Submission to the Education and Employment Legislation Committee

James Cook University

September 2014

James Cook University welcomes the opportunity to make a submission on the Higher Education and Research Reform Amendment Bill 2014.

James Cook University endorses the submissions by Universities Australia and the IRU and recommends the passage of the Bill with key amendments to promote a higher education system that is financially sustainable, accessible and affordable for both students and taxpayers.

The key amendments are:

- Moderating the proposed 20 per cent reduction to the Commonwealth Grant Scheme;
- Maintaining the CPI indexation rate on HELP loans;
- Adjusting the proposed Commonwealth Scholarship Scheme in order for it to meets the needs of students who are disadvantaged;
- Abolishing the reduction in funding to the Research Training Scheme;
- An adjustment package to support students, communities and universities to transition in response to the proposed changes.

Approach to this submission

This submission starts from the premise that successive governments have reduced real per student funding and that the current government proposes, through the HERRA legislation, to amplify that reduction. Further, it starts from the premise that accessible higher education is as fundamental to the national interest as it is transformative of individual students.

20% reduction in Commonwealth Grants Scheme, indexed at CPI

The proposed 20% reduction in the CGS, indexed at CPI, is the most significant factor impacting on James Cook University's ability to deliver affordable and accessible education. Universities would need to increase fees by approximately 30% in order to maintain the level of underfunding currently in place. Upward price pressure will increase cumulatively as real costs (as measured by Higher Education Grants Index – HEGI) outrun the CPI.

The 20% reduction needs to be significantly moderated in order that students may experience a net benefit as a result of an increase in fees.

Deregulating fees

The HERRA Bill proposes that universities be able to set fees as they see fit. The ability to generate revenue from fees is essential to maintain quality given the current underfunding and proposed decreases. Public and non-profit universities have social mandates to meet the educational needs of the communities they serve. This means that fees can be expected to partially reflect downward pressure values related to accessibility and equity, particularly in universities, such as James Cook University, that serve regional and remote populations.

The ability to set fees would mean that James Cook University would be able to recover additional costs that are involved in offering specialised student experiences in those areas in which we have world class research strengths. For example, James Cook University has unique, world-renowned, undergraduate programs in marine biology and environmental management underpinned by leading academics and state of the art facilities. These degree programs currently attract fee-paying international students from around the world and it would be beneficial to be able to set domestic fees which better reflect both the cost of delivering these unique courses, as well as the value premium they represent to students. The ability to set fees would enable James Cook University to leverage its strengths as a research-intensive university with a clear and distinctive scholarly and community role within the Tropical world.

Research-intensive universities in strategic regional areas are, however, in a qualitatively different position with respect to relying on revenue increases from fees, than those research-intensive universities located in capital cities. James Cook University provides a wide range of degree programs to the communities in the north of Australia. This is essential to the social and economic development of the region, providing important local capacity. For example, James Cook University's rural and remote health programs result in doctors and allied professionals being retained in the national priority areas where they are most needed. However, the communities geographically located in regional and remote areas often have significantly different demographics to those in capital cities – which in turn results in different capacity to cover living costs whilst studying and willingness to take on higher education debt given factors, such as, the lower graduate remuneration that can be expected in regional areas. James Cook University provides the high quality education that is essential to Aboriginal and Torres Strait Islander students, students who are the first in their family to attend university, and mature age and part time students.

HELP Design

Australia's HELP scheme has successfully ensured continuing access to higher education. The scheme has loaned money to students to cover government capped tuition fees, and, through its income contingent repayments, provided insurance to students by mitigating risk and uncertainty. The debt, indexed at CPI, does not grow in real terms and is repaid once a student reaches an income threshold.

The proposal to charge the 10-year bond rate rather than CPI is regressive and undermines the integrity of the scheme. Various analyses show that:

- Across the graduate income distribution, repayment periods can be expected to typically double.
- Graduates earning just above the threshold are disproportionately impacted (typically those working in feminised industries and those working in regional and remote locations).
- Women, given the persistent wage gap, are disproportionally impacted; a dynamic that is amplified by any time spent out of the workforce undertaking caring responsibilities.

Further, whilst the proportion of graduates who never make any repayments is not expected to increase, the proportion of graduates who will only make partial repayment, given the far from level playing field as outlined above, is expected to significantly grow. Higher rates of non-repayment and debt forgiveness in effect mean that the scheme, rather than providing insurance against risk and uncertainty, is instead setting some graduates up to fail to repay, which is significant at the level of personal decision-making and at the level of community attitudes towards the value of educating those who cannot be counted as 'successful' against these narrow economic criteria. The proposed changes to HELP disproportionately impact James Cook University's particular student demographic, who are not only debt adverse but who also have the most to gain from studying at research intensive university that is focussed on issues of importance to their communities.

The proposed change to HELP is compounded by changes to the Higher Education Support Amendment (Savings and other Measures) Bill 2013, the Social Services and Other Legislation Amendment (Student Measures) Bill 2014 and the Social Services and Other Legislation Amendment (2014 Budget Measures No.2) Bill 2014 which variously replace scholarships with loans, remove pension education supplements, restrict relocation payments and reduce the ability to decrease debt burden by removing voluntary repayment discounts.

At a macro level, the decision to issue bonds and increasingly transfer debt to individuals can be expected to dampen sentiment in other crucial markets, such as housing and business start-ups given personal debt equals future consumption. As various bailouts that occurred globally during the Global Financial Crisis demonstrate, financial imbalances ultimately flow back to governments' balance sheets. That student debt in the US has reached $US1.2 trillion, from $US450 billion in 2009, prompting Presidential intervention, should serve as a warning that unregulated government financed personal debt is not a risk free strategy. Australian students in 2011 privately contributed the sixth highest amount to tertiary education in the OECD (.9% of GDP, behind Korea 1.9%, the United States 1.8%, Chile 1.7%, Canada 1.2% and Japan 1%), well above the average of .5% of GDP.

Scholarships

The HERRA legislation proposes that a Commonwealth Scholarship Fund be established through setting aside 20% of additional fees charged in order to target access, participation and completion of students from disadvantaged backgrounds. Under the proposal each university would have its own 'Commonwealth Scholarship Fund' generated, not by funding from the Commonwealth, but by fee increases to domestic students.

A key problem is that the universities whose current student demographic is best placed to meet increased fees are not the universities who serve the majority of disadvantaged students. This reduces the opportunity for disadvantaged students to choose which university best meets their needs; instead, due solely to financial pressure, a potential James Cook University student may be compelled to take a scholarship at a capital city institution far away from responsibilities and networks of support simply because James Cook University would not have the same level of scholarship funding available.

There needs to be a redistributive mechanism, to create a genuine commonwealth pool, in recognition of exactly how the dynamic of disadvantage operates. Pooled funds should be distributed in line with the relative proportion of targeted students enrolled.

Expansion of Commonwealth Grant Scheme to sub bachelor programs

Expanding funding to include the delivery of sub bachelor programs is a sensible extension of the system to ensure that there are not perverse incentives for students to enrol in a bachelor degree before they are sufficiently prepared. Given this, funding will be allocated at the most effective level of study for any given student, resulting in minimal additional government expenditure.

Cluster Arrangements

The HERRA Bill proposes to realign eight clusters to five. The current cluster amounts do not reflect any useful methodology related to the costs of provision or to student demand and there is no reason, in a deregulated system where universities are free to cross-subsidise clusters as they see fit, to retain them. Some universities will be adversely impacted overall by the proposed change and this should be taken into account in transitional support arrangements.

Research

James Cook University is opposed to the decision to reduce the Research Training Scheme (RTS) by 10% and the concomitant cost shifting to higher degree research (HDR) candidates through provision for charging fees. These measures, in conjunction with proposed changes to undergraduate policy and financing:

- miscast the contribution and place of higher degree research candidates in Australia's knowledge system;
- are a disincentive for domestic students to undertake PhD programs;
- risk constraining the capacity of the University sector to generate the future, highly trained and skilled research workforce;
- are likely to diminish Australia's contribution to the global knowledge economy, and;

- pre-empts the outcomes of the long-overdue review of the RTS.

Role of Higher Degree by Research (HDR) candidates

For most of the more than 60-year history of research education in Australia, governments have deemed graduate research education to be a public good with significant benefits to the community over and above any benefits to individual graduates. Accordingly, domestic graduate research education has been publicly funded, including, since 2001, through the RTS.

HDR candidates are key members of Australia's research workforce. Unlike students of coursework degrees, HDR candidates are creators of knowledge who make a profound and critical contribution to Australia through the research they produce; high level skills they develop; and their access to, and participation in, global knowledge networks. Indeed, it is in recognition of this fundamental difference between coursework and research education that PhD candidates in the European research sector are remunerated and treated as part of the research workforce rather than as students.

Review of Research Training Scheme

The RTS was proposed in the 1999 Government White Paper, Knowledge and Innovation, and implemented in 2001. It was designed as a sharp shock to the system to improve the efficiency of higher degree research training primarily through:

- reducing the funded period to 4 years (full time equivalent) and;
- ensuring that the majority of funding was driven by completions (approximately 80%).

This policy sharpened focus on supervision of research students and management of candidature by universities.

The quantum of Government support for research training has not increased since the RTS was implemented. However, it was never intended that the RTS be a long-term approach to policy or funding and a review of arrangements for graduate research is long overdue. The Department has advised the sector that a review of the RTS will commence presently.

James Cook University recommends that it is prudent that the cuts to the RTS and changes to domestic HDR student fee provisions should be held over until the outcomes of the review process are known and digested**.**

Comment on provisions of the Bill and their consequences

The reduction to the RTS is not explicit in the Bill, as payments for the RTS and other research block grants sit within the Other Grants provisions. The provisions to enable universities to charge capped research student fees and access to HELP are in the HERRA bill.

The proposed changes to the RTS devalue the important role played by research higher degree candidates, especially as domestic candidates may be asked to cover the gap caused by the 10% reduction in the already inadequate RTS. This measure sets out to recast research students as students consuming resources for a potential payoff following graduation.

The contribution of HDR candidates to the public good is typically not matched by a private benefit. Many graduate research students – especially in the key 'innovation' disciplines of engineering and technology – pursue their doctoral work at a personal financial and opportunity cost. They sacrifice significant income to undertake research on stipends below the minimum wage and well below the salaries they could command in the workforce. In addition, research graduates who pursue academic and research careers sacrifice income potential and job security.

The proposed changes to undergraduate education tuition fees and debt provisions may have long term impacts on domestic research higher degree student behaviours because:

- student debts are likely to be significantly higher than at present;
- debt will compound at a higher rate than CPI; and
- this prospective disincentive is further compounded for HDR candidates as typically:
  - they will be out of the workforce for about 4 years while undertaking their PhD thus not able to commence, or recommence, paying their student debt, and
  - their undergraduate debts will be compounding during that period when they are undertaking postgraduate research.

A dimension that is persistently overlooked in policy discussions is the significant diversity across the research higher degree cohort in terms of ages, motivations and type of PhD program including the stereotype of the young high achiever going from school to university to honours to PhD, but also the significant number of mature age professionals in their 40s and 50s undertaking scholarly reflections on professional practice. It is not at all clear how the system-wide changes in tuition fees might impact on these more subtle system properties. In some cases, mature age professionals (who are likely to be largely in low-cost disciplines) will be relatively sanguine being charged fees as they will be able to claim them as a tax deduction (thus partially shifting the cost back to the Commonwealth).

In our view, there will be a significant cohort of potential research higher degree candidates who are likely to be reluctant to pay for something that is already costing them tens of thousands of dollars in income forgone, thus there is a probability that the number of domestic HDR candidates will fall. The candidates are likely to be disproportionally in the high cost STEM disciplines. Candidates in these disciplines often commence doctorates immediately after graduating from undergraduate honours degrees and thus will be most affected by the changes to undergraduate education tuition fees and debt provisions.

Therefore, in many cases, universities are likely to make the rational decision that charging fees will be a risk for recruiting, retaining and successfully completing domestic HDR candidates. In this context, there is a high probability that the implied ‘rebalancing’ of the RTS through the 10% cut and offset provision of the same quantum through student fees will, in practice, operate as another cut to a chronically underfunded domain of core university activity.

Thus the proposed policy changes will likely reduce:

- the research output of Australia’s universities, which is highly dependent on research higher degree candidates; and
- Australia’s research and academic workforces, both of which rely on research higher degree graduates.

Both these impacts are likely to have greatest in the STEM disciplines that are so vital to Australia’s future.

Structural Adjustment / Implementation

The changes proposed in the HERRA legislation have the potential to arrest the financial stranglehold Australia’s higher education sector faces. In doing so, there is potential for institutions to focus on the quality of student experiences which may lead to renewed institutional focus, useful degrees of specialisation and more flexibility. However, as this submission has outlined, there are many important considerations to ensure that the proposed changes result in net benefits for students, communities and taxpayers.

This legislation takes Australia into uncharted territory; it is difficult to predict what might happen and therefore implementation will require access to a support package to take account of any unintended consequences and providing confidence that these can be addressed decisively.

Competitive Pricing

Universities already compete fiercely on quality for research funding, academic staff and talented students. There is significant diversity in the sector as different universities have different research strengths and meet the needs of different communities. Price, to date, has not served as a proxy for quality in the domestic market.

Education, based on services as opposed to tangible products, interacts with price in different ways to other markets. Price, when differentiated, becomes a proxy for quality. The necessity for institutions to negotiate the price as quality proxy, risks obscuring marketing practices (foreshadowed by the marketing of status based on manipulated ATAR cut-offs), making it very difficult for students to exercise informed and real choice. Experience from other deregulated higher education markets show that institutions commonly have higher ‘sticker’ prices, and social equity goals are individualised as fee discounts packaged as scholarships. Whilst inequality is ameliorated via this mechanism, it is also entrenched. The administration of ‘price’ is a not insignificant marketing expense for university budgets.

Assumptions that the undergraduate market may operate in similar ways to the deregulated postgraduate and international markets do not factor in the cumulative effect of increased debt on decisions to study, not only for a first degree, but, importantly, for postgraduate qualifications.

Overall, it is unclear how the introduction of market-based fees could impact on James Cook University. Market pressures may mean that some of our locations might not be financially viable despite the great importance of the work we undertake, leading to market failure. The necessity to address any market failure via a support package must be considered.

Quality

Expanding the funded system to include other providers has the potential to introduce positive competition and specialisation. This endorsement comes with the proviso that there are fundamental differences in motivation between non-profit providers and for-profit providers, and ensuring that the taxpayers’, community’s and students’ interests are protected is paramount.

Evidence of deregulated markets in other countries, particularly the United States, demonstrates that, at worst, for-profit providers fail to deliver benefit to students and contribute disproportionately to unsustainable student debt levels. These providers may act in a predatory manner, capturing the students least able to negotiate complex higher education landscapes through rent seeking marketing ploys that promise much and deliver little. Closer to home, the Victorian vocational market provides an important case study that illuminates the destabilising impact deregulation can have with a focus on maximising profit by delivering low cost courses that are not necessarily aligned to student or industry interests. This dynamic has occurred within a weak regulatory environment and has fundamentally changed the vocational landscape in ways that are not necessarily in the best interest of taxpayers, communities or students.

Quality regulation, therefore, is paramount. TEQSA needs to be resourced to proactively regulate the quality of education that institutions provide, as well as marketing practices. Whilst universities have very long-term focuses given their broad social mandate, for-profit higher education providers instead respond to opportunities as they appear or disappear. TEQSA needs to ensure students, and the crucial international education export market, are not adversely impacted by a more volatile system that has providers entering and exiting the sector in pursuit of profits.

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