



Regional Universities Network (RUN)

Submission to the Senate Education and Employment Legislation Committee on the Higher Education and Research Reform Amendment Bill

Executive Summary

- Given that regional universities play a fundamental role in the development of their communities, operate in thin markets with low population density and demand, and that the higher education sector is faced with a continuing decline in Government funding per student, the Regional Universities Network (RUN) supports fee deregulation, subject to changes to the Higher Education and Research Reform (HERRA) Bill and the Higher Education Participation Program (HEPP) to recognise the particular circumstances of regional universities and regional students.
- RUN welcomes the removal of caps on the number of places that can be offered at sub-bachelor degree level, and the continuation of funding for the National Collaborative Research Infrastructure Strategy and Future Fellowships.
- We strongly oppose a reduction in Commonwealth Grant Scheme funding as proposed under the HERRA Bill as, if these cuts proceed without modification, there will be a substantial negative impact on regional universities' teaching, research and community engagement activities.
- RUN opposes the proposed real interest rate on Higher Education Loan Program (HELP) loans, particularly in an environment of potentially higher student fees. This policy is anti-family and may have other economic impacts in the mid to longer term. More regional Australians should be encouraged to undertake higher education for the good of the regions and the nation, and the proposed real interest rate is potentially a significant disincentive, particularly for female and mature age students.

- In combination, a reduction in Government funding and real interest rate on loans will have a disproportionate impact on the regional and disadvantaged students who study at RUN universities, as well as the communities they come from. It will be seen as unfair and is likely to exacerbate the divide between the city and rural and regional Australia by ignoring the real structural differences we have in this nation between metropolitan and regional higher education.
- The RUN recommendations regarding the HERRA Bill and the HEPP (discussed in more detail in this submission) are aimed at providing a financially responsible compromise while delivering the Government's policy reform agenda.
- Given the tight public funding environment, RUN accepts that the deregulation of student fees is the only feasible way that the sector can maintain quality and remain internationally competitive, **provided that** the particular circumstances facing regional and disadvantaged students and regional universities are recognised in the new policy regime.

Recommendations for amendment to the Higher Education and Research Reform Amendment Bill and the Higher Education Participation Program

RUN supports fee deregulation subject to the following amendments to the HERRA Bill:

1. **Priority 1** Establish a *Competitive Regions fund*, specifically targeted to those providers whose total proportion of domestic undergraduate students from regional and remote areas is higher than the mean for all providers, to recognise those universities operating in thin markets.
2. **Priority 2** Provide a dedicated fund for *regional scholarships*, in addition to the proposed Commonwealth Scholarships. (Eligibility could be determined by eligibility to the Competitive Regions Fund). If there is no additional funding for regional scholarships, amend the proposed Commonwealth Scholarships scheme to pool all or some funds and redistribute the funding to: universities based on their proportion of disadvantaged (low socio-economic status (SES)) students for distribution as scholarships to students; or directly to disadvantaged students against agreed criteria.
3. **Priority 3** That the interest rate on HECS/HELP loans be set at 50 per cent of the Long Term Bond Rate, with the students' interest rate on the loan capped at a maximum of 4 per cent.

The following amendment is recommended for the Higher Education Participation Program (HEPP):

- Although it is not part of the HERRA Bill, imposing a threshold to the HEPP (established under guidelines under the Higher Education Support Act (2003)) would ensure that funding is allocated to those universities with relatively high proportions and significant catchments of low socio-economic status (SES) students.

The Regional Universities Network and Regional Australia

The Regional Universities Network (RUN) is an alliance of six regionally based universities (Federation University Australia; CQUniversity; Southern Cross University; University of New England; University of Southern Queensland; University of the Sunshine Coast) all with strong links to their communities and fundamentally committed to regional Australia. The network is dedicated to further enhancing the role that regional universities play in contributing to the economic, cultural, social and environmental development of their regions.

RUN universities teach more than 100,000 students or about 9 per cent of enrolments in Australian public universities. They educate 25 per cent of Australia's regional higher education students, 34 per cent of its distance education students, 16 per cent of its low socio-economic students, 15 per cent of its indigenous students and 32 per cent of its students in enabling courses.

Overall in 2011, RUN contributed \$2.1 billion in gross domestic product, \$1.2 billion in household income and more than 14,000 full time equivalent jobs to the Australian economy.

RUN considers that government policy settings and funding must ensure that regional universities are sustainable. This is essential if regional Australia, and the nation, is to prosper and grow.

There are significant public benefits derived from higher education and public money is well spent in the regions. The funding provided by the Commonwealth for teaching and learning, research, innovation and other activities in regional universities is vital for regional development. Research is a key part of being a university – without this many benefits would be lost to regional Australia. Research at RUN institutions attracts quality academics, builds institutional quality and capacity, and supports and contributes to regional industries and commercial activities.

There is a significant gap between higher education attainment in regional Australia compared with our capital cities. The further away from capitals, the lower the post-school education attainment¹. In 2011, 31 per cent of people aged 25-64 who lived in major cities held a bachelor degree or above, compared to about half that in regional Australia; 18 per cent of Australians living in inner regional areas had a degree, declining to 15 per cent for outer regional areas and down to only 12 per cent for very remote areas².

It is critical to grow the proportion of educated professionals working in the regions, if regional Australia is to have sufficient, educated professions to fully participate in the world economy. Keeping the demand driven student system is key to this growth.

The best way to ensure that professionals work in the regions is to train them at regional universities. Between 60 to over 80 per cent of graduates from RUN universities stay in the

¹ ABS (2008) *Australian Social Trends, 2008* cat. No 4102.0

² ABS (2011) *Census community profiles*

regions to work after graduation (RUN, 2013³), and 74 per cent of students from the regions who study in the cities, stay in the cities after graduation (ACER, 2011⁴ citing Hillman and Rothman, 2007⁵).

Funding environment

The higher education sector has faced significant cuts in Government funding in recent years, regardless of the political party in power, which has made it increasingly difficult for universities, particularly regional universities, to operate.

Regional universities are particularly dependent on Government funding e.g. the RUN universities, on average, rely on Government funding for 67 per cent of their revenue, whereas it is 56 per cent for the Group of Eight (Go8) universities (Department of Education, 2012⁶). This is, in part, a function of the young age of many regional universities and their origins as colleges of advanced education that were funded less generously than universities. RUN universities have not had the opportunity to build their assets or alumni base to the degree enjoyed by many other universities for these reasons as well as the markets in which they operate.

The former Labor Government, from the time of the 2012-13 Mid-year Economic and Fiscal Outlook, cut or proposed to cut \$1.288 billion from higher education institutions and \$1.669 billion from higher education students. The total amounts to \$2.957 billion (this does not include the \$514.3 million cut to self-education expenses for students that was proposed by Labor and stopped by the current government) (Universities Australia, 2014⁷)

Even before the new funding cuts were contemplated, funding per student fell from \$11,811 in 1994 to \$9,843 in 2012, a reduction in real terms of 16.7 per cent. Under the government's changes, that would drop to \$7,392 in 2018 (Universities Australia, reported in the Australian Financial Review, 2014⁸).

In the HERRA Bill, the Government has proposed an average 20 per cent cut in Commonwealth Grant Scheme (CGS) funding (the Commonwealth contribution amount to Commonwealth supported students) as part of its reform package for higher education. If implemented, this cut, in addition to those formerly enacted and proposed, will make the operations of small, regional universities extremely difficult. The proposed cut to the CGS funding amounts to a general reduction of about \$10 million - \$20 million per annum to each of the RUN universities. This would severely impact on the operations of our universities, to the detriment of our students and communities, and could result in campus closures.

³ RUN (2013) Economic impact study

⁴ ACER (2011) Higher education and community benefits: the role of regional provision Joining the Dots Research Briefing

⁵ Hillman and Rothman (2007) Movement of Rural Youth to Cities, LSAY report

⁶ Department of Education, Employment and Workplace Relations (2012) Table 1 of 2012 Finance Statistics

⁷ Universities Australia (2014), personal communication

⁸ Australian Financial Review, 9 September 2014

Faced with an environment where decreased Government funding is consistently on the agenda and significant, and additional government funding is unlikely, RUN considers that the only way that the sector can maintain quality and remain internationally competitive is through the deregulation of student fees.

We therefore support deregulation of student fees, subject to changes to the Government's HERRA Bill and the Higher Education Participation Program to recognise the particular circumstances of regional universities and regional students.

Other

RUN supports the extension of demand-driven funding to diploma, advanced diploma and associate degree courses as proposed in the HERRA Bill. This will provide more opportunities for regional students and a useful first step into higher education for those who are not well prepared for university study. We support non-university higher education providers receiving no more than 70 per cent of the Commonwealth funding for Commonwealth Supported Places paid to universities.

RUN also welcomes the support for the National Collaborative Research Infrastructure Strategy and Future Fellows. These two schemes are vital to maintain a critical research capacity in Australia.

Competitive Regions Fund

It is clear that not all universities are positioned equally to absorb the potential government funding cuts, increase student fees, and compete in a more open higher education environment due to the markets in which they operate. The Government's bill implicitly assumes that universities will be able to offset the average proposed cut in the Government's contribution to cluster funding of 20 per cent, and generate additional revenue, by charging higher fees to domestic students.

The Government has a community obligation to provide recognition to regional universities, not for profit organisations that delivery major public benefits, that face revenue raising and delivery disadvantages in thin markets, to remain viable in a more open higher education market. Targeted support for regional universities will help a diverse and competitive market to develop, and support these institutions to offer attractive options to students for the benefit of regional Australia and the nation as a whole.

As has been recognised by the Productivity Commission with respect to aged care, regional areas generally do not have the population density or demand to sustain many types of services without alternative funding models. The Chief Executive of the Business Council of Australia, Ms Jennifer Westacott, also expressed caution about the impact of market policies, stating that "it doesn't often work for disadvantaged people, it doesn't work in certain locations" (The Australian, 2014⁹). In a deregulated fee environment, smaller

⁹ The Australian, 3 September 2014

universities located in regional areas will be at a competitive disadvantage relative to larger, longer-established universities in capital cities. Also, Australian students are relatively immobile and there is no tradition of significant numbers of students moving to regional areas for university e.g. in 2011, only 6.9 per cent of students had moved from metropolitan areas to regional areas during the previous five years (ACER, 2013¹⁰).

A Competitive Regions fund, specifically targeted to those providers whose total proportion of domestic undergraduate students from regional and remote areas is higher than the mean for all providers, would help address this issue. The existing regional loading is provided to offset the disparity in costs for regional universities compared to metropolitan ones, and thus has a different purpose to the proposed Competitive Regions Fund.

The focus of the Competitive Regions Fund is on the provider's relative level of exposure to regional and remote markets, rather than relying on complex definitions of what is or isn't a 'regional' university. A worked example of this approach, using 2013 data, is shown in Table 1 below, modelled for RUN by Phillips KPA (2014)¹¹:

¹⁰ ACER (2013) Shifting students: Regional mobility of undergraduates in Australia. Joining the Dots Research Briefing

¹¹ Phillips KPA (2014) Addressing Market Disadvantage for Regional Higher Education Providers. Policy Advice prepared for RUN. Unpublished.

TABLE 1 Modelling for Competitive Regions Fund

| | A | B | C | D | E | F |
|---|--|--|--|---|---|-------------------------------|
| Universities with higher than average exposure to thin markets | All domestic undergrad students | Regional and remote (2006 MCEETYA Definition) | Regional and remote as % of all domestic undergrads | Relative exposure to thin markets: Difference from average | Weighted No. based on all domestic u/g (column D x column A) | Share of a market fund |
| Federation University Australia | 4,994 | 3,623 | 73% | 53% | 2659 | 6.5% |
| Charles Darwin University | 5,958 | 3,776 | 63% | 44% | 2626 | 6.5% |
| Central Queensland University | 10,470 | 6,631 | 63% | 44% | 4610 | 11.3% |
| Southern Cross University | 9,490 | 5,789 | 61% | 42% | 3957 | 9.7% |
| University of Southern Queensland | 14,734 | 7,870 | 53% | 34% | 5025 | 12.4% |
| Charles Sturt University | 23,380 | 11,815 | 51% | 31% | 7301 | 18.0% |
| University of New England | 12,961 | 6,517 | 50% | 31% | 4015 | 9.9% |
| University of Tasmania | 16,914 | 6,993 | 41% | 22% | 3727 | 9.2% |
| La Trobe University | 21,284 | 7,354 | 35% | 15% | 3245 | 8.0% |
| University of the Sunshine Coast | 7,539 | 2,308 | 31% | 11% | 852 | 2.1% |
| James Cook University | 11,978 | 2,915 | 24% | 5% | 602 | 1.5% |
| Deakin University | 28,177 | 6,692 | 24% | 4% | 1252 | 3.1% |
| University of Wollongong | 14,092 | 3,255 | 23% | 4% | 534 | 1.3% |
| Murdoch University | 11,058 | 2,297 | 21% | 1% | 162 | 0.4% |
| Edith Cowan University | 16,340 | 3,230 | 20% | 0% | 75 | 0.2% |
| ALL HIGHER EDUCATION INSTITUTIONS | 717,683 | 138,562 | 19% | | | |

\$100 million per annum for this component (the Competitive Regions Fund) indexed annually would be of the right order to achieve the policy objective. To be effective it must be a recurrent allocation as the issues associated with thin markets are not one off or temporary, but rather an ongoing source of disadvantage to regional universities.

The fund should be reviewed after a period of operation, say 3 years. If there is a major cultural shift in student behaviour, and the regional universities are successful in attracting significant numbers of students from the cities to the regions as suggested by the Minister for Education, The Hon Christopher Pyne MP (Hansard, 2014¹²; ABC, 2014¹³), then the fund will be self-correcting – the percentage of regional students at the university would decrease, the university would get less money and ultimately may drop out of the fund all together. The total funding bucket could also change.

Commonwealth Scholarships Scheme

The Government's plan requires each university with 500 domestic students or more to commit one dollar in every five of any additional revenue arising from deregulated student fees to a university-run Commonwealth Scholarship scheme to support student access, participation and success. Elite, metropolitan universities that are able to charge high fees will have much more money for scholarships compared to regional universities that aren't able to raise their fees substantially due to the thin market and student cohort (characterised by a high proportion of low SES students).

This will mean that more of the best regional students will go to capital cities to study and will not come back to regional Australia to work (about 60 to over 80 per cent of all students who study at regional universities remain in regional Australia after graduation (RUN, 2013)¹⁴, but only about 25 per cent or less of students who move from regional Australia to the cities for study ever return to regional communities, ACER, 2011¹⁵ quoting Hillman and Rothman, 2007¹⁶). Regional universities, which have traditionally supported a high percentage of students from low SES backgrounds due to their student catchment areas, will have fewer funds to support their students. We provide an excellent teaching and learning environment, including for the mature age, low SES, and Indigenous students who are well represented at our campuses. RUN universities have consistently rated highly in terms of teaching quality and overall student satisfaction as reported in each year of the Good Universities Guide, 2013, 2014, and 2015.

RUN supports additional Government funding for a regional scholarships program to complement the proposed Commonwealth Scholarship program. Specific funding would be allocated to universities under criteria proposed for the Competitive Regions Fund. Such additional funds would be used for student scholarships. Notionally, a figure of \$10,000 for

¹² Hansard (2014) Second Reading Speech, House of Representatives, 28 August, 2014

¹³ ABC (2014) Radio News, 5 July 2014, 12.30 pm

¹⁴ RUN (2013) Economic Impact Study.

¹⁵ ACER (2011) Joining the Dots Research Briefing.

¹⁶ Hillman and Rothman (2007) Movement of Rural Youth to Cities, LSAY report.

200 students per university per annum is suggested (with funding for three years for each student).

If there is no additional funding for scholarships available to regional universities, RUN advocates the following changes to the Government's proposed Commonwealth Scholarships scheme:

- pooling all or some funds, with funding redistributed to universities based on their proportion of disadvantaged (low SES) students for distribution as scholarships to students in need by the universities; or
- allocating funding directly to students against agreed criteria; for example, by Centrelink which has the machinery to implement it. Students could be judged to be eligible based on a means test subject to being accepted by a university.

Interest rate on the student Higher Education Loan Program

The proposed real interest rate on Higher Education Loan Program (HELP) loans will disproportionately affect those in lower paid professions, women and mature age students. The policy as proposed is anti-family, imposing larger imposts on families during child-rearing years. Many of RUN's students fall into these groups and they may never pay off their HELP debts if a real/bond interest rate on loans is legislated.

Twenty-two per cent of RUN's undergraduate students (including 18 per cent female) are studying teaching and nursing, professions that are not highly paid (e.g. teaching and nursing) with graduate salaries around the median. In contrast, in the Go8 universities only 5 per cent of domestic enrolments are in teaching or nursing, including 4 per cent females.

RUN universities average 50 per cent mature age students, and the higher education sector as a whole averages 24 per cent (RUN, 2014¹⁷).

NATSEM modelling estimates that an increase of 20 per cent in the cost of degrees, combined with the changes to the interest rate on HECS debts, will mean: a woman with a nursing degree will potentially have a doubling of her student repayments, from \$23,000 to \$46,000; a woman graduate teacher will potentially have a debt of \$63,000 and 16 years of repayment, compared with \$32,000 over nine years for the same degree today; and a woman with a science degree will potentially nearly triple her student debt, from \$44,000 to \$123,000¹⁸.

Analysis by Chris Ryan from the Melbourne Institute reveals similar outcomes, with the greatest impact felt by graduates on median incomes, just above the first HELP debt

¹⁷ RUN (2014), unpublished, from Department of Education, Employment and Workplace Relations 2010 student data

¹⁸ NATSEM HELP Scenario Modelling (2014) <http://www.natsem.canberra.edu.au/news-and-events/article/?id=natsem-help-repayment-scenario-modelling> downloaded 15 September 2014

repayment threshold. The time it could take students to repay loans could double, and this would be from 12-26 years for women and 8-10 years for men (Ryan, 2014¹⁹).

There is also evidence (from the US) that the burden of repaying high student loans (on a modest income) can have a longer term detrimental effect on the broader economy (e.g. by restricting individuals' eligibility for home mortgages or reducing consumer spending).

The Government has argued that the balance of payments for higher education between students and the Government should be on a 50:50 basis. RUN therefore supports that the interest rate on HECS/HELP loans be set at 50 per cent of the Long Term Bond Rate, with the students' interest rate on the loan capped at a maximum of 4 per cent.

In addition, Government should re-consider the option of an upfront discount for early repayment of the HECS/HELP liability. Such a discount promotes inter-generational wealth transfer as often times the debt is paid by other family generational members. It also increases the revenue available to government for a favourable net present value outcome.

Higher Education Participation Program

The Higher Education Participation Program (HEPP) is designed to increase and support the participation in higher education of students from low SES backgrounds at university and is due to be implemented on 1 January 2015 under the current *Higher Education Support Act 2003* (it doesn't require the passage of the HERRA Bill).

Although the program is not part of the Bill, changes to the eligibility will assist those universities, including regional universities, that enrol a high percentage of low SES students.

Three of RUN's six universities have the highest percentage of low SES students (CQUniversity- 35.5 per cent; University of Southern Queensland – 30.2 per cent; Southern Cross University – 26.4 per cent) as shown from 2013 student data in Table 2 below.

RUN proposes that a threshold is applied to the program to ensure that funding is allocated to those universities with relatively high proportions and significant catchments of low SES students. This would ensure that regional and other universities, particularly when faced with the challenges of a deregulated environment, would still have adequate funding to assist low SES students aspire to and be supported at university.

We propose that only universities over 15 per cent low SES based on the SA 1 measure should be eligible (19 universities would be eligible under this cut off using 2013 data²⁰) (Table 2):

¹⁹ Ryan, C (2014) Impact of Higher Education Funding Reforms, Melbourne Institute Policy Brief Series 2/14

²⁰ Universities Australia 2014 pers comm, derived from Department of Education student data

| Provider | Low SES (SA1 measure) | All Domestic Undergraduate Students | Share low SES SA1 measure |
|--|--------------------------------------|--|--|
| Central Queensland University | 3,715 | 10,470 | 35.5% |
| University of Southern Queensland | 4,456 | 14,734 | 30.2% |
| Southern Cross University | 2,510 | 9,490 | 26.4% |
| James Cook University | 3,044 | 11,978 | 25.4% |
| University of Tasmania | 4,266 | 16,914 | 25.2% |
| University of New England | 3,201 | 12,961 | 24.7% |
| University of Newcastle | 5,058 | 20,844 | 24.3% |
| University of Western Sydney | 7,815 | 32,207 | 24.3% |
| Charles Sturt University | 5,633 | 23,380 | 24.1% |
| University of Ballarat | 1,196 | 4,994 | 23.9% |
| University of South Australia | 4,376 | 19,214 | 22.8% |
| Victoria University | 3,335 | 15,028 | 22.2% |
| Flinders University of South Australia | 2,390 | 12,518 | 19.1% |
| University of the Sunshine Coast | 1,365 | 7,539 | 18.1% |
| Charles Darwin University(i) | 1,077 | 5,958 | 18.1% |
| University of Wollongong | 2,538 | 14,092 | 18.0% |
| Murdoch University | 1,965 | 11,058 | 17.8% |
| La Trobe University | 3,690 | 21,284 | 17.3% |
| Griffith University | 4,162 | 26,982 | 15.4% |
| Swinburne University of Technology | 2,788 | 18,693 | 14.9% |
| Edith Cowan University | 2,430 | 16,340 | 14.9% |
| RMIT University | 3,162 | 23,042 | 13.7% |
| The University of Adelaide | 1,974 | 14,873 | 13.3% |
| Curtin University of Technology | 3,166 | 24,458 | 12.9% |
| Deakin University | 3,574 | 28,177 | 12.7% |
| Australian Catholic University | 2,166 | 17,550 | 12.3% |
| Queensland University of Technology | 3,390 | 29,872 | 11.3% |
| University of Technology, Sydney | 2,097 | 19,126 | 11.0% |
| Monash University | 3,222 | 30,429 | 10.6% |
| The University of Queensland | 3,000 | 29,011 | 10.3% |
| University of New South Wales | 2,404 | 25,483 | 9.4% |
| Bond University | 216 | 2,573 | 8.4% |
| The University of Melbourne | 1,460 | 17,747 | 8.2% |
| Macquarie University | 1,737 | 21,270 | 8.2% |
| The University of Sydney | 2,037 | 26,999 | 7.5% |
| University of Canberra | 713 | 9,810 | 7.3% |
| The University of Notre Dame Australia | 621 | 8,596 | 7.2% |
| The University of Western Australia | 990 | 16,308 | 6.1% |
| The Australian National University | 273 | 7,832 | 3.5% |
| | 113,105 | 717,683 | 15.8% |

Table 2 Low SES student data (2013)

Conclusion

Government policy settings and funding must ensure that regional universities are sustainable. This is essential if regional Australia, and the nation, is to prosper and grow, and to ensure that there are adequate numbers of professionals to work in the regions.

Faced with an environment of continuing decline in student funding since 1994 and little prospect of significant, additional government funding, RUN considers that the only way the sector can maintain quality and remain internationally competitive is through the deregulation of student fees.

Even before the new funding cuts were contemplated, funding per student fell from \$11,811 in 1994 to \$9,843 in 2012, a reduction in real terms by 16.7 per cent. Under the government's changes, that would drop to \$7,392 in 2018 (Universities Australia, reported in the Australian Financial Review, 2014²¹).

We therefore support fee deregulation, subject to changes to the HERRA Bill and the HEPP to recognise the particular circumstances of regional universities and regional students.

We propose:

- establishing a Competitive Regions Fund to assist universities operating in thin markets;
- funding regional scholarships in addition to the proposed Commonwealth Scholarships Scheme, or, if this doesn't eventuate, pooling some or all money from the proposed Commonwealth Scholarships Scheme to redistribute to universities with a high proportion of low SES students to allocate to disadvantaged students; or to give directly to students;
- setting an interest rate for HECS/HELP loans at 50 per cent of the Long Term Bond Rate, with the students' interest rate on the loan capped at a maximum of 4 per cent; and
- imposing a threshold on the HEPP to allocate funding to those universities with relatively high proportions and significant catchments of low SES students.

Yours sincerely

Professor Peter Lee,
Chair, RUN

22 September 2014

²¹ Australian Financial Review, 9 September 2014