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Monday, 22 September 2014

Senator Bridget McKenzie
Senator for Victoria
Chair, Senate Standing Committee on Education and Employment
By email: eec.sen@aph.gov.au

Dear Senator McKenzie,

Higher Education and Research Reform Amendment Bill 2014

Thank you for the opportunity to make a submission to the Committee's important inquiry into the *Higher Education and Research Amendments Bill 2014* (the Bill).

The University of Sydney is pleased that the introduction of this Bill by the Government has elevated higher education policy and funding issues at a political level, but also in the media and the community. We believe the sector is vital to Australia's future and that it is important for the Parliament to consider the implications of the Bill carefully with a view to ensuring the best possible outcomes for the nation through appropriate legislation.

The University's position on the Bill is that it should be passed with amendments to remove, reduce or phase in the proposed 20 percent cut to public funding per student, continue to index HECS-HELP loans to the Consumer Price Index, and set aside for detailed review the proposed introduction of tuition contributions for domestic higher degree by research students.

We believe that with these three key changes the legislation would represent a better balance, within a constrained funding environment. They would ensure that the sector continues to deliver the productive capacity the nation needs, as well as provide accessible higher education for all qualified Australian students.

Our founding principles

The University of Sydney was founded on the principle that academic merit alone, regardless of religious beliefs or social class, would be the test for admission. In the 1880s we were among the first universities in the world to admit women on the same basis as men, and notably to all disciplines including medicine. The University's founders recognised the power of education to change society and we hold that belief just as strongly today. In this context it is important to note that Australian universities have been teaching students for 162 years, and in that period students have paid full fees supplemented by extensive public and private scholarships for 122 years, had the taxpayer pay all fees so that higher education was free to the student for only 15 years, and for the last twenty five years had a taxpayer subsidised fee rate (HECS) where there was a mix of public and private contribution to the costs of tuition.

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All of the available evidence shows that graduates derive a significant economic benefit over a lifetime of work as a consequence of gaining a university degree in comparison to non-graduates, a fact that justifies some private contribution to the costs of funding universities. At the same time the University believes strongly that access to higher education is also fundamentally a public good. Society as a whole benefits from having a highly educated and skilled population, and a higher education system with a strong capacity to generate, interpret and apply new knowledge for social and economic benefit. In other words the current system of funding through both private and public contribution is based on a sound assessment of the benefits of higher education. The question at hand is whether we have that mix right to ensure the sustainability of a high quality university system in Australia.

The current state of university funding

This question can only be answered in the context of the current state of university funding. It should not be based on philosophical or ideological principles; the future of higher education to the nation is too important. In this context it is vital to understand that a number of students are already paying full fees in our higher education system. Taking the University of Sydney as a case in point, currently 41% of our students pay full fees, and only half of these are international students, the remainder are Australians seeking postgraduate qualifications.

Unfortunately, it remains the case that as a proportion of GDP, Australia invests less in its tertiary education than most other advanced economies. Our competitors globally recognise that the future strength of their economies lies in securing the productive capacity of their people. It is true that Australian Government invests more in the higher education sector today than at any point in history because of the significant increase in the numbers of students in universities. It is also true, however, that as a share of GDP, total Commonwealth revenues and outlays, Australia's levels of public investment in higher education have been flat for many years. The sector has experienced strong growth in domestic students over the last 25 years, but any increases in funding per student have come from students, not from the Government on behalf of the public.

Moreover, while the labour, capital and other key costs of providing high quality education have increased substantially over this period, the purchasing value of university 'base funding' (the combination of Government and student contributions) has changed little since the mid-1990s due to the relatively harsh (compared to schools' funding) indexation arrangements that have been applied to the higher education sector.

Achieving better per student levels of public investment in higher education (and in research) should be the nation's long term goal if it wishes to be a system marked by quality not just levels of participation. This is extremely challenging, however, in a country where both major parties are committed to keeping levels of taxation relatively low by international standards, where the Commonwealth budget is at risk of structural deficit and faces rising costs on many fronts, and with the numbers of Australian students seeking a tertiary education only expected to continue to grow strongly.

The funding challenges facing Australian universities over the last decade have been well documented in a series of reviews of the system, notably the Bradley Review of Higher Education (2008), the Lomax-Smith Review of Higher Education Base Funding (2011), the Review of the Demand-Driven Funding System (2013) and the National Commission of Audit (2013).

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In considering the Bill, we feel it is important that the Committee note that both the Bradley and Lomax-Smith reviews identified serious risks to the quality of Australia's higher education system from inadequate levels of funding per student and recommended increases to help address these challenges. In the case of the Lomax-Smith review, it found that all disciplines were underfunded but the following disciplines, all offered by the University of Sydney, to be significantly under-funded: accounting, administration, economics, commerce, medicine, veterinary science, agriculture, dentistry and the visual and performing arts. As a result, in some high demand courses the University faces a difficult choice of enrolling a domestic student at an unsustainable level of funding, or admitting an equally well qualified international student willing to pay a substantial tuition fee to meet the real costs of providing this tuition.

Under current funding arrangements, the University sustains these courses through a complex web of cross-subsidisation, and through a heavy reliance on fees from international students. We remain of the view that the current funding framework has passed its use by date. We do not believe that further tweaking or short term fixes will be sufficient to underpin in the long term a high quality Australian higher education. As the Chair of Universities Australia, Professor Sandra Harding wrote recently, chronic underfunding of the Australian higher education system is finally delivering the tipping point that many in the sector have predicted for a long time. Without action '*the quality of higher education and research outputs are at grave risk.*'[1]

A critical risk for the Australian higher education system is its over-reliance on foreign students to sustain current levels of service provision. The University of Sydney has an international student participation rate of just over 20%, when many of our competitors are in the mid to higher twenties range. Even so international students deliver almost two fifths of all our tuition revenue. If there were to be a major downturn in international student mobility in future decades or a major international public health crisis the entire Australian higher education system would be at risk. No one is predicting a downturn in the near future but it remains something that should be on any national risk register. Is it healthy or prudent to consolidate further a public policy context whereby Australian universities are so reliant on international student mobility for their current level of operation?

The introduction of the 'demand-driven' funding (a lifting on domestic student enrolments caps for undergraduate courses other than medicine) gradually from 2010, and in full from 2012, has contributed to large increases in Commonwealth Supported Students (around 100,000 extra students and growing) and a corresponding jump in the cost to the taxpayer of the Commonwealth Grants Scheme, student income support system and the HECS-HELP scheme.

Growth in the demand for university places is expected to continue between now and 2030, driven by strong predicted population growth and signals from the labour market about the need for post school qualifications. When Australia's system of higher education was free to the student, there were around 200,000 mostly domestic students. In 2012 some 1.3 million students were enrolled in Australia's higher education institutions, with almost 1 million of them domestic students.[2]

Ideally, the University would like to see the Australian Government follow the lead of other advanced economies by committing to increase substantially levels of public investment in higher education and research in recognition that doing so will ensure that the nation has a highly educated and skilled workforce and capacity for research and innovation in the future. In the current budget environment,

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[1] Professor Sandra Harding, Vice-Chancellor, James Cook University, Chair, Universities Australia, *Higher education – how did we get to here?,* The Conversation, 5 September 2014.
[2] TEQSA, *Statistics Report on Registered Higher Education Providers*, 2014

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however, we see no realistic prospect of the Government or Opposition increasing public funding per student by any amount, let alone to the levels that are required to ensure that our universities can remain globally competitive.

If this is the case then how will the Australian taxpayer, or the Commonwealth budget, be able to sustain the forecast expansion in demand? Given the constraints of current economic circumstances there would appear to be at least three options – continue to reduce funding per student (with dramatic consequences for the quality of Australian higher education), significant tax increases to support increasing levels of participation or asking students to contribute a higher proportion to the costs of their education. On balance the University believes the latter is the most feasible and palatable given the current political and economic climate.

The legislation before Parliament

The legislation before Parliament proposes to reduce the level of funding for most disciplines in the higher education sector. In our view these proposed cuts are significant and universities will need some time to manage them effectively without damaging core programs. We would urge the Government to reduce their impact or phase their introduction to allow universities more time to adjust to the consequences of such reductions. These proposed cuts, however, point to the likelihood that there will be no substantial increase in public funding for higher education, especially per student, for some considerable time. Increasing private contribution is the only alternative to this funding crisis if the broadly supported demand-driven system is to be maintained.

As a result the key policy question the nation faces in relation to the higher education sector is: *how does it sustain a high quality mass system of higher education, whilst keeping it accessible to able students regardless of their socio-economic background, yet affordable to taxpayers?*

It is important to emphasize that higher education has not been free in Australia since the introduction of HECS in 1989. Students already contribute over $10,000 per annum in some disciplines. This single policy innovation, now copied by many other countries, has underpinned the remarkable expansion in student numbers, delivering substantial benefits for the community and economy. Thus the great strength and innovation of the Australian higher education system with respect to equity of access is the HECS system whereby students pay nothing up front and only repay this loan when they are earning at a sufficient level to be able to repay through the tax system. Access to higher education should be open to all who demonstrate the potential and motivation for success. There should be no upfront financial or other systemic barriers to participation. Our current HECS system is acknowledged as a world leading mechanism for achieving this aim.

Nonetheless, there has been much speculation in the media that a significant increase in the rate of student contribution will act as a deterrent to participation, particularly for students from poorer socio-economic groups, women and those from rural and regional areas. In our view there have been wildly exaggerated claims by the opponents of deregulation about degrees costing more than $100,000. First, overseas evidence suggests that price is not a significant deterrent to participation. The fact that 41% of our students already pay full fees supports this claim. More importantly our own preliminary modeling suggests that the majority of degrees offered by the University are unlikely to approach that figure for a three-year degree.

Even those disciplines already commanding a high price under the current Government HECS model, for example Law and Business where the price sits at $32,000 for a three year degree, are likely to be

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considerably less than the $100,000 price tag. In our view the market will not sustain such exaggerated degree prices, particularly in a context where nearly 20% of our undergraduate students do combined degrees and thus it is vital that we keep tuition rates down to ensure that there is no disincentive to do these vital programs (for example Commerce/Law or Science/Engineering).

Our views on the draft legislation

In that context, however, we do have some concerns about the impact on equity of particular elements of the proposed legislation. With respect to the proposed introduction of a variable indexation rate for HECS-HELP debts up to a 6 percent cap, we are most concerned about life long disadvantages likely to result from debt compounding, particularly for graduates in lower paid professions, on women and on those who go on to higher degrees before entering the workforce. We have no doubt that the proposed change in the indexing arrangement would be a disincentive for some individuals in these groups to undertake postgraduate studies including research higher degrees.

With respect to the proposed introduction of tuition contributions for domestic higher degree by research students, our argument rests on the need for a thorough cost/benefit analysis of the measure before it is made into law. Research is the potential life blood of the economy and any measure that acted as a serious disincentive for new generations of students to undertake research training, given it already involves a considerable economic sacrifice to undertake it in the first place, could have serious unintended consequences. Overall, our view is that it would be detrimental to this country's aspirations as a developed knowledge economy, to increase costs for higher degree by research students.

The proposed legislation provides a vital incentive for Australian universities to develop the appropriate mechanisms to better ensure equity and access. The legislation mandates a compulsory provision of scholarship support (20%) once universities have recouped the projected cuts to funding. We believe this is a good base minimum support mechanism to address the needs of students from poorer and disadvantaged backgrounds. It is a minimum. Our modeling is based on increasing the provision of support to a level above that minimum. In our view if done well we could actually make higher education cheaper for students from disadvantaged backgrounds than it is at present, thus providing a real incentive for students from these backgrounds.

There is significant overseas scholarship on the mechanisms for ensuring greater equity and access through University based support schemes – bursaries, tuition discounts, subsidized housing and the like. Some are cumbersome and administratively complex. Some would work well if there was collaboration between universities and the Australian Tax Office, as is the case between universities and the IRS in some American States. The University is also currently modeling some innovative mechanisms for making a major contribution to lowering the debt burden of graduates after graduation. We believe one of the critical elements in making deregulation work well will be the provision of additional support to students and the current minimum provision for the scholarship fund sets the floor for all universities to make this effective.

For reasons such as these, and with appropriate amendments to make the package fairer, the University supports the introduction of fee deregulation. We firmly believe that those with the ability to pay should not be subsidised by those who cannot, and we are confident that universities, more conversant with their particular local circumstances and student cohorts, will be better able to balance decisions about quality and access than a centralized government administered system developed to cover the circumstances of all universities.

If the reform package is passed we are not only committed to meeting the requirement that 20 per cent of any additional fee income is dedicated to scholarships to support students from low socio-economic backgrounds. We will go further to provide assistance for students from low and middle-income families with a particular focus on assisting female students and Aboriginal and Torres Strait Islander students.

Our consultation process

The University continues to consult widely with students, staff and alumni about how it should respond to the Government's reforms if implemented. We have a major consultation event planned for 2 October and I look forward to providing the Committee with a summary of the views expressed in that forum in a supplementary submission.

Our key recommendations

The *Higher Education Research Reform Amendment Bill* 2014 should be amended as follows:

1. Remove, reduce or phase in the proposed average 20 percent reduction in the public subsidy per supported domestic student;
2. Remove the requirement for HELP loans to be repaid at the 10 year bond rate in Schedule 3 and revert to the Consumer Price Index; and
3. Set aside for detailed review the proposed introduction of tuition contributions for domestic higher degree by research students in Schedule 5.

Please do not hesitate to contact me if the Committee requires anything further.

Yours sincerely,

Vice-Chancellor and Principal