aversion, and it was a frequently recurring theme in student union submissions. For instance, the RMIT Student Union submission stated that fees are the single greatest barrier to equal participation of women in higher education. Differential HECS ties a woman's decision to study in a particular discipline on an assessment of her ability to repay higher fee levels. The submission argued that some women will be deterred from expensive courses like law and vet science. As they already take three times longer, on average, to pay of their HECS as do men, some women will still be paying student loans beyond middle age. Questions about breaks in study, for family reasons, occur more frequently for women, and this makes repayment of loans more expensive.³⁶

2.61 The committee heard almost unanimous opinion on one matter to do with the HECS changes, and that concerned the minimum repayment income threshold, currently set at \$30 000. The commonly held view is that the threshold should be increased to \$35 000. Although the Greens and Democrats note that this still falls short of average weekly earnings, the point at which graduates could reasonably be understood to accrue significant private benefit from their education. However, this figure is closer to average weekly earnings and would ease the repayment burden for those on less than average earnings.

2.62 The objection to increased HECS centres most on its inequity. Some submissions claimed that the current HECS is inequitable, and increases make it

35 Professor Janice Reid, *op. cit.*, p. 41

36 Submission No. 437, RMIT Students Union, p. 6061

worse. The committee is concerned that HECS may over time be further increased. When or if that occurs, there will be serious questioning of the affordability of higher education for the large majority of those who would normally be admitted to university. The committee has already received evidence of the burden on students with years of indebtedness ahead of them. Debt aversion is not only a characteristic working class attitude, as the committee is told: it is the hard-headed attitude of those whose financial commitments are directed to other ends, like houses and families, motor vehicles and other investment opportunities. Universities which like to see themselves in competition will come to see that the competition is not only other universities, but products other than higher education. Thus universities may price themselves out of the wider market.

Recommendation

That the maximum HECS fee not be increased by 30 per cent and that ministerial discretion to increase HECS fees be removed from clause 93-10.

The committee notes that: the Democrats and Australian Greens support this recommendation but have added an additional recommendation that HECS fees should be abolished.

Recommendation

That the HECS repayment income threshold be increased to \$35,000 in 2004-05.

No growth in places and reallocation of marginally funded places

2.63 Each year tens of thousands of Australians are denied a HECS place at university simply because the Government will not fund enough places to meet the demand of people who universities recognise as qualified. This year unmet demand was reported by the Australian Vice-Chancellors' Committee to be in the range of 18,700 to 25,700. This is a shocking waste of talent that is ignored by the Howard Government's proposals.

2.64 Between 1995 and 2001, Australia had the second worst growth in university participation in the OECD, ranking 18th out of 19.³⁷ The Howard Government's appalling record on providing opportunities to undertake further study is going to get even worse under these bills. Phillips Curran warn that the Government's proposals on student places:

...will not keep pace with projected population growth. Without further growth the number of Commonwealth subsidised places per 1,000 people aged 15 and over will fall from 27.2 in 2002 to 24.8 in 2011 and 22.6 in 2021;

and further that:

37 OECD, *Education at a Glance*, 2003, Table C2.2, p. 268

The net change resulting solely from *Backing Australia's Future* is a reduction in HECS-liable places of 1175 EFTSU in 2008 compared with 2002.³⁸

2.65 The Howard Government's 'vision' is a future in which a smaller proportion of Australians have the opportunity to study in our universities. This is unsustainable at a time when more than ever our international competitiveness will be determined by the skills and knowledge of our people.

2.66 Rather than reducing opportunities, the committee believes that creating more publicly funded places to meet existing unmet demand and ensure that participation more than keeps pace with demographic growth.

Recommendation

In order to meet current levels of unmet demand for a university place from qualified applicants, it is recommended that an additional 20,000 full and part time commencing university places be created.

The committee notes that: the Australian Greens call for 50,000 new places.

2.67 The Government has announced that it will fund at a cost of \$347.4 million over four years commencing in 2005, the conversion of 25,000 marginally funded places into full HECS places. This measure is intended to bring the current provision for over-enrolment to an end. The committee majority notes that while vice-chancellors have generally welcomed the conversion of marginally funded places into full HECS places, there are some serious implications that flow from this.

2.68 The committee makes two points in relation to this policy, which appears not to be reflected in the legislation before the Senate. The first is that there are currently about 33,000 over-enrolled students in universities around the country. With over-enrolments stopped from 2005, this will result in 8,000 fewer places on offer. The Government's proposal is therefore less generous than would first appear. The enthusiasm of the vice-chancellor may have something to do with additional funding, but many students are likely to be less happy with the arrangement.

2.69 The second point is that the Government's proposal is likely to be contentious once in operation. The Curran Phillips report notes that the phasing in of the converted places will not necessarily mean that universities currently over-enrolling students will gain the benefit of the conversions. The fully subsidised places will be reallocated across the whole sector according to Commonwealth priorities, taking into account the labour market needs of states and territories.³⁹ The committee anticipates that the scramble for the reallocated places will be the cause of much dispute as arguments about demographic influences, labour market requirements, state rivalries and

38 Phillips Curran report, p. 1

39 Phillips Curran report, p. 11

university rivalries come into play. There is no indication of how the Government intends to deal with this challenge. The committee presumes that the allocation formulas are being worked on in the appropriate Guidelines, which as this report is tabled, have yet to see the light of day.

2.70 There is already evidence of apprehension. Several submissions warn of the dangers ahead for both universities and the Government. The University of Western Australia has pointed to difficulties arising for that state

...we emphasise that it would be necessary to change significantly the allocation of these places from their current distribution to one based on proper measures of demand and equity. In this context we note particularly the serious under-provision of places to WA and to this University, and seek some assurance that a redistribution of places will recognise the fundamental principle that equally-able students should have equal opportunity of access to higher education irrespective of their state of residence. The use of appropriate demographic analysis to guide place reallocation is therefore an important issue to this state and this University.⁴⁰

2.71 The strongest reservations about the Government's proposals came from the University of Adelaide. The submission from the university stated that it was over-enrolled to the extent of 9.8 per cent (against the national average of 7.9 per cent) and this was due to excess demand from highly qualified students who had missed out on the university HECS quota. The university defended its over-enrolment policy, claiming that quality was being fully maintained and that the university had an obligation to serve the South Australian community. Even so, there was a net loss of 4,700 eligible students from South Australia to other states.⁴¹ The submission went on to explain the consequences of the university losing a high proportion of HECS converted places.

A further reduction in the number of fully funded higher education places available to students will result in even more eligible South Australians moving interstate in order to obtain a fully funded place in their chosen degree, with the very real risk that these students will not return to South Australia at the conclusion of their studies. This in turn will have a deleterious effect on the South Australian economy and labour market, unnecessarily perpetuating the rationale for removing these places in the first place.⁴²

2.72 The submission described the possible flow-on effects of the removal of places:

40 Submission No. 368, University of Western Australia, p. 3

41 Submission No. 227, University of Adelaide, p. 4

42 *ibid.*

Should South Australian universities be forced to reduce the level of overload without being compensated with fully funded places, cut-off scores for programs will inevitably rise. Preliminary data analysis conducted by the University of Adelaide has shown that with a reduction in the number of offers in more popular programs of between 10-20%, cut-off scores will rise substantially. This will create a domino effect, as unsuccessful eligible students will then be forced to accept places into their lower preferences, which will in turn result in the increase of cut-offs for many other programs. Some students may miss out on a place altogether, or be forced to move interstate. None of these outcomes is beneficial to South Australia.⁴³

2.73 South Australian universities, Adelaide University in particular, cautioned strongly against the use of demographic data alone in determining the allocation of funded places.

If you looked at Victoria 10 years ago, the demographic projection was for a substantial reduction over the 10-year period. Looking at Victoria now, we see that it is, in fact, one of the growth states. We believe that it is a responsibility of government to ensure that states have the opportunity to develop and that we do not simply follow demographic projections without giving serious thought to how to build the country, to build the nation, to ensure that our states have some sort of future.⁴⁴

2.74 There was also strong objection to the use of labour market projections in determining the re-allocation of funded places. South Australians had some support from the University of Western Australia in this regard.

We also caution against the use of labour market planning to drive the allocation of places. While we would support some additional places for teaching and nursing, it is a matter of public record that the use of Commonwealth priorities based on labour market 'needs' has rarely succeeded and should not be used to make highly specific forward allocations of places.⁴⁵

2.75 This submission was reinforced at the Perth hearing with Deputy Vice-Chancellor Alan Robson declaring that the university was very much against the use of labour market planning to drive the allocation of places. 'Labour market planning is notoriously inefficient as a device for allocating places.'⁴⁶

2.76 While the committee does not commit itself on which factors should be taken into account in the allocation of funded places, it does make the strong point that Governments which intend to administer programs have an obligation to stakeholders

43 *ibid.*

44 Professor James McWha, *Hansard*, Adelaide, 1 October 2003, p. 2930

45 Submission No. 368, University of Western Australia, p. 3

46 Professor Alan Robson, *Hansard*, Perth, 30 September 2003, p. 71

to inform them of the processes that will be involved in making decisions, and the basis on which decisions will be made.

2.77 Underlying this omission is the ‘schizoid’ nature of the policy and the legislation which reflects it.⁴⁷ The Government wants to make universities ‘free’, in accordance with market theory and supposedly liberal management theory, but it also wants to use the universities as agents of economic and social policy. Universities are thus freed up to the extent that their binding chains allow.

Recommendation

The phase out of overenrolled places should not result in a reduced number of places for Australians nationally or regionally.

HECS – HELP

2.78 From 2005, higher education institutions in receipt of Commonwealth funded places will be able to determine the student contribution level for each course they offer within a range set by the government. HECS-HELP will be the mechanism through which students in Commonwealth supported places can pay universities for study. The program will be indexed by Consumer Price Index (CPI) movement to maintain its real value and will be interest free. A deferred income contingency repayments arrangement will be available. Student contributions will vary depending on the subject chosen and the fee charged by the university.

2.79 The minimum repayment threshold under this program will be \$24,265 in the 2002-03 rising to \$30,000 in 2005-06. The maximum repayment amount will increase 8 per cent where income exceeds \$64,999.

2.80 The discount for up front payments will be 20 per cent (reduced from 25 per cent under the current HECS scheme) and the bonus for voluntary repayments will be 10 per cent (reduced from the current HECS level of 15 per cent). These new changes will apply to existing HECS debts from 2005.

2.81 All student payments will be paid to universities.

2.82 Professor Chapman, in his submission, notes:

In summary, it would seem that HECS-HELP is likely to have two effects, the most obvious being that universities would have more revenue which would be supplied through higher imposts on students. Second, so long as most of the additional revenue is delivered directly to the university departments (this is in fact how HECS-HELP is proposed to operate) there is some potential to promote economically propitious outcomes, such as

47 See Professor Peter Sheehan’s description of government policy, *Hansard*, Brisbane, 23 September 2003, p. 12

relative changes in academic salaries to more accurately reflect outside opportunities.

2.83 In relation to price competition, Professor Chapman states there are reasons to be concerned:

...First, the extent to which institutions will be able to benefit from price discretion will be a result of their location and history...this gives them significant commercial advantage. The fact that universities do not pay rent means that the playing field is not level.

Second, an important part of universities' relative standing is the result of many years of public sector subsidy...the alleged benefits of competition could be undermined without close attention to these issues of both geography and history.⁴⁸

2.84 Unfettered price competition could also place burdens on students. Professor Chapman states in his submission:

...it is difficult to believe that the current HECS levels are markedly below what they should be. In some cases currently, Law for example, it is very likely that students are paying as much as the teaching costs involved. Full price discretion would suggest that such examples are likely to become commonplace. This rests uneasily with the economic rationale for public sector financial support, which suggest that activities associated with spill-over social benefits should be subsidies by taxpayers; in other words, that students should pay less.

Finally, there will be some level of HECS above which it is not feasible to collect debt...⁴⁹

2.85 Professor Chapman indicates that it is difficult to estimate the effect of HECS-HELP on the majority of students, given that it depends largely on the student's future income and employability. But it is likely that debt levels will increase for certain demographics:

...for male graduates expected to work full-time, an increase in the HECS charge results in a true financial increase which is very close to what the apparent charge implies. That is, if there are no changes to HECS levels in 2005 typical male graduates will experience no important effective benefits from the new first income threshold...

For women the story is different...relatively poor women graduates working full-time, and those in and out of the labour force...the HECS-HELP arrangements will deliver important financial benefits if the HECS charges does not increase...benefit will be of the order of 15 per cent of the present

48 Submission No. 403a, Professor Bruce Chapman, op. cit., p. 18

49 *ibid.*

value of HECS. However, the situation will be changed substantially if the charge increases by 30 per cent.

...compared to current arrangements, relatively poor female graduates working full-time will experience no financial advantage (or disadvantage)...Female graduates who leave the labour force for a short period after which they work part-time will face about a 25 per cent higher true debt if the charge increases by 30 per cent.⁵⁰

2.86 The committee majority notes that HECS-HELP will increase the cost to students of obtaining an education. It will particularly affect groups that enter and leave the workforce who may in some ways be considered disadvantaged.

FEE-HELP

2.87 The Fee Paying Higher Education Loan Program (FEE-HELP) will provide eligible students with an income contingent loan facility to pay for undergraduate or postgraduate fees in courses in public or eligible private institutions. Students will be able to access a loan capped at \$50,000.

2.88 The debts accrued under FEE-HELP will be indexed to the consumer price index (CPI) plus 3.5 percent each year for a maximum of 10 years, before returning to indexation by CPI. If a student has an existing HECS or HECS-HELP debt and a FEE-HELP debt, compulsory repayment will be directed to the HECS or HEC-HELP debt first.

2.89 Unlike with HECS-HELP there will be no bonus for voluntary repayments.

2.90 FEE-HELP will start in 2005. It will replace the Postgraduate Education Loans Scheme (PELS), Open Learning Deferred Payment Scheme (OLDPS) and the Bridging for Overseas-Training Professional Loans Scheme (BOTPLS).

2.91 Positive aspects of this scheme were noted in the Phillips Curran submission:

...go some way towards addressing the anomalies in the current system, whereby income-contingent loan facilities are available to domestic postgraduate students but not to domestic undergraduate students. It will also help to reduce inequities since students will no longer be required to pay their fees up front....anticipate that the number of fee-paying places will rise significantly as a result of the *Backing Australia's Future* changes, creating additional higher education opportunities (although with a limited impact on overall participation rates).⁵¹

2.92 Phillips Curran highlighted four concerns in its submission, including limiting the debt level cap to \$50,000. As the report noted:

50 *ibid.*, p. 21

51 Phillips Curran report, p. 73

Fees for some courses are already in excess of this amount. There is a real possibility that some students will have exhausted their loan limit before graduation, and will face the possibility of paying for the completion of their courses with up-front fees. This will be particularly relevant to postgraduate students who may already have a FEE-HELP debt for their first degree. The private capital market will not provide loans to cover this situation, and students may consequently be forced to discontinue their courses, or delay graduation while they work part-time to cover fees.

The second contentious aspect relates to the application of the real rate of interest on the FEE-HELP loan. This means that those who take the longest to repay will repay the highest amounts. In general, this will be those graduates who enter lower paid work, experience unemployment, illness or other separation from the workforce. This regressive aspect of the new policy is in contrast to the current HECS arrangements under which no real interest rate applies to the debt. Instead, a discount is offered for up-front payment, so that students who defer are effectively contracting to pay back a higher amount than those who pay up-front. While this effective surcharge is similar to a real interest rate, it does not have the regressive characteristic of growing in real terms. For this reason, a surcharge on the debt is a better mechanism than a real interest rate.

The third contentious aspect relates to the degree of price flexibility and restrictions on competition. Because there are a limited number of providers in the market and because the number of fee-paying places is limited...the price asked of students will not reflect the free operation of market forces. Instead it is likely that universities, especially those in the strongest demand position, will have the capacity to set fees that substantially exceed the costs of provision and the fees that would be set in the open market.

This provides a case to consider capping the fees for all students....⁵²

2.93 The Council of Australian Postgraduate Associations (CAPA), in its submission, disputes the user pays system in education, noting that Australians already pay a higher proportion of education costs than most OECD countries.⁵³

2.94 Further, CAPA notes that:

...if the individual does not go on to derive a financial benefit from their education, they will be forced to carry a long-term debt burden. Thus those who do go on to benefit financially from their education will pay for that benefit through the tax system....while those who do not derive a financial benefit from their education will be unfairly punished with a debt.⁵⁴

52 *ibid.*

53 Submission No. 260, Council of Australian Postgraduate Associations (CAPA), p. 3

54 *ibid.*, pp. 34

2.95 In relation to the interest rate proposed on FEE-HELP, CAPA argued that placing an interest rate on an income contingent loans scheme is inconsistent with such a policy, noting that:

...Under the proposed FEE-HELP scheme, the cost of education incurred by the student increases as long as they remain unable to pay. Such a system represents a significant turning point in Australian higher education policy and should be rejected by the Senate.⁵⁵

2.96 Professor Chapman expanded on the concerns with the real interest rate and suggested amending it with a surcharge:

...FEE-HELP's rate of interest regime is more likely to hurt the disadvantaged. Current HECS arrangements do the opposite, since those who pay back their debts quickly as a result of experience high incomes will be paying more in true financial terms. That is, HECS is more progressive than FEE-HELP, although it should be recognised that having a relatively low real rate of interest, and one reverting to zero after 10 years, limits importantly the extent of the difference.⁵⁶

2.97 CAPA was also concerned that students will not pay off their FEE-HELP debt until other debt, such as that incurred under HECS or PELS, have been paid in full. CAPA also noted:

If FEE-HELP is introduced as a replacement for PELS the loans will attract 3.5% interest, as well as CPI, totalling around 6.5% or effective market interest rates.⁵⁷

2.98 CAPA also expressed concern about the arbitrary powers of universities to set fees that have no relationship to course costs, noting that the University of Sydney has already indicated it will increase its course fees if the legislation is approved.⁵⁸

2.99 The committee considers it inappropriate to apply a real rate of interest on student debts given that students already have substantial debt levels.

Recommendation

That full fee paying domestic undergraduate places be abolished and accordingly, FEE-HELP loans be limited to postgraduate students.

55 *ibid.*, p. 4

56 Chapman, *op. cit.*, p. 24

57 CAPA, p. 5

58 *ibid.*, p. 5

Recommendation

That the real rate of interest on FEE-HELP loans be abolished by removing the 3.5 per cent interest rate in excess of CPI from clause 143-10.

New Commonwealth Scholarships: far inferior to the old

2.100 The Government has made much of the policy package's new 'scholarship' programs as concrete evidence of its good intentions. This is the best light in which Commonwealth Learning Scholarships – the Commonwealth Education Costs Scholarships (CECS) and the Commonwealth Accommodation Scholarships (CAS) – could possibly be seen. Unfortunately, these programs are cynically tokenistic: they offer benefits which are far too meager, either in scope or financial level, to be effective in assisting the students towards whom they are targeted.

2.101 The CECS is aimed at helping full-time undergraduates from low socio-economic levels and those with Indigenous backgrounds. There will be 2,500 scholarships awarded in 2004, rising to more than 5075 by 2007. They are valued at \$2000 per year for up to 4 years. Commonwealth Accommodation Scholarships are intended to assist full-time undergraduates from rural and regional areas who have to move from home to undertake higher education. These scholarships are also for full-time Commonwealth supported students. 1500 scholarships will be offered in 2004, rising to 2030 by 2007. According to the National Union of Students (NUS) these scholarships will cover about half the average cost of rental in an inner city suburb.⁵⁹ NUS also point out that it is likely that student mobility will increase as a result of reduced course offerings at many universities, due to the Government's new role in approving an institution's course profile in detail. Therefore these scholarships, meager as they are, will be much sought after.

2.102 About 26,000 full-time students from low socio-economic backgrounds and about 2,500 full-time Indigenous students commence university studies each year: only 18 per cent will receive CECS scholarships. Around 10,000 students come from rural and isolated areas and have to move away from home to study: only 20 per cent will receive CAS.⁶⁰ The number of those obliged to move away due to new limits on course availability will, if NUS is correct, actually increase significantly and so the number of CAS scholarships available will prove even less adequate in meeting students' needs for financial assistance.

2.103 The Phillips Curran report raised several problems with the new scholarships. First, why do they last for only four years when the Learning Entitlement is for five years? On top of this anomaly, it is clearly in no-one's interests for a student to confront a double impost of losing a scholarship after four years and then, a year later, having to switch to full fees because they have consumed their Learning

59 Submission No. 411, NUS, p. 25

60 *ibid.*, p. 81

Entitlement.⁶¹ The second and most important failing of the new scholarships relates to the number on offer. As the figures provided in the previous paragraph indicate, the scholarship programs will provide far from universal assistance to these categories of needy students.

2.104 There is also concern with the fact that the scholarships will be awarded on academic merit. This policy will work against equity objectives if it neglects student potential, as opposed to past performance, and also is blind to financial need. Finally, part-time students have no access to the scholarships. There is an equity issue here, as single parents and sole care providers find it very difficult to study full-time.⁶² Increased assistance to students through existing income support schemes is a more effective means of delivering assistance to students by avoiding perverse trade offs between scholarships, and youth allowance, Austudy and Abstudy.

2.105 On Commonwealth Learning Scholarships, Phillips Curran concludes that:

Disadvantaged students may face a growing set of pressures that will act to bring deficiencies in student income support schemes into sharper relief: higher HECS debts, restricted access through Learning Entitlements, continuing pressures to work while studying and/or borrowing money to cover living expenses.⁶³

2.106 The committee regards the new Commonwealth Scholarships as tokenism. They will be of very limited assistance to needy students. This remains true despite the recent announcement by the Government that just one of the breathtaking anomalies contained in the measure – the fact that the scholarships were to be counted as income for social security purposes – was to be partially corrected by excluding only the HECS exempt scholarships from income assessment.

The need for accommodation and rent assistance

2.107 The committee has noted above that the accommodation scholarships to be offered are inadequate in both number and in the benefit conferred. Yet the student accommodation issue will become more prominent under the new regime as universities attempt to attract students from interstate and when mobility of study becomes more common. This will happen if universities attempt to diversify their course structures and undertake more specialisation, or, as noted, where the Commonwealth, under its proposed new powers, seeks to rationalise course provision between institutions. The University of New South Wales Student Guild argues that these trends will increase the pressure to provide more realistic income support measures. Its submission explains that rent assistance is an essential element of student income support, and urges that it be introduced in a way similar to the scheme

61 Phillips Curran report, p.79

62 *ibid.*

63 *ibid.*, p.82

operating in New Zealand, where the benefit is not taxable and the subsidy payments based on the relative rental costs in particular locations. As the submission explains:

The cost of living in cities such as Sydney and Melbourne is much higher than the costs of living in cities such as Adelaide or Perth, and to compensate for this, the Rent Assistance scheme should be restructured in such a way that Rent Assistance provides recognition that the cost of living in these centres is more expensive. The 1997-1998 mean housing costs in Sydney or Melbourne (\$138 and \$117 per week respectively) are significantly greater than costs in Perth or Adelaide (\$106 and \$98 per week respectively), with costs significantly rising since that data was produced. It is increasingly difficult to find a two bedroom flat in any of the suburbs adjoining UNSW for under \$300 per week (and this is at the very bottom end of the market).⁶⁴

2.108 The committee acknowledges that for many students the primary barrier for entry to university is their inability to support themselves while studying at university. It notes that Austudy and Youth Allowance recipients are currently ineligible for rent assistance, and that many students are forced to work excessive hours to pay their living expenses. This also affects the quality of the educational experience of students whose hours of study are limited by their need to earn a living.

2.109 The committee agrees in general terms with arguments put in the UNSW Student Guild submission that living expenses for students ought to be regarded in budgetary terms as educational benefits rather than as welfare payments. It finds some merit in the suggestion that consideration be given to having student allowance policy and administration returned to the Department of Education, Science and Training.⁶⁵

Recommendation

That the anomaly whereby students under 25 are eligible for Rent Assistance while those over 25 are ineligible be removed by extending Rent Assistance to AUSTUDY recipients.

International cost comparisons

2.110 Some commentators, over the last few years, have made much of world ratings of universities, the relationship between funding and comparative quality, and where Australia might be situated in global league tables. The Vice-Chancellor of Melbourne University, as part of a campaign to reposition that institution, has claimed that there are no Australian universities in the top 100 universities in the world. The committee has no particular view on these comments, beyond questioning why this is considered important. To begin with, there is no global top 100 universities. Higher

64 Submission No. 342, University of New South Wales Student Guild, p. 12

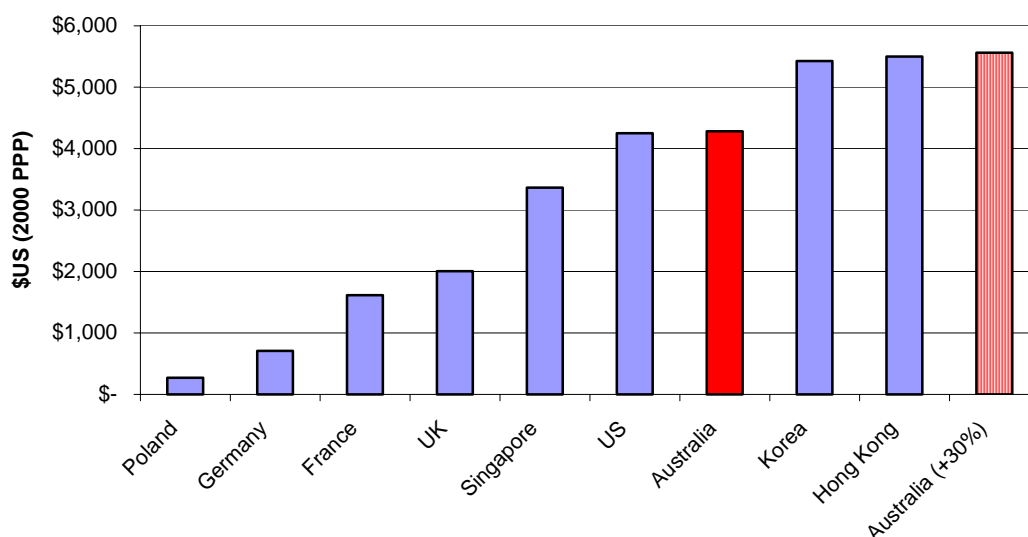
65 *ibid.*, p.7

education quality is measured on a department by department, or discipline by discipline basis, and Australia does well on this criteria. As one higher education scholar noted:

Australia commands 2 per cent of world GDP and 2 per cent of research output. It is not the dominant world power. It is a developed nation with areas of global strength. Australian universities can be global players. But unlike American universities, if Australian universities want to be world class they need first class public funding. In our system private money helps, but public investment is decisive.⁶⁶

2.111 Australia's minimum costs of tuition in higher education are already high in comparison to international institutions. With a 30 per cent increase in fees, Australians in Bands 1 and 2 HECS categories will pay more for low-cost and medium-cost courses than students in Britain, France, Singapore, the United States and New Zealand.⁶⁷ The following chart shows that, if the potential 30 per cent increase in fees as part of the Commonwealth Grants Scheme is allowed for, Australian students could be paying the equivalent of the highest fees in the world to attend a public university.

Comparative level of tuition, other fees and other educational expenses in public universities for a medium cost course⁶⁸



66 Professor Simon Marginson, 'Policy driven by a mirage', *The Age*, 8 August 2003, p. 8

67 Phillips Curran report, p.69

68 Source: International Comparative Higher Education Finance and Accessibility Project (www.gese.buffalo.edu/org/IntHigherEdFinance). Medium cost course include a HECS Band 2 for Australia – for other definitions refer to the source for the Table

2.112 The relatively high fees payable for a university education in Australia, compared to other countries, is directly related to the comparatively low level of public funding – again, compared to other similar countries. In 2000, Australia spent a total of 1.6 per cent of GDP on higher education, a figure which compares favourably with the OECD average of 1.3 per cent. However, this figure includes both public and private funding: Australia relies more heavily than all but three OECD countries on private sources of funding. Australia ranked 6th last out of 29 OECD countries on public investment in university education as a proportion of GDP.⁶⁹

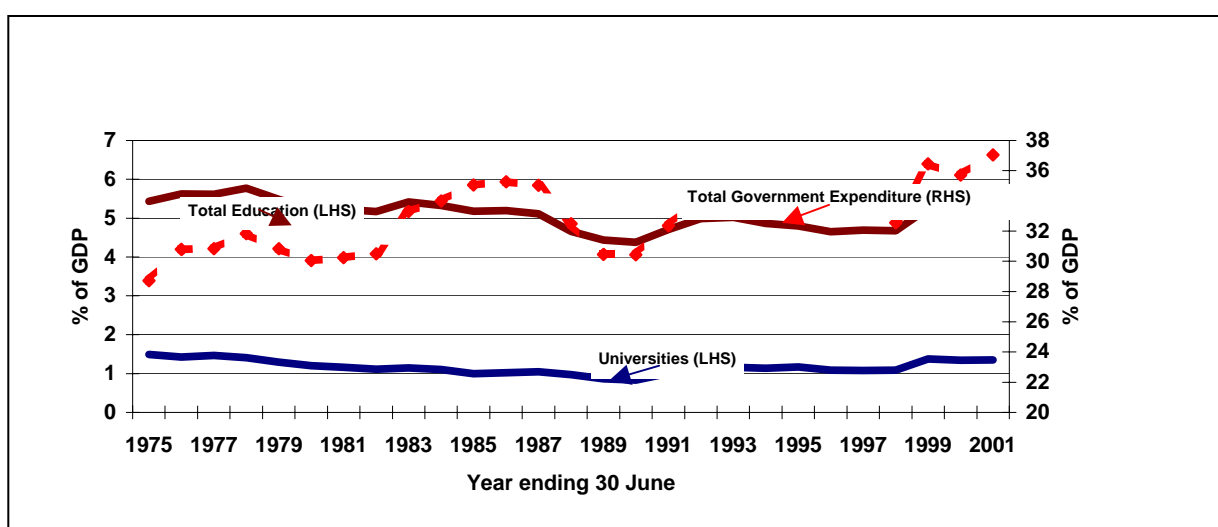


Figure Government Expenditures as % of GDP Australia 1974-75 to 2000-01

Equity issues

2.113 While the Phillips Curran report acknowledged that the *Backing Australia's Future* package offers 'substantial enhancements' to targeted equity programs it observed, crucially, that these were counterbalanced by measures in the package which could reduce or inhibit student access and participation. These counterbalancing factors include: (i) Fewer HECS-liable places per head of population; (ii) increased levels of debt aversion among disadvantaged groups because of increased fees; (iii) potential reduction in access due to the limits imposed on Learning Entitlements; (iv) highly competitive access to Commonwealth Scholarships, adverse interaction with income support schemes; and (v) no improvements in student income support schemes, despite widespread evidence of their deficiencies.⁷⁰

2.114 Until the 1950s, Australia's higher education system was clearly an elite system, in which a tiny proportion of the population participated. Since that time, various Liberal and Labor Government initiatives have taken it gradually along the path towards to a mass system – usually defined as a higher education system in

69 OECD *Education at a Glance*, 2003, table B2.1b, p. 208

70 Curran Phillips report, pp. 34

which over 40 per cent of adults participate at some time in their lives. Most recent figures indicate that almost half of all Australians can now expect to study at university during their lifetime. However, this evolutionary but profound shift has not led to equally improved opportunities for all sections of the population: the share of university enrolments for disadvantaged Australians has not improved since the 1990 release of *A Fair Chance for All*, which was the Commonwealth's Government's initial higher education equity strategy. On a per capita basis, significantly fewer people from lower socio-economic backgrounds gain entry to university than those from medium or higher socio-economic backgrounds. The Government might claim to have endowed its policy package with crucial measures designed to enhance equity. Unfortunately, though, the overall direction of changes to be wrought under the proposed legislation may lead to a gradual return to elitism, and to greatly increased stratification of higher education.

2.115 Higher tuition fees are, in fact, the centre-piece of the package. These will deter people from lower socio-economic backgrounds and from otherwise disadvantaged groups from seeking university education. Even in the more favourable environment of the current regulatory and financing regime, people from such groups are significantly less likely to go to university. There will be a point, at the individual and family level, where the price of higher education will be considered to exceed any likely private benefit, and this point will come sooner for certain kinds of individuals and families, than it will for others. As a result, much potential talent will be wasted.

2.116 Studies by the Australian Vice-Chancellors' Committee⁷¹ and the Commonwealth Department of Education, Science and Training⁷² have found that annual student expenditure exceeds income by about 21 per cent and that seven in ten students are now in paid employment (an increase of about 50 per cent since 1984).⁷³ The average number of hours worked (14.5 to 15) has trebled since 1984. Further, one in ten students take out a loan to support their studies. The loan take-up rate is higher for Indigenous students (21 per cent), sole care givers (20 per cent) and other disadvantaged groups.⁷⁴

2.117 While it is true that HECS repayments are income-contingent and do not bear a real interest rate, it is also true that 'debt aversion' influences the thinking of people from lower socio-economic groups more so than of middle and high socio-economic groups. The following submissions from students at the University of Sydney, the first studying law, and the second enrolled in medicine, both the children of low-income parents, brings to life the dilemma:

71 Long, M. and Hayden, M., *Paying their way: A survey of Australian undergraduate university student finances, 2000*, AVCC, 2001

72 McInnis, C. and Hartley, R., *Managing study and work: the impact of full-time study and paid work on the undergraduate experience in Australian universities*, DEST, 2002

73 Phillips Curran report, p. 64

74 *ibid.*, p. 66

Before the budget came out, I didn't really think about how much my degrees would cost me, but with all this attention drawn to the issue, it frightens me to think about the huge debt I will have before I have even commenced full-time work. While the fees would never discourage me from attending university, they have certainly discouraged me from lower wage occupations requiring a law degree. ...While I get Youth Allowance, and while I also work about 25 hrs a week in addition to my studies, I will not be able to move out of home until I finish my degree, which will be when I am 25 at the earliest. Not only is this difficult for my parents, it seems absurd to me that I should have to live at home for so long just because I choose to study rather than commence full-time work.⁷⁵

Had the proposed reform already been in place last year, I would have not enrolled in medicine because I simply would not be able to afford it. This is true for the vast majority of students. ...And how will this impact on the growing class differences in Australia? To limit education to the upper class means yet another privilege to breed discontent; and can the government really afford to lose so much popularity? The lay are numerous, and they vote. My course is going to continue for three more years and with the pittance I receive from Centrelink, the stresses placed on my family (this being [a] single mother) are slowly leading to its collapse. A degree as demanding as this requires all of my time, and I have no opportunity to earn extra money. Several of my friends are in a similar situation, and some are considering dropping out because their financial situation is in decline.⁷⁶

2.118 Disadvantaged groups rely on adequate student income support and scholarships but since 1996 the Commonwealth Government, has tightened access to such financial assistance. It has increased the age at which a student is eligible to receive payment as an independent and introduced an assets test on students' family of origin, while at the same time maintaining a family income test that excludes all but very low-income families. It has also announced the cessation of the Student Financial Supplement Scheme. The SFSS allowed students to borrow money for study expenses. The fact that so many students wrote to the Committee to lobby for the retention of such a flawed scheme is more an indication of the acute need for financial support, than an endorsement of this flawed lending scheme. Before such life-lines are removed, replacement support must be found.

2.119 Youth Allowance and Austudy are the most common forms of student financial assistance and the AVCC study by Long and Hayden found that both forms of support encourage students to enroll and remain at university. However, the study also reported criticisms of the schemes, mainly relating to their inadequate coverage of living and educational costs.⁷⁷ Other complaints related to the in-built disincentive

75 Submission No. 101, Susannah Fricke, Westleigh, NSW

76 Submission No. 102, Alex Yartsev, North Strathfield, NSW

77 Cited in Phillips Curran report, p. 71

in these schemes for the recipient to work more than one day a week and the lack of rent assistance for Austudy recipients.

Recommendation

That the unreasonable burden on families of supporting children well into adulthood be recognised and that the age of independence for students on Youth Allowance be reduced to 23.

The committee notes that the Australian Greens and Democrats support the age of independence being 18.

2.120 There is no doubt that some students face many financial and practical life challenges in pursuit of a university degree. The committee received many submissions from individuals describing what life as a student is like for them. For example, Sam Orr, of Brisbane, submitted that;

...throughout my degree I have had to take on additional work to supplement my income just to survive. This has without a doubt affected my capacity to concentrate on my studies. I am making a submission because I feel that I have been one of the many students that have genuinely struggled under the current system of deferred HECS and Youth Allowance. Further I feel that if HECS payments are increased and scholarships are to effect the capacity to receive other government assistance then there will be many genuinely worthy students turned away from university. What particularly bothers me is the capacity of someone with money to enter into a course on lower academic levels....I can genuinely say that if HECS payment were increased at the institution I am studying I probably would not have chosen to study. (I would have probably ended up at the meat works)....I do not pretend to be hard done by nor argue that I am a special case. I know many others within university who have had to struggle in the same way.⁷⁸

2.121 Other submissions provide insights into the attitudes of many potential students, who might well be deterred from higher education by the prospect of several years of perceived or real 'poverty', when their incomes will be significantly lower than those of their friends who have decided instead to enter the paid workforce. Community expectations about the level of income essential to a decent life have changed over time and students are no different from anyone else. Real incomes of students who rely on Commonwealth financial support have dropped significantly since the introduction of the predecessor to current schemes, Tertiary Education Allowance Scheme (TEAS), in 1974. The committee believes that, in that the Government's policy package fails to address this issue, the lack of adequate financial assistance for students could result in a decline in university enrolments over time.

78 Submission No. 322, Sam Orr, Brisbane, Queensland

Recommendation

While the committee does not believe these bills deserve a second reading, should the Senate consent to give the bill a second reading, then substantial amendment would be required to meet even the stated policy objectives of the Government. The committee stage of the bill should be deferred until 2004, to allow sufficient time for appropriate consideration of an extensively redrafted bill.

2.122 A student at Charles Sturt University in Wagga Wagga described how he lived on a \$200 a fortnight allowance from his parents, being ineligible for Youth Allowance. A part-time job was a risky proposition as he needed all his time to study. His allowance paid for accommodation and food, but nothing else. Hard as this was, he believed there was worse to come.

If these reforms are allowed to be passed through the channels of parliament, students will finish their degrees and continue in this fashion of living. Workers will be lumped with debt that will render them unable to acquire property (which is just great for a country). The restrictions placed on graduates due to their increased debt will remove the choices associated with financial freedom such as having children or building a house.⁷⁹

2.123 The adverse social consequences of debt, such as deferment of decisions relating to having children or purchasing homes, and postponing further higher education, is raised in the Phillips Curran report and several submissions to the committee. Ben Spies-Butcher of Darlington, NSW submits that:

I received a small scholarship during my undergraduate degree. I initially used this to pay for my HECS fees (which took up the whole scholarship), but later deferred my fees so I could use the money for living expenses (I have a debt of about \$15,000). I am now exempt from HECS fees unless my PhD requires more than 4 full time years to complete. However, I have concerns about the possibility of my own further study, and particularly that of my friends and cousins who are about to commence university. My partner currently has a debt of \$30,000 and many of my friends will shortly have a debt of that size, having completed one undergraduate degree before studying graduate law. Other friends have insisted on paying their fees up front, usually preventing them from leaving home. Even with the current level of fees, some of my friends are now reconsidering undertaking further study. I am particularly concerned about the dynamic created by offering students a discount for paying upfront. Firstly, this means many people do pay upfront, preventing them from leaving home or saving for their own home. Secondly, many, including myself, have saved money in order to be able to pay off their loan, so that we can get the lesser discount. That means we save enough for a car or even a house deposit and lose it all on repaying

79 Submission No. 293, Stephen Boxwell, Wagga Wagga, NSW

debt. This will mean I will stay in the private rental market for another five years.⁸⁰

2.124 The committee notes in passing that this extract illustrates the reluctant attitude of many students – regarded as ‘irrational’ by economists – toward the idea of incurring a HECS debt. Under current HECS arrangements it is generally advantageous, from a strictly economic perspective, for a student to defer payment of the HECS charge and to pay gradually, through the taxation system. This is not, however, how a significant proportion of non-economists perceive their options. If students’ projected debts become higher, as the Government would have it, this ‘debt-avoidance’ effect will worsen.

2.125 There are six equity groups recognized as disadvantaged in their access to higher education. These are: (i) Indigenous Australians, (ii) people from non-English speaking backgrounds, (iii) people with disabilities, (iv) people from rural and isolated areas, (v) women in non-traditional areas of study and (vi) people from socio-economically disadvantaged backgrounds. The following table reveals that there has been some improvement in the position of Indigenous students and women. The latter, however, are still a long way from their ‘reference value’. Students from non-English-speaking backgrounds, students of low socio-economic status, and students from rural and isolated areas are declining as a proportion of all domestic students.

Table: Proportion of Domestic Students by Equity Group, 1991-2001

<i>Equity group</i>	<i>1991</i>	<i>2001</i>	<i>Reference Value (a)</i>
Students from non English-Speaking backgrounds	4.1	3.6	4.8
Students with a disability	2.0	3.1	-
Women in non-traditional area	15.9	21.7	50.0
Indigenous students	0.9	1.2	1.7
Low socio-economic status	14.7	14.6	25.0
Students from rural areas	18.5	17.7	24.3
Students from isolated areas	1.9	1.4	4.5

Source: *Higher Education at the Crossroads*.

(a) The percentage of the general population who are in each of the equity groups. Note these data are from 1991 (rural and isolated) and 1996 not 2001. Preliminary assessment of 2001 census data suggests that the reference point for students from rural and isolated areas and from a non-English-speaking background has reduced since 1991 and 1996.

Indigenous students

2.126 Indigenous Australians remain the most disadvantaged section of the Australian population. Evidence of this incontestable assertion is found in statistical data relating to unemployment, income levels, life expectancy and morbidity. Addressing the problems of Indigenous education generally raises serious equity issues, and the aspirations of Indigenous people wanting access to higher education present a special challenge. The submission received from Batchelor Institute of Indigenous Tertiary Education explains the specific nature of program needs for Indigenous students in higher education.

To be effective, not only the programs but associated support provisions such as Abstudy must provide realistically for the fact that, for the most part, more is required of this target student group than ‘mainstream’ students to succeed in education and training programs. They must not only acquire the required underpinning knowledge of the program, but the broad technical context within which that knowledge is embedded, the English language with which that know-ledge is articulated and the broad social context within which the language and the knowledge is framed—in fact, they must engage and learn within a completely different value system. Additional accomplishments require additional resources, including time and money.⁸¹

2.127 The *Backing Australia’s Future* package increases the Indigenous Support Fund (ISF), creates an Indigenous Higher Education Advisory Council, allocates five scholarships per year for Aboriginal and Torres Strait Islander academic and general staff, and provides for new Commonwealth Learning Scholarships for full-time undergraduates from low socio-economic backgrounds and/or Indigenous backgrounds. However, as the National Indigenous Postgraduate Association Aboriginal Corporation (NIPAAC) points out, this targeted financial assistance is ‘minimal’ and disappointing. Most witnesses when questioned about it regard this initiative as ‘tokenism’.⁸² The package has not taken up NIPAAC’s recommendations to the *Crossroads’ Review*, relating to a more culturally appropriate education system. These included provision for paid cultural supervisors, and the introduction of compulsory Aboriginal and Torres Strait Islander studies courses and mentoring programs. NIPAAC’s ‘bottom line’ is that the additional incentives for Indigenous education ‘will not compensate for an increase in education costs brought about by BAF.’⁸³ Indigenous students have also not been well served by the government’s changes to Abstudy since 2000, which has resulted in a drop in participation.

2.128 The Government has also discontinued the Merit-based Equity Scholarship Scheme, which granted HECS exemption to some Indigenous students. Enrolment

81 Submission No. 448, Batchelor Institute of Indigenous Tertiary Education, p. 3

82 Submission No. 446, National Indigenous Postgraduate Association Aboriginal Corporation, p. 1

83 *ibid.*, p. 2

levels for Indigenous students increased when the scheme was introduced in 1997 but a notable decline has been evident since its discontinuation.⁸⁴ The proposed five-year Learning Entitlement is criticised by Batchelor Institute for its ‘one-size-fits-all’ approach. Factors such as poor health and the lack of infrastructure in many remote communities increase the likelihood of forced withdrawals. The Learning Entitlement also ignores the fact that many Indigenous students have to tackle the time-consuming, complex task of bridging a linguistic and cultural divide when at university. The Batchelor submission argues that:

If HECS-HELP is not to be a mechanism for exclusion of potential students, a more realistic matching of requirements and target groups is necessary. Living allowances and other practical incentives – including scholarships and cadetships – which address the actual deterrents to continuing study would improve the retention rate of students who, often, are long distances from home in the midst of a foreign environment. Also needed are appropriate and strong study and pastoral support services.⁸⁵

2.129 Educational disadvantage from an early age is the main barrier to the entry of Indigenous people to university. Failure of the vast majority of Indigenous young people to achieve university entry is not a matter which universities can easily address. They are, however, working with schools to increase Indigenous participation through the National Indigenous Higher Education Network Committee. The AVCC has argued that the effectiveness of this program would improve with much more generous funding. It has also called on the Government to make enabling courses to university HECS free.⁸⁶ The committee endorses proposals to fund programs enabling Indigenous students to make the transition to university.

Recommendation

The committee recommends the establishment of an Indigenous Higher Education Advisory committee to develop a strategy for increasing indigenous participation in higher education.

NESB students

2.130 People from non-English speaking backgrounds (NESB) receive no separate consideration in this package. Yet their interests are served neither by the likelihood of higher student fees, nor by the expansion of full-fee paying places. The five year ‘learning entitlement’ particularly works against their interests. This point has been well-argued in the submission of the Education Sub-Committee of the Ethnic Communities’ Council of New South Wales (ECCNSW). In universities where fees are increased to the maximum 30 per cent allowed, there will be some NESB students

84 Phillips Curran report, p. 72

85 Batchelor Institute of Indigenous Tertiary Education, op. cit., p. 4

86 Submission No. 417, AVCC, Attachment: AVCC Submission to the Higher Education Review, 2002, pp.4041

unable to commit to higher education due to the increased costs. The submission argues that:

The imposition of students' costs such as fees, texts and other educational resources during study periods is already high. Additional accumulation of debt amassed by students is a massive financial burden after leaving university, especially for students and families from NESB, who are not guaranteed high paying jobs after graduation; have other financial commitments later in life and have family expectations to be "the breakers" of the cycle of debt and assist financially with other family members.⁸⁷

2.131 The expansion of full-fee paying places works against NESB students because the amount necessary to secure a position in a desired program of study will be financially far out of reach for many of these students, therefore restricting their access to higher education.⁸⁸

2.132 The ECCNSW opposes the Learning Entitlement because it fails 'to account for the differing degrees of educational development and family commitment in NESB communities'. It says:

Some... students from NESB are likely to have experienced massive upheaval and dramatic disruption in their lives. Many may have come from a war zone and/or severe poverty, where educational and employment opportunities have been curtailed, limited or not available at all. Additionally, on arrival in Australia, people from NESB struggle to become familiar with a new culture; they may have poor levels of English language proficiency and educational skills; and they lack family and community support on arrival and difficulty in accessing services. Students from NESB communities have broader family and community commitments and responsibilities than mainstream Australian society. They have individual obligations to ensure every family member is cared for and supported within an extended family structure, which includes financial support for all members. At times, other commitments are secondary in importance, as the priority is ensuring these duties are met and further accumulation of debt impacts on the whole family unit.⁸⁹

Students with disabilities

2.133 The NUS submission addresses the question of the potential impact of the package upon people with disabilities. It acknowledges the package's \$1.1 million per annum for three years from 2005, for the Students with Disabilities Program, but it also points to the government's wider decision to cut the Pensioner Education Supplement (PES). The PES is an allowance for students in receipt of a pension,

87 Submission No. 220, Ethnic Communities' Council of NSW Inc. Education Sub-Committee, Waterloo, NSW, p. 1

88 *ibid.*, p.2

89 *ibid.*

including the Disability Support Pension, and it recognises the additional costs faced by these students. The 2003-2004 Commonwealth Budget limited the PES payments to periods of actual study rather than full year funding. The reduction saves the government more than \$39 million over four years, as NUS claims, 'at the direct expense of individual students with disabilities, [and] in stark contrast to the \$3.3 million to be paid, not to students but to institutions, to encourage participation from this same group'.⁹⁰

2.134 The committee notes that there is no indication in the legislation that the Government has taken note of this committee's recommendations in its 2002 report in regard to students with disabilities studying at universities.

Students from low SES backgrounds and rural and isolated areas

2.135 Associate Professor Richard James' submission to the Crossroads' Review presented research evidence that established that students from rural and isolated backgrounds are under-represented in higher education. He estimated that 'for every ten urban people on a per capita basis who attend university, roughly six rural or isolated Australians will do so'.⁹¹ Professor James sees dual negative consequences arising from any increases to HECS fees. He says:

1. Higher fees would be a significant deterrent for people from lower socio-economic backgrounds and rural/isolated areas (regardless of whether or not deferred payment is an option, since there is some evidence of debt-aversion among these groups). An overall downturn in participation could be anticipated.
2. The present social polarisation across universities would be intensified as prospective students from lower socio-economic and rural and isolated backgrounds are deterred or excluded by the dual effect of highly competitive entry requirements and the (presumably) higher fees sought by the universities/courses for which there is high demand.⁹²

2.136 The committee believes that the Government's planned regional loading, for campuses beyond a certain distance outside major cities, as noted elsewhere in this report, will prove inadequate to provide sufficient support to rural institutions. The direction taken by the BAF package – rationalising and reducing course offerings and, effectively, undermining the competitiveness of regional universities (especially in terms of quality) will worsen, rather than improve, the situation of students from rural and isolated areas.

90 Submission No. 411, National Union of Students, p. 30

91 Professor Richard James, Centre for the Study of Higher Education, Melbourne University, submission to the Crossroads Review of Higher Education, 2002, p. 1

92 *ibid.*, p. 2

Recommendation

That the regional loading be extended to include the University of Newcastle and universities serving outer metropolitan regions such as the University of Western Sydney and the Victoria University of Technology.

Female students

2.137 Women also stand to lose from the levels of debt that will increase when university fees are partially deregulated. The NUS submission draws on research by Professor Bruce Chapman when it claims that, by the age of 65, 93 per cent of men will have paid off their HECS debt (under current projections) but only 77 per cent of women will have paid their debts.⁹³ From the perspective of economic theory, this means that women will end up paying *less* than men, and benefiting from an extended period of Commonwealth-subsidised implicit interest subsidy. However, these figures are also indicative of the comparative debt burden borne by women. With lower lifetime incomes, the HECS debt is more financially significant to women. Women spend more time outside the paid workforce than men, and the average starting salary for new female graduates is lower than that of their male counterparts. Women face extra costs in managing university, employment and family commitments. As women remain the primary care givers in society, these extra costs often relate to child care.

2.138 The NUS supplementary submission highlights the serious childcare problems for women who are studying at university. There is a lack of available childcare places on campuses and childcare is expensive.⁹⁴ The Melbourne University Student Association submission to the Senate Committee Affairs Committee Inquiry into Poverty and Financial Hardship (January 2003) revealed how a single parent receiving Youth Allowance or Austudy with one child receives \$395.30 a fortnight, or \$331.30 if they are in a relationship, but can face childcare costs as high as \$195 a week. Even with Childcare Benefit and a maximum rate of other assistance, childcare can cost the student 20 per cent of their weekly income.⁹⁵ The Student Association also pointed to the inadequacy of the capping of work-related childcare assistance at 50 hours per week, as any combination of work, lectures, commuting and study time requires more than 50 hours a week.⁹⁶ NUS is right when it concludes that:

Faced with mounting debt and the prospect of a lower income, women will be forced to make difficult decisions about where and what they can afford to study.⁹⁷

93 Bruce Chapman, *The Australian Income-Contingent University Charge System*, ANU, Centre for Economic Policy Research, June 1996, p. 3

94 Submission No. 411A, NUS Supplementary submission, p. 10

95 Melbourne University Student Association submission to the Senate Committee Affairs Committee Inquiry into Poverty and Financial Hardship, January 2003, p. 19

96 NUS Supplementary submission, loc. cit.

97 Submission No. 411, National Union of Students, p. 29

2.139 The package makes it more difficult for women who may wish to pursue postgraduate studies. The proposed charging of a real interest rate on top of fully deregulated coursework fees will restrict access to postgraduate courses for lower socio-economic and other disadvantaged groups. Indeed, it is likely that the increased rate of take up of postgraduate courses that was apparent after the introduction of PELS will be slowed for everyone, not just the disadvantaged, when the new FEE-HELP scheme comes into effect for postgraduate students. Women will be doubly disadvantaged. Postgraduate qualifications are necessary for professions in which specialisation is important. Nursing is an example of a profession where women are concentrated and where various forms of postgraduate specialisation are typical in the career path. A problem arises when, as in the case of midwifery, the extra study is not reflected in significantly higher rates of pay.⁹⁸ On top of this, the starting salaries of women postgraduates tend to be less than those of male postgraduates. As NUS points out:

A woman places herself at an even greater income disadvantage simply by furthering her qualification with postgraduate work. And she has a postgraduate loan on top of her HECS debt to show for it, one which will now attract an interest rate on top of inflation.⁹⁹

Learning Entitlements

2.140 The proposed Learning Entitlement has attracted considerable criticism in a number of submissions, and appears to have found no support in almost any submission. The core problem identified by its critics is its inflexibility, which is interesting because ‘flexibility’ is the characteristic virtue that the Government claims for all its higher education policies. The inflexibility in this case is the five-year limit to a student’s claim for Commonwealth support.

2.141 For instance, the submission from the University of Sydney described the learning entitlement as ‘unduly rigid, potentially preventing course flexibility’ and of particular concern to postgraduate students.¹⁰⁰

2.142 Currently, a large percentage of students commencing university courses have already spent some time in higher education. In 2002, 22 per cent of students commencing a course at Bachelor level or below had partially completed or completed prior higher education courses.¹⁰¹ The Phillips Curran report concluded that the scheme might introduce some inequities into the system. It said:

For high performing students who are clear about their career choice and gain immediate entry to their course of choice, the Learning Entitlement may

98 NUS Supplementary submission, op. cit.

99 *ibid.*, p. 11

100 Submission No. 105, The University of Sydney, p. 9

101 Phillips Curran report, p. 76

not have any detrimental impact on access to higher education. However, for students who take some time to find their niche, have to discontinue studies for a range of personal reasons, and/or confront challenges in progressing through their courses, the Learning Entitlement scheme may act to restrict their access in the longer term.¹⁰²

2.143 Such restriction on access ‘will be exaggerated for disadvantaged students’.¹⁰³ Course completion rates are much lower for Indigenous, low socio-economic students and students living in rural and isolated areas. The committee concurs with the Phillips Curran report when it concludes that ‘disadvantaged Australians will be more likely to significantly erode their Learning Entitlement and build a HECS debt without receiving the potential benefits of a graduate level income’.¹⁰⁴ Disadvantaged students will also be more likely to use up their entitlement and will have to face the burden of fees if they want to continue. It is likely that the Learning Entitlement will result in a larger proportion of disadvantaged students dropping out of university.

2.144 This view is expanded in evidence to the committee from the Student Financial Advisors Network, whose submission took up the cause of students compelled to withdraw from their studies before completion. The submission explained:

There are various reasons why students may require more than five years to complete their studies. Burdensome family expectations, poor guidance from career counsellors, insufficient maturity at school leaving age and any number of personal upheavals for reasons beyond the control of the individual have, for numerous students, routinely resulted in deferral or extension of years devoted to tertiary study. These are all typical occurrences in the lives of modern young people. And yet, under a “Learning Entitlements Scheme” these people may have “the rug pulled out from under them” at a crucial time when they are busily devoting themselves to the closing stages of their courses. The Minister insists that “Learning Entitlement appeal mechanisms...where circumstances prevent students from completing their studies, will be the responsibility of institutions.” But can the Minister guarantee that all institutions, straining under the relentless financial pressure of contingent funding, will be willing to invest appropriate resources in a processes that could prove inimical to their fiscal agendas? The unanticipated imposition of full fees for the final year of a degree would be nothing short of catastrophic for most students. Conversely, the concept of an “entitlement” may induce some students to unnecessarily augment their studies so as to utilize the full five-year time

102 *ibid.*, p. 78

103 *ibid.*

104 *ibid.*

frame. Increased throughput, if achieved at all, may come at a cost (in terms of short circuited academic paths) that may outweigh the benefits.¹⁰⁵

2.145 Finally, there are a number of unanswered questions in relation to learning entitlements, as there are about almost every aspect of the bill before the Senate. As one submission pointed out, it is unclear how the time restrictions will be determined, and will the timeframe count from the moment a student is enrolled regardless of whether or not they are attending classes. It is not at all clear what exemptions, if any will apply or in what circumstances exemption may be applied for. The draft guidelines issued on 3 November are entirely silent on process and criteria for the extension of learning entitlements. Hopefully these questions will be answered in time in later drafts of the guidelines. This of no use to stakeholders making an assessment of the legislation now. As with so many other substantial matters governed by the legislation it is unacceptable that the detail is not available for scrutiny.

Recommendation

The committee recommends that Part 3-1 of the bill dealing with learning entitlements be withdrawn on the grounds of hardship to students and its likely adverse effects on completion rates.

Conclusion

2.146 The detailed discussion provided in this chapter is essential to an understanding of the financial architecture of the package and, crucially, to highlighting its contradictions and inherent policy tensions. By drawing these problems out, the committee hopes that it has shown why BAF is unsustainable financially. Inherent to it are measures that will undermine the financial stability of some – perhaps many - institutions. By failing to face squarely the real problem – the absence of an indexation mechanism for Commonwealth grants – the policy package, and the legislation, turn instead to the only possible source of funding growth: students themselves. The imperative to find more funds, simply to cover rising costs and salary increases, will drive student contributions ever higher. The package itself sets no firm limits on this upward pressure on fees, either through full-fee arrangements or for ‘Commonwealth supported’ (HECS-related) students.

By failing to build in an indexation mechanism, the Government plans to effectively freeze its own financial contribution to public universities. This is not only short-sighted policy: it is profoundly regressive policy. The inevitable outcome will be a higher education system where the lack of financial sustainability will drive costs too high for the majority of Australians. The gains of the great policy advances, which have brought us a mass system of higher education with its social and economic benefits, will be reversed.

105 Submission No. 474, Student Financial Advisors Network, p. 11