

## **NTEU Briefing Paper Higher Education Changes in 2014-15 Federal Budget**

### **Financial impact of Budget changes on Australian universities**

There is no argument that future students will bear the greatest costs if the Abbott Government's proposed changes to higher education announced in 2014-15 Federal Budget are implemented. The consequent massive fees and debt following funding cuts, removal of caps on university fees and the introduction of market interest rates on HELP loans will price many out of aspiring to a university education and saddle those that go ahead with debts into middle-age.

However, until now less attention has been paid to the impact of the planned Budget changes on individual university finances.

In addition to the deregulation of university fees, the Budget also contains considerable cuts to university funding. These cuts include:

- An average cut of 20% in funding per Commonwealth Supported Place (CSP),
- A 10% cut to Research Training Scheme (RTS) funding,
- The imposition of an efficiency dividend on Australian Research Council (ARC) grants which will translate in lower value of competitive research grants,
- Changes to higher education indexation arrangements away from current Higher Education Grants Index (HEGI) to the less generous Consumer Price Index (CPI),
- The cessation of university higher education reward funding, and
- Cuts to the Higher Education Participation and Partnership Program (HEPPP).

This list does not include the savings the government anticipates making from the abolition of student start-up scholarships and reduced relocation scholarships, the savings from reducing the income threshold at which HELP repayments would commence, or the impact of charging the ten-year bond rate (capped at 6%) on student debt. While these all represent considerable savings to the Commonwealth they will not materially impact on individual university's bottom line, except in acting as a deterrent to students commencing or completing their degree.

The remainder of this paper outlines the NTEU estimates of the impact of the 20% cut to CSP funding.

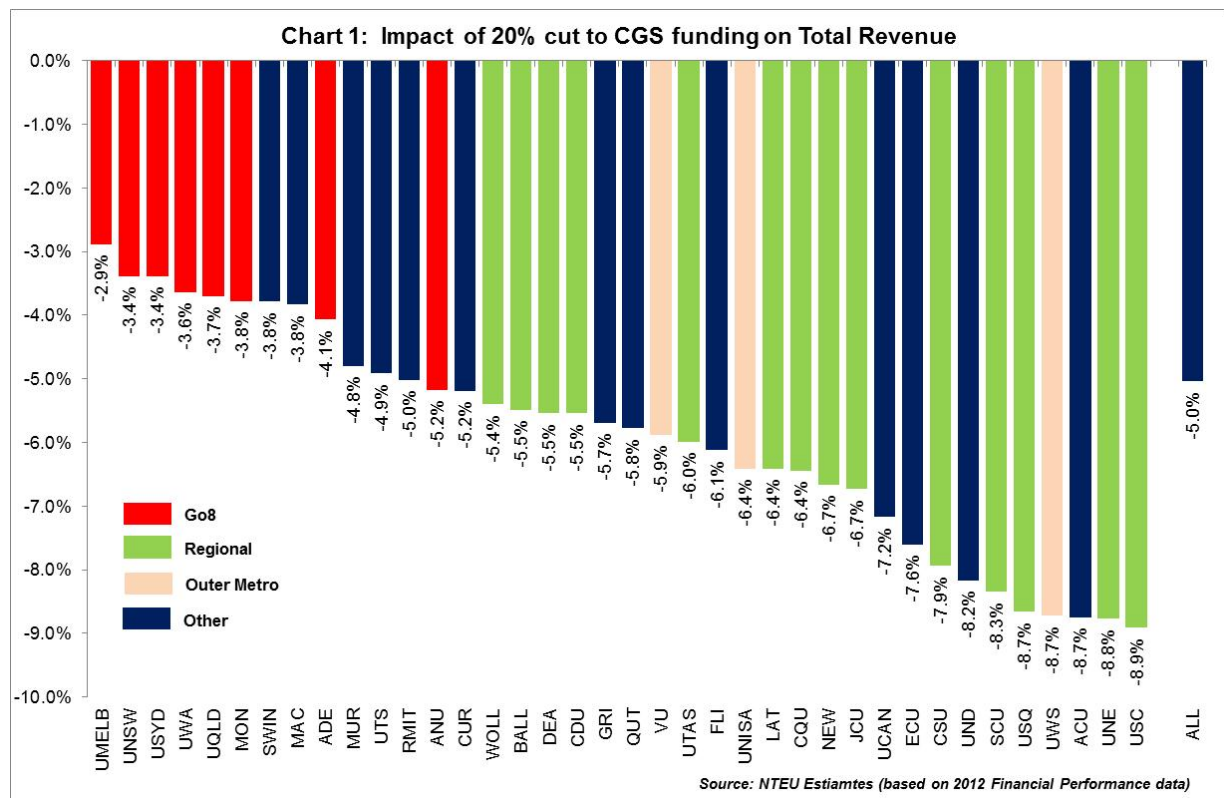
#### **Cut to 20% to Commonwealth Grants Scheme**

The funding that the government provides to universities to educate Commonwealth Supported Place (CSP) students is distributed through a fund called the Commonwealth Grants Scheme (CGS). Undergraduate domestic students and some postgraduate coursework courses are funded through CSPs.

The extent to which different universities rely on CGS funding as a source of income varies considerably. According to the latest Department of Education University Finance data, in 2012, CGS and related grants accounted for about one in every four dollars (25%) of Australia's public universities total income. This means that a 20% cut to CGS funding would result in a 5% cut in total income.

However, the data presented in Chart 1 show this varies considerably between universities, from as little as 2.9% for the University of Melbourne to as much as 8.9% for the University of the Sunshine Coast (USC). The impact of the 20% cut in funding per CSP delivered through the CGS will not impact equally on universities.

Chart 1 shows that the impact is heavier upon regional and outer metropolitan universities that are traditionally more reliant on CGS funding as a source of income.



However, while the government is proposing to cut funding per CSP on average by 20%, as Table 1 (below) shows this will not be achieved by an even 20% cut to all disciplinary clustering rates. While the average cut might be 20%, the cuts to different discipline clusters vary from as much as a 37.2% (\$3,566) cut to funding per social science student and a 28.1% (\$4,717) cut per engineering, surveying or science student to a 25.6% (+\$2,458) increase in funding per mathematics and statistics CSPs.

This means that the future size and disciplinary mix of an individual university's student cohort will determine the size and impact cut to CSP funding.

**Table 1**

<b>Current and Proposed Changes to Funding per Disciplinary Cluster</b>				
<b>Funding Cluster</b>	<b>Government Contribution per Student (2014 Values)</b>	<b>Proposed Government Contributions in 2014-15 Budget (2104 Values)</b>	<b>Change \$</b>	<b>Change %</b>
<b>Law, accounting, commerce, economics, administration</b>	\$1,951	\$1,805	-\$146	<b>-7.5%</b>
<b>Humanities</b>	\$5,419	\$6,021	\$602	<b>11.1%</b>
<b>Computing, Built Environ, Other Health</b>	\$9,587	\$9,033	-\$554	<b>-5.8%</b>
<b>Mathematics, Statistics</b>	\$9,587	\$12,045	\$2,458	<b>25.6%</b>
<b>Behavioural science</b>	\$9,587	\$9,033	-\$554	<b>-5.8%</b>
<b>Social studies</b>	\$9,587	\$6,021	-\$3,566	<b>-37.2%</b>
<b>Education</b>	\$9,974	\$9,033	-\$941	<b>-9.4%</b>
<b>Clinical psychology, foreign language</b>	\$11,790	\$12,045	\$255	<b>2.2%</b>
<b>Visual and performing arts</b>	\$11,790	\$9,033	-\$2,757	<b>-23.4%</b>
<b>Allied health</b>	\$11,790	\$12,045	\$255	<b>2.2%</b>
<b>Nursing</b>	\$13,163	\$12,045	-\$1,118	<b>-8.5%</b>
<b>Engineering, science, surveying</b>	\$16,762	\$12,045	-\$4,717	<b>-28.1%</b>
<b>Dentistry, medicine, veterinary science</b>	\$21,273	\$18,067	-\$3,206	<b>-15.1%</b>
<b>Agriculture</b>	\$21,273	\$18,067	-\$3,206	<b>-15.1%</b>
<b>Average</b>	\$10,600	\$8,480	-\$2,120	<b>-20.0%</b>

### **Expansion of CSPs to sub-degrees and private providers**

Another issue which complicates trying to determine the impact of the proposed cut per CSP is that while cutting the rates per student, the government is also proposing to expand the number of students who will be eligible to receive CSP funding.

The government is proposing to extend CSP funding to:

- all sub-bachelors (for example, diplomas, certificates and associate degrees) higher education qualifications, and
- students enrolled at accredited education providers that are not public universities, including for-profit private providers.

According to the 2014-15 Budget papers, the government estimates this means an additional 85,000 full time equivalent students will be eligible to receive CSP funding. Therefore, while the government's forward estimates of CGS spending takes into account the savings from the 20% per CSP, these savings are offset by the additional spending on the additional places.

Unfortunately the Department of Education's forward estimates for CSG funding do not disaggregate the savings from the 20% cut per CSP from the additional spending on additional CSP places.

Therefore the NTEU estimates of the financial impacts of the 20% cut in funding per CSP are premised on trying to determine how much each public university would lose had the only change to government policy been a 20% cut in funding per CSP.

Our calculations are based on the government's forward estimates of how much it would have spent on CGS funding prior to most recent changes (that is taken from forward estimates published in 2013) and assuming that each university maintains the share of CGS and related funding it received in 2012 (latest available data). That is, our estimates calculate the amount of CGS funding a university would lose if had the same profile of CSP students that it had in 2012. In other words, how much it would lose had the only change in policy been the 20% reduction in funding per student. Having said this, it needs to be noted that the forward estimates take into account both anticipated increases in CSP student load (prior to most recent changes to eligibility) and indexation<sup>1</sup>.

The other factor to take into account is that the cuts to CSP funding only apply to students enrolling from 2016 and therefore the full impact of the cuts will not be fully realised in the first year, due to the pipeline effect of new commencing students working their way through the system and pre-2016 students leaving the system. For the purpose of the analysis presented here, we have assumed a pipeline whereby in 2016 the cuts apply to 40% of relevant student load, 70% in 2017, 90% in 2018 and 100% by 2019. We assume it will take on average four years for the full impact of the 20% cut to take effect.

The results of the NTEU's analysis in Table 2 (below) show that the government would spend almost \$5 billion less in CGS funding as result of the 20% cut funding per CSP student, all other things being equal. The saving in a full year once the cuts have worked their way through the pipeline effect amounts to \$1.5 billion a year from 2019 onwards.

The short fall in funding will need to be made up either from:

- increasing student fees, which need to increase by about 30% on average to simply compensate for these cuts, and/or
- reducing costs which might be achieved through even greater reliance on casual staff to teach undergraduate students or reduced spending on research or community service.

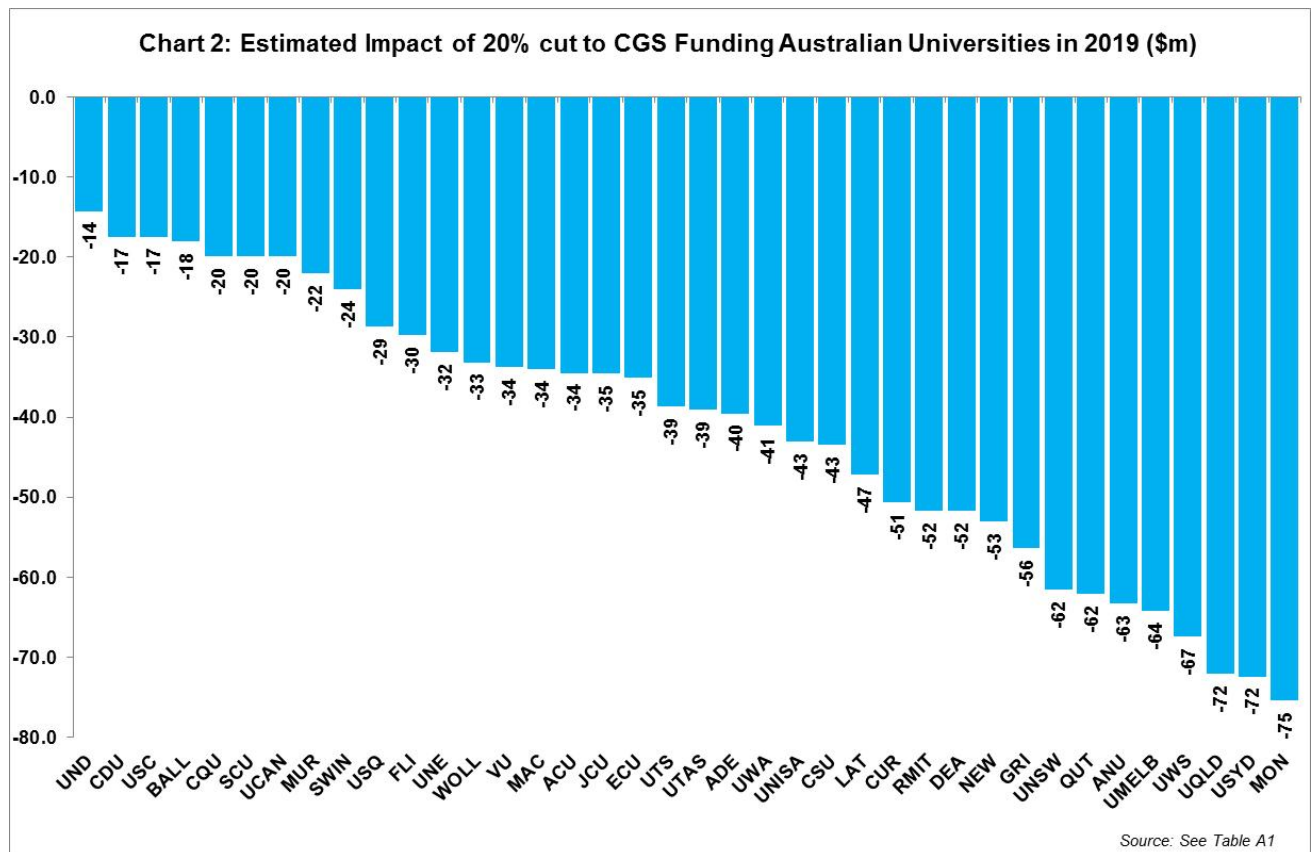
In other words, each university is now faced with a very difficult choice: significant increases in student fees and debts and/or compromising the scope, nature and ultimately the quality of the teaching, research and community service they deliver to their students and communities through severe cost cutting measures.

Chart 2 shows the NTEU's estimates of the impact of the cuts to individual universities in 2019. The data show that the full impact of the cuts, all other things being equal, will vary from about \$14m at the University of Notre Dame in 2018 to about \$75m at Monash. The results are in the same order of magnitude as suggested by a number of vice-chancellors in recent months. In emails to members of their universities, the vice-chancellors of the:

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<sup>1</sup> Note for estimates beyond the published forward estimates (2016-17) we have assumed no increase in CSP load and assumed indexation of 3% per annum.

- University of Tasmania, Professor Peter Rathjen, estimated the cuts would cost UTAS about \$30m (we estimate \$39m in 2019), and
- University of Melbourne, Professor Glyn Davis, estimated the cuts would cost about \$70m per year (we estimate about \$65m).



The full results and value of relevant parameters are shown in Table 2 below.

### Government subsidies to private competitors

The one aspect of the future changes to higher education which is most difficult to determine is the impact of increased competition from private providers. The analysis presented above assumes that our public universities will be able to maintain their share of students. However, if a university loses students in particular cherry picked courses to private providers, the financial impacts of the package of measures being introduced by the government might be considerably worse for some universities, especially regional and outer metropolitan universities.

There is no reason to believe that private for-profit providers will be competing on an equal footing with our public universities. The reason the Minister believes that private providers will be able to 'compete on price' is because they do not face the same financial overheads as our public universities who have obligations to their communities, students and staff to offer a broad range of courses, promote and support research across a range of disciplines and engage in community service. To fully understand the potentially devastating impacts of private providers on public tertiary education institutions one only needs to look at the impacts of the open market approach to vocational education and training (VET) in Victoria

(refer to Chapter 3 of *Analysis of Higher Education Changes in 2014 Federal Budget*, [www.nteu.org.au/degreemortgage](http://www.nteu.org.au/degreemortgage)).

**Table 2**

<b>University</b>	<b>Commonwealth Grants Scheme and related grants (CGS) 2012</b>			<b>Estimated Loss of CGS and Related Income as Result of 20% Reduction to CGS Rates from 2016to 2019</b>				
	<b>CGS as a share of University Total Revenue (2012)</b>	<b>University share of Total CGS (2012)</b>	<b>Impact of 20% Cuts to CGS on Total Revenue</b>	<b>2016 (\$m)</b>	<b>2017 (\$m)</b>	<b>2018 (\$m)</b>	<b>2019 (\$m)</b>	<b>TOTAL 2016-19 (\$m)</b>
Australian Catholic University	43.7%	2.2%	8.7%	12.3	22.8	30.1	34.5	99.7
Australian National University	25.9%	4.0%	5.2%	22.6	41.8	55.3	63.3	183.0
Central Queensland University	32.2%	1.3%	6.4%	7.1	13.1	17.4	19.9	57.5
Charles Darwin University	27.7%	1.1%	5.5%	6.2	11.5	15.2	17.4	50.4
Charles Sturt University	39.7%	2.8%	7.9%	15.5	28.7	38.0	43.5	125.6
Curtin University of Technology	25.9%	3.2%	5.2%	18.0	33.4	44.2	50.6	146.2
Deakin University	27.7%	3.3%	5.5%	18.5	34.1	45.2	51.8	149.6
Edith Cowan University	38.0%	2.2%	7.6%	12.5	23.2	30.7	35.1	101.5
Flinders University	30.6%	1.9%	6.1%	10.6	19.6	26.0	29.7	85.9
Griffith University	28.5%	3.6%	5.7%	20.1	37.2	49.2	56.4	162.9
James Cook University	33.7%	2.2%	6.7%	12.3	22.8	30.2	34.6	100.0
La Trobe University	32.1%	3.0%	6.4%	16.8	31.1	41.2	47.2	136.3
Macquarie University	19.2%	2.2%	3.8%	12.1	22.5	29.7	34.0	98.4
Monash University	18.9%	4.8%	3.8%	26.9	49.7	65.9	75.4	217.8
Murdoch University	24.0%	1.4%	4.8%	7.9	14.5	19.2	22.0	63.7
Queensland University of Technology	28.9%	4.0%	5.8%	22.1	41.0	54.2	62.1	179.4
RMIT University	25.1%	3.3%	5.0%	18.4	34.1	45.2	51.7	149.4
Southern Cross University	41.7%	1.3%	8.3%	7.1	13.2	17.4	20.0	57.7
Swinburne University of Technology	18.9%	1.5%	3.8%	8.6	15.9	21.0	24.1	69.5
The University of Melbourne	14.4%	4.1%	2.9%	22.9	42.4	56.1	64.2	185.5
The University of New England	43.8%	2.0%	8.8%	11.4	21.0	27.9	31.9	92.2
The University of New South Wales	16.9%	3.9%	3.4%	22.0	40.6	53.8	61.6	178.0
The University of Newcastle	33.3%	3.4%	6.7%	18.9	35.0	46.3	53.0	153.2
The University of Notre Dame Australia	40.8%	0.9%	8.2%	5.1	9.4	12.5	14.3	41.3
The University of Queensland	18.5%	4.6%	3.7%	25.7	47.5	62.9	72.0	208.2
The University of Sydney	16.9%	4.6%	3.4%	25.8	47.8	63.3	72.4	209.3
The University of Western Australia	18.2%	2.6%	3.6%	14.6	27.1	35.9	41.0	118.6
University of Adelaide	20.3%	2.5%	4.1%	14.1	26.1	34.6	39.5	114.3
University of Ballarat	27.4%	1.2%	5.5%	6.4	11.9	15.7	18.0	52.1
University of Canberra	35.8%	1.3%	7.2%	7.1	13.2	17.4	20.0	57.7
University of South Australia	32.1%	2.8%	6.4%	15.3	28.4	37.6	43.0	124.3
University of Southern Queensland	43.3%	1.8%	8.7%	10.2	18.9	25.0	28.6	82.8
University of Tasmania	29.9%	2.5%	6.0%	13.9	25.8	34.2	39.1	113.0
University of Technology, Sydney	24.6%	2.5%	4.9%	13.8	25.5	33.8	38.7	111.9
University of the Sunshine Coast	44.5%	1.1%	8.9%	6.2	11.5	15.2	17.4	50.4
University of Western Sydney	43.6%	4.3%	8.7%	24.0	44.5	58.9	67.4	194.7
University of Wollongong	27.0%	2.1%	5.4%	11.8	21.9	29.0	33.1	95.8
Victoria University	29.4%	2.2%	5.9%	12.0	22.3	29.5	33.8	97.7
<b>All Institutions</b>	<b>25.2%</b>	<b>100.0%</b>	<b>5.0%</b>	<b>557.4</b>	<b>1105.4</b>	<b>1518.0</b>	<b>1563.6</b>	<b>4,744.4</b>