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Submission from the University of New South Wales (UNSW) to the Senate Education and Employment Legislation Committee

Re: The Higher Education and Research Reform Amendment Bill 2014

UNSW strongly supports the fundamental principle embedded in the Bill - namely that the deregulation of Australia's higher education sector is a vital reform.

Australia faces a critical challenge, both to the future of the sector and to the welfare of the many thousands of students studying at our universities: how to continue to fund a system that is of internationally recognised quality while supporting widening participation.

A sustainable funding base for our universities must involve adequate public investment, a fair contribution to the cost of their education from students, and the freedom for each institution to decide how best to achieve its mission.

Like most of the sector, UNSW believes that given the substantial reduction in government funding proposed in this Bill, as well as the effects of the long term erosion of per student funding to our universities, there is no alternative to fee deregulation if Australia is to continue to be regarded as having one of the world's best higher education systems.

But we are also strongly of the view that deregulation will be a game changer for the sector, fostering flexibility, diversity and innovation. It will open up new educational pathways and increase student choice. There is evidence that a well-funded, differentiated and autonomous (de-regulated) system will perform better for both the nation and for students.

This is a watershed moment for Australia's universities, whether they are regional or metropolitan, research intensive or more teaching focused. The risks of maintaining the status-quo are real, and the benefits of deregulation are significant.

If a sustainable funding base for the sector is not found, it would seem inevitable that the decline in per student funding will continue, as well as further cuts to research funding. Obviously the latter would have a disproportionate effect on research intensive universities such as UNSW. We operate in a highly competitive global environment: international rankings depend on research excellence. In UNSW's case, our imperative is to continue to operate as a peer of the top technology focused universities in the world.

This is not merely special pleading. The international standing of our top universities is vital to the reputation of the sector as a whole.

We know the Committee will consider very carefully the issues involved in this legislation. We believe that the basic direction of the reform package should be supported, but that considered amendments are in order.

The following table summarises our assessment of the individual elements proposed in the bill and suggests, where we are not supportive, amendments that should be considered.

Proposed Reform	UNSW Assessment	Suggested amendments
Deregulation of fees	Strongly supported and essential for the future of the Australian university system	
20% reduction in Commonwealth Supported Place funding	Given the already low levels of public per student funding we do not support reducing the CSP payment.	If reductions in the CSP are required then we advocate a staged introduction by removing indexation for 5-6 years. This would achieve the same effect over time and make the transition far more manageable for the sector.
Creation of the scholarship fund from 20% of net revenue increase	We strongly support this initiative but counsel against any proposal to centralise the funds available.	
Cluster realignment (8 -> 5 clusters)	We do not support the rationale behind the cluster realignment - in particular we are concerned about the relative impact on STEM subjects (especially engineering).	That this element be removed from the reform package and any cuts to CSP funding uniformly applied to the existing clusters.
A real interest rate on student debt	We do not support the proposed changes to charging students a real rate of interest.	Either leave the current arrangements in place or consider alternatives such as a loan establishment fee or staggering interest rates depending on income.
Changes to the Research Training Scheme	We do not support the proposal to reduce the RTS and charge fees to higher degree by research students	Given the importance of HDR students to the future of Australia's research and innovation capabilities and the lack of significant private benefit, we believe this proposal should be dropped.
The extension of the demand driven system to sub-bachelor degrees and non-university higher education providers	We support this proposal	

Without a sustainable funding base, for both teaching and research, our universities will slip into mediocrity. Conversely, if we can not only maintain but lift funding, ensure institutional autonomy and adequately support research excellence we will have a critical intellectual infrastructure the envy of most countries.

Yours sincerely

President and Vice- Chancellor

ENSURING A SUSTAINABLE FUTURE FOR OUR UNIVERSITIES- THE CHALLENGE

UNSW is one of Australia's top research intensive universities. A strong university sector is vital to Australia's future. UNSW believes the performance of this sector depends on:

1. The calibre of the staff and student within the universities
2. An appropriate sustainable funding base
3. Significant and respected institutional autonomy
4. Funding research adequately, and on the basis of excellence.

Globally, almost all higher education systems are grappling with how to strike a balance between public and private funding. The narrow post World War II window of essentially free access to university for a small proportion of the population has long closed. If we are to maintain high participation levels within a quality university system then total funding must increase.

Australia has undoubtedly benefited from increased university participation and the only alternative scenario - that we restore per-student funding levels and reduce fees by restricting access - is untenable.

Given these challenges and the private benefit conferred by a university education, UNSW does not consider it unreasonable to ask students to contribute more to the cost of their degree. However, while recognising the additional budget pressures created by the demand driven system, we are concerned by the magnitude of the reduction in government funding proposed in the Bill. We are also strongly of the view that the proposed changes to the HECS-HELP scheme should not proceed.

Where do we stand now?

The Australian higher education sector is underfunded compared to our international peers. The most recent OECD report on public expenditure on tertiary education as a percentage of GDP puts Australia's contribution at 0.7% of GDP, considerably lower than the OECD average of 1.1%. Indeed only two countries reported a lower public contribution. The U21 Ranking for National Higher Education Systems for 2014 ranks Australia 40th for government expenditure on higher education.

Per student funding to universities has been declining for three decades. There is no indication that governments of either persuasion have the intention or capacity to support the rapidly expanding student population resulting from widening participation.

In 2012, caps on student numbers were lifted but without the fee flexibility to keep pace with costs, the only solution for many universities has been to significantly expand enrolments. For many institutions this has created a financial model based on annual student growth of 3-4% per annum, which is clearly not sustainable. Further it has resulted in a significant deterioration in student/staff ratios, which are now appreciably higher in Australia than in many other competing systems. In the most recent QS World University rankings, UNSW was in the top 50 but very low (around 400th) on the staff/student ratio indicator.

The second approach that Australia universities have taken to ensure financial viability is to grow the numbers of international students. As a sector we have one of the most internationalised student bodies, and whilst this brings broad benefits to the country and the sector we are limited in how much further this can expand. We are competing against other countries (notably USA, Canada and the UK) and while we offer a high quality education we are unable to raise fees further- we are already regarded as a relatively expensive student destination. The fact that important source countries such as China are rapidly developing their own tertiary systems will also be a factor in restraining future growth.

Maintaining strong international enrolments will continue to be very important for UNSW but the idea that sufficient growth in revenue could be achieved to address our current funding challenges is not a realistic proposition.

Risks of the status quo

Current levels of funding will not sustain the quality of either teaching or research in Australia's universities. Inevitably the standing and reputation of our institutions will be eroded. As indicated previously, staff/student ratios are already showing the consequences of chronic underfunding. Relative research performance will deteriorate as other nations invest in long term strategies for research excellence.

A decline in quality is a major risk to our global competitiveness, and to our international education industry, Australia's fourth largest export earner. In 2013 UNSW received \$345m in international student fee income. The ABS estimates this fee income generates \$719m of education exports.

Apart from the wider economic benefits, for decades it has been largely the income from international students that has allowed Australia's universities to maintain quality. We face increasing competition in the international education market. Our ability to recruit international students is heavily influenced by reputation - the perceived quality of the Australian system. If this declines the danger is a vicious cycle: a downward spiral across the sector which will be very difficult if not impossible to reverse.

Why deregulation?

Australia needs a policy framework that creates a sustainable funding base, encourages competition and enables its universities to differentiate – a strategy that allows each university to play to its strengths.

Lack of diversity exacerbates the funding problem and limits opportunity. Not all students are the same – they have different capacities and different needs. We need more choice, we need more pathways into university degrees, and more opportunity for disadvantaged students.

Much postgraduate education in Australia is already fully deregulated. Universities compete by offering a range of courses and fees. Extending this to undergraduates and the remaining regulated postgraduate programs will enable the development of a truly diverse system and give students real choice.

Students will benefit from competition. In a competitive environment some fees will go up and some down. Universities will have more freedom, and more incentive, to innovate in terms of course offerings and delivery. Students will have a choice between premium priced courses and universities offering lower fees.

The HECS-HELP scheme protects access by allowing tuition fees to be deferred. Expectations of future earnings will be a major factor in student choice. Graduate incomes grow in real terms at a rate approximately double the national average, and by much more during initial years of employment. After 10 years working fulltime, 20 per cent of graduates will be earning more than 80 per cent of all full time employees across the country.

Impact of deregulation on fee levels

It's estimated that the 20% reduction in government funding per student will translate to a 24% reduction in government income for UNSW, as a consequence of the proposed cluster changes. In setting fees, UNSW will need to compensate for this shortfall, and estimate what will be required to continue to offer an outstanding education for its students into the future.

UNSW will not be seeking to set fees at the excessive rate some have predicted for the top end of the sector. As a non-profit institution, it will be taking a socially responsible approach, balancing the burden on students with the need to ensure we maintain the quality of our academic mission.

How would UNSW use additional revenue from deregulated fees?

The university will dedicate the majority of any additional funding to reducing class sizes. A further significant proportion will go to student programs and infrastructure and 20%, as required by the government's proposed legislation, to fund scholarships and other equity programs.

The new Scholarships scheme proposed in the Bill will promote opportunities for disadvantaged students. It is anticipated that many recipients will defer tuition fees under HECS-HELP and use the scholarships to defray living costs: historically a major obstacle to pursuing a tertiary education, particularly for regional students.

SPECIFIC RECOMMENDATIONS

HECS Changes

UNSW is opposed to the proposal to set base interest charges on HELP debt on the 10-year Government bond rate, capped at 6%. This will unfairly impact on students who have lower earnings and/or take time out of the workforce.

Recommendation: that the current CPI interest rate arrangement is maintained.

20% cut in the government component of funding per student.

While we recognise the current fiscal pressures on the government, we are concerned by the severity of this proposed reduction in government funding. If there is no agreement that the reduction should be moderated, an alternative approach could be adopted - to have no indexation of the Commonwealth component for 5 years - the impact of inflation would deliver an 18-20% reduction.

Recommendation: the proposed reduction in CSP funding either be moderated or phased in to enable an easier transition for the sector and the community.

Cluster Changes

The disproportionate impact of the proposed new clusters on STEM disciplines (Science, Technology, Engineering, and Mathematics) would seem perverse at a time Australia is seeking to strengthen this area. The impact on UNSW, with its very large engineering and science faculties, would be 24% rather than a 20% reduction in Commonwealth funding. Any changes to clusters should be delayed until further consideration of their likely impact.

Recommendation: the current cluster arrangements are maintained.

Research Training Scheme

UNSW is strongly opposed to the proposal to cut funding for the Research Training Scheme (RTS) by 10%. It will mean the introduction of fees for higher degree by research students, at a time when Australia desperately needs a highly trained research workforce. Further, there is little if any justification for these changes on the basis of increased private benefit for PhD graduates.

Recommendation: Funding for the RTS is maintained at current levels.