Higher Education and Research Reform Amendment Bill 2014

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Date introduced: 28 August 2014
House: House of Representatives
Portfolio: Education
Commencement: The commencement date for each Schedule is provided in section 2 of the Bill.

Links: The links to the Bill, its Explanatory Memorandum and second reading speech can be found on the Bill’s home page, or through the Australian Parliament website.

When Bills have been passed and have received Royal Assent, they become Acts, which can be found at the ComLaw website.
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The Bills Digest at a glance

Purpose of the Bill

- This Bill proposes the most radical changes to the higher education sector in some 30 years, if not ever.
- It seeks to amend the *Higher Education Support Act 2003* (HESA) to expand the demand-driven system of funding to sub-bachelor degrees and to all registered higher education providers.
- In order to fund this expansion sustainably it proposes cuts to government subsidies for undergraduate study, deregulation of the tuition fees charged to undergraduate students, changes to the Higher Education Loan Programme (HELP) system and a revised arrangement for indexation of higher education grants.
- It also proposes changes to the funding of research arrangements, including the introduction of fees for postgraduate research students.

Background

- The main measures in the Bill were announced in the 2014–15 Budget.
- Many of them reflect the recommendations of the Review of the Demand Driven Funding System. The Review considered the effectiveness of the demand-driven funding model, which provided Commonwealth supported places for all domestic students accepted into bachelor-degree courses at public universities, and recommended improvements to the system. However the Review did not consider the option to deregulate tuition fees.
- The Government has argued that these changes are required to improve Australia’s international competitiveness in world university rankings, increase access and equity, make the student contribution to their education costs fairer and maintain the sustainability of funding the higher education system.

Key Issues

- The Bill includes substantial cuts to government funding of higher education and research through:
  - an average 20 per cent cut to subsidies for undergraduate student places
  - a one-off efficiency dividend of 3.25 per cent on Australian Research Council (ARC) grants and
  - a reduction in funding of the Research Training Scheme, which supports higher degree research students.
- Changes to indexation arrangements for Commonwealth grant funding are also designed to reduce government funding of higher education over the long term.
- Most controversy has focussed on the decision to deregulate the tuition fees charged to undergraduate students. Concern has been expressed that fees might rise considerably higher than the levels required to offset reduced government funding.
- High fees may deter entry to higher education by those from disadvantaged backgrounds, and competition might be detrimental to universities largely serving rural areas or students from low socio-economic status backgrounds.
- It is unclear whether the possible fee increases resulting from deregulation would provide significant benefits to students. The main driver for increasing fees above the level required to offset the proposed funding reductions appears to be to support additional research, which in turn is likely to improve the standing of Australian universities in world rankings.
- The United States experience would also suggest that competition can lead to increasing costs without necessarily improving student outcomes.
- The proposal to index outstanding HELP debt at the ten-year bond rate rather than the Consumer Price Index (CPI) would have a regressive impact on those earning lower incomes, who would pay considerably higher interest payments than high income earners.

Note: This Digest largely reflects public commentary up until 23 September 2014 only.
Purpose of the Bill

The purpose of the Higher Education and Research Reform Amendment Bill 2014 (the Bill) is to amend the Higher Education Support Act 2003 (HESA), the Australian Research Council Act 2001 (ARC Act) and related legislation to:

- deregulate fees for Commonwealth Supported Places (CSPs) at universities
- extend Commonwealth support to higher education qualifications below the level of bachelor degrees and also to private universities and non-university higher education providers
- restructure Commonwealth subsidies for CSPs
- establish a Commonwealth Scholarship Scheme
- introduce new indexation arrangements for Higher Education Loan Programme (HELP) debts
- reduce the minimum repayment threshold for HELP debts
- increase funding caps for research funding
- enable universities to charge Research Training Scheme (RTS) (higher degree research) students a capped tuition fee
- remove loan fees and lifetime limits for FEE-HELP and VET FEE-HELP loans
- abolish the HECS-HELP benefit
- change the indexation arrangements for programs funded under the HESA
- reflect the creation of Federation University Australia through the merger of the University of Ballarat and the Gippsland campus of Monash University and
- allow certain New Zealand citizens to access HELP loans.

Structure of the Bill

The Bill contains ten Schedules:

- Schedule 1 contains five parts:
  - Part 1 extends Commonwealth support to all registered higher education providers and to sub-degree courses, and restructures the Commonwealth contributions for CSPs
  - Part 2 contains transitional arrangements for existing students
  - Part 3 contains minor consequential amendments to other Acts
  - Part 4 amends the Commonwealth Grant Scheme Guidelines to reflect the new funding clusters for CSPs and
  - Part 5 repeals the Higher Education (Designated Courses of Study) Specification 2011.
- Schedule 2 creates the Commonwealth Scholarship Scheme
- Schedule 3 changes the indexation of HELP debts
- Schedule 4 changes the minimum repayment threshold for HELP debts
- Schedule 5 has four parts:
  - Part 1 increases funding caps under the ARC Act
  - Part 2 allows for the charging of fees to RTS students
  - Part 3 repeals a determination prohibiting the charging of fees to RTS students and
  - Part 4 makes associated changes to the Other Grants Guidelines (Research) 2012.
- Schedule 6 has two parts:

- Part 1 abolishes the loan fee and removes the lifetime cap for VET FEE-HELP and
- Part 2 contains related transitional arrangements.
- Schedule 7 abolishes HECS-HELP Benefit
- Schedule 8 changes the indexation arrangements for programs funded under the HESA
- Schedule 9 removes the reference in HESA to the University of Ballarat and inserts Federation University Australia into the list of Table A providers and
- Schedule 10 amends HESA to allow certain New Zealand citizens to access HELP loans.

**Background**

The majority of the measures in the Bill were announced in the 2014–15 Budget. The Government has argued that these changes are required to:

- ensure sustainability of the higher education system
- enable Australian universities to compete more effectively internationally
- share costs more fairly between students and taxpayers
- increase support for research and
- improve access and equity.  

The Government’s proposals represent the most significant changes to the higher education sector since the Dawkins reforms of the 1980s, with one vice-chancellor going even further and describing them as ‘the most sweeping reforms ever to be proposed for higher education in Australia’.  

**Sustainability**

A key driver behind the reforms is to ensure financial sustainability of the system while maintaining high levels of access. The major source of funding for universities is the Commonwealth Grants Scheme (CGS), which provides the funding for CSPs. Prior to 2008 the number of places funded was capped, which controlled the increase in expenditure. The Howard Government loosened the caps slightly from 2008, but this process was dramatically increased under Labor and resulted in a funded place for every domestic bachelor degree student admitted to a public university from 2012. This led to an increase from some 444,000 to 541,000 CSPs between 2009 and 2013 and an increase in CGS expenditure from $4.6 billion in 2009–10 to an estimated (in the 2013–14 Budget) $7.2 billion in 2016–17.  

While this represents a substantial increase in government support for the university sector, historically, Australia’s public investment in tertiary education as a proportion of Gross Domestic Product (GDP) has been lower than other developed countries. In 2011 (the latest figures available), Australia’s public expenditure on tertiary education was 0.7 per cent of GDP, compared with the Organisation for Economic Co-operation and Development (OECD) average of 1.1 per cent. While public expenditure is higher in many European countries where tertiary study is free or highly subsidised for students, it is also higher for countries such as New Zealand (1.0 per cent) and the United Kingdom (0.9 per cent) which have similar regimes to Australia’s, and even for countries with a market-based system for student fees such as the United States (0.9 per cent).  

The growth in expenditure resulting from the demand-driven system led to former Tertiary Education Minister Kim Carr considering changes in the lead up to the 2013 election. Following this election, Education Minister  

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Christopher Pyne commissioned Dr David Kemp and Andrew Norton to review this system. The Kemp-Norton Review found that the demand-driven system had:

- improved access to higher education for students from all disadvantaged categories
- driven innovation and lifted quality and
- encouraged a better fit between the skill requirements of the economy and those possessed by university graduates.  

The Review recommended maintaining the demand-driven system, and suggested extending funding for CSPs to all approved higher education providers and to sub-bachelor and certain postgraduate courses. To ensure the sustainability of such a system, the Review suggested that the maximum student contributions be increased to allow a reduction in Commonwealth expenditure, while maintaining the total income to institutions per student place.

The Review also noted that, as a result of interest rate subsidies and the write-off of unpaid debt, the HELP system represented one of the major costs of the demand-driven system. It therefore suggested a major review of the HELP system be undertaken, but noted that full consideration of HELP was outside the scope of its terms of reference. However, it suggested the implementation of a loan fee for HELP debts as an immediate measure to improve the sustainability of HELP.

The 2014–15 Budget announcements reflect many of the recommendations of the Kemp-Norton Review, including expansion of the demand-driven system to a wider range of providers and courses. To address the issue of funding sustainability, the Budget reduced the average level of Commonwealth funding for CSPs by around 20 per cent (see below for further details). The issue of the subsidy for HELP debt has also been addressed, although through the application of a higher interest rate rather than through the introduction of a loan fee. This is discussed further under Schedule 3 below.

However there is only one limited measure to address the issue of unpaid debt—a reduction in the minimum income threshold for HELP debt repayment (see Schedule 4 below). In fact, some of the measures included in this package, together with the introduction of Trade Support Loans and student start-up loans (yet to be legislated), will exacerbate this problem.

**International competitiveness**

The Government has argued that the changes it proposes and, in particular, the deregulation of fees, will enable Australian universities to be internationally competitive. It is not quite clear how this will happen. It appears that ‘international competitiveness’ is largely measured by the performance in world university ranking lists. Given the dominance in those rankings of United States’ (US) institutions, where higher education is more deregulated, it seems to be assumed that deregulation will lead to improved rankings and, in turn, that this will increase the attractiveness of Australian institutions for overseas students.

**World university rankings**

World university ranking lists are a relatively recent development. The major listings are the Academic Ranking of World Universities (ARWU), the Times Higher Education World University Rankings (THE) and the QS World Rankings. 

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12. Ibid., p. xi.
13. Ibid., p. 74.
14. Ibid., p. 75.
University Rankings (QS).20 Within each of these there are also listings by subjects. The methodology for each varies and there are criticisms of the measures used, and the resulting rankings, as noted in a Group of Eight publication:

The rankings are largely shaped by the limited availability of comparable data. The rankings have a validity problem – the lack of alignment between the evaluative criteria and the measures used – which is most troublesome for comparisons relating to teaching and learning. The data sources for compiling some of the indicators used to derive world university rankings do not capture important outputs of different universities in different fields.

The weights assigned to different indicators within the rankings are arbitrary. There is also no correction for redundant measures – the interactions among the variables. There is no standardisation of the distribution of scores. Several of the indicators in some of the rankings are prone to subjectivity and manipulation. The processes by which the survey data are collected and reported are opaque. The volatility of the rankings reflects their lack of statistical reliability, arising from poor aggregation, without prior standardisation, of different performance indicators for the rankings.

An important implication of these methodological concerns is that shifts up or down in institutional positions do not necessarily reveal substantive changes in institutional performance.21

For example, the THE World Reputation Rankings which were quoted in the budget papers is an invitation-only academic survey opinion poll, completed by around 20,000 academics.22 It is not based on any quantitative measure of teaching or research quality or output. All the rankings have a strong emphasis on research, with limited or no measures of teaching quality, in part because of the difficulties of obtaining objective measures in this area.

This also means that a high ranking does not necessarily mean high quality teaching. For example, the University of Melbourne is the highest ranked Australian university on the ARWU rankings for medicine, at 32.23 However higher degree graduates in the health services field have ranked the quality of teaching as ‘worse’ when compared with students at other Australian universities, and ranked their overall experience as ‘average’.24

Australia generally has around five or six universities ranked in the top 100, while the US dominates the rankings with up to half the entrants in the top 100 lists. However, in the THE ‘100 under 50’ universities 2014 ranking, which lists the top performing universities less than 50 years old and gives less weight to subjective indicators of reputation, Australia, along with the United Kingdom (UK), has the most number of universities included—14, compared to the US which only has eight.25 This suggests that the dominance of the US in the main rankings is as much a function of the maturity of its major universities as it is of a system which supports higher performance.

The Base Funding Review, commissioned by the Gillard Government in October 2010, undertook an analysis of what was required to perform well in these international ranking lists. The Review concluded that the rankings correlated with the level of research funding received, and that therefore ‘the position of Australian universities in the international rankings is likely to be influenced more by their level of research expenditure than their level of base funding for teaching and learning’.26

From this, it would appear that the deregulation of university tuition fees is most likely to improve universities’ international rankings if fee increases are used to fund research, rather than to improve the quality of teaching for the students paying the fees. In fact, even under the current fee structures it appears that universities are using the funding to fund research. Ian Young, Chair of the Group of Eight (a coalition of established, research-intensive universities), in an address to the National Press Club commented on the ‘funding gap’ in research and observed: ‘The result is that we have universities that enrol large numbers of students, teach them

24. Hobsons, ‘Health services and support course ratings at University of Melbourne’, Hobsons course finder website, accessed 11 September 2014.
as cheaply as possible, and then use the income to cover both education costs and meet the shortfall in research funding’.

**Attracting international students**

One of the main arguments for seeking to increase Australia’s representation in world university rankings is that such prestige increases the attractiveness of universities to overseas students. International education is a major export industry and hence remaining competitive in this sector is of key economic importance.

At present, Australia has the highest proportion of international students of any OECD country, despite having fewer universities at the top of the world rankings than many other countries. In looking at which universities within Australia appear to be most successful in attracting international students, it is certainly not clear that world rankings are a decisive factor. For example, the university with the highest number of overseas students is RMIT University, followed by Monash University, and with Curtin University third. Perhaps even more surprising is that the university with the highest proportion of student load being overseas students is Federation University Australia—a university that is not included even in the top 500 world rankings. This may indicate that small regional universities are capable of competing effectively in a deregulated environment, regardless of their status in the ranking systems.

**Sharing costs between students and taxpayers**

The Government has argued that while the taxpayer subsidises higher education, the primary beneficiary is the graduate. This is based on analysis showing that over their lifetime male graduates earn on average $1.1 million more than those without higher education qualifications, while for female graduates the difference is $800,000. The Government therefore suggests that it is reasonable for students to pay for a higher proportion of their study costs. Hence, as part of improving the sustainability of the system, Government subsidies for bachelor degree courses are being reduced by 20 per cent on average, with the expectation that universities will increase tuition fees to make up any funding deficit.

**Private and public benefits of higher education**

The argument that the taxpayer is subsidising the private return to graduates ignores the public benefits of a more highly educated workforce—and in particular the higher taxes paid by those who do benefit through higher wages. For example, it is reasonable to assume that, based on the figures above, most of the additional $1 million earned on average by a graduate is taxable. So at a marginal tax rate of 30 per cent, they would have paid something like an additional $300,000 in tax over their lifetime—considerably more than the current levels of government subsidy for undergraduate degrees. There are also non-financial benefits, such as the value to the community in having trained teachers and nurses, or the contribution to society of artists and musicians.

In its analysis of the public and private rates of return to tertiary education, the Base Funding Review concluded that on average the public rate of return was slightly higher than the private rate. Consistent with this conclusion, the Review recommended the Government subsidise 60 per cent of the cost of study.

The recognition of the value of public investment in higher education is reflected in the high levels of government subsidy of the higher education system since the establishment of the first universities. Analysis of the public and student contributions for higher education since 1907 (see Figure 1 below) shows that the current student contribution (mainly in the form of HELP loans) is at higher level already that at any time since World War II.

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29. P McPhee, ‘Evidence-free policy; the Pyne reforms to higher education’, Inside Story, 1 September 2014, accessed 12 September 2014.


32. A Norton, Graduate winners: assessing the public and private benefits of higher education, Grattan Institute, August 2012, p. 51, accessed 16 September 2014.

33. See Table 2: estimated change in government contribution on page 11 of this Digest.

On the other hand, the Grattan Institute has argued that where the private benefit for a degree is so high, there is no need for government subsidies, as students already have enough incentive to undertake higher education courses. Therefore, taxpayers would still get the benefits of a highly educated workforce without having to pay for it.\(^\text{35}\)

However, while the average returns are high, there is considerable variation across fields of study and even within fields, depending on the particular employment patterns of individuals. For example, while most graduates in fields such as medicine and law enjoy very high average returns on the investment in their studies, many of those in the humanities and performing arts get very little or no return.\(^\text{36}\) And some graduates will earn more than double across their lifetimes what others in their field earn, while at least a few graduates in most fields will earn less than the average person without a post-school qualification.\(^\text{37}\)

While the private rate of return for a bachelor degree appears to have risen over the last 20 years, there are questions about how long this will continue.\(^\text{38}\) The current high levels of graduate unemployment may be a temporary result of the current economic climate, but they do emphasise that having a degree is not a guarantee of getting highly paid employment.\(^\text{39}\) Graduate starting salaries have also fallen in recent years.\(^\text{40}\) There are indications that returns are falling in some overseas countries as the proportion of the population with higher education qualifications increases. For instance, the salary premium for graduates in Britain has reportedly declined by 22 per cent over the last ten years.\(^\text{41}\)

\(^{35}\) A Norton, Graduate winners: assessing the public and private benefits of higher education, op. cit., p. 6.

\(^{36}\) Ibid., p. 11.

\(^{37}\) Ibid., p. 52.


\(^{39}\) Graduate Careers Australia, Employment for new graduates: slow but steady, media release, 29 July 2014, accessed 23 September 2014.


What proportion of costs do students pay?

Appendix A to this Digest shows the student contribution levels in both actual dollars and current prices since the Higher Education Contribution Scheme (HECS) (now HECS-HELP) was introduced in 1989. Initial contributions were around $3,500 to $4,000 in current prices. In 1997, three different contribution bands were introduced, reflecting the different costs and returns of different fields of study. Contributions for Band 1 courses were around $5,000 in current prices, with Band 3 contributions over $8,000. Contributions for all band levels increased by around 20 per cent in 2005, but were notionally maximum levels rather than prescribed contributions. However, all universities have moved to charging at the maximum level allowed. These levels have remained essentially unchanged, although some courses did have lower contributions for a limited period.

Table 1 below shows the current government subsidy and student contribution for each field of study and the proportion of costs borne by students. For most courses, student contributions are around 40 per cent of the total. However, this varies from over 80 per cent for students studying low-cost/high-return courses such as law and economics to less than 30 per cent for high-cost/low-return courses in agriculture. But the pattern is not that simple, as graduates in the humanities typically have relatively low graduate incomes, but pay more than 50 per cent of the cost of their courses, while those in medicine, who have the highest rates of return, pay less than a third of course costs.

Table 1: Funding rates for Commonwealth supported places, 2014

<table>
<thead>
<tr>
<th>Funding cluster</th>
<th>Discipline</th>
<th>Government</th>
<th>Student</th>
<th>Total</th>
<th>% paid by student</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Law, accounting, administration, economics, commerce</td>
<td>$1,990</td>
<td>$10,085</td>
<td>$12,075</td>
<td>83.5%</td>
</tr>
<tr>
<td>2</td>
<td>Humanities</td>
<td>$5,530</td>
<td>$6,044</td>
<td>$11,574</td>
<td>52.2%</td>
</tr>
<tr>
<td>3</td>
<td>Mathematics, statistics, built environment, computing, other health</td>
<td>$9,782</td>
<td>$8,613</td>
<td>$18,395</td>
<td>46.8%</td>
</tr>
<tr>
<td>3</td>
<td>Behavioural sciences, social studies</td>
<td>$9,782</td>
<td>$6,044</td>
<td>$15,826</td>
<td>38.2%</td>
</tr>
<tr>
<td>4</td>
<td>Education</td>
<td>$10,178</td>
<td>$6,044</td>
<td>$16,222</td>
<td>37.3%</td>
</tr>
<tr>
<td>5</td>
<td>Clinical psychology, foreign languages, visual and performing arts</td>
<td>$12,031</td>
<td>$6,044</td>
<td>$18,075</td>
<td>33.4%</td>
</tr>
<tr>
<td>5</td>
<td>Allied health</td>
<td>$12,031</td>
<td>$8,613</td>
<td>$20,644</td>
<td>41.7%</td>
</tr>
<tr>
<td>6</td>
<td>Nursing</td>
<td>$13,432</td>
<td>$6,044</td>
<td>$19,476</td>
<td>31.0%</td>
</tr>
<tr>
<td>7</td>
<td>Engineering, science, surveying</td>
<td>$17,104</td>
<td>$8,613</td>
<td>$25,717</td>
<td>33.5%</td>
</tr>
<tr>
<td>8</td>
<td>Dentistry, medicine, veterinary medicine</td>
<td>$21,707</td>
<td>$10,085</td>
<td>$31,792</td>
<td>31.7%</td>
</tr>
<tr>
<td>8</td>
<td>Agriculture</td>
<td>$21,707</td>
<td>$8,613</td>
<td>$30,320</td>
<td>28.4%</td>
</tr>
</tbody>
</table>

Source: D Kemp and A Norton, op. cit., p. 79.

The Government is proposing a restructure of the funding clusters on which it contributes to courses, as well as a reduction in the levels of funding it contributes. The estimated effect of these changes from 2016 is shown in Table 2.

While on average the reduction in Government contributions is 20 per cent, this varies dramatically by field of study, from communications courses, which will see the Government contribution halved, to mathematics, where the contribution will actually increase by 22 per cent. In terms of rebalancing the proportion of course costs contributed by the Government across fields of study, the changes would result in a slight rebalancing.

42. Current prices are calculated by the Parliamentary Library.
with the contributions for law and economics decreasing less than the average, while the contribution for the humanities will increase slightly. However, for high-cost courses, where the Government currently contributes more than two-thirds of costs, the decrease in contribution is slightly less than the 20 per cent average, meaning that if fees were only increased to cover costs, medical students would still be paying amongst the lowest proportion of their course costs of any field.

**Table 2: Estimated change in government contribution**

<table>
<thead>
<tr>
<th>Discipline(s)</th>
<th>Old funding clusters</th>
<th>Estimated Government contribution (grandfathered students)*</th>
<th>New funding tiers</th>
<th>Government contribution (new students)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Law, accounting, administration, economics, commerce</td>
<td>1</td>
<td>$2,004</td>
<td>1</td>
<td>$1,805</td>
<td>-10%</td>
</tr>
<tr>
<td>Humanities</td>
<td>2</td>
<td>$5,586</td>
<td></td>
<td></td>
<td>+9%</td>
</tr>
<tr>
<td>Social studies</td>
<td>3</td>
<td>$9,849</td>
<td></td>
<td></td>
<td>-39%</td>
</tr>
<tr>
<td>Communications (excluding audio visual)</td>
<td>5</td>
<td>$12,112</td>
<td></td>
<td></td>
<td>-50%</td>
</tr>
<tr>
<td>Computing, behavioural science, welfare studies, sport, built environment, other health</td>
<td>3</td>
<td>$9,849</td>
<td></td>
<td></td>
<td>-8%</td>
</tr>
<tr>
<td>Education</td>
<td>4</td>
<td>$10,246</td>
<td></td>
<td></td>
<td>-12%</td>
</tr>
<tr>
<td>Visual and performing arts</td>
<td>5</td>
<td>$12,112</td>
<td></td>
<td></td>
<td>-25%</td>
</tr>
<tr>
<td>Mathematics</td>
<td>3</td>
<td>$9,849</td>
<td></td>
<td></td>
<td>+22%</td>
</tr>
<tr>
<td>Clinical psychology, allied health, foreign languages</td>
<td>5</td>
<td>$12,112</td>
<td></td>
<td></td>
<td>-1%</td>
</tr>
<tr>
<td>Nursing</td>
<td>6</td>
<td>$13,523</td>
<td></td>
<td></td>
<td>-11%</td>
</tr>
<tr>
<td>Engineering, science, surveying</td>
<td>7</td>
<td>$17,220</td>
<td></td>
<td></td>
<td>-30%</td>
</tr>
<tr>
<td>Environmental studies</td>
<td>8</td>
<td>$21,855</td>
<td></td>
<td></td>
<td>-45%</td>
</tr>
<tr>
<td>Dentistry, medicine, veterinary science, agriculture</td>
<td>8</td>
<td>$21,855</td>
<td></td>
<td></td>
<td>-17%</td>
</tr>
</tbody>
</table>

* Includes the impact of the efficiency dividend that is subject to the passage of legislation and the estimated impact of indexation.


In restructuring the funding clusters, the Department of Education says it has taken into account the cost of delivery, infrastructure costs and the returns to students.\(^43\) It also claims the relative level of government contribution is based on the relativities identified in the Base Funding Review.\(^44\)

However, while both the proposed clusters and the funding relativities bear some relationship to those suggested in the Base Funding Review, there are significant differences. The Base Funding Review clusters and contributions were based on the estimated course costs without any regard to student returns, and hence, for example, grouped humanities with law and economics.\(^45\)

The structure of the proposed new clusters seems to be a mix of course costs and return to students. While courses in law and economics receive very little subsidy on the grounds of high potential return to students, new Cluster 5 combines medicine, where the potential returns are very high, with agriculture, where returns are


\(^{44}\) Ibid.

\(^{45}\) J Lomax-Smith, L Watson and B Webster, op. cit., p. 61.
considerably lower. It is also unclear why mathematics, which is a low-cost course to operate, has been moved into a cluster with sciences, and hence receives a much higher subsidy than computing courses.

The proposed change to the cluster arrangements has been criticised by some in the sector. Group of Eight Chief Executive Officer, Mike Gallagher, has said that the ‘change is opaque and its consequences are not clear ... It is also curious to intrude a private rate of return element ... on the cusp of deregulating fees. This flaw in policy design creates a market distortion’.

Professor Peter Dawkins, Vice-Chancellor of Victoria University, said:

In announcing the reforms to higher education, the Government announced a re-working of the structure of funding for Commonwealth Supported Places into five new clusters, down from the previous eight. While that simplifies the structure of funding it does raise many questions about why it is so, just as there were many questions about why the previous eight were so. It seems the Government was influenced, to a greater or lesser extent, by different pieces of evidence and judgements about the cost of providing courses of different kinds, the returns that students get from the different types of courses, and the public value of the courses. By being a ‘mish-mash’ of all of the above, there is a lack of transparency and clear rationale.

On the other hand, the Australian Catholic University, in its submission to the Senate Committee inquiry into the Bill, has stated that it ‘strongly supports the differential level funding of courses as proposed by the Government’.

Overall, while a reduction in Commonwealth subsidies appears justified in order to increase the sustainability of the demand-driven system, the rationale behind the proposed funding clusters and their relativities is not clear. Arguably, government subsidies should reflect public benefit, with courses where the private returns are relatively small but the public benefit is high (for example, nursing) receiving the highest relative funding.

But what is the real cost of a course?

The calculations in Table 2 above assume that the costs of course provision are reflected by the sum of the government and student contributions. However, analysis undertaken for the Base Funding Review, reproduced in the Kemp-Norton Review, suggests that for some fields of study course costs are in fact lower than this (see Figure 2). The comments by Ian Young quoted above (see page seven) suggest that universities use this funding gap to support other activities such as research. This is also reflected in the proposal that non-university higher education providers will only receive 70 per cent of the subsidy available to universities ‘recognising that they are not required to undertake research and do not have community service obligations to the same extent as universities’.


Therefore, the notional average of 40 per cent of course costs currently paid by students is actually somewhat higher for some courses, as this total cost is partially subsidising other university activities. Even if universities only raised their tuition fees to cover the loss of current government subsidies, for some courses such as law students may be paying close to the full real cost of tuition. While there is an argument that students should contribute a higher proportion of the costs to provide their courses, it is less clear whether they should be asked to subsidise research and community obligations, both of which clearly have much wider benefits than to the student themselves. As Mike Gallagher has put it: ‘This suggests the need to separate funding for research from funding for teaching, and to reconsider the mechanisms for allocating funding for research ...’

The use of additional tuition fees to pay for scholarships for disadvantaged students is also an interesting element of this argument. It is unclear why students, rather than taxpayers, should pay to support their less-advantaged colleagues.

**Item 26** of Schedule 1 of the Bill proposes the insertion of a new definition of ‘tuition fee’ which states that a fee is a tuition fee ‘to the extent to which the fee is directly in respect of the provision of that unit’.

It is unclear how this definition fits with the concept that universities use tuition fee income to support research or community obligations.

**And some students don’t pay anything towards their course costs**

The discussion about the extent to which students contribute to the costs of their education is based on the assumption that they actually pay the designated student contributions or fees. In 2010, the latest year for which data is available, around 80 per cent of students in CSPs took out a HECS-HELP loan to pay their student contributions, with the remainder of students paying up front.\(^51\) With the removal of any incentives for upfront payment (included in Schedule 1), and a probable increase in fees, it is likely that the proportion taking out a HELP loan will be higher. Of this debt, a significant amount is not repaid and this is expected to increase with higher fees and interest rates. The Government expects that the proportion of unpaid HELP debt will increase to 23 per cent of loans issued in 2017–18.\(^52\) At present some $7.1 billion of the $30.1 billion of outstanding HELP

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\(^50\) M Gallagher, op. cit.


debt at 30 June 2013 is not expected to be repaid, and this figure will increase with higher HELP debt levels and higher default rates.53

One reason for this is that graduates who move overseas do not pay Australian tax. However, the extent to which this contributes to the total non-repayment amount is quite low. Bruce Chapman and Tim Higgins have suggested that while ten per cent of graduates work overseas for at least one year in the first 3.5 years after graduation, more than three-quarters of them spend fewer than five years abroad before returning to Australia.54

The main cause of HELP debt default is that HELP debt is written off at death, because some debtors never have a high enough income to repay the debt. Analysis by Chris Ryan suggests that some five per cent of men and 25 per cent of women will not repay any of their HELP debt for this reason.55 The major purpose of an income-contingent loan scheme is that people should only repay the loan when they receive a benefit through a higher income. However, analysis by the Grattan Institute suggests that between the ages of 35 and 50, three-quarters of those who are partnered and earning below the repayment threshold have a partner earning above the threshold, and of female partnered graduates earning less than the threshold, 38 per cent had partners earning more than $100,000.56 Older students who have largely retired from the workforce may also not pay off their HELP debt as their taxable incomes may never reach the minimum repayment threshold.57

While it can be argued that these graduates have not directly benefited from their study through high earnings, the question remains as to whether those who are well-off should be contributing more of the costs of their education.

**Improving access and equity**

The Government expects that the measures included in the Bill will improve access to higher education and provide greater equity in the treatment of students in different institutions.

**Extension to sub-bachelor courses**

Evidence submitted to the Kemp-Norton Review suggested that students who entered university via a pathway program often did better than expected given their original academic preparation.58 In particular, it was felt that undertaking a pathway course, such as a diploma, had a positive impact on the achievement of students with low Australian Tertiary Admission Ranks (ATARs), who otherwise have a high risk of attrition in higher education studies. These courses also provide an opportunity for those who decide not to continue with a bachelor degree to obtain some form of qualification, which would not be the case if they had commenced and then dropped out of a bachelor degree course.

When the Labor Government initially announced the introduction of the demand-driven system, it was intended that it be extended to sub-bachelor courses, but this was reversed in November 2011.59 In part this was due to a concern about possible cost-shifting from the states to the Commonwealth. Diploma and advanced diploma level courses operating in the vocational education and training (VET) sector are largely funded by state and territory governments. Concern was expressed that there may therefore be some pressure for courses to be moved from the VET to the higher education sector in order to obtain Commonwealth funding. As a result, caps have remained on the number of CSPs at the sub-bachelor level that universities are able to offer.

The Kemp-Norton Review recommended that these caps be removed and enrolments funded in the same manner as those in bachelor level courses, in view of their positive effect on improving the success of students with educational disadvantage in undertaking bachelor level courses.60 The Review considered that the barriers

54. Ibid., p. 20.
57. C Ey, *You can still get a free university education - you just have to be prepared to die for it*, FlagPost weblog, 6 June 2014, accessed 23 September 2014.
58. D Kemp and A Norton, op. cit., p. 18.
59. Ibid., p. 57.
60. Ibid., p. 60.
to accreditation of higher education courses, and the need to meet the needs of differing students, would limit the potential for movement of qualifications from VET to higher education.\footnote{Ibid., pp. 58–60.}

The Department of Education has estimated that this will lead to an additional 34,600 new students in higher education by 2018.\footnote{Department of Education, Regulation Impact Statement: 2014–15 Budget higher education reforms, op. cit., p. 66.}

**Extension to all higher education providers**

The 2008 Bradley Review recommended that the demand-driven system be extended beyond public universities once appropriate regulatory arrangements were in place.\footnote{D Bradley \textit{et al}, \textit{Review of Australian higher education: final report}, Australian Government, December 2008, p. xxiii, accessed 5 September 2014.} However, despite the establishment of the Tertiary Education Quality and Standards Agency (TEQSA) in 2012, private universities and non-university providers were not included in the demand-driven funding arrangements, although some private providers (in particular the University of Notre Dame Australia) have been allocated CSPs.

The Kemp-Norton Review considered that the regulatory frameworks were now sufficient to enable this extension to proceed, noting, in particular, the strong role played by non-university providers in delivering sub-bachelor courses.\footnote{D Kemp and A Norton, \textit{op. cit.}, pp. 53–55.} The Bill extends eligibility for uncapped CSPs to all registered providers for students in accredited bachelor and sub-bachelor programs (Schedule 1) in line with the Kemp-Norton Review recommendation. However, funding for non-university providers will be at 70 per cent of that provided to universities, as noted on page 12. This is in contrast to the current situation where non-university providers who are allocated CSPs receive the same level of funding as public universities.

The Kemp-Norton Review noted that demand from private providers for CSPs might be muted if they were also required to limit what they could charge students, as under current arrangements.\footnote{Ibid., p. 55.} Presumably with deregulation of tuition fees this constraint will no longer apply, although the requirement to use 20 per cent of additional fee income for equity scholarships may mean that it is not economic for some providers to move to CSP arrangements. While this requirement only applies to those with more than 500 CSPs, it may affect institutions such as Bond University, which charges around $32,000 per annum for students in its law courses—some $20,000 higher than current CSP funding levels. Therefore under the new arrangements they would be required to allocate $4,000 to scholarships, while only receiving a government subsidy of $2,000.

In addition, students receiving Commonwealth support are not able to claim tuition fees as self-education expenses under the Income Tax Assessment Act 1997,\footnote{Income Tax Assessment Act 1997, accessed 23 September 2014.} whereas those paying full-cost fees can. Both these factors may limit the extent to which high-cost providers move to CSPs. However, they are likely to be attractive to low-cost providers, particularly those operating sub-bachelors courses.

The Department of Education has estimated that this change will mean an additional 34,600 sub-bachelor and 35,500 bachelor students will be eligible for Commonwealth support by 2018.\footnote{Department of Education, Regulation Impact Statement: 2014–15 Budget higher education reforms, op. cit., p. 66.}

However, Peter Dawkins has urged caution in extending government subsidies to a wide range of new providers:

- First, this is a market in which there is very imperfect information, where most customers are purchasing a complex product for the first time, and where a mistaken purchase can be very costly to them.

- Second, in this reform the Government is bringing together into one market for higher education, providers from two quite different existing higher education markets and potentially providers from eight different state and territory VET markets. Efficient markets don’t just happen overnight. They have to have a coherent institutional framework and a suitable range of providers.

\footnotesize{61. Ibid., pp. 58–60.}
\footnotesize{64. D Kemp and A Norton, \textit{op. cit.}, pp. 53–55.}
\footnotesize{65. Ibid., p. 55.}
New markets need to be nurtured, especially when substantial public funding is being injected into a new part of the market. It is in this area of market design that the Government is at significant risk of making some serious errors. 68

The Australian Catholic University also opposes extension of government funding to non-university providers, arguing: ‘In a strained fiscal environment it may not be the [best] use of public money to fund institutions which are already operating profitably and efficiently in the market’. 69

Other proposed changes to increase equity

The Bill also proposes to remove the loan fees from FEE-HELP and VET FEE-HELP loans and abolish the lifetime loan limit. At present, students taking out a FEE-HELP loan to pay for a full-fee course (such as at a private university or a postgraduate course) pay a 25 per cent loan fee, and those obtaining a VET FEE-HELP loan to cover tuition costs in certain higher level VET courses pay a fee of 20 per cent, while those who receive a HECS-HELP loan do not pay a loan fee. In addition, FEE-HELP and VET FEE-HELP are subject to a lifetime borrowing limit of $120,002 for students undertaking medicine, dentistry and veterinary science courses leading to initial registration and $96,000 for all other students. 70 There is no lifetime limit under HECS-HELP. Therefore the provisions in the Bill will ensure that all student tuition fee loans are available under the same conditions.

As part of the deregulation of tuition fees, the Bill also proposes the introduction of equity scholarships, paid for by increased student contributions. As discussed below (see Schedule 2) it is unlikely that these scholarships will have a significant impact on access to higher education for disadvantaged students.

Deregulation of tuition fees

The most controversial of the Government’s measures is the proposal to remove any control on the amount that universities can charge students for tuition in CSPs. This element of the reforms was not considered in the Kemp-Norton Review and there was little public discussion of this option prior to the Budget announcements.

How high might fees go?

Much of the commentary on the budget proposals has focussed on the issue of how high fees might be under a deregulated system. If fees only rise enough to cover the decrease in funding by the Commonwealth, this would mean an increase of around $2,100 per annum on average, although how this applies to the fees paid by particular students will vary depending on how a particular university seeks to recoup this money. 71

The National Tertiary Education Union has undertaken a study of the factors that may contribute to fee increases, such as the relative popularity of courses, the expected income of graduates and the potential for competition from non-university providers to derive an expected price range for each field of study. For most fields, the expected cost is estimated at around $10,000 to $12,000 per annum, meaning most degrees would cost in the range of $30,000 to $40,000. The exceptions were economics, with an estimated maximum of $90,000, engineering at $100,000, law at $120,000 and medicine at $180,000. 72

In its submission to the Senate Committee inquiry into the Bill, the University of Western Australia has stated that subject to the legislation, it is proposing to charge $16,000 per annum for each of its undergraduate degree streams. 73 The University’s course structure is to offer more generalist undergraduate courses across four streams, with specialisation at a later date. Therefore this level of fee will not apply to medical or law courses, as these are done at a postgraduate level.

The current Higher Education Provider Guidelines prevent international students from being charged less than Commonwealth supported students. The Explanatory Memorandum notes that it is planned to replace these requirements with provisions in the Commonwealth Grant Scheme Guidelines to make this more transparent.

68. P Dawkins, op. cit., p. 15.
69. Australian Catholic University, op. cit., p. 10.
70. ‘FEE-HELP’, Study Assist website, accessed 18 September 2014.
However, the proposed legislation does not explicitly prevent domestic students being charged more than international students.\textsuperscript{74}

The Group of Eight analysis of the fees for postgraduate degrees, where fees are currently deregulated, suggested that there is a considerable spread of fees.\textsuperscript{75} The Group of Eight argued that this situation is likely to be reflected in undergraduate degree fees, although the postgraduate coursework market is somewhat different. Those seeking a postgraduate qualification usually have quite specific requirements for subject matter and even location, as many combine study with existing employment, and hence may make a more explicit cost-benefit analysis of different course options.

The fees charged by Australia’s two private providers suggest that there is considerable scope for price differentiation. Fees for a Bachelor of Arts degree at the University of Notre Dame Australia are $8,730 per annum for a three-year degree (considerably lower than the current rate of funding for CSPs), or just over $26,000 in total, while the equivalent degree at Bond University costs $95,568. For a medical degree at Notre Dame the fee is $32,657 per annum (similar to CSP funding levels); at Bond it is $45,302.\textsuperscript{76}

Despite this, one commentator has suggested that once one university sets its fees the rest of the sector will follow with similar fees at, or near, the same level. He argues that any university that sets its fees too low risks reputational damage, and that few universities will want to concede that their degrees are less valuable than those of their competitors.\textsuperscript{77} It will therefore be interesting to see how quickly other universities respond to the announcement of proposed fees by the University of Western Australia referred to above (page 16).

Former Vice-Chancellor John Niland agrees:

> We will see something like the Veblen effect (in economics)—it’s the idea that the price of a product itself is so galvanising and attractive that it creates its own demand.

> As the prices for university admissions get higher, so too does the presumption on the part of students that it must reflect quality.\textsuperscript{78}

This is largely because it is difficult for potential students to objectively assess the quality of a degree. Quality controls, such as those imposed by TEQSA and registration boards for some professional qualifications, mean that no degree is likely to be of very poor quality. The only public measures available to students to assess relative quality above this level are student opinion surveys and statistics on employment outcomes. Both are limited in the quality of the data available, their limited effectiveness (student opinion may be influenced by particular lecturers who move on, for example) and the extent to which they reflect other factors, such as local employment markets. It is also interesting to note that despite this information being available to potential students currently, through the MyUniversity website, very few potential applicants access it, with only 193,000 site visits in the period from its launch in 2012 until November 2013.\textsuperscript{79} This suggests that potential students either do not value this information or make their decisions on where to study based on other criteria.

A particular concern exists around medicine, which is still subject to a cap on places, due to limitations on clinical placement availability. This means that there will not be the capacity for new entrants to provide competition or for existing providers to expand courses. Given the high level of competition to access such courses, and the high expected return to graduates, universities may feel they can set very high levels of fees. The Department of Education considered the option of introducing a price cap for medicine, but was unable to determine if this approach would be effective. The Department considered that if this option was to be adopted, greater analysis and ongoing monitoring would be required.\textsuperscript{80}

\textsuperscript{74} Explanatory Memorandum, \textit{Higher Education and Research Reform Amendment Bill 2014}, p. 33, accessed 4 September 2014.

\textsuperscript{75} Group of Eight Australia (Go8), \textit{Policy note: tuition fees at Australian universities}, Go8, 2 June 2014, accessed 19 September 2014.

\textsuperscript{76} The University of Notre Dame Australia (NDA), ‘Undergraduate domestic student fees 2014 – Sydney campus’, NDA website, and Bond University, ‘Bond University undergraduate fees—2014’, Bond University website, accessed 23 September 2014.


\textsuperscript{78} J Hare and A Tronson, ‘Price and quality will be confused’, \textit{The Australian}, 17 September 2014, p. 29, accessed 23 September 2014.

\textsuperscript{79} D Kemp and A Norton, op. cit., p. 48.

A further consideration is the extent to which access to an income-contingent loan mutes the price incentive for students. Because of the structure of HELP, the impact of increased fees is only felt through a longer repayment period. For many 18 year olds, the issue of whether it is likely to take 20 years to repay a smaller loan or 30 years to repay a larger one may not be a significant factor in the decision of which university to attend. For those, such as women undertaking potentially high cost degrees such as medicine, where there is a significant prospect that they will never repay their debt and the debt is absolved on death, it may be that increasing fees will have no influence on their decisions.

The limited experience of fee deregulation for public universities which occurred with the changes to fee limits in 2005 tends to support this view. At that time, the Government removed the compulsory level of student contribution, introducing instead a higher maximum level of contribution, and leaving universities free to set their fees at anywhere between zero and the maximum. One university reduced fees to zero on some science programs to attract more students, but there was no apparent impact on demand, while others increased their fees to the maximum level immediately, and likewise there was limited impact.\(^{81}\) The result was that within a few years all universities were charging the maximum level possible.

Similarly, policy decisions to encourage students into particular ‘priority’ fields such as nursing and science through reduced student contribution levels were discontinued due to the lack of take-up, although there did appear to be some initial increases in maths and science enrolments.\(^{82}\) In announcing the removal of the reduced contributions for maths and science students in 2011, Minister Chris Evans stated: ‘Students are predominantly motivated not by price but by their interests, abilities and career preferences when selecting courses’.\(^{83}\)

To partially overcome the dampening effect of HELP on price differentiation, some commentators have suggested imposing a lifetime limit on HECS-HELP debt, along the lines of that which currently applies to FEE-HELP and VET FEE-HELP.\(^{84}\) Another has suggested that universities be required to bear some of the risk of non-repayment of HELP debt, which might cause them to limit excessive fee increases.\(^{85}\) As Peter Dawkins has put it:

> Complete deregulation of fees and uncapping of income contingent loans brings with it a number of risks: substantially increased debt levels on students which may deter more disadvantaged students from participating in courses they would otherwise have enrolled in; high levels of HECS debt on the government’s balance sheet; increased default on loans; and the significant possibility of excessively high prices, (or ‘gouging’) especially by providers with strong market power, because of insufficiently clear price signals. These effects could be ameliorated in three ways: a cap on the size of the loans; a cap on the fees; and/or a reduction in the Commonwealth subsidy when fees increase above certain levels.\(^{86}\)

**The United States experience**

The US experience suggests that lack of controls on the cost of university education has led to rapidly increasing fees. The *Economist* recently noted:

> The price of college has risen more than four times faster than inflation since 1978....Much of this cash has been wasted on things that have nothing to do with education—plush dormitories, gleaming stadiums and armies of administrators. In 1976 there were only half as many college bureaucrats as academic staff; now the ratio is one to one.\(^{87}\)

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82. C Dow, ‘*Are maths and science enrolments increasing?*’, FlagPost weblog, 2 December 2011, accessed 22 September 2014.
Another commentator said: ‘Colleges raise prices because they can and they want to.’

Rising costs has become of such concern that in his State of the Union address in 2012, President Obama called for a comprehensive approach to tackling rising university costs. As a result, a range of incentives to keep costs down have been proposed.

Another concern has been grade inflation. The proportion of students receiving an ‘A’ grade has increased dramatically since 1960, particularly at private universities (see Figure 3 below).

**Figure 3: National average grading curves as a function of time for public and private universities—1960, 1980 and 2007**

Note: 1960 and 1980 data represent averages from 1959–61 and 1979–81 respectively.

Source: S Rojstaczer and C Healy.

One analysis suggests that while there is some argument that student quality has improved slightly over this period, the major driver is that instructors are grading more generously. The authors consider that this is probably the result of the move to a ‘consumer-based’ approach to teaching. Higher grades translate into better employment prospects for graduates, and also produce more positive results in student satisfaction surveys, both of which are measures potential students use to assess universities and courses in a competitive environment.

The downside of such a trend, particularly when carried to the extent where half of all grades given are ‘A’s, is that in such an environment top students do not try to excel. This appears to have led to a decline in student study hours, student engagement and literacy.

91. Ibid., p. 10.
92. Ibid., p. 11.
While such a trend may arise even where fee levels are the same across all institutions, the incentives are stronger when there is significant financial benefit involved. This is possibly reflected in the degree to which the trend has been stronger in the private sector as shown in Figure 3.

John Quiggin has noted that the proportion of 25–34 year olds who have attained a university education in the US in now lower than in Australia. He also points out that the US system has also become highly stratified, with some second-tier universities and community colleges providing very poor quality education, with very low graduation rates.93

Student responses to fee increases
While the availability of income-contingent loans is expected to cushion the impact of increased fees for students from disadvantaged backgrounds, there is still concern that the level of increased debt, combined with the introduction of higher interest rates, may disproportionately deter such students from entering higher education.

The Australian Medical Students’ Association (AMSA) has quoted data from the United Kingdom (UK) suggesting that students from low socioeconomic (SES) backgrounds are less likely to enter higher education where there is the prospect of high levels of debt, regardless of the loan scheme.94 On the other hand, analysis of application and entry rates suggest that despite fees at UK universities trebling in 2012, application and entry rates for those from low SES backgrounds have continued to rise.95

As noted in the Regulation Impact Statement, research on the effects of the introduction of HECS and subsequent changes to the level of student contributions suggests that increasing student contributions has not generally caused a long-term decline in student applications to enter higher education, and that there has not been any differential impact on students from low SES backgrounds.96

However, the previous changes were largely incremental in nature, while the current proposals mean there is a possibility that fee increases will be substantial, and this may be sufficient to deter some students. To the extent that such deterrent factors exist, they are likely to be particularly felt in fields such as nursing and agriculture, which are high-cost courses to deliver, have limited returns to graduates and have traditionally been attractive to low SES and regional students. For these reasons, universities may be reluctant to increase fees for these courses too much, which, in turn, will make them less economically attractive to providers. For example, modelling undertaken for the Group of Eight showed that there was a strong economic incentive for these universities to discontinue nursing courses.97

Another potential impact is on transfer rates once students have commenced. At present, most institutions allow credit for transferring students who have undertaken a similar course at another university. This raises the possibility of students commencing courses at ‘low-cost’ universities, and then transferring for later years to higher cost (and hence presumably more prestigious) institutions, so they can still claim to have graduated from these institutions without having to pay the full higher rate for their degrees.

There are also reports that some students are considering moving overseas to study as they consider this may be cheaper than studying in Australia, even with increased travel and living costs.98 In addition, a 2003 study noted evidence from New Zealand that increasing debt levels appeared to be encouraging graduates to emigrate, particularly doctors and veterinarians.99

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94. Australian Medical Students’ Association (AMSA), Medical students warn of the effects of unprecedented education debt, media release, AMSA, 7 June 2014, accessed 19 September 2014.
95. Independent Commission on Fees (ICoF), Analysis of trends in higher education applications, admissions and enrolments, ICoF, August 2014, p. 15, accessed 19 September 2014.
Differential impact on different universities
While the proposed cuts in government subsidies for CSPs average 20 per cent, as noted above the actual cuts differ substantially across fields of study. This means the impact on particular universities will vary depending on their subject mix. Also, the extent to which universities rely on funding from CSPs varies, from over 75 per cent of total revenue for Charles Sturt University, the University of New England, the University of Western Sydney and the Australian Catholic University, to less than 40 per cent for most of the Group of Eight institutions. Several of those with a high dependence on CSP funding also have a higher proportion of students from low SES backgrounds, which may limit their ability to raise fees to compensate for the lost Commonwealth revenue.
Reports of modelling undertaken for the Group of Eight suggested that under most scenarios Group of Eight universities would see substantially increased funding from fee deregulation. However, other metropolitan and regional universities were likely to lose money under most scenarios. This modelling has not been publicly released so it is not possible to assess the assumptions that were used, however they reflect concerns about the possible impact of a deregulated market particularly on regional universities. Such concerns have led the Regional Universities Network (RUN) and the Group of Eight to call for the Government to provide structural adjustment funding to regional universities, and introduce an eligibility threshold for the Higher Education Participation Programme (HEPP) to ensure funding goes to universities with relatively high proportions of low SES students. The HEPP is to ‘provide funding to assist universities to undertake activities and implement strategies that improve access to undergraduate courses for people from disadvantaged backgrounds, as well as improving the retention and completion rates of those students’.

Committee consideration

**Senate Education and Employment Legislation Committee**
The Bill has been referred to the Senate Education and Employment Legislation Committee for inquiry and report by 28 October 2014. Details of the inquiry are at the [inquiry webpage](#).

**Senate Standing Committee for the Scrutiny of Bills**
The Senate Standing Committee for the Scrutiny of Bills raised some concerns regarding the delegation of legislative powers. The Committee noted that in Schedule 1 of the Bill items 62 and 67 provide that eligibility for certain grants is to be prescribed in guidelines rather than specified in the Bill, and it has sought further advice from the Minister as to the justification for this approach. Similarly, the Committee was concerned that the prescription of the ‘eligible amount’ to be used for Commonwealth Scholarships may be reduced through guidelines (item 1 of Schedule 2), as it considered reductions in these amounts may involve significant policy choices. It has therefore sought advice from the Minister as to the justification for leaving important material to delegated legislation rather than incorporating it in primary legislation.

**Policy position of non-government parties/independents**
The Labor Party has stated that it will vote against the Bill in its entirety, as it will not vote for ‘Americanisation of Australia’s world-class university sector.’ However it has said that it would support separate legislation to extend HECS-HELP to certain New Zealanders, update the **ARC Act** annual funding rates and reflect the name change of the University of Ballarat.

102 B Priess and M Moncreif, op. cit.
103 Regional Universities Network (RUN) and Group of Eight, *RUN and Go8 urge Senate to pass higher education reforms with safeguards for low-income graduates and structural support for regional universities*, media release, 8 September 2014, accessed 19 September 2014.
107 Ibid., p. 3.
The Greens have also said they will not support the package ‘that massively cuts government funding to higher education, adds to the financial burden students are under and strips away opportunities’. Instead they have stated they intend to propose a debate in the Senate on how to build up public higher education.\(^{109}\)

Clive Palmer says he has written to Minister Pyne advising him that the Palmer United Party Senators will not support the reform proposals, and instead has proposed abolishing all university fees.\(^{110}\)

The position of the other independents is unknown.

**Position of major interest groups**

Universities generally support the deregulation on the basis that it provides certainty of ongoing and increased funding. Belinda Robinson, Chief Executive of Universities Australia, has said:

> Either the status quo of ongoing inadequate investment, or further cuts without deregulation will condemn Australia’s great university system to inevitable decline, threaten our international reputation and make it increasingly difficult for universities to meet the quality expectations of our students.\(^{111}\)

Australian Technology Network (ATN) of universities Executive Director Vicki Thomson expressed concern at the prospect of a ‘scenario of cuts without reform—creating a death by a thousand cuts for our university sector’.\(^{112}\)

Therefore the ATN ‘cautiously supports the removal of the maximum student contribution amounts’.\(^{113}\)

Similarly, RUN has stated that:

> ... given the continuing decline in Government funding per student over a long period of time, the deregulation of student fees is the only feasible way that the sector can maintain quality and remain internationally competitive, provided that the specific circumstances facing regional and disadvantaged students and regional universities are recognised in the new policy regime.\(^{114}\)

On the other hand, the universities do not support the move to the ten-year bond rate for indexation of HELP debt and have called for reduction in the 20 per cent cut to government subsidies of CSPs.\(^{115}\)

University staff and students do not support the reform proposals. The National Tertiary Education Union has called for the rejection of the Bill arguing that the package will be ‘bad for students and many of our universities and communities.’\(^{116}\) The National Union of Students organised a national day of protest following the Budget announcements on the grounds that the measures would ‘see our system turn into a two-tiered, publicly underfunded and even more privatised system of higher education which leaves students worse off’.\(^{117}\)

The Council of Australian Postgraduate Associations (CAPA) have organised a petition calling on Minister Pyne to reverse the decision to cut the RTS and allow the introduction of fees on research degrees. They have argued that the introduction of fees for research degrees is ‘equivalent to asking our best and brightest researchers to pay to come to work.’\(^{118}\)

The Australian Academy of Science has expressed concern at the efficiency dividend on ARC grants and considers the introduction of fees for PhD students ‘of great concern as these students are the engine for our nation’s

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research.’ On the other hand the Academy welcomed the increased spending on Future Fellowships, which provide up to four years funding for mid-career researchers.\textsuperscript{119}

The Australian Medical Association has described the proposed reforms as a ‘ticking time bomb’ which ‘will have a devastating and lasting effect on the size, shape and distribution of the future medical workforce….There is a real danger that significantly higher fees and student debt will force graduates to pursue their careers in the highest-paid specialties in the capital cities.’\textsuperscript{120}

### Financial implications

The estimated financial implications of most measures in the Bill were announced in the 2014–15 Budget.\textsuperscript{121}

- changes to funding arrangements for CSPs and extending CSPs to sub-bachelor qualifications and to all registered higher education providers (Schedule 1)—saving of $1.1 billion over three years
- changes to HELP debt indexation and repayment threshold (Schedules 3 and 4)—saving of $3.2 billion over four years
- continuation of the mid-career Future Fellowships scheme (Schedule 5)—expense of $139.5 million over four years
- Australian Research Council administered funding efficiency dividend (Schedule 5)—saving of $74.9 million over three years
- reduction in Research Training Scheme funding and allowing higher education providers to introduce charging for research higher degree students (Schedule 5)—saving of $173.7 million over three years
- removal of loan fees for FEE-HELP and VET FEE-HELP (Schedules 1 and 6)—increased expenses of $22.4 million over three years and reduced revenue of $723.2 million over the same period
- cessation of HECS-HELP (Schedule 7)—saving of $87.1 million over three years and
- changes to indexation arrangements for programmes under HESA (Schedule 8)—saving of $202.8 million over three years.

The increase to the ARC funding cap (Schedule 5) will be $760 million to 30 June 2018.\textsuperscript{122}

Extending eligibility to HELP for certain New Zealand citizens (Schedule 10) was estimated to cost $10.6 million over four years at the time of the initial announcement of this policy in June 2013.\textsuperscript{123}

There are also some hidden costs associated with the likely substantial increase in HELP debt arising from the measures in Schedule 1. The outstanding HELP debt amounts are shown as assets in the Government’s financial statements, but the stated asset value does not reflect its true value. The Government estimates that by 2017–18, 23 per cent of new HELP debt is not expected to be repaid.\textsuperscript{124} This means that Government will effectively be subsidising nearly a quarter of the student contribution amounts for all students obtaining HELP loans in 2017–18. The reduction in the minimum repayment threshold proposed in Schedule 4 will slightly reduce the growth in unpaid debt by commencing repayment at a lower income level, but there is no indication that the Government is considering more significant measures such as seeking some form of repayment for debtors living overseas, or removing the write-off of HELP debt on the death of the debtor.\textsuperscript{125}

The provisions contained in Schedule 3 will remove some of the subsidy currently applying to HELP loans due to their low interest rate. However capping the interest at six per cent, a figure historically low for ten year bonds,
may still mean there is some effective subsidy if the loans are indexed at a rate lower than the Government can obtain by lending the money through other means.

The savings identified through the changed indexation arrangements (Schedule 8) are contingent on the rises in the CPI being lower than for the wage-based index it is replacing. This has not been the case for the last four quarters.

**Statement of Compatibility with Human Rights**

As required under Part 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011* (Cth), the Government has assessed the Bill’s compatibility with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of that Act. The Government considers that the Bill is compatible.

The Parliamentary Joint Committee on Human Rights has considered the Bill and determined that Schedules 1 to 8 engage a number of human rights including:

- the right to education
- the right to social security and an adequate standard of living
- the right to privacy and
- the rights to equality and non-discrimination.

The Committee considered that the statement of compatibility did not provide sufficient information for the Committee to conduct assessments of the human rights compatibility of the legislation. It has therefore requested advice from the Minister as to whether each of the measures in these Schedules are compatible with Australia’s international human rights obligations and for each individual measure whether:

- the measure achieves a legitimate objective
- there is a rational connection between the limitation and that objective and
- the limitation is a reasonable and proportionate measure for the achievement of that objective.

The Committee also expressed a concern that the measures in Schedules 1, 3 and 4 may have a disproportionate impact on women. It therefore requested the advice of the Minister as to whether the measures in Schedules 1, 3 and 4 are compatible with the rights to equality and non-discrimination on the grounds of gender.

**Key issues and provisions**

**Schedule 1—Deregulation, expansion of the demand driven system and other measures**

**Part 1**

Part 1 contains provisions to implement most aspects of the proposed reforms. It removes maximum student contributions, amends the funding clusters, expands the demand-driven system to sub-bachelor degrees and all registered higher education providers, and merges the FEE-HELP and HECS-HELP scheme.

As part of the proposed changes to the funding arrangements, references to Table C providers (international universities) are to be removed from *HESA*. **Item 2** removes the reference to Table C providers from Division 5, and introduces the concept of ‘international providers’. It also removes the exemption of these providers from a range of provisions, such as those relating to the Commonwealth Grants Scheme. **Items 6 and 7** remove further references to Table C providers.

**Items 3, 4, 5, 8, 9 and 10** align the definition of a higher education provider and remove duplication with the provisions of the *Tertiary Education Quality and Standards Agency (TEQSA) Act 2011*. **Item 13** proposes the insertion of a new section 19-2 referring to consideration of TEQSA advice.

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128. Ibid., p. 13.
Items 22 to 36 remove references to student contribution amounts and controls on the level of fees, while items 27 and 28 remove the requirement for Table A and B providers (that is, universities) to enter into a compact, as these arrangements are no longer required. As noted above, item 26 introduces a new definition of ‘tuition fee’ which states that the fee is ‘directly in respect of the provision of the unit’. It is not clear whether this limits the use of revenue from tuition fees to fund other activities such as research in an unrelated area.

Items 29 and 30 remove further duplication with the TEQSA Act.

The inclusion of all registered higher education providers in eligibility for government subsidies is provided through items 33 to 36, 41 and 44.

Item 38 removes the definitions of funding clusters and national priorities, with the new clusters and funding levels specified in item 45.

Item 48 removes current limitations on Commonwealth supported students, providing for additional categories of students to be considered a Commonwealth supported student, including those attending summer schools, while item 50 clarifies those students who cannot be Commonwealth supported students, such as those studying primarily at an overseas campus, or in an employer reserved place.

Item 51 abolishes references to HECS-HELP which will be merged with FEE-HELP, meaning these provisions will be covered under revised Division 104, to be amended by items 76 to 106.

Items 52 to 55, 58 and 62 are further proposed changes to extend references to Table A and B providers to include all registered providers.

Item 59 removes the references to the limit on student contributions and the up-front payment reduction of ten per cent. This reduction applies if a student pays their contribution up-front and does not take out a HECS-HELP loan. The decision to remove this discount was included in the 2013–14 Budget but was not legislated before the 2013 election.

Eligibility to pay standard Commonwealth scholarships is extended to all providers under proposed subsection 46-15(1) (at item 67), while all those registered as universities will be able to pay postgraduate research scholarships under proposed subsection 46-15(2).

Items 69 to 146 largely concern the merger of HECS-HELP and FEE-HELP. These items repeal the provisions relating to HECS-HELP loans in Divisions 90 to 96 and then replace references to FEE-HELP with HECS-HELP in Division 104 (items 76 to 106). Item 95 abolishes the former FEE-HELP lifetime limit as this will no longer apply.

Items 121 to 126 remove references to the five per cent voluntary repayment bonus. This bonus applies when a HELP debtor voluntarily repays their HELP debt. As with the removal of the upfront payment discount this decision was included in the 2013–14 Budget.

Items 151 to 174 amend relevant definitions flowing from the proposed changes.

Items 175 and 176 make minor amendments to the TEQSA Act to allow TEQSA to determine the circumstances in which fees it has charged may be refunded, and to disclose information to the Minister and the Secretary for the purposes of higher education administration.

Other parts

Part 2 contains saving and transitional arrangements. The most significant of these is contained in proposed Division 2. This Division provides that students who had accepted an offer, were enrolled in a CSP funded course or on an authorised break on 13 May 2014, will continue to be funded under the existing arrangements until 1 January 2021, as long as they remain enrolled in, or are on an authorised break from, a CSP funded course. The rationale for this is that existing students have committed to their course of study based on current funding arrangements, and may not have made the same choices in a deregulated system.

However, students who accept an offer to commence study after 13 May 2014, but prior to universities announcing their fee structures for 2016 will also not be aware of the tuition fees applicable to later years of their course. The Regulation Impact Statement notes that extending these grandfathering arrangements to

130 For further information see L Doyle, ‘And then there were none: HECS discounts’, FlagPost weblog, 16 April 2013, accessed 15 September 2014.
students commencing prior to 1 January 2016 is estimated to cost $750 million. On this basis the Government decided not to extend grandfathering arrangements to these students. This potentially disadvantages students commencing in late 2014 and during 2015 relative to those who commenced before May 2014 or those who will commence in 2016, unless universities follow the lead of the University of Western Australia, which has announced its 2016 fee structure to give certainty to those students. Proposed Division 3 of Part 2 contains transitional arrangements for decisions made prior to commencement of the main provisions.

Part 3 contains minor consequential amendments to other related Acts. Part 4 inserts a new table in the Commonwealth Grant Scheme Guidelines 2012 to reflect the new funding clusters. Part 5 repeals the Higher Education (Designated Courses of Study) Specification 2011 which excluded sub-bachelor courses from the demand funding model.

Schedule 2—New Commonwealth Scholarship Scheme

Schedule 2 establishes the New Commonwealth Scholarship Scheme. The Schedule specifies how funding for the scholarships is determined. However, the detailed arrangements of how the Scheme is to operate are not specified—they will be included in the Commonwealth Grant Scheme Guidelines. The proposed legislation does not specify how the funds will be allocated, or how much discretion institutions will have in determining the arrangements for the scholarships or the conditions under which they are allocated, although the Regulation Impact Statement appears to imply that universities will allocate the funds they collect.

The Scheme provides that up to 20 per cent of the additional funds raised by providers with more than 500 CSPs through increasing tuition fees beyond that required to maintain current levels of funding are to be allocated to scholarships to support disadvantaged students gaining access to and completing higher education courses. It is assumed that the Group of Eight universities, which are likely to increase fees the most, will be offering a higher proportion of these scholarships, and that this will increase the participation of those from disadvantaged backgrounds who might not otherwise attend these universities. Presumably this is what Minister Pyne meant when he said that the scholarships would mean ‘our brightest young people from whatever background will be able to go to the best universities in Australia’.

It appears that these scholarships will operate in a similar fashion to the Commonwealth Education Costs Scholarships and the Commonwealth Accommodation Scholarships which were abolished following the recommendations of the 2008 Bradley Review. The Review noted that not all universities had been able to allocate the number of scholarships awarded to them and that they had failed to increase the participation rate of low SES or regional and remote students.

This finding is consistent with a study in the US which found that low-income high achievers generally did not apply to highly selective universities, even when the financial assistance offered by these universities would make them cheaper than the non-selective institutions to which they did apply. This particularly applied to those who were fairly isolated from other high achievers, in terms of both geography and the schools that they attended. Instead, they tended to apply to the same universities as their peers. Similarly, in the UK, where fees are generally consistent across universities and income-contingent loans are available, students from low SES areas are far less likely to apply to selective institutions than those from high SES backgrounds.

Overall, it appears that the new scholarships may not have a significant impact on increasing the representation of disadvantaged students at the Group of Eight universities; however they may improve the circumstances and support available to those students from disadvantaged backgrounds who do attend.

137. Independent Commission on Fees, op. cit., p. 22.
Item 1 of Schedule 2 inserts proposed section 36–75 into the HESA to create the New Commonwealth Scholarship Scheme.

Proposed subsection 36–75(1) requires that any higher education provider who wishes to receive grants under the CGS (that is, offer CSPs) must allocate the designated amount for use in accordance with Commonwealth Grant Scheme Guidelines. Proposed subsection 36–75(2) limits this requirement to providers with more than 500 CSPs during the year. The Commonwealth Grant Scheme Guidelines may also prescribe other circumstances in which the requirement does not apply (proposed paragraph 36-75(2)(a)).

Proposed subsection 36-75(3) provides that the Guidelines may prescribe that the allocated funds must be used for the purposes of increasing access to, and participation in, higher education, or improving completion of courses by, students from disadvantaged backgrounds.

The ‘eligible amount’ for each year is to be 20 per cent of the provider’s ‘eligible revenue’ or a lower percentage specified in the Commonwealth Grant Scheme Guidelines (proposed subsection 36-75(4)).

The arrangements for determining ‘eligible revenue’ are set out in proposed subsections 36-75(5) to (8). If a method or methods for determining ‘eligible revenue’ are prescribed in the Commonwealth Grant Scheme Guidelines, then the prescribed method is to be used. If no method is prescribed in the Guidelines, ‘eligible revenue’ will essentially be the difference between the actual revenue a higher education provider receives for students in CSPs (the combination of the grants received under the CGS and student contributions) and the amount they would have received had the current funding arrangements and student contributions continued (with indexation). This means that providers who only increase student contributions enough to make up the reduction in Commonwealth funding will not be required to allocate funding to the new scholarship arrangements.

Schedule 3—Indexation of HELP debts

Under current arrangements, outstanding HELP debt is indexed in line with the CPI. Therefore, the debt level does not increase in real terms, so all debtors will repay the same debt they incurred, regardless of how long they take to repay it. This means that the Government is subsidising this debt as it effectively borrows money in the bond markets and then repays it to students at the rate of the CPI. The Grattan Institute estimated that this subsidy was worth about $580 million in 2011–12.138

To remove this subsidy, the Government is proposing that debtors be charged the monthly ten-year bond rate, capped at six per cent. A comparison of the CPI and the bond rate over the last ten years is shown in Figure 4 below. The gap between the two represents the real interest rate that would be charged under the proposed arrangements.

Over this period the largest gap has been 4.1% for two quarters in each of 2007 and 2009, while the lowest gap was 0.5% in the December 2008 quarter. As at June 2014, the bond rate was 0.7% higher than the CPI. The average gap has been 1.2% over the last two years but over the full period it was 2.1%.

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Figure 4: Annual rate of change in the CPI compared to the monthly ten-year bond rate—June 2005 to June 2014

In the last ten years, the bond rate was only above the proposed cap of six per cent for the period June 2007 to July 2008, reaching a peak of 6.6%. Historically, rates much higher than six per cent were experienced for extended periods. For example, the rate was above six per cent for the whole period from April 1973 to December 1997, reaching 16.5% in 1982 and, more recently, reaching 10.5% in October 1994. This suggests that the cap of six per cent may still mean some subsidy of interest rates in the future.

Modelling by Bruce Chapman and Timothy Higgins, using the relatively conservative estimate of a real interest rate of 1.4 per cent, shows that the impact of this proposed change would be felt much more strongly by those who have lower or intermittent earnings. For a loan of $60,000, the interest paid by a low-income graduate would be 30 per cent higher than that paid by a high-income graduate, while spending ten years out of the workforce would add an additional $8,000 to $15,000 to the interest charge. These differences increase with higher real interest rates or higher initial HELP debt.

In order to address this, Chapman and Higgins proposed two alternatives which would significantly reduce the current government subsidy while providing a more equitable repayment regime. One of these, the imposition of a 25 per cent surcharge on all HELP loans, was also recommended by Kemp and Norton in their review.

The advantage of the surcharge option is that all those with the same level of debt will pay back the same amount, with those at higher income levels paying back more than under the bond rate option and those at lower levels paying less. The analysis by Chapman and Higgins suggested that this would be at a relatively low cost to the Government over the long term.


141. D Kemp and A Norton, op. cit., p. 75.
The Department of Education considered this option in the Regulation Impact Statement, and concluded:

A 25 per cent loan fee would yield additional savings over the forward estimates but would be budget neutral over the longer term. The cost-benefit analysis showed that this option would result in reduced loan costs for students...and would be essentially budget neutral for the Australian Government over the long term.\textsuperscript{143}

However, despite this conclusion, and the determination that this option would provide a ‘net benefit’ over the Government’s proposed approach, it has not been preferred.\textsuperscript{144}

It is also possible that such a surcharge would encourage more students to pay their tuition fees upfront, rather than take out a HELP loan, thus increasing revenue in the short term and reducing the incidence of unpaid debt. Previous repayment incentives appear to have had this effect, although there was concern that those who were able to take advantage of the discounts were from wealthier backgrounds.\textsuperscript{145} The prospect of real interest rates on outstanding debt may also have this incentive.

\textbf{Items 1 and 2 of Schedule 3} propose amendments to Division 140 of HESA to replace references to the CPI with the monthly ten-year bond rate in the indexation formula for calculating outstanding HELP debt.

\textbf{Schedule 4—Minimum repayment income for HELP debts}

Schedule 4 of the Bill proposes amendments to Division 154 (How is indebtedness compulsorily discharged) of HESA to introduce the new lower income threshold (item 1) and revise the table in section 154-20 to introduce the new two per cent repayment level (item 2). These changes are to take effect for the 2016–17 income year. The income amounts represent the current levels indexed by 2.7 per cent per year, which is consistent with current levels of CPI.

\textbf{Appendix B} of this Digest shows the repayment rates and thresholds for HECS and HELP debts since the introduction of HECS in 1989. The Male Total Average Weekly Earnings (MTAWE) annual income level is also shown for comparison.

When HECS was introduced in 1989, the lowest repayment rate was one per cent on incomes that were some 86% of MTAWE, while the maximum rate of three per cent applied to incomes that were nearly 38% higher than MTAWE. In the following years there were multiple changes to the repayment rates, so that by 1995 the lowest compulsory repayment rate was three per cent (there was an option to pay two per cent at a lower income level), and those at the highest level were paying six per cent.

A significant restructure of the repayment regime was introduced in 1997–98 resulting in the minimum repayment rate of three per cent being applied at an income of 56% of MTAWE, while the maximum of six per cent was payable on incomes just over average wages. A further revision of the arrangements took effect in 2004–05 and has remained unchanged since then, whereby the minimum repayment rate of four per cent applies on incomes about 73% of MTAWE, and the highest rate of eight per cent applies for those earning 35% higher than average earnings.

The change proposed in Schedule 4 would see the current arrangements continue, but with the addition of a two per cent repayment rate for incomes at 90% of the current minimum income threshold from 2016–17. This income level is likely to represent around 65% of MTAWE.

A lower repayment threshold will reduce the average length of time to repay HELP debt for those in lower income brackets, and may slightly reduce the default rate. However, as modelling by Chris Ryan from the Melbourne Institute shows (see Figure 5 below), the effects of this change are more than counteracted by the expected increases in both aspects arising from increasing the student contribution and applying real interest rates on outstanding debts.


\textsuperscript{144}Ibid., p. 108.

\textsuperscript{145}See L Doyle, op. cit.
Schedule 5—Research funding and research students

Part 1 of Schedule 5 updates the funding caps contained in the ARC Act for approved research programs. These figures are updated annually to take into consideration indexation and budget decisions, and to add an additional year for the forward estimates. In addition, the updates contained in this provision reflect the application of the one-off efficiency dividend of 3.25 per cent in 2015–16 as well as ongoing funding for the Future Fellowship scheme.

Future Fellowships, a Labor election commitment introduced in the 2008–09 Budget, initially provided up to four years of funding for up to 1,000 mid-career researchers. It was then extended for an additional 150 researchers in the 2013–14 Budget. The 2014–15 budget measure extends the program again for up to 100 researchers, but these fellowships will be limited to Australian researchers only.

Part 2 introduces tuition fees for students undertaking higher degrees by research. While students in CSPs have to make some contribution to their course costs, and students in postgraduate coursework degrees pay full fees unless they are in a CSP-funded course, students undertaking higher degrees on a research basis have until now been exempt from paying any contribution towards course costs. Presumably this was on the basis that research degrees provide more benefit to the community through increased research capacity.

In the 2014–15 Budget the Government announced that it was extending its approach to the sustainability of the system to research degrees. The Research Training Scheme (RTS) provides the equivalent funding for research degrees.

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147 K Carr (Minister for Innovation), Future fellowships for outstanding mid-career researchers, media release, 13 May 2008, accessed 16 September 2014.
148 C Emerson (Minister for Tertiary Education, Skills, Science and Research) and D Farrell (Minister for Science and Research), Building on Australia’s research success, media release, 14 May 2013, accessed 16 September 2014.
higher degree courses as the CGS provides for CSPs. Funding for the RTS is being cut, with universities being given the opportunity to make up the shortfall in funding by charging students tuition fees. However, unlike the tuition fees for CSPs, there will be caps on the amount that universities can charge—$3,900 per unit for high-cost courses (including the sciences, engineering and health-related courses) and $1,700 for low-cost courses.

It is unlikely that tuition fees at this level will deter students from undertaking research higher degrees, as they will also be able to access HECS-HELP loans to cover these charges. However, most students undertaking higher degrees will already have a HELP debt associated with their undergraduate qualifications, which, under the provisions of Schedule 3, would attract a real interest rate. Some students may therefore consider that undertaking a higher degree is no longer attractive. Not only will it further delay repayment of the debt arising from their undergraduate degree, which will now attract real interest charges, but it will also add to that debt.

The funding arrangements for the RTS are contained in the Other Grants Guidelines under HESA, and hence the cut to funding is not contained in this Bill, but will require a separate determination. The provisions in Part 2 establish that universities may charge the fees up to the maximum amounts (Item 4) and include these maximum amounts in the indexation arrangements (Item 5). Item 7 provides that the new arrangements will apply to all courses after the commencement date (1 January 2016). Therefore, there will be no ‘grandfathering’ arrangements for existing students, unlike those proposed for undergraduate students.

Item 8 (Part 3) repeals a 2004 determination prohibiting the charging of fees for research higher degrees and item 11 (Part 4) specifies the courses which are considered ‘high-cost’ for the purposes of charging fees.

**Schedule 6—VET FEE-HELP loan fees and limits**

VET FEE-HELP was introduced in 2008, extending income-contingent loans to students undertaking higher level vocational education and training (VET) courses. In part, the extension of FEE-HELP to VET was designed to ensure that students studying equivalent courses in higher education and VET had access to similar support. VET FEE-HELP loans currently incur a loan administration fee of 20 per cent of the value of the loan, and borrowers are subject to a lifetime limit (combined with FEE-HELP) as at 2014 of $120,002 for students undertaking medicine, dentistry and veterinary science courses, and $96,000 for all other students.

Item 1 of Schedule 6 removes the loan fee. According to the Explanatory Memorandum, the existing loan fee was introduced to manage the costs of extending HELP to VET students and is no longer required as these additional costs will be covered by the changed indexation arrangements proposed in Schedule 3. Presumably if an alternative indexation arrangement is adopted, as has been proposed (see the discussion under Schedule 3 above), these revised arrangements will be replicated for VET FEE-HELP to maintain the consistency intended by this measure.

The remaining provisions in Part 1 of the Schedule remove all references to the lifetime borrowing limit and also make some minor amendments to the provisions for reversing debts for students in exceptional circumstances.

Item 24 provides that the removal of the loan fee applies to debts incurred on or after 1 January 2016 and the other amendments in Schedule 6, including the removal of the lifetime limit, apply in relation to units of study that have a census date on or after 1 January 2016. Items 25 and 26 are related transitional provisions.

**Schedule 7—HECS-HELP benefit**

The HECS-HELP benefit was introduced for new maths and science graduates as part of the 2008–09 Budget. In the following year this was extended to education and nursing graduates. The benefit provides a 50 per cent reduction in HECS repayments for graduates who remain working in their field, to encourage graduates to remain in the fields in which they have trained.

The Review of the Demand Driven Funding System noted that the benefit reduced HECS-HELP payments by about $1,700 per year, but considered that this was ‘small compared with the lifetime financial implications of

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course costs’. Take up of the benefit has been limited, with less than 2,500 granted in 2011–12 and 7,220 benefits granted in 2012–13. The Review also noted that there is no strong evidence that it has influenced the job decisions of graduates, rather: ‘The benefit is a windfall gain to graduates who find out about it, rather than something that shapes their decisions on courses and careers’.  

**Items 1 to 15** of Schedule 7 remove all references to the HECS-HELP benefit from the HESA. **Items 16 to 18** remove the relevant references from the *Income Tax Assessment Act 1997*. **Item 19** provides savings provisions to ensure that graduates may still claim the benefit for earlier income tax years if they have not already done so.

**Schedule 8 — Indexation of amounts**

Schedule 8 proposes to amend **Division 198** of HESA to replace the current indexation formula, which includes 75 per cent of 90 per cent of the amount of the movement in the Professional, Scientific and Technical Services Labour Price Index (PSTSLPI), with a formula based solely on changes in the CPI.

The current indexation formula for the HESA was introduced in the 2009–10 Budget, with full implementation from 2011. The measure essentially implemented Recommendation 27 of the Bradley Review:

That the Australian Government maintain the future value of increased base funding for higher education by an indexation formula that is based on 90 per cent of the Labour Price Index (Professional) plus the Consumer Price Index with weightings of 75 per cent and 25 per cent respectively.

The Review noted that the previous indexation arrangements had led to a cumulative funding gap for CSPs each year from 1997 to 2004. It argued that, in addition to an injection of funds to have a ‘sustainable, internationally competitive higher education system’, there was also a need ‘to ensure through indexation, that the real value of this public contribution is maintained’. The 75 per cent salary based index and 25 per cent CPI weighting reflects the expenditure pattern of the programs funded, which depend heavily on professional staff costs. The salary-related component of the current index is discounted by ten per cent as a productivity incentive.

The CPI has generally been lower than 90 per cent of the growth in the PSTSLPI by around one per cent. Figure 6 below shows the relative growth in the CPI and the PSTSLPI over the last 10 years. However, for each of the last four quarters, the CPI has in fact been higher than the PSTSLPI. For June 2014 the difference was over one per cent. If this trend continues, the changed indexation arrangements will provide a bonus to universities, as grant payments will be indexed at a higher rate than under the current formula. Based on historical trends it is unlikely that this situation will continue in the long-term. However, if wages continue to grow at a slower rate than prices over the next few years, it will mean increased funding levels over the course of the forward estimates, rather than the savings predicted in the Budget.

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154. Ibid.
155. Ibid.
159. Ibid., p. 153.
160. Ibid., p. 152.
Other provisions

Schedule 9 contains a technical amendment reflecting the change of name of the University of Ballarat to Federation University Australia (FedUni). FedUni was created through the amalgamation of the University of Ballarat and the Monash University Gippsland Campus.\textsuperscript{161}

Schedule 10 extends access to HELP loans for certain New Zealand citizens. At present eligibility for HELP is limited to Australian citizens and permanent humanitarian visa holders.\textsuperscript{162} This contrasts with the situation for Australian citizens studying in New Zealand, who are eligible for the New Zealand income-contingent loan scheme after three years’ residency.\textsuperscript{163}

In June 2013, the former Government announced that new arrangements would be implemented from 1 January 2015, but the changes were not legislated prior to the election.\textsuperscript{164} These arrangements respond in part to a Productivity Commission recommendation that:

The Australian Government should seek to improve access of New Zealand citizens to tertiary education and vocational training through the provision of student loans, subject to a waiting period and appropriate debt recovery provisions.\textsuperscript{165}

The provisions in this Schedule will extend eligibility for HELP to New Zealand citizens who:

\begin{itemize}
  \item are resident in Australia for a continuous period of at least three years;
  \item have been present in Australia for at least one year prior to the commencement of their course;
  \item are not otherwise eligible for student loans or other forms of financial assistance;
  \item are not the spouse, de facto partner or child of another person who is eligible for HELP;
  \item are not seeking to enrol in the same course as another person who is eligible for HELP;
\end{itemize}

\textsuperscript{162}. Explanatory Memorandum, op. cit., p. 88.
\textsuperscript{163}. For further information about these eligibility differences, see I. Doyle, \textit{Trans-Tasman differences in student loans}, Research paper, 2013–14, Parliamentary Library, Canberra, 28 November 2013, accessed 3 September 2014.
\textsuperscript{164}. C Emerson (Minister for Tertiary Education), \textit{HELP for New Zealanders who grow up here}, op. cit.
• are Special Category Visa holders (as defined by section 32 of the *Migration Act 1958*)

• began living in Australia as a dependent at least ten years before they apply for HELP and

• have been in Australia for periods totalling eight of the previous ten years, including 18 months of the two years immediately prior to the application for HELP.

**Concluding comments**

As noted by David Kemp and Andrew Norton in their report:

> Australia already has one of the world’s better higher education systems, whether measured by the quality of individual institutions, by system-wide assessments, or by its attractiveness to international students. The responsiveness of higher education providers to funding arrangements that provide flexibility and opportunities is impressive, and the removal of remaining uncertainties and impediments to innovation will enhance the quality of our system and its capacity to contribute to students, the economy and to Australia’s future. 167

This Bill seeks to implement the recommendations that were proposed in the Kemp-Norton Review to retain and extend the demand-driven system of access to higher education, while seeking to maintain the sustainability of the system. However, in not undertaking a comprehensive review of the HELP system, as recommended by Kemp and Norton, the Government appears to have ignored addressing one major aspect of sustainability—the increasing levels of unpaid HELP debt. In addressing the cost of HELP loans it has also chosen a regressive model rather than the more equitable one the reviewers proposed.

However, the most contentious aspect of this Bill is the proposal to remove limits on the fees that providers can charge students and on the amount of debt that students can accumulate. This proposal was not considered as part of the Kemp-Norton Review and was not extensively discussed prior to its announcement in the 2014–15 Budget. It will radically change the Australian higher education system, and its implications are largely unknown. Moving from a tightly controlled and limited system to one open to competition from a wider range of providers across a wider range of courses would appear a reasonable step. To expand it further and remove all controls on price in an imperfect and developing market risks long-term damage to the system. As Peter Dawkins, Vice-Chancellor of Victoria University, has said:

> ...What looks increasingly clear is that it will be a market based system, increasingly shaped by student choice and provider responsiveness. This makes the challenge of design, one of achieving a rigorous and coherent approach to market design. This should be seen as both a challenge and an opportunity. It is not an easy task and carries with it very significant risks. Unless there are some changes to the plan as outlined in the budget, these risks look too high. 168

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**Table 1: HECS contributions for students who commenced before 1 January 1997**

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<thead>
<tr>
<th>Year</th>
<th>$actual pa</th>
<th>$2013–14 pa</th>
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<tbody>
<tr>
<td>1989</td>
<td>1 800</td>
<td>3 669</td>
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<tr>
<td>1990</td>
<td>1 882</td>
<td>3 550</td>
</tr>
<tr>
<td>1991</td>
<td>1 993</td>
<td>3 572</td>
</tr>
<tr>
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<td>2 250</td>
<td>3 958</td>
</tr>
<tr>
<td>1993</td>
<td>2 328</td>
<td>4 053</td>
</tr>
<tr>
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<td>2 355</td>
<td>4 027</td>
</tr>
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<td>1995</td>
<td>2 409</td>
<td>3 991</td>
</tr>
<tr>
<td>1996</td>
<td>2 442</td>
<td>3 880</td>
</tr>
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<td>1997</td>
<td>2 478</td>
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<td>2 644</td>
<td>3 773</td>
</tr>
<tr>
<td>2002</td>
<td>2 702</td>
<td>3 749</td>
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<tr>
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<td>2 764</td>
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</tr>
<tr>
<td>2004</td>
<td>2 830</td>
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</table>

### Table 2: HECS contributions for students who commenced after 1 January 1997 ($actual)

<table>
<thead>
<tr>
<th>Year</th>
<th>National priorities</th>
<th>Band 1 ($ pa)</th>
<th>Band 2 ($ pa)</th>
<th>Band 3 ($ pa)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td></td>
<td>3 300</td>
<td>4 700</td>
<td>5 500</td>
</tr>
<tr>
<td>1998</td>
<td></td>
<td>3 356</td>
<td>4 779</td>
<td>5 593</td>
</tr>
<tr>
<td>1999</td>
<td></td>
<td>3 409</td>
<td>4 855</td>
<td>5 682</td>
</tr>
<tr>
<td>2000</td>
<td></td>
<td>3 463</td>
<td>4 932</td>
<td>5 772</td>
</tr>
<tr>
<td>2001</td>
<td></td>
<td>3 521</td>
<td>5 015</td>
<td>5 870</td>
</tr>
<tr>
<td>2002</td>
<td></td>
<td>3 598</td>
<td>5 125</td>
<td>5 999</td>
</tr>
<tr>
<td>2003</td>
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<td>3 680</td>
<td>5 242</td>
<td>6 136</td>
</tr>
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<td>2004</td>
<td></td>
<td>3 768</td>
<td>5 367</td>
<td>6 283</td>
</tr>
<tr>
<td>2005</td>
<td>Group 1: arts and humanities; justice, legal studies; social science and behavioural science; visual and performing arts; and until 2005 and from 2010: education and nursing.</td>
<td>3 847</td>
<td>4 808</td>
<td>6 849</td>
</tr>
<tr>
<td>2006</td>
<td>Group 2: other health sciences; agriculture and renewable resources; built environment and architecture; science; engineering and processing; and until 2008: business and economics courses; and until 2009 and from 2013: mathematics, statistics and science.</td>
<td>3 920</td>
<td>4 899</td>
<td>6 979</td>
</tr>
<tr>
<td>2007</td>
<td>Group 3: law; medicine and medical science; dentistry and dental services; veterinary science; and from 2008: business and economics.</td>
<td>3 998</td>
<td>4 996</td>
<td>7 118</td>
</tr>
<tr>
<td>2008</td>
<td>Sources: To 2011- Deloitte Access Economics, op. cit.</td>
<td>4 077</td>
<td>5 095</td>
<td>7 260</td>
</tr>
<tr>
<td>2009</td>
<td>2012 Study Assist website, accessed 12 September 2014.</td>
<td>4 162</td>
<td>5 201</td>
<td>7 412</td>
</tr>
<tr>
<td>2010</td>
<td>2013 Study Assist website, accessed 12 September 2014.</td>
<td>4 249</td>
<td>5 310</td>
<td>7 567</td>
</tr>
<tr>
<td>2011</td>
<td>2014 Study Assist website, accessed 12 September 2014.</td>
<td>4 355</td>
<td>5 442</td>
<td>7 756</td>
</tr>
<tr>
<td>2012</td>
<td></td>
<td>4 520</td>
<td>5 648</td>
<td>8 050</td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td>5 868</td>
<td>8 363</td>
<td>9 792</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td>6 044</td>
<td>8 613</td>
<td>10 085</td>
</tr>
</tbody>
</table>
### Table 3: HECS contributions for students who commenced after 1 January 1997 ($2013–14)

<table>
<thead>
<tr>
<th>Year</th>
<th>National priorities</th>
<th>Band 1 ($ pa)</th>
<th>Band 2 ($ pa)</th>
<th>Band 3 ($ pa)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td></td>
<td>5 175</td>
<td>7 370</td>
<td>8 625</td>
</tr>
<tr>
<td>1998</td>
<td></td>
<td>5 265</td>
<td>7 497</td>
<td>8 774</td>
</tr>
<tr>
<td>1999</td>
<td></td>
<td>5 281</td>
<td>7 521</td>
<td>8 802</td>
</tr>
<tr>
<td>2000</td>
<td></td>
<td>5 239</td>
<td>7 461</td>
<td>8 732</td>
</tr>
<tr>
<td>2001</td>
<td></td>
<td>5 024</td>
<td>7 156</td>
<td>8 376</td>
</tr>
<tr>
<td>2002</td>
<td></td>
<td>4 992</td>
<td>7 110</td>
<td>8 323</td>
</tr>
<tr>
<td>2003</td>
<td></td>
<td>4 957</td>
<td>7 060</td>
<td>8 265</td>
</tr>
<tr>
<td>2004</td>
<td></td>
<td>4 956</td>
<td>7 059</td>
<td>8 264</td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td>4 941</td>
<td>6 175</td>
<td>8 796</td>
</tr>
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<td>2006</td>
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<td>4 878</td>
<td>6 096</td>
<td>8 684</td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td>4 832</td>
<td>6 038</td>
<td>8 603</td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td>4 767</td>
<td>5 957</td>
<td>8 489</td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td>4 719</td>
<td>5 897</td>
<td>8 404</td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td>4 709</td>
<td>5 884</td>
<td>8 385</td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td>4 680</td>
<td>5 849</td>
<td>8 335</td>
</tr>
<tr>
<td>2012</td>
<td></td>
<td>4 748</td>
<td>5 933</td>
<td>8 457</td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td>6 027</td>
<td>8 590</td>
<td>10 058</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td>6 044</td>
<td>8 613</td>
<td>10 085</td>
</tr>
</tbody>
</table>

**National priorities:** 2005 to 2009 – education and nursing, 2009 to 2012 – mathematics, statistics and science.

**Group 1:** arts and humanities; justice, legal studies; social science and behavioural science; visual and performing arts; and until 2005 and from 2010: education and nursing.

**Group 2:** other health sciences; agriculture and renewable resources; built environment and architecture; science; engineering and processing; and until 2008: business and economics courses; and until 2009 and from 2013: mathematics, statistics and science.

**Group 3:** law; medicine and medical science; dentistry and dental services; veterinary science; and from 2008: business and economics.

Sources: As per Table 2.
### Appendix B: HELP repayment thresholds and rates and Male Total Average Weekly Earnings (MTAWE)

HELP repayment thresholds\(^{(a)}\) and rates 1988–89 to 2003–04 ($ per annum)

<table>
<thead>
<tr>
<th>Income year</th>
<th>MTAWE $pa</th>
<th>Repayment rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nil</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>1988-89(^{(b)})</td>
<td>25 408</td>
<td>21 999</td>
</tr>
<tr>
<td>1989-90</td>
<td>27 165</td>
<td>23 582</td>
</tr>
<tr>
<td>1990-91</td>
<td>28 959</td>
<td>25 468</td>
</tr>
<tr>
<td>1991-92</td>
<td>30 283</td>
<td>27 097</td>
</tr>
<tr>
<td>1992-93</td>
<td>30 815</td>
<td>27 747</td>
</tr>
<tr>
<td>1993-94</td>
<td>31 758</td>
<td>26 402</td>
</tr>
<tr>
<td>1994-95</td>
<td>33 777</td>
<td>26 852</td>
</tr>
<tr>
<td>1995-96</td>
<td>34 793</td>
<td>19 999(^{(c)})</td>
</tr>
<tr>
<td>1996-97(^{(d)})</td>
<td>35 589</td>
<td>20 593(^{(c)})</td>
</tr>
<tr>
<td>1997-98(^{(d)})</td>
<td>37 037</td>
<td>20 700</td>
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<tr>
<td>1998-99(^{(d)})</td>
<td>37 859</td>
<td>21 333</td>
</tr>
<tr>
<td>1999-00(^{(e)})</td>
<td>38 974</td>
<td>21 983</td>
</tr>
<tr>
<td>2000-01(^{(e)})</td>
<td>40 440</td>
<td>22 345</td>
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<tr>
<td>2001-02(^{(e)})</td>
<td>42 445</td>
<td>23 241</td>
</tr>
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<td>2002-03(^{(e)})</td>
<td>44 580</td>
<td>24 364</td>
</tr>
<tr>
<td>2003-04(^{(e)})</td>
<td>46 246</td>
<td>25 347</td>
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</table>


Notes:

(a) Highest income level at which rate is payable

(b) Introduced from 1 January 1989, so repayment rates were at half the level of later years (that is, 0.5%, 1% and 1.5%)

(c) Repayment at 2% rate was voluntary

(d) Taxable income plus net rental losses
### HELP repayment thresholds and rates 2004–05 to 2014–15 ($ per annum)

<table>
<thead>
<tr>
<th>Income year</th>
<th>MTAWE $pa</th>
<th>Nil</th>
<th>4%</th>
<th>4.5%</th>
<th>5%</th>
<th>5.5%</th>
<th>6%</th>
<th>6.5%</th>
<th>7%</th>
<th>7.5%</th>
<th>8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>48 006</td>
<td>35 000</td>
<td>38 987</td>
<td>42 972</td>
<td>45 232</td>
<td>48 621</td>
<td>52 657</td>
<td>55 429</td>
<td>60 971</td>
<td>64 999</td>
<td>65 000+</td>
</tr>
<tr>
<td>2005-06</td>
<td>50 362</td>
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<td>54 439</td>
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<td>63 062</td>
<td>67 199</td>
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<tr>
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<td>38 148</td>
<td>42 494</td>
<td>46 838</td>
<td>49 300</td>
<td>52 994</td>
<td>57 394</td>
<td>60 414</td>
<td>66 485</td>
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<td>39 824</td>
<td>44 360</td>
<td>48 896</td>
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<td>55 322</td>
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<td>69 405</td>
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<td>77 247</td>
<td>77 248+</td>
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<tr>
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<td>48 066</td>
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<td>64 919</td>
<td>68 336</td>
<td>75 203</td>
<td>80 136</td>
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<tr>
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<td>62 390</td>
<td>67 750</td>
<td>71 126</td>
<td>78 273</td>
<td>83 407</td>
<td>83 408+</td>
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<td>52 572</td>
<td>57 947</td>
<td>60 993</td>
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<td>74 743</td>
<td>82 253</td>
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<td>87 650+</td>
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<td>49 095</td>
<td>54 688</td>
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<td>68 202</td>
<td>73 864</td>
<td>77 751</td>
<td>85 564</td>
<td>91 177</td>
<td>91 178+</td>
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<td>2013-14</td>
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<td>51 308</td>
<td>57 173</td>
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<td>71 277</td>
<td>77 194</td>
<td>81 256</td>
<td>89 421</td>
<td>95 287</td>
<td>95 288+</td>
</tr>
<tr>
<td>2014-15</td>
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<td>68 940</td>
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<td>84 481</td>
<td>92 970</td>
<td>99 069</td>
<td>99 070+</td>
<td></td>
</tr>
</tbody>
</table>


Notes:

(a) Highest income level at which rate is payable

(b) Taxable income plus net rental losses and total reportable fringe benefits amounts

(c) Taxable income plus net rental losses, total reportable fringe benefits amounts and exempt foreign employment income

(d) Taxable income plus any total investment loss (which includes net rental losses), total reportable fringe benefits amounts, reportable super contributions and exempt foreign employment income
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Higher Education and Research Reform Amendment Bill 2014