Submission to the inquiry into the provisions of the Higher Education and Research Reform Amendment Bill 2014

The University of Melbourne

1. Introduction

The University of Melbourne welcomes the opportunity to make a submission to the inquiry into the provisions of the Higher Education and Research Reform Amendment Bill 2014. The University endorses the Group of Eight (Go8) submission and offers recommendations in this submission to complement the Go8’s.

The demand driven system is an historic achievement that is helping to expand opportunity and meet the rising skill needs of Australia’s economy. But it comes at a cost to public revenue that all sides of politics have indicated is unsustainable.

This leaves few options for a sustainable system. With government contributions for tertiary education below the OECD average of 1.4% of GDP, any further reduction in per student funding risks quality.

The Government has proposed a package of higher education reforms that seek to address the challenges of maintaining and enhancing quality in an expanding system by deregulating fees and introducing competition.

The University of Melbourne supports the broad deregulatory thrust of the package, as it is currently the only policy proposal on offer which can ensure a viable higher education system.

However, the University makes a number of recommendations in this submission for modifications to ensure equity aims are preserved. In doing so, we affirm our ongoing commitment to advocating for the value of increased public investment in Australian higher education and research.

The University of Melbourne is a publicly-spirited university committed to excellence in teaching, learning and research.
2. Summary of recommendations

That the Senate:

1) Support fee deregulation for Commonwealth Supported Places (CSPs), in the absence of a firm commitment to increase public funding for higher education.

2) Support the current proposal for universities to set aside 20% of any extra fee rise for the new Commonwealth Scholarship Scheme.

3) Support limited structural adjustment funds to support equity and community engagement in universities exposed to risk of market failure.

4) Oppose the cuts to public subsidies for student places by an average of 20%, noting the significant budget savings delivered by the higher education sector over the past decade, and recognise that budget savings should not be delivered by further cuts to research funding.

5) Oppose the imposition of the bond rate of interest on HECS, and support a single HECS-HELP scheme including future indexation for HECS-HELP loans at a rate that avoids regressive outcomes. This might be achieved, for example by using CPI and a loan fee, or indexation at CPI when a borrower’s income falls below a certain level.

6) Oppose the 10% reduction in funding for the Research Training Scheme.

3. Recommendations

Recommendation 1:

Support fee deregulation for Commonwealth Supported Places (CSPs), in the absence of a firm commitment to increase public funding for higher education.

Rationale:

- In the absence of growth in public investment, deregulation is necessary to support a sustainable future for a demand-driven system of higher education in Australia. It is the only policy option currently on offer to ensure the viability of many courses of study and the sustainability of a quality system overall.

- Allowing higher education providers to set fees means they can better control their revenue and offerings, and so are able to better respond to student demand while making the most efficient use of their resources.

- As domestic students will have access to uncapped HECS-HELP loans, they can defer the whole fee amount until their income reaches a threshold. Experience around the world shows that income
contingent student loans help to ensure that course fees do not pose a barrier to participation at the point of entry.

- Deregulation can foster innovation and specialisation, as it allows universities to specialise in areas of strength, creating a market of diverse, high quality choices for students.

- A deregulated market for undergraduate education means all providers, be they established or new entrants, are subject to competitive pressures. QILT, an announced measure to provide comprehensive information to prospective students, will help ensure greater transparency in the value of different teaching and learning opportunities.

- Experience in Australia and the UK shows placing a cap on student fees leads universities to charge the maximum proscribed by government, and therefore can lead to greater price increases than in a competitive environment. A maximum fee acts as a de facto indicator of the cost of a quality degree, and discourages fees below the cap because a low cost course can be incorrectly seen as a low quality offering. Removing the cap on student fees allows competitive pressures to help restrain prices.

**Recommendation 2:**

Support the current proposal for universities to set aside 20% of any extra fee rise for the new Commonwealth Scholarship Scheme.

**Rationale:**

Robust equity measures are critical to ensuring that all qualified students can attend university. While HECS-HELP is central to this, additional measures are needed so prospective students who have faced socio-economic disadvantage can attend university.

- The current proposal for the Commonwealth Scholarships Scheme means government and individual universities work together to deliver better equity outcomes.

- Modification of the proposal to ‘pool funds’ raised through the Scheme and then redistribute between different universities is regressive and should not be supported. Such a proposal means students who have decided to invest in their education at one institution are cross subsidising students at a different institution, without regard to personal circumstance or differences in educational offerings.

**Recommendation 3:**

Support limited structural adjustment funds to support equity and community engagement in universities exposed to risk of market failure

**Rationale:**

Where there is market failure under a deregulated system, such as in some regional areas, additional support is needed.
• The scholarship package proposed by the Group of Eight and the Regional Universities Network addresses some likely market failure and is recommended for consideration by the Senate, though other measures may be required to address the need of other institutions facing similar issues.

Recommendation 4:

Oppose the cuts to public subsidies for student places by an average of 20%, noting the significant budget savings delivered by the higher education sector over the past decade, and recognise that budget savings should not be delivered by further cuts to research funding.

Rationale:

The proposed average 20% cut to CGS funding risks serious consequences for the quality of teaching and affordability of courses under a deregulated system.

There is a strong case for maintaining public investment at current levels because:

- Australian universities and students have endured recent funding cuts totalling several billion dollars. The previous government proposed over $3.8 billion in total cuts, including a cut to research and infrastructure during 2012 of nearly $1 billion, and reductions in available funds for research and teaching in 2013.
- Reduced public investment would defeat any additional revenue gained through fee flexibility, as well as compromising quality.
- Any further budget cuts to research would risk devastating Australia’s research effort.
- Reducing funding will compromise international competitiveness: Australia is ranked lowly compared to advanced economies for public investment in universities as a percentage of GDP.
- Other nations are investing heavily in their universities, recognising such investment has long term payoffs in terms of productivity growth, increased living standards and strong economic growth.

Recommendation 5:

Oppose the imposition of the bond rate of interest on HECS, and create a single HECS-HELP scheme including future indexation for HECS-HELP loans at a rate that avoids regressive outcomes. This might be achieved, for example, by using CPI and a loan fee or indexation at CPI when a borrower’s income falls below a certain level.

Rationale:

An increase in the indexation rate from the CPI to a real interest rate is highly regressive for low income earners due to large debts that can easily accrue.

- In recent years CPI is has been 2%-4%. The bond rate has been 3%-6%. The compounding effect of a real interest rate on HELP loans disproportionately impacts low-income professionals and those out
of the workforce for a period, such as parents caring for children. A period of low income and compounding interest can turn a student debt into a serious burden.

- This means those most affected by the policy will likely be women who are more commonly out of workforce for parental duties than men.

A fairer system would ensure that students are not unduly burdened with debt while minimising the cost to public revenue.

- For example, this could be achieved through a low indexation rate and a loan fee, or only indexing a debt at CPI when earning below the repayment threshold.

**Recommendation 6:**

Oppose the 10% reduction in funding for the Research Training Scheme.

**Rationale:**

World leading PhD qualified researchers are crucial to driving Australia’s research and innovation performance. Attracting our best and brightest to doctoral study helps ensure significant economic returns for the nation. Maintaining current funds for a well-targeted Research Training Scheme is critical to ensuring world leading research training is viable in Australia’s universities.