NUS Submission To Senate Education and Employment Committee Inquiry

into

Higher Education Support Legislation Amendment (A More Sustainable, Responsive and Transparent Higher Education System) Bill 2017

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Introduction

NUS thanks the Senate Education and Employment Committee for the opportunity to present our views in relation to the *Higher Education Support Legislation Amendment (A More Sustainable, Responsive and Transparent Higher Education System) Bill* 2017, which was introduced in the House of Representatives on 11 May 2017.

NUS opposes the cuts to university funding and the introduction of higher student contribution rates that form the centre-piece of this Bill. We are also opposed to the proposed lower income threshold for HELP repayments, the change in indexation of HELP debts, and the introduction of HELP fees for enabling courses.

NUS is supportive of the extension of the demand driven system to sub-bachelor courses, the proposed allocation model for postgraduate coursework places and the retention of HEPPP in a revised format.

Due to the brevity of the Higher Education Reform Report we have extensively used and critiqued the research by Andrew Norton (a member of the advisory panel) to draw out some of the more technical aspects underlying the reform package (particularly those associated with HELP and the demand driven system).

The anger that many students feel about the budget measures is less about the impact on student demand and more that a difficult situation for students, particularly for young people, is being made worse through bigger debts, lower repayment thresholds and increased restrictions on access to Centrelink support (broadly captured in the NUS campaign theme - “The War on Young People”).

Schedule 1: Costs of Higher Education

1.1 Efficiency Dividend on Commonwealth Grants Scheme Places

The reform paper proposes that the Commonwealth contribution to total funding per student is to be reduced by efficiency dividends of 2.5% in 2018 and 2019.

The rationale behind the reform paper *The Cost of Delivery of Higher Education Study*[1] by Deloitte Access Economics argued that the average teaching costs per Equivalent (EFTSL) have increased by 9.5% over 2010 -15. Over the same period funding to universities for Commonwealth Supported Places has increased by around 15% (largely due to the growth of CSP places) following the introduction of demand driven funding). The report also argues that overall university profitability is good and that universities had reduced their spending on teaching and scholarship in bachelor level courses from 94% in 2010 to 85% in 2015. The reform paper argues that this efficiency should lead to a reduction in Commonwealth funding per student.

Even after the relative funding model (in the nineties), base funding (during Rudd-Gillard period) and more recent attempts by Deloitte establishing the real costs of delivering courses is still a rather imprecise exercise. Universities shuffle money between faculties as the allocations from the CGS don't match reality. The most recent attempt by Deloitte that examined financial data from 17 universities is full of caveats and warnings to only use the report for its intended purpose. The report also warns against comparing teaching costs for 2015 with its earlier 2010 report based on a smaller sample of campuses and different cost collection processes.

Australian universities do generally generate healthy surpluses through various means but much of this is used to fund capital works (new buildings) and infra-structure that is not covered by Commonwealth grants.

University staff have borne much of the burden of this efficiency. The NTEU have calculated that tenured staff make up only 36% of university staff in 2016. The amount of teaching has expanded due to the relatively rapid growth in students under the demand driven system but the teaching is increasingly done by casual, limited term contract and teaching-only academic staff.

There is also a rapid technological shift with the inclusion of internet based learning incorporated into the normal pedagogy of internal as well external students. For example the University of Adelaide is phasing out lectures and tutorials for most disciplines and replacing them with small group seminars.

NUS has been attempting to track student satisfaction in the context of these changes (analysing further than, for example, Graduate Satisfaction Survey) by conducting regular large-scale surveys every two or three years. For example one of the issues that comes up regularly is that it is almost impossible for students to chase up casual teaching staff (i.e. to explain something not understood in a lecture) who only have a tenuous link with campus life (i.e. don't have an office).

The impact of the proposed efficiency dividend will be to increase these pressures related to teaching costs. The increases to the student contribution rates are being matched by corresponding cuts to the commonwealth contribution rates. Also 7.5% of the operating grant will be used for performance contingent funding which makes it difficult for universities to allocate this share of operating grants to staff wages when

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[1] Deloitte Access Economics, *Cost of delivery of higher education*, Final Report to Australian Government and Department of Education, Dec 2016

the funding is uncertain. Victoria University has announced that the passage of the legislation will lead to further teaching staff redundancies. [2]

Universities Australia has decided unanimously at its May 16 meeting to oppose the funding cuts and student fee increases. The cuts come on top of $3.9 billion[3] that universities and students have contributed to Budget repair since 2011, and the loss of the $3.7 billion Education Investment Fund (which would have funded infra-structure such as classrooms, research labs and student hubs). Belinda Robinson summed up the opposition of Vice-Chancellors: "*The simple truth is this: the very last thing we should be doing to prepare for this high-tech, innovation-driven era of rapid change is to cut funding to university education and research*."

For students it is a case of pay more and get less.

1.2 Student and Government Contribution Rates

The total funding for Commonwealth Support Places (HECS-liable places) consists of the student contribution plus a Commonwealth contribution through the Commonwealth Grants Scheme. Student contribution rates vary considerably by discipline (from 34% to 85%) but the average student contribution compared to teaching costs is around 42%. On average in 2017 universities receive $8,200 from the student contribution and $11,500 from the Commonwealth. This gives a combined average figure of $19,700 for funding per Commonwealth Supported Place.

The government is increasing the average student contribution from 42% to 46% by increasing HECS rates by 7.5%. Unlike previous HECS increases the real increase is staggered over 2017 - 2021 (1.8% each year) to minimise the deterrent affect of the HECS increases on enrolments. The increase will apply to all HECS-liable students, i.e. there will be no transition period for current students. There is special Commonwealth loading of $1,394 per EFTSL (that already exists for Medicine) that will be extended to Veterinary Science and Medicine.

Exact student and Commonwealth contribution rates after 2018 cannot be calculated precisely as future indexation is not known. However the increase arising from the 7.5% increase can be calculated.

	2017	2021 (not including future CPI increases)	Increase Due to Bill By 2021 (in 2017 dollars)
1. Law, accounting, administration, economics, commerce	$10,596	$11,380	$784
2. Humanities	$6,439	$6,922	$483

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[2] Victoria University, 'Hit Hardest' by Proposed cuts. Media Release, 7 June 2017

[3] The changes include the conversion of Start-up Scholarships into Loans ($1,41 billion), cuts to Sustainable Research Excellence Scheme ($648 million), Performance Based Funding ($698 million), Abolishing Capital Development Pool ($298 million), Cuts to Higher Education Participation and Partnerships Program ($90 million)

3. Mathematics, statistics, behavioural science, social studies, computing, built environment other health	$9, 050 apart from social sciences and behavioural science ($6,439)	$9,729 ($6,922)	$679 ($483)
4. Education	$6, 439	$6,922	$483
5. Clinical Psychology, Allied Health. Foreign Languages, Visual or Performing Arts	$6, 39 except Allied Health ($9,050)	$6,922 ($9,729)	$483 ($679)
6. Nursing	$6.439	$6,922	$483
7. Science, Engineering or surveying	$9.050	$9,726	$679
8. Dentistry, medicine, veterinary science, agriculture	$10, 596 except Agriculture ($9,050)	$11, 380 ($9,729)	$784 ($679)

However, there is no net gain in funding for the universities. The Commonwealth funding per student will be reduced to at least match the rise in student contribution over the 2018-21 forecast period. These cuts are on top of the efficiency dividend cuts that will be factored into future Commonwealth contribution rates. The savings from these changes to student and government contribution rates fall entirely to the Commonwealth.

Australian students already pay the sixth highest tuition fees in the OECD. The latest OECD data from *Education At A Glance 2016* confirms that Australia is in the cluster of seven OECD counties (20% of the OECD) that charge high tuition fees for domestic students at public universities. The other six high fee charging countries are Canada, Japan, New Zealand, South Korea, United Kingdom (England) and the United States. Most of the 28 other OECD countries either charge no tuition fees or a nominal fee of under or around $US1,000. The three exceptions are Netherlands that charges a medium fee of $2,300 for domestic and European Union students, Israel that charges $2,957 and Italy that charges $1,602.

Average Annual Tuitions Fees For Bachelor Degree Students For 20 Selected OECD Countries[4]

OECD Country	Bachelor Degree (or Equivalent) Average Annual Tuitions Fees Expressed in $US (2013/14)
Australia	4,473
Austria	861

[4] OECD, *Education At A Glance 2016*, Table B5.1 pg 245

Belgium	155/729 (Different rates from French and Flanders Belgium)
Canada	4,761
Denmark	No Tuition Fees
Estonia	No Tuition Fees
Finland	No Tuition Fees
Japan	5,152
Israel	2,957
Italy	1,602
Japan	5,152
Korea	4,773
Netherlands	2,300
New Zealand	4,113
Norway	No Tuition Fees
Slovenia	No Tuition Fees
Sweden	No Tuition Fees
Turkey	No Tuition Fees for day-time students
United Kingdom	9,000 – for England only, Scotland has free education
United States	8,202

Countries with high tuition fees tend to have comprehensive student loan systems to enable students from non-wealthy family backgrounds to be able to access higher education (South Korea and Japan are partial exceptions to this). North American student loans have traditionally been the mortgage-style with real interest rates, payments not tied to actual income and graduate defaults on repayments.

Australia pioneered income contingent student loans, with the introduction of HECS in 1989 following the reintroduction of tuition fees. This allowed graduates to shift their repayments to a time in their life when they had a greater capacity to pay (i.e. earning above a minimum income threshold). New Zealand and the United Kingdom have also adopted variations of the Australian system. The USA has also recently adopted some income support loans in its suite of student loan systems.

Private rates of return (lifetime income vs costs) for tertiary education graduates compared to those only with upper secondary qualifications or post-secondary non-tertiary are higher but Australian graduates have relatively low rates of return compared to the rest of the OECD. Costs include foregone earnings as well as direct costs. The latest OECD data (from 2012) confirms this, the trend is consistent across various other measures of private rates of return.

OECD: Private Costs and Benefits for attaining tertiary education (2012) Tertiary Qualification vs Upper Secondary/ Non-Tertiary Education[5]

Country	**Internal Rate of Return**
Poland	24%
Portugal	19%
Luxembourg	17%
Slovak	16%
Czech Republic	15%
Finland	14%
Hungary	14%
Estonia	14%
Slovenia	13%
Israel	13%
Chile	12%
Canada	12%
United States	12%
OECD Average	12%
Spain	11%
Australia	9%
Norway	9%
Austria	8%
Italy	8%
Denmark	7%
Netherlands	7%
New Zealand	7%
Japan	3%

Australian graduates have private rates of internal return that are 25% below the OECD average. This partly reflects the high levels of participation in tertiary education (Norway and Denmark have free education, graduate supply may drive down wages but not necessarily, i.e. Finland). The three countries with high fees and low private rates of return (Australia, New Zealand and Japan) seem to offer

[5] Adapted from OECD, *Education At A Glance 2016*, Table A7.4a/b pg 152-3

relatively poor outcomes for individuals attaining higher education qualification in terms of this OECD comparison.

While opposing tuition fees NUS has generally supported the income contingent loans system over mortgage loan systems as leading to fairer outcomes for graduates (i.e. not facing risks of bankruptcy, as in USA). However, in Australia the public debate over tuition fees and HELP loans has been shaped by many who want to claim that there are no access issues associated with income contingent loans. For example the much cited longitudinal study by Cardak and Ryan found that the SES composition of high performing school leavers in Year 12 was substantially the same as university school leaver admissions (i.e. that HECS was not acting as a credit constraint on enrolments). [6]

The on-going increase in student numbers (for example driven by vocational requirements for a tertiary qualification across most professions) has masked much of the selective impact of HECS and HELP loans. NUS's core critique of the impact of HELP loans on equity has focussed on the concept of study debt aversion. The study debt aversion thesis is that different social groups may tend to respond differently to the idea of taking on large amounts of debt – even if it is supported by a progressive income contingent repayment option. While an upper-middle class school leaver may not be put off by a large study debt, a low income rural students might well be. In the school leaver cohort the decision of whether or not to participate in higher education generally occurs before Year 12. In actuality, these decisions are often formed in junior high school, or earlier. The threat of large study debts can act as an aspirational constraint on going down the pathway to higher education, particularly for the students in junior high who have limited knowledge of managing HELP debts.

The university outreach programs to junior high school under HEPPP can play an important role here. This combined with the impact of the demand-driven system and the reform of the poorly targeted income support system seem to be the main factors behind the modest improvements in low SES enrolments over the current decade. However, we anticipate that this deterrent effect associated with high study debts will make further improvements for low SES students much more difficult to achieve.

Despite his advocacy in this budget of higher HECS fees and lowering the repayment threshold, Andrew Norton (member of the reform package advisory panel) has previously conceded that the changes announced in the 1996/97 Budget (introduction of differential HECS at higher rates and lowering the repayment threshold) seemed to have a deterrent effect on student demand:

"After the change was announced in 1996, there did appear to be an 'announcement effect' with school students' stated intentions to pursue higher education temporarily declining " [7]

As the HECS increases in 1996/97 were simultaneous with the decrease in the repayment threshold it is unclear which was the primary factor.

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[6] Buly Cardak and Chris Ryan, *'Why are high ability individuals from poor backgrounds under-represented at university?'* Discussion paper A06.04, La Trobe University School of Business, 2006

[7] Norton A and Cherastidtham I, 2014, *Doubtful Debt, the rising cost of student loans*, Grattan Institute, pg 25

The critical innovation in 2017 compared to 1996/97 is to stagger the HECS increases over 4 years. This appears designed to minimise an “announcement” effect on student demand. Under the contemporary student demand driven system (the government set enrolment targets back in 1996-97) a fall in demand has more real consequences for universities and ultimately for the government. The staggered HECS increase may prove to be a futile gesture if the lowering of repayment threshold is the primary factor affecting student demand.

The anger that many students feel about the budget measures is less about the impact on student demand and more that a difficult situation for students, particularly for young people, is being made worse through bigger debts, lower repayment thresholds and increased restrictions on access to Centrelink support (broadly captured in the NUS campaign theme - “The War on Young People”).

There are at least three general trends that lie at the heart of this sense of perceived crisis of higher education:

- **Universality and Rationale For Cost Shifting**

Tertiary education participation is fast on track to becoming the norm for a majority of younger Australians. When HECS was first introduced only about 7% of Australians had a bachelor degree and around 35% completed year 12. The *Smart Australians* report put together by NATSEM in 2012 calculated that the proportion of Australians has increased to 23.7%. If we include vocational education we find that amongst young people 44% of 25-34 year olds have participated in tertiary education.[8] We don’t have equivalent figures for 2017 but there has been substantial expansion in both VET and higher education over the last five years.

Many of the arguments about cost-shifting to user pays (as for example raised in the budget) are justified from an increasingly outdated view that students and graduates form a privileged minority. These arguments seem to make it increasingly difficult to sustain a system of high user pays financing as the tertiary education takes its next step from a mass education system to an effectively universal system (over 50% participation).

- **Housing affordability**

For most graduates, their future in the accommodation market (both home ownership or private rental) and the impact of HELP repayments will remain a pressing issue. Much has been written elsewhere on the issue of housing affordability but to briefly recap some recent research on the increase in real costs of main forms of accommodation from the parliamentary library[9]:

“Housing affordability in Australia has broadly declined since the early 1980s. The OECD’s price to income ratio index shows a 78% increase between 1980 and 2015. In Sydney, which has experienced significant price rises over the period, Parliamentary Library calculations indicate that the ratio of average disposable household income (Australia-wide) to median house prices has increased from approximately 3.3 in June 1981, to just over seven in June 2015.”

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[8] NATSEM, Smart Australians: Education and innovation in Australia, AMP/NATSEM Income ad Wealth Report, University of Canberra, October 2012,

[9] Dr. Matthew Thomas, “Housing Affordability in Australia”, Australian Parliament Library, www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook45p/HousingAffordability

"The cost of renting privately has increased significantly over the period between1994–95 and 2013–14. The ABS' *Housing Occupancy and Costs* publication indicates a 62% increase in average weekly housing costs (after inflation). This compares to a 42% increase for owners with a mortgage and 45% for public renters."

Under the original HECS, debts for most graduates in full time work was paid within a few years of graduation. Home ownership may have been delayed but was not out of the question. However, the increased size of HELP debts and the longer repayment times combined with the large real increases in home price values are making home ownership a much more difficult prospect. Many face the prospect of repaying their HELP debts at 1 -10% of their gross income for a large part of their working lives.

ATO data in the reform paper reveals 342,840 people had more than $50,000 in HELP debts and that 29,421 people had HELP debts over $100,000 in 2014-15.[10] The 7.5% HECS increase and the lowering of the threshold will only increase the difficulties faced by graduates in achieving suitable housing. The data from the ABS is rather dated (2011-12) and estimates that 14% of households have study loan debts at an average of $17,200. More up to research on this is needed. [11]

- **Lifelong learning and Future Job Markets.**

Modelling by the Committee For Economic Development in Australia forecasts that 40% of existing jobs (5 million) will be replaced by computers over the next 10-15 years. Even if this is only partly realised, Australia will need a massive retraining exercise so that current workers ready themselves for the jobs of tomorrow. Old human capital paradigms that a university degree will set you up for a life career in a chosen profession are looking increasingly redundant.

The high student fee/income contingent loan model will be an obstacle to readying the labour force for new economy – students will need to access higher education and VET several times over a life-time, and keep incurring debts. Under this scenario the current models of student financing are not equipped to cope with this, and adjustments to the repayment thresholds will not stop the HELP system ballooning into mountains of unpaid debt. Ultimately this will undermine the political viability of the HELP system.

There will be extra costs to the taxpayer. Like increased health costs for the aged as we live longer; this is part of living in the 21st century in a developed OECD country. 80% of the OECD have free or low cost tertiary education. Unlike most government expenditures higher education is a good investment that fully repays itself through higher tax revenue and spillover benefits for those who do not study.

HECS has been a relatively benign mechanism for financing the mass education system in the absence of government support for the European-style free education model since 1989. However as the fee levels have increased and HELP loans have widened in their scope the relative effectiveness of the scheme has been diminishing (at the repayment end). The growing stress signs on the current HELP system are

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[10] Australian Government, *The Higher Education Reform Package*. Min. Hon, Simon Birmingham. May 2017, AGPS, pg.16

[11] ABS, Australian Social Trends, What Type of Debts Do Households have, 4102.4 2014

outlined by Norton in *HELP for the Future* (although we don't endorse his solutions). [12]

The 2017 higher education reforms are only a modest additional step towards this dead-end. However, to keep on plugging the gaps of unpaid debts, HELP will become increasingly regressive. It will fall over in the longer term if the CEDA forecasts are close to the mark. NUS doesn't just want to oppose the proposed fee increases. Rather than continuing down this road, NUS calls on all parties to begin a process looking at new ways of financing higher education as we move from mass tertiary education system to a near-universal system based on multiple points of entry over a lifetime..

[12] Norton A and Cherastidtham I, 2016, *HELP For The future: fairer repayment of student debt*, Grattan Institute

Schedule 2: Commonwealth Grants Scheme

2.1 Extension of Demand-Driven System To Sub-Bachelor Courses

Sub-bachelor courses offered at university (non-VET) are those that lead to a diploma, advanced diploma or associate degree. Diplomas are much more commonly offered by VET institutions but are typically more vocationally orientated, i.e. a training package developed in consultation with industry and based on competency assessment (a pass or fail rather than a score). In between are courses designed to bridge a pathway from a vocational diploma to a higher education award.

Sub-bachelor courses run at universities were excluded from the demand driven reforms of domestic undergraduate education in 2011. According to the *Review of the Demand Driven Funding System*[13] the Minister's decision was taken to protect the central role of vocational education providers in providing sub-bachelor education, and also to limit the costs associated with the higher funding and fees for university delivered sub-bachelor programs.

This means that the Commonwealth continues to determine how many sub-bachelor Commonwealth Supported Places are allocated at each higher education provider (the provider's funding agreement by funding cluster). According to the bill's explanatory memorandum in 2016 the universities only enrolled 19,046 places of an enrolment target of 21,795 places. Five universities accounted for over half of sub-bachelor enrolments (RMIT, Charles Sturt University, University of Southern Queensland, Western Sydney and University of Tasmania).[14] Some non-university higher education providers also offer places on a full fee basis.

Andrew Norton (Grattan Institute) who co-authored the 2013-14 *Review of the Demand Driven System* that recommended that sub-bachelor higher education courses should be included in the demand driven system:[15]

"There is a strong case for expanding access to sub‑bachelor pathway courses. It would improve the efficiency of the higher education system by better matching students with appropriate courses. It would address student quality concerns about lower ATAR entrants, by increasing their academic preparation before they enter a bachelor‑degree course. It would provide a lower risk entry point for low SES students. In combination with the inclusion of non‑university higher education providers in the demand driven system, it would remove the unfairness inherent in diploma students in private colleges paying much higher annual tuition charges than bachelor‑degree students in public universities."

Under current arrangements there is little incentive for universities to offer these pathways (outside of enabling courses) as is evidenced by universities failing to reach the modest enrolment target.

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[13] Kemp D and Norton A, *Review of the Demand Driven System – Final Report*, Department of Education, AGPS, 2014, pg 57

[14] Department of Education, 2014, *Regulation Impact Statement, 2014-5 Budget Higher Education Reforms*, AGPS

[15] Kemp D and Norton A, 2014, *Review of the Demand Driven System – Final Report,* AGPS, Canberra, p 69

NUS supports the inclusion of sub-bachelor courses within the demand driven system. Our one concern is subsection 36-10(4A) that prevents universities from enrolling students in a CSP place if that person had previously obtained higher education qualifications. In light of the CEDA forecasts of looming and massive job obsolescence (in 1.2 of this paper) we see nothing useful in creating barriers to mature age students retraining.

2.2 Enabling Courses

Enabling courses are aimed at under-prepared students to assist them in pursuing further higher education qualifications. Enabling courses provide these students with general study skills and discipline specific knowledge. Students get to experience campus life and concomitant expectations before signing on for undergraduate degrees and expensive tuition fees. While not specifically targeted at disadvantaged students around half are from targeted equity groups. Another 2016 study from the National Centre for Student Equity in Higher Education put the figure higher:

"Even when eliminating the double counting (of equity groups), it is apparent that enabling programs are providing an important pathway for students who have experienced forms of disadvantage. At the enabling level, approximately three out of every five students in 2014 had experienced at least one form of recognised educational disadvantage, compared to two out of five students at the undergraduate level."[16]

The report concluded that a greater proportion of students transitioning in these courses are from recognised equity groups than any of the sub-bachelor pathways examined in the study.

Universities with the largest enabling load (based on 2014 data[17]) are mainly regional: Charles Darwin University (8.3%), University of Southern Queensland (7.5%), Notre Dame (7%), Central Queensland (6.8%), Southern Cross (5.6%). Typical suburban and metropolitan universities are in the 0-4% range. Around 97% of enabling course places for domestic students are enrolled on a fee-free basis with about 300 students paying full fees. International students also pay fees. Institutions receive a loading from the Commonwealth in lieu of the fees.

The reform package proposes making two significant changes to enabling courses. The first is to introduce a student contribution rate of $3,271 for full time study load in 2018. The second change is to allocate the places on a three year cycle on a competitive basis (open to private higher education providers) from 2019.

This is estimated to provide around $30 million of budget savings. Apart from the savings the only argument offered for this move in the reform package is that domestic full fee paying students in enabling courses had a higher retention rate than Commonwealth supported students in 2014. The fact that wealthier students who can afford to pay full fees have a higher retention rate would come as no surprise, and the numbers of full fee payers are tiny anyway.

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[16] National Centre for Student Equity in Higher Education, 2016, *" Pathways To Higher Education: The Efficacy of Enabling and Sub-Bachelor Pathways For Disadvantaged*", Curtin University, pg 33

[17] National Centre for Student Equity in Higher Education, 2016, *" Pathways To Higher Education: The Efficacy of Enabling and Sub-Bachelor Pathways For Disadvantaged*", Curtin University, pg 27

NUS is opposed to the conversion of fee-free enabling course places into fee paying places. These are courses that prepare a student for study rather than part of a qualification. Students will be $3271 in debt before they start. The mainly regional universities that run the bulk of these programs have demographic catchments with higher proportions of low SES, Indigenous and regional and remote students.

We also have concerns that the opening of competitive tending of these places to non-university providers may risk opening up the sector to risks of another VET Fee-HELP fiasco.

2.3 Commonwealth HECS Scholarships For Postgraduate Coursework

In 2018 the Government is proposing to claw back 3,000 postgraduate coursework Commonwealth Supported Places that are currently allocated to universities to launch a Commonwealth postgraduate scholarship scheme in 2019. The scholarship will be equivalent to the CSP value within student-driven allocation. NUS has no in principle objection to this change in allocation model.

The current allocation of postgraduate coursework CSP places reflects historic decisions made by the Commonwealth and institutions over the last 25 years since the deregulation of the postgraduate coursework sector in the early 1990s. This can be a matter of great importance to students, i.e. is there a pathway of CSP postgraduate places available in the relevant discipline and region or is it all full fee paying. We are prepared to support the notion that student choice is likely to generally produce outcomes at least as good as historic Commonwealth/institutional planning processes.

There should be a review of this within three years of implementation to evaluate the impact of this change.

There may be issues that emerge with transitional arrangements:

- For students in current CSP places that are clawed back to complete their studies;
- For University of Melbourne and University of WA students and their graduate school professional masters style degree structures.

2.4 Performance Contingent Funding For Universities

The reform legislation makes 7.5% of each university's Commonwealth Grant Scheme contingent on the university achieving performance benchmarks. The performance benchmarks in 2018 are admissions transparency and providing more detailed education and research cost information.

7.5% of the operating front makes for a very big funding stick to use to encourage university compliance with the government reform agenda. The measures raised in 2018 and suggested for ensuing years are relatively uncontroversial and could for example improve university transparency.

NUS is concerned that there is a risk though that future performance measures could get tied to partisan political goals. For example the Howard Government used performance based funding (additional funding rather than taken from the operating grant) to push their agenda for industrial relations reform.

We are also concerned that university uncertainty over such a large portion of their operating grants will increase use of casual and short-term term staff.

Schedule 3: Higher Education Loan Program

3.1 Changes For Permanent Residents and NZ Citizens

Under current arrangements most permanent residents and NZ citizens are eligible for a Commonwealth Subsidised Place but have to pay the student contribution up front. Under the changes proposed in the reform paper these categories of students will have to pay the full-cost of the place but will be eligible for a FEE-HELP loan (similar to domestic postgraduate coursework full-fee students).

The reform paper states that the 20,000 students from these categories who are currently enrolled will not be affected. The history of short-lived transitional arrangements in Australian higher education is a cause for concern, particularly for students in longer degrees.

New Zealand special category visa holders (who arrived in Australia as dependent children who have become a permanent resident while studying) and permanent humanitarian visa holders are exempt and will have access to Commonwealth Supported Places and HELP loans.

The change for most permanent residents and NZ citizens is double edged, on one hand the students will be a full fee paying student and will be paying much higher fees. On the other hand they will have access to FEE-HELP loans to defer the cost of the fees (unlike international full fee students).

NUS's preferred outcome is for permanent residents and NZ citizens to be allowed to access both Commonwealth Supported Places and HELP loan arrangements. This reflects that permanent residents and NZ citizens enjoy a closer and intertwined long term relationship to Australia than, for example, international students who do not opt to become permanent residents of Australia.

3.2 Changes To HELP Repayment Thresholds

The minimum income threshold for all HELP loans is currently $54,869. However, in last year's *Budget Savings (Omnibus) Act 2016* the government has already passed a new lower repayment threshold of $51,957 (in 2017-18 terms) that takes effect from 2018-19 with a 2% repayment rate.

This did not abate the government drive to further push down the income repayment threshold. The government has opted to follow Norton's recommendation from his Grattan Institute report that the HELP threshold be reduced to $42,000. Norton estimates using ATO data that if an equivalent threshold had been in place in 2013-14 that an extra 201,200 would be repaying.[18]

The new rate is 1% and starts in 2018-19. A second rate of 1.5% cuts in $44,520. The new repayment rates at the lower end range from 1% to 3.5%. All the threshold levels have been reduced for existing rates and new higher HECS repayment rates of 8.5 – 10% have been created for incomes above $100,000.

When HECS was originally envisioned in the Wran Report in 1988 the minimum repayment threshold was set at the average full-time wage, premised on the notion

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[18] Norton A and Cherastidtham I, 2016, *HELP For The future: fairer repayment of student debt*, Grattan Institute, pg 32

that those who had received a private benefit from higher education (earning above average wages) should make a repayment. The actual threshold implemented by the Hawke Government was slightly lower than this.

While supporting free education NUS has supported income contingent loans rather than up front fees or mortgage style loans common in North America, for example the repayments are spread to a different period of a student;s life-cycle where there is greater capacity to pay.

The current repayment threshold was set in 2003 (and subsequently indexed to changes in the Average Weekly Earnings index). It was set after political wheeling and dealing by balance of power Independent Senators after NUS convinced the Senators to reject a lower threshold proposed by the Government and Vice-Chancellors.[19] This was to off-set their eventual support for 25% HECS increases.

NUS is particularly concerned about proposed changes to lower the repayment threshold. The minimum repayment threshold is already well below average weekly earnings. These graduates (below the current threshold) are not receiving a substantial private financial benefit from their education. The last time the repayment threshold was lowered by the Howard Government in 1997-98 (from $28,495 to $20,701) there was an “announcement” effect that arguably saw a substantial decline in mature age demand that took years to recover (although it is hard to unpick its impact from the simultaneous rise in HECS rates). [20] In a later Senate Inquiry:

“The National Union of Students has suggested that the lowering of the income threshold had an adverse impact on mature age participation (NUS, 2001, p.77). First, the lower threshold meant that HECS was no longer a deferred fee for mature age students already in employment. Second, the lowering of the income threshold meant that many more mature age students, when faced with the prospect of combining study, part-time employment and HECS repayments, were unable to manage financially.”[21]

This measure would be an unfair impost on students who have not (yet) gained a financial benefit for the income foregone while studying. The change could also have an impact on participation of disadvantaged students.

Norton explicitly rejects the premise of the original HECS that the repayment threshold should reflect a substantial private return (in the case of original HECS it was slightly below the average wage). Norton argues that:

“HELP features that are based on political judgments of their time, or on assumptions that no longer apply, into principles that cannot be overturned…The idea that HELP debtors should not repay unless a personal financial benefit is received is left lacking a strong rationale. When compared to other government income protection

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[19] The author of this submission was directly involved in these 2003 negotiations

[20] See for example Norton A and Cherastidtham I, 2014, *Doubtful Debt, the rising cost of student loans*, Grattan Institute, pg 25

[21] National Union of Students, Submission No. 274 to the Senate Employment, Workplace Relations, Small Business and Education References Committee, *Inquiry into the Capacity of Public Universities to Meet Australia’s Higher Education Needs,* 2001

programs, HELP appears both overly generous and poorly targeted. A lower threshold would be fairer."[22]

When the repayment threshold was lowered in 1997 from $28,495 to $20,701 (about $33,500 in today's dollars) the new Howard Government rationale was that anyone with a full job was privileged and that having a university degree made it more likely that you would get a job, even if it was low paying and had no graduate skills. Norton's rationale for this cut in threshold (bigger in nominal terms than the 1996 cut) is more sophisticated and is expressed in terms of risk management and income protection mechanisms that underpin HELP. Essentially he that argues that the HELP threshold is higher than other Commonwealth income protection mechanisms such as the Newstart threshold or Low Income health care threshold and the full time minimum wage. [23]

In 2016, Norton argued for a reduction to $42,000 (in a slightly different context and at a 3% rate):

"HELP's fiscal context is also very different. In 2004-05 the government had a large budget surplus; now it has a large budget deficit. Higher education cannot be exempt from measures to bring the budget back into balance, and both the Labor and Liberal parties have proposed significant higher education cuts. The question we should ask is which cuts do least harm to higher education policy objectives? If HELP can achieve its income contingent repayment goals at lower expense, we should reform it. That would be better than freezing public funding for teaching or reducing research funding, which are easier but more damaging ways to save money in higher education."[24]

In reality the 2017-18 budget contained both a reduction in income threshold and cuts to funding for teaching in the form of changes to contribution rates and the efficiency dividend. The differences in the graduate labour market identified by Norton in *HELP For The Future* include:

- Weakness of graduate labour (bachelor degree) market means that between 2008 -14 the unemployment rate and under-employment rate (part-time work) has doubled to 32%;

- Sluggish growth in graduate starting salaries, i.e. increases in graduate numbers pushing salaries down, more graduates doing jobs that do not require degrees. This means that nearly half of graduates in work are below the current threshold;

- Extension of HELP to VET and exploitative role of some private for profit providers;

- Women due to childcare responsibilities generally have lower numbers of years earning above the threshold and the share of women earning above the threshold for more than 12 years was half that of men

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[22] Norton A and Cherastidtham I, 2016, *HELP For The future: fairer repayment of student debt*, Grattan Institute, pg .11

[23] Norton A and Cherastidtham I, 2016, *HELP For The future: fairer repayment of student debt*, Grattan Institute, pg .11, pg .19-22

[24] Norton A and Cherastidtham I, 2016, *HELP For The future: fairer repayment of student debt*, Grattan Institute, pg .11

From the NUS perspective the weakness of graduate salaries and difficulties for gradates in finding full time, permanent work are as much arguments that graduate outcomes for many are more difficult compared to 2004/5 and that adding HECS repayments to graduates earning under $50,000 only makes the situation worse. The proposed threshold for HELP loans is 48% below the full time average wage (the current threshold is 32% below the full time average wage). Issues of VET regulation and the role of women graduates and reproduction in the labour market are much broader than this but in this context lowering the threshold amounts to a revenue chasing exercise.

A core reason that Norton has gone for the low 42K threshold seems to be:

"most female graduates leave full-time work by their early thirties. Although some return to full-time work in their mid-forties, many remain in part-time work until retirement. Unless they repay in the first six to ten years of their careers they may never do so, as most part-time jobs pay less than the threshold. Losing a year or two of potential repayments after completing university leaves less time to clear HELP debt…. For new graduates working full-time, the proposed threshold would increase the proportion repaying by 28 percentage points, to 90 per cent." [25]

Using ATO data on the 2013-14 cohort Norton estimates the new minimum threshold will double the number of graduates under 25 who would make repayments. [26] He argues that ALP has previously argued that they would not accept a threshold below $40,000, so he has opted for a threshold that would be ultimately be maintained by both sides,.

From NUS's perspective, we argue that the lowering of the threshold adds to existing crisis faced by new graduates of stagnant wages, job insecurity and part-time work. The design of the changes to student contribution rates may minimise the chance of "announcements" effects (such as occurred in 1996-7) and sudden changes in enrolment patterns, however, they make a bad situation much worse. For example the challenges facing young graduates in the housing market. We remain committed to the notion that the minimum income threshold should reflect some private financial benefit rather than just aiming at it being slightly better than the minimum wage or income support thresholds. HELP is a repayment over a substantial part of a lifetime, while thresholds for Newstart are designed for the short-term (if it becomes long term the financial outcomes are generally not good).

The reform paper also argues that the HELP system is "*one of the most generous student loan systems in the world*". Advocates of a lower repayment threshold have looked across the Tasman to the New Zealand student loans system. [27] They would point out that the minimum repayment threshold in 2017 is $NZ19,084 (about $A18,015) and debtors repay at a 12% rate.

However, there are some very important differences with HELP. Unlike HELP debts the NZ student loans are not indexed. HELP debts are indexed according to the CPI to maintain the value of the debt across time. In NZ, since 2000 the true value of the debt for students from low income families, and since 2006 for all NZ residents,

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[25] Norton A and Cherastidtham I, 2016, *HELP For The future: fairer repayment of student debt*, Grattan Institute, pg .28

[26] Norton A and Cherastidtham I, 2016, *HELP For The future: fairer repayment of student debt*, Grattan Institute, pg .29

[27] For example Norton A and Cherastidtham I, 2016, *HELP For The future: fairer repayment of student debt*, Grattan Institute, pg .20

actually falls with time. In real terms the longer its takes to repay the loan the less you pay (in true value rather than nominal terms). In Australia, provided that wages keep up with CPI, the true value of the debt is maintained.

The second important difference with HELP debt is that debtors only make repayments on the amount that exceeds the repayment threshold ($NZ19,084). Similarly the English system of student loans is based on 9% repayments on income above the repayment threshold. In Australia the HELP repayment is calculated from the entire gross income.

It is also worth noting that the publicly subsidised tuitions fees in most cases at NZ universities are lower than Australian universities for comparable courses   (some Medicine and Veterinary courses are higher in NZ).

3.3 Change To Indexation Model of HELP Repayment Threshold

The reform paper proposes that the income repayment thresholds used for HELP loans be indexed by CPI rather than the Average Weekly Earnings for full time and part time workers (AWE).

Generally the AWE is significantly higher than the CPI. Between 1988 – 2013 the AWE average annual indexation would have been 4.1% compared to the CPI average indexation of 2.6%. The effect of this change is that income thresholds in the future will be lower under CPI indexation than under AWE indexation. This means that more students will be repaying their debt at higher rates. It is a measure to speed up graduate repayments.

The original 1989 HECS was indexed by CPI. In 1993 the Keating Government took the decision to index HECS debts according to the AWE (alongside increases in the repayment rates). [28] The rationale was that the AWE indexation better reflected movements in the graduate labour market. The indexation formula results in an increase that is slightly lower than the full AWE indexation.

The Grattan Institute's *Doubtful Debt* paper (2014) argued for the re-introduction of the CPI indexation but only in terms of the extra revenue from the speeding up of repayments and an assertion that there would be no impact on student demand. [29] Later in the *HELP For the Future* paper (2016) Norton also argued that HELP debtors should not be exempt from the CPI indexation that applies to other government benefits. Norton estimates that that the income repayment thresholds are 17% higher than they would have been if indexed under CPI. [30]

Other government benefits are generally grants, pensions or allowances. Instead this is a repayment mechanism tied to wages. NUS takes the position that in terms of long term fairness the indexation of HELP repayments should reflect the movements in the graduate labour market (AWE indexation) rather than short-medium budget priorities behind this conversion to the CPI Index.

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[28] *Higher Education Funding Legislation Amendment Act 1993*

[29] Norton A and Cherastidtham I, 2014, *Doubtful Debt, the rising cost of student loans*, Grattan Institute

[30] Norton A and Cherastidtham I, 2016, *HELP For The future: fairer repayment of student debt*, Grattan Institute, pg .44

Schedule 4: Other Grants

4.1 Changes to Higher Education Participation and Partnerships Program

Despite a couple of decades of equity initiatives universities have struggled to lift low SES participation rates above 15%. The Higher Education Participation and Partnerships Program (HEPPP) is a major initiative arising from the 2008/9 Bradley Review of Higher Education, and aimed at achieving a target of 20% low SES enrolments of domestic undergraduates by 2020. The funding formula per institution reflects both their share of low SES students and their success through a competitive grants process. The HEPPP has funded a wide range of institutional programs to achieve this goal – 2, 700 HEPPP projects across 37 public universities.

HEPPP initially consisted of two components:

Participation Component: on campus support for increasing the participation of current and prospective students from low SES backgrounds (entry processes, mentoring, peer mentoring, tutoring and academic support, education programs for students who are the first in family to participate in higher education, selection processes for Commonwealth equity scholarships, modifications for teaching and learning methods to meet the needs of low SES students).

Partnership Component: Increasing the total number of people from low SES backgrounds who access and participate in higher education through effective outreach and related activities This included promoting awareness of higher education as a realistic post-school option (focussed on higher education in general rather than institutional recruitment) to disadvantaged secondary and primary school students, and knowledge of alternative pathways to higher education (such as VET).

A third component, a *National Priorities Pool*, was added in 2014 to increase the effectiveness of the implementation of HEPPP on a national and institutional level. This funds research projects into new initiatives or more effective practices that assist low SES students to access and participate in higher education

Total program funding for HEPPP increased from 2010-13 under the Rudd-Gillard Governments. Funding has decreased since 2014 but is estimated to stabilise over the forward estimates (2017 – 20). The 2014-15 Federal Budget proposed replacing HEPPP with a Higher Education Participation Program aimed at using the pool of funding for all six 'disadvantaged groups' rather than just low SES students, and extending eligibility for research and initiatives into the postgraduate sector, and non-public universities as well. The 2014-15 budget proposals did not receive approval from the Senate.

Instead the Minister announced that HEPPP was going to be evaluated. The Evaluation Report into the HEPPP[31] was released to the Department of Education and Training in March 2017 but not publicly released until after the Federal Budget in May. Contrary to widespread concerns across the sector, the HEPPP program was not abolished or severely cut.

The evaluation report concluded that low SES individuals are increasingly accessing higher education in terms of applying for, being offered a place at, commencing at and enrolling in university. Unlike previous periods, the low SES share of enrolments is increasingly more rapid than middle and high SES enrolments. This has led to an

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[31] Acil Allen Consulting, "*Evaluation of the HEPPP, Report To The Department of Education and Training*", 16 March 2017, Melbourne

increase in the proportion of low SES students from 14.8% in 2010 to 16.1% of students in 2016.

It is harder to disaggregate the efficacy of the causal factors for this improvement. As well as the HEPPP programs there has also been a concurrent switch to a student demand driven system of enrolments. NUS also argues that the better targeting of income support to low SES students arising from the Bradley reforms over the timeframe is also a significant factor. The report is more critical when it comes to outcomes once the low SES students are at university – low SES students continue to have lower retention, success and completion rates than other students. The econometric analysis used in this report found that this difference has only fallen slightly compared to the pre-HEPPP period (2006-9), and that there appears to be no pattern of HEPPP activities that is correlated with improvements in low SES retention rates.[32]

The reform package recommends the retention of HEPPP and crucially agrees with university submissions that there needs to be greater certainty over HEPPP funding so that universities can maintain these equity initiatives over time. From 2018 the main two components of HEPPP – Participation and Partnerships will be merged into a single Access and Participation Fund with universities required to allocate at least a minimum amount to partnership activities. Unlike the 2014 Budget proposal, it will retain the focus on low SES students rather than diluting the projects across all disadvantaged groups. The Access and Participation Fund will be funded by a university loading of $985 per SES student. Around 10% of HEPPP funding will be allocated on a performance basis for improving their success rate for low SES and Indigenous students. The third component, the National Priorities Pool will be retained with a greater focus on evaluative research and outreach collaboration.

NUS welcomes the retention of HEPPP and its focus on improving low SES access, participation and retention.

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[32] Acil Allen Consulting, "*Evaluation of the HEPPP, Report To The Department of Education and Training*", 16 March 2017, Melbourne, pg 125

Schedule 5: Minor and Technical Amendments

Schedule 5 makes minor amendments to the Act and are uncontroversial.

One removes the comma from the name University of Technology Sydney and another updates the name University of Divinity.

There are two amendments to the definition of higher education awards in the Act.