Dr Michael Spence AC
Vice-Chancellor and Principal

8 June 2017

Senator Gavin Marshall
Chair, Senate Education and Employment Committee
By email: eec.sen@aph.gov.au

Dear Senator Marshall,

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

The University of Sydney urges the Committee to recommend to the Senate that it not pass the Bill in its current form. We believe the Senate should block the Bill because:

1. Australian students will pay more for higher education while providers will receive less to invest in quality education and research;

2. our universities will be weakened at a time when investing in education, skills development, innovation and research has never been more critical to our future prosperity; and

3. elements of the Bill will impose more red tape, while structural funding shortfalls for some courses and for research will worsen – entrenching perverse incentives for providers.

In our **attached** submission we outline our assessment of the likely implications for Australian students, quality education and research, and long-term national productivity and prosperity. We also respond to various claims the government has made in support of the Bill.

If the Committee forms the view that elements of the Bill should be passed, we recommend that most of Schedule 1 is excised, that Schedules 2 and 3 are kept in part, and that Schedules 4 and 5 are retained in full. Our position on each aspect of the Bill is set out in **Appendix 1** to our submission.

We trust the information provided in this submission and the appendices assists the Committee with its consideration of the Bill. We would be happy to provide further information as required.

Yours sincerely,

(Signature removed)

Michael Spence

Attachment	University of Sydney submission on the Higher Education Support Legislation Amendment (A More Sustainable, Responsive and Transparent Higher Education System) Bill 2017
Appendix 1	Summary of University of Sydney positions on key elements of the Bill
Appendix 2	Key supporting data and facts about Australian higher education funding
Appendix 3	University of Sydney initial modelling of impacts of the Federal Government's Higher Education Reform Package, May 2017

Office of the Vice-Chancellor and Principal
Quadrangle A14
The University of Sydney
NSW 2006 Australia

T +61 2 9351 6980
E vice.chancellor@sydney.edu.au
sydney.edu.au

ABN 15 211 513 464
CRICOS 00026A

THE UNIVERSITY OF SYDNEY

8 June 2017

University of Sydney submission on the Higher Education Support Legislation Amendment (A More Sustainable, Responsive and Transparent Higher Education System) Bill 2017

Executive summary

We urge the Committee to recommend to the Senate that it not pass the Bill. The changes proposed do not advance the national interest or further the policy objectives for Australia's higher education system embedded in the Higher Education Support Act.[1]

If the Bill is passed domestic students will pay more, but universities will receive less to invest in the quality of education and research. As a result, the capacity of our universities to contribute to economic, cultural and social development essential to Australia's future prosperity and wellbeing will be weakened.

In the University of Sydney's case, we anticipate a funding cut of $50 million over the next four years in relation to domestic Commonwealth supported students. This cut will follow many others made over the last five years and is accompanied by the redirection to the NDIS of the $3.7 billion remaining in the Education Investment Fund originally established by the Howard government.[2]

The cuts will place further pressure on our ability to invest in quality teaching and support services for students, excellent research, infrastructure, as well as industry and community engagement to translate our research for public benefit.

Notwithstanding the welcome proposed funding increases for students in dentistry and veterinary science courses, the cuts will leave these and many other fields substantially under-funded. To continue to sustain quality courses in many disciplines universities will need to increase student-to-staff-ratios, reduce expenditure on staff and infrastructure for teaching and research, and enrol more fee-paying domestic and international students. Similarly, the reform package's failure to address the indirect costs of supporting research means that universities will continue to have to cross-subsidise this activity to fulfil their missions and remain internationally competitive.

In our submission we discuss the likely implications of the reforms for students, quality education and research in Australia, and for national productivity, innovation and prosperity. We also respond to various claims the government has made in support of its case for reform about funding trends and the state of university finances.

Although our recommendation is that the Bill is not passed, and that instead the government takes a coherent approach based on sound evidence to reforming higher education, if the Committee forms the view that elements of the Bill should be passed, our position on each component of the Bill is set out in Appendix 1.

In **Appendix 2** we present some facts in support of our key points and arguments.

Appendix 3 summarises our initial modelling of the impact we expect the government's proposed funding cuts to have on the University and it various faculties and schools.

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[1] Higher Education Support Act 2003 Cth, Section 2-1
[2] Universities Australia, The Facts on University Funding, April 2017, p.3

Implications for students

Australian university students already pay high fees compared to international benchmarks, while our levels of public investment in tertiary education (vocational and higher education) are relatively low by international standards. See **Appendix 2** p.2 and p.3 for sample OECD data.

If the Bill is passed in its current form students will pay more, providers will receive less, and public funding for higher education will be reduced by four per cent in real terms within four years.[3]

University of Sydney modelling shows that by 2021 Commonwealth supported students will pay up to $804 more each year depending on their course of study, the government's contribution will be cut by up to $1,701, while providers will receive up to $1,015 less in total per student. See **Appendix 3**, p.5 for details.

Students will still be able to defer payment of their contributions through the Higher Education Loan Program (HELP) but they will be required to start repaying their loans at lower income levels and at higher rates than currently.

Students in 'enabling courses' – intended to help prepare them for university-level study – will be required for the first time to pay fees up to $3,271, while the loading the government currently pays for students in enabling courses will be abolished.

Most New Zealand citizens and permanent residents will lose access to Commonwealth supported places and will be required to pay full-fees. While these students will now gain access to the FEE-HELP scheme, we expect the significant increase in cost will deter many from study, or cause them to delay their enrolment until after they obtain citizenship.

Domestic students will have better access to some 'sub-bachelor' courses (diploma, advanced diploma and associate degrees) offered by public universities. However, by expanding demand-driven funding only for certain courses offered by public universities, the Bill will create an uneven funding environment for vocational and higher education providers competing for students in essentially the same market. This and other measures are also likely to increase the cost to the government of the Higher Education Loan Program (HELP), potentially placing even more pressure on future governments to cut the level of funding it provides for Commonwealth supported students.

Implications for education and research

The distinctive roles that universities play as independent and autonomous institutions in society and the economy underpin the objects of the Act the Bill seeks to amend.[4]

Universities are places of free intellectual enquiry, where knowledge is produced and shared, studied and contested, and refined in response to experiment, innovation and critique.

Through their responsibilities in education and training, research and knowledge-translation (including through engagement with governments, industry, communities and internationally), universities are critical to our economic and social progress and wellbeing. A quality university-level education provides students with high-level knowledge, skills and personal qualities that equip them for productive work and a fulfilling life.

[3] Commonwealth Treasury, Budget Paper No.1 (2016-17), Statement 6-18

[4] Higher Education Support Act 2003 (Cth) Section 2-1–Objects of this Act.

The fundamental and applied research that universities undertake:

- expands the boundaries of human understanding for the public good;
- drives innovation through the creation of new processes, technologies and industries; and
- helps nations respond individually and collectively to major national and global challenges.

Research-intensive universities are focal points for international collaboration, attracting the best and brightest from around the world. This allows nations to tap into global networks of expertise and facilities that may be out of reach for one institution or country. This in turn enables countries to apply and adapt advances developed internationally to address their own problems and opportunities.[5]

The best research-intensive universities are creators and custodians of deep knowledge and capability across the disciplines. They offer industry, governments, the media and communities expert advice to tap into as required. This storehouse of knowledge and expertise serves the community by transferring knowledge and understanding into society and from generation to generation through the co-production of education and research.

The funding cuts the Bill proposes will negatively affect the quality and scale of universities' core education and research activities and are at odds with the objectives of the Act. Coming as they do on top of previous cuts to higher education and students of $3.9 billion since 2011, and alongside the closure of the $3.7 billion Education Investment Fund, the reductions the Bill proposes will have implications for the international competitiveness of our universities and for their attractiveness to high quality students and staff.[6]

In the University of Sydney's case, we face cuts of around $50 million over the next four years if the Bill is passed and a real reduction in funding of $15 million annually or 2.7 per cent by 2021. Funding of around $22 million annually will also be 'at risk' each year from 2018 due to the introduction of performance contingent funding for the Commonwealth Grants Scheme (CGS). The lack of clarity about the measures the government will use to assess universities' teaching performance, and as a result drive 7.5 per cent of CGS funding annually, is a significant concern.

The study of university costs undertaken for the government by Deloitte Access Economics (DAE) in 2016 seriously under-represented universities' true operating costs by excluding expenditures related to research, research training and other core activities. The comparable exercise undertaken in 2011 for the Higher Education Base Funding Review, which still had omissions and limitations in relation to the measurement of actual costs, found that all disciplines were under-funded, some seriously so.[7] Notwithstanding the proposed funding increases for dentistry and veterinary science students, the cuts will leave these and other disciplines including agriculture, medicine, and the creative and performing arts substantially under-funded.

The reform package's failure to address the significant under-funding of Commonwealth research grant schemes means universities will continue to need to cross-subsidise this research from student fees and other sources of income. To sustain quality education and research in many fields we will have to further increase student-to-staff ratios, reduce expenditure on staff and infrastructure for teaching and research, and enrol more fee-paying domestic and international students.[8]

[5] The University is also concerned that the government's recently announced changes to the 457 and Employer Nomination Scheme visa programs will negatively affect the ability of Australia's universities and other knowledge-based sectors operating in global markets to attract and recruit talent from overseas to fill vacancies in areas of skills shortage and national priority.

[6] Universities Australia (April 2015) The Facts on University Funding, p.3

[7] Deloitte Access Economics (2011) Higher Education Teaching and Learning Costs

[8] Under current regulations, public universities may only enrol domestic fee-paying students in postgraduate courses, and under strict conditions for a small number of undergraduate units (for example Winter and Summer School programs).

Already, between 2010 and 2016 our international student enrolments increased by almost 6,000 Equivalent Full Time Students (EFTSL) or 68 per cent, compared to less than 700 or 2.8 per cent for Commonwealth supported students. Since 1990, our international student numbers have grown by more than 1,000 per cent, while undergraduate domestic enrolments have increased by just over 50 per cent.

Appendix 3 summarises the financial impacts we expect the Bill will have on the University of Sydney.

Implications for innovation, productivity and national prosperity

It is paradoxical that the government is building a national innovation and science strategy around the vision that Australia will, by 2030, be '*counted within the top tier of innovation nations, known and respected for its excellence in science, research and commercialisation'* while at the same time proposing to cut billions in funding from our higher education system.[9]

While our population continues to increase and age, our levels of national productivity have been slowing for more than a decade.[10] With predictions that five million lower-skilled Australian jobs will be lost in the next decade due to advances in technology, now, more than ever, our future prosperity depends on strengthening our education system at every level.[11] Roles in traditional industries will continue to be replaced by jobs that require higher-level skills and qualifications.

By building foundations of knowledge through research and nurturing innovation through their teaching and knowledge translation, universities have an important role to play in creating the new industries and jobs that will secure our future prosperity.

If we fail to continue to make the transition, we risk leaving many millions of people behind economically and socially. There will be major budget impacts left for future governments and generations to deal with as a result of reduced economic growth, lower tax payments, higher welfare and other costs.

In our assessment, the Bill and the government's associated Higher Education Reform Package will not serve to strengthen the capacity of Australia's universities to support the national innovation system through this critical period of economic transition.

The government's case for the cuts

The government has relied on a range of arguments and assertions to justify its proposed cuts and associated reforms to higher education. These include that:

- the higher education sector needs to do its bit to contribute to budget repair;
- funding for universities is at record levels;
- funding for universities has grown faster than their costs; and
- universities are well-placed to absorb further cuts.

We provide factual evidence and analysis below demonstrating why on each of these points the government is either wrong or has not represented the facts accurately.

[9] https://industry.gov.au/Innovation-and-Science-Australia/Pages/2030-Strategic-Plan.aspx
[10] Commonwealth Treasury (2015) Intergenerational Report 2015; Deloitte Access Economics (2014) Positioning for prosperity: catching the next wave
[11] Committee for Economic Development in Australia (June 2015) Australia's Future Workforce

Contributing to budget repair

The Assistant Minister for Vocational Education and Skill's speech introducing the Bill to the House of Representatives and the explanatory memorandum emphasise the important contribution that the proposed cuts to higher education will make to the task of budget repair. The Minister for Education and Training has made the same point repeatedly in public statements.

Australia's public spending on higher education needs to be viewed in perspective. According to this year's Commonwealth budget papers, in 2016-17 the cost to the government of the higher education sub-function was $9.4 billion, or 2.1 per cent of the Commonwealth's total expenditures of $451 billion. This compares to outlays by the Commonwealth of $24 billion for all other levels of education, $29 billion for defence, $74 billion for health and $156 billion for social security and welfare. See **Appendix 2**, pages 5 & 6.

The cost to the government of supporting the health and social security sub-functions has increased by almost $100 billion in nominal terms over the last decade. This compares to an increase of just under $4 billion for higher education of the same period – about 25 times less. See **Appendix 2**, p.6.

The government's focus on achieving short-term savings from higher education will risk higher costs to future governments in other areas. The Assistant Minister noted when introducing the Bill that *'graduates enjoy consistently higher employment and incomes than those who only complete schooling.'*

Cutting funding for higher education and students now, will make it more likely that the costs of supporting our social security, health and other system will be even higher in the future. Ironically, future governments will also have less tax revenue with which to balance their budgets.

Trends in funding for Australian higher education

Four trends are evident in funding for Australian universities. The total nominal cost to the government of supporting higher education is rising, and will continue to rise as the population and higher education participation rate increase. *But*, as a share of GDP and total government outlays, the cost to the taxpayer of supporting the higher education system is not increasing. The real value of the funding many providers – including the University of Sydney – receive for each Commonwealth supported student has not changed since 2010. Sector-wide, the real value of base funding per student has improved marginally at best in twenty years. Finally, Australia's share of public investment in higher education is already relatively low by international standards, while the trend over the last 25 years has been for Australian students to pay more. See **Appendix 2**, pages 2-9.

Trends in university costs

When introducing the Bill to the House of Representatives, the Assistant Minister for Vocational Education and Training made the following claim regarding a report on university costs the government commissioned from Deloitte Access Economics:

> *The report shows that the cost for universities to deliver bachelor level courses increased by 9.5 per cent between 2010 and 2015. Over the same period funding for university students increased by 15 per cent.*

Minister Birmingham has made the same claim in numerous public statements. It also appears in the material released by the department about the reforms and in Explanatory Memorandum to the Bill.

The University of Sydney participated in the two DAE costing studies on which the government has relied heavily as justification for its proposed cuts. DAE's 2016 report did not in fact show that universities' costs had grown by 9.5 per cent between 2010 and 2015. DAE made clear it that its report could not be used to draw conclusions about changes in universities' costs over the five years.[12] They also cautioned against the report being used to make judgments about the adequacy of university funding, especially because all research costs were explicitly excluded from the methodology.[13]

Yet the government has relied on the DAE report to imply that universities have been pocketing public funding beyond the costs of their operations. While we reject such claims, we do welcome the government's commitment to work with universities to develop a more robust method for understanding their operating costs, including the extent to which they are required to cross-subsidise their research activities. **Achieving transparency about university revenues and costs should provide an evidence-base on which a more coherent and sustainable funding model can be built.**

University 'surpluses'

As not-for-profit organisations, universities are bound by law to prepare their annual financial accounts according to an Australian accounting standard that requires them to book the majority of their income on receipt of payments. However, much of the income universities receive in any given year is for specific research or other activities that must be held over to meet expenses that will arise in the next or subsequent years. There are also additional requirements regarding the treatment of income from philanthropy, which can only be spent on the specific purpose nominated by the donor or to maintain the value of the donor's gift in perpetuity. The current accounting requirements recognise these aspects as income on receipt and this therefore serves to artificially inflate the true state of university finances.

For example, in the University of Sydney's case, our true operating margin in 2016 was not the $140 million or 6.5 per cent of revenues reported in our official accounts, but rather $10.5 million or less than one percent of total revenues. See **Appendix 2**, p.10.

The Australian Accounting Standards Board recently released a new revenue accounting standard for not-for-profits (AASB 1058 'Income of Not-for-Profit Entities') that will partially address this issue following its mandatory implementation from 1 January 2019.

Notwithstanding these recognised weaknesses in the current accounting standards for not-for-profits, the government has characterised universities' headline operating margins as 'surpluses' that can be readily accessed to absorb the proposed cuts. This is not the case.

Infrastructure investment

The government has pointed to universities' (including the University of Sydney's) recent or planned investments in new infrastructure as evidence of largesse. The reality of the situation is quite different to how it has been portrayed.

- There is no longer any dedicated source of federal funding to support new investment in university education and research infrastructure.

- In the University of Sydney's case, our planned future investment in new infrastructure is being funded through a combination of a $500 million commercial loan, our conscious efforts to reduce operating costs and to diversify and increase our revenues from non-government sources.

- Our recent and planned investment in new educational and research infrastructure has been vital due to the under-investment that has occurred over the previous 15 years. In the case of our Business School, investment in new facilities has been vital to accommodate rapidly growing numbers of international students.

[12] Deloitte Access Economics (December 2016) Cost of delivery of higher education, Final Report, p.i, p.x, p.xi, p.xxii
[13] ibid, p.(xxii)

- Many universities' recent investments in new education and research infrastructure (including two landmark facilities at the University of Sydney) were only made possible by funding from the Education Investment Fund (EIF), and the Capital Development Pool (CDP) – both competitive application-base schemes designed to support new infrastructure in areas of identified strategic priority to the government.

    - The CDP was abolished in 2012 with the government arguing that the scheme was no longer needed due to the existence of the EIF.
    - No funding has flowed from the EIF since 2012 and the government has now committed to redirect the $3.7 billion in funds remaining in the EIF to help meet the cost of the National Disability Insurance Scheme (NDIS).

- Meanwhile our universities, particularly those with ageing infrastructure and major research facilities, continue to face significant challenges meeting the cost of maintaining infrastructure. For example:

    - A report commissioned by the federal government estimated in 2015 that Australian universities face backlog maintenance and refurbishment liabilities of about $4 billion.[14]
    - The University of Sydney's current backlog maintenance and refurbishment liability is $380 million.
    - Based on a 25-year asset refit/replacement lifecycle, industry best practice would see institutions dedicating an average of four per cent of Asset Replacement Value (ARV) to maintenance and refurbishment annually. Despite the University of Sydney's best efforts, for the last 15 years we averaged reinvestment levels of below 2.5 per cent of ARV.

Conclusion

Australia's future prosperity will depend largely on how successful we are in diversifying and strengthening our economy. Ensuring we have a strong education system, from pre-school, through to higher education is essential if we are to equip students with the knowledge and skills they will need for success in a rapidly changing world.

In our assessment, the Bill and the government's associated Higher Education Reform Package will weaken the capacity of our universities to support the nation's economic and social development. We therefore urge the Committee to recommend to the Senate that it not pass the Bill in its current form.

If the Committee forms the view that elements of the Bill should be passed, we recommend that most of Schedule 1 is excised, that Schedules 2 and 3 are kept in part, and that Schedules 4 and 5 are retained in full. Our position on each aspect of the Bill is set out in **Appendix 1** to our submission.

We trust the information provided in this submission and the appendices assists the Committee with its consideration of the Bill. We would be happy to provide further information as required.

Appendix 1 Summary of University of Sydney positions on key elements of the Bill

Appendix 2 Key supporting data and facts about Australian higher education funding

Appendix 3 University of Sydney initial modelling of impacts of the Federal Government's Higher Education Reform Package, May 2017
Appendix 3 has two appendices

[14] Higher Education Infrastructure Working Group Final Report (2015), pp.9&10

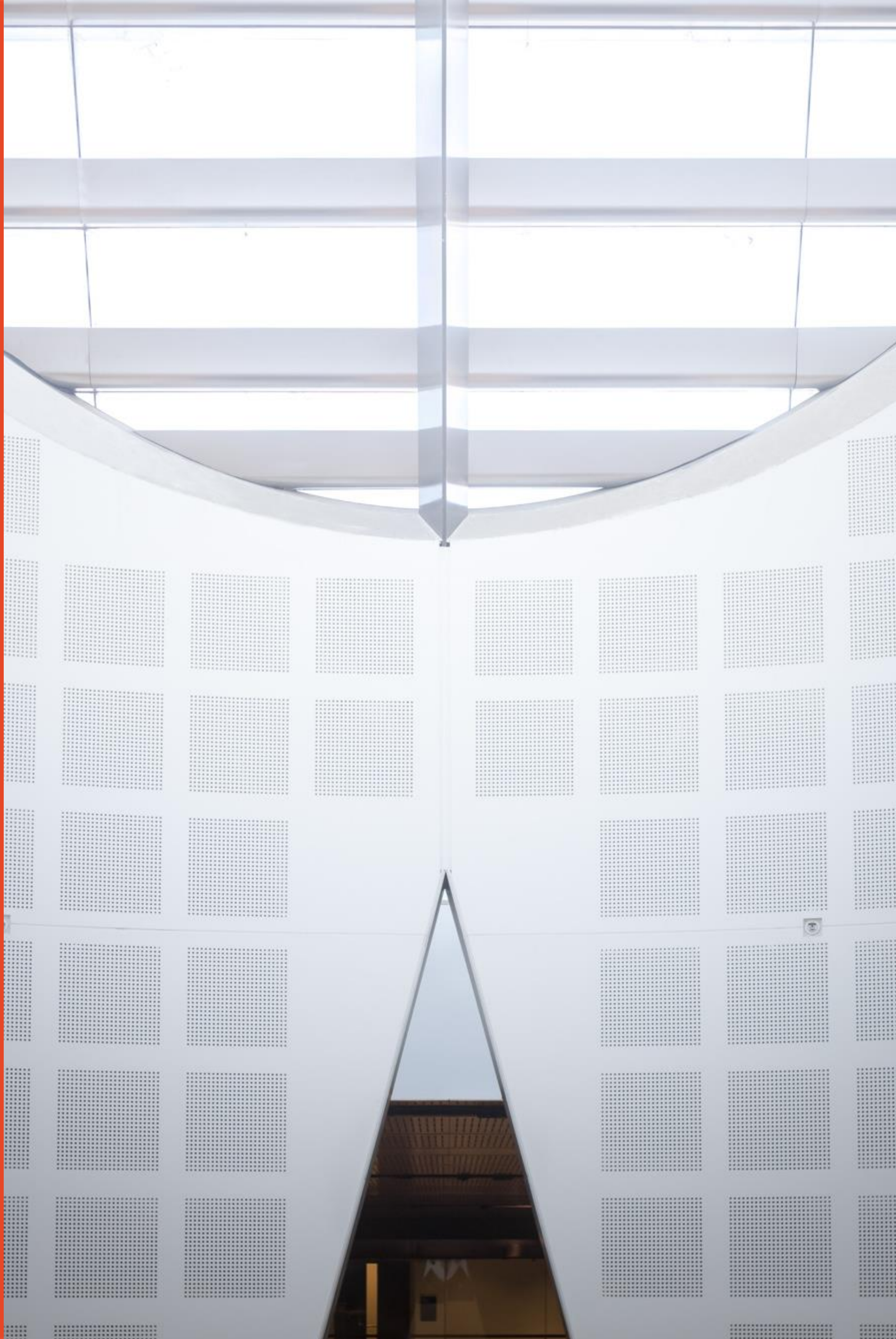
Appendix 1

University of Sydney positions on key elements of the Higher Education Support Legislation Amendment (A More Sustainable, Responsive and Transparent Higher Education System) Bill 2017

Component	Recommendation
Schedule 1 - Proposed recalibration of the costs of higher education between taxpayers, higher education providers and students	
Items 1 & 2 - Extend existing medical loading to veterinary science and dentistry	**Retain**
Item 3 - Reduce the Commonwealth's contribution per student by 7.5% over four years from 2018	**Remove**
Item 4 - Increase maximum student contributions by 7.5% over four years from 2018	**Remove**
Item 5 - Remove enabling loading and allow providers to charge student contributions for enabling courses from 2019	**Remove**
Item 6 - Apply indexation to maximum student contributions, including for enabling courses	**Retain**
Item 7 - Apply a 2.5% efficiency dividend on providers in 2018 and 2019	**Remove**
Schedule 2 – Reform of the Commonwealth Grant Scheme (CGS) in relation to enabling, sub-bachelor and non-research non-medical postgraduate Cth Supported Places	
Items 1,2, 3, 7 & 13 - technical amendments largely to give effect to the proposed changes to funding and fees for enabling courses	**Retain elements relating to enabling courses**
Items 4, 5, 12 & 14 - expand demand-driven funding to approved sub-bachelor courses from 2018	**Retain with amendments to provide competitive neutrality and safeguard quality**
Items 15 &16, 18 &19, 20-22, 25-39 - Enable the Commonwealth to enter into funding agreements (including for payments under the CGS and HECS-HELP schemes) with non-Table A providers under certain circumstances. Introduce performance funding for 7.5% of CGS funding. Table A providers are public Australian universities. Table B providers are Australian private universities. Table C providers are foreign universities registered to operate in Australia.	**Retain except for the elements relating to CGS performance funding and the introduction of a Commonwealth Scholarship Scheme for supported postgraduate places**
Items 17, 23 & 24, 40-41 - Introduce a scholarship scheme for allocating Commonwealth Supported postgraduate places	**Remove**
Items 42-49 - Technical and incidental amendments	**Retain with amendments**
Items 50-56 - Transition arrangements	**Retain with amendments**
Schedule 3 - **Proposed changes to HELP Eligibility and student repayment rules**	
Items 1-7, 9-33 - Remove access to Cth Supported Places from most permanent residents and most New Zealand citizens, and provide these students with access to the FEE-HELP, OS-HELP and SA-HELP loan schemes	**Remove**
Item 8 - technical and incidental amendment	**Retain**
Items 34-47 - Changes to students minimum repayment income, repayment thresholds and related matters	**Retain**
Schedule 4 - **Embed funding arrangements for the Higher Education Participation and Partnerships Program HEPPP in the Act**	**Retain with amendments to ensure that HEPPP funds are used for their intended purposes**
Schedule 5 - **Minor and technical amendments**	**Retain**

Appendix 2 - Key supporting data and facts about Australian higher education funding

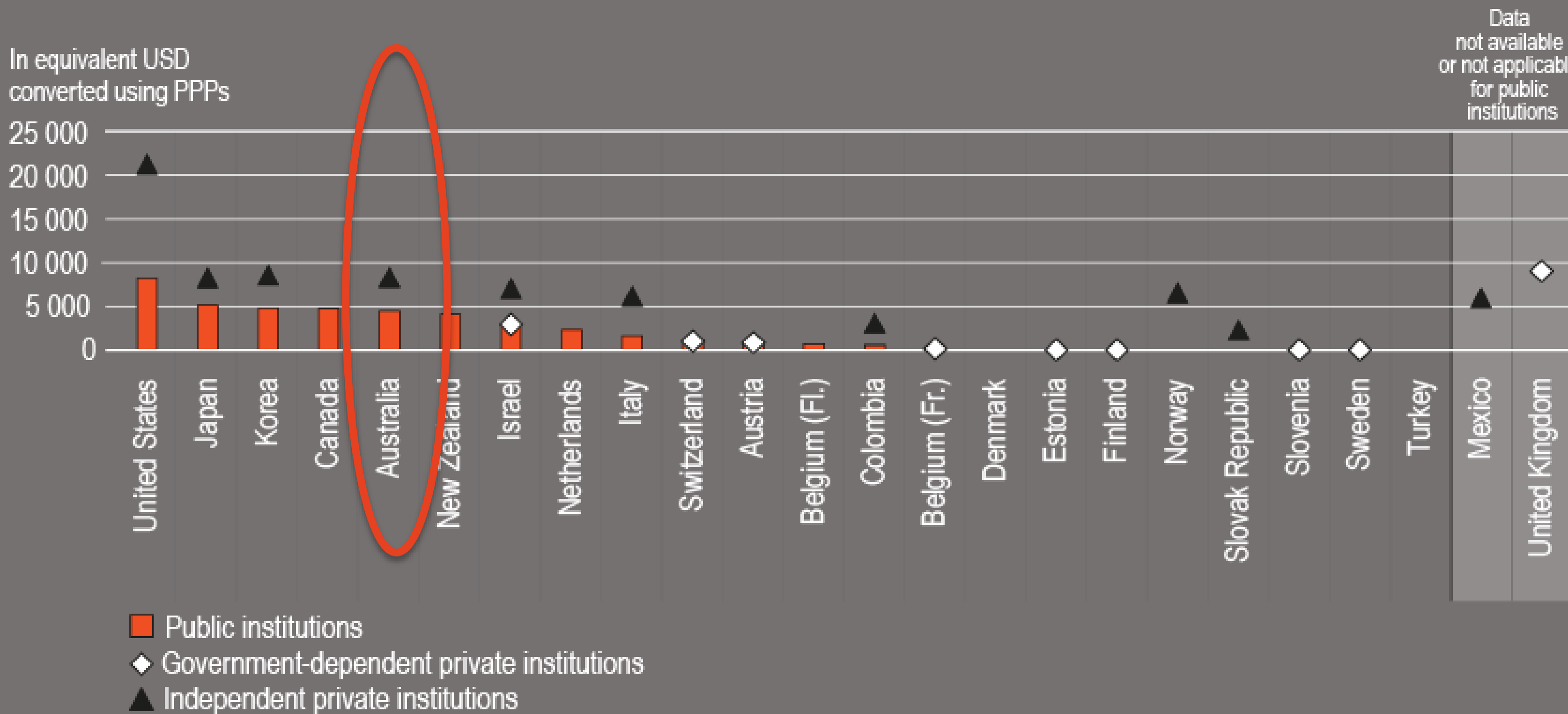
THE UNIVERSITY OF SYDNEY



FACT 1 – AUSTRALIAN UNIVERSITY STUDENTS ALREADY PAY RELATIVELY HIGH FEES

Tertiary fees charged at public and private institutions at bachelor's or equivalent level (2013/14)

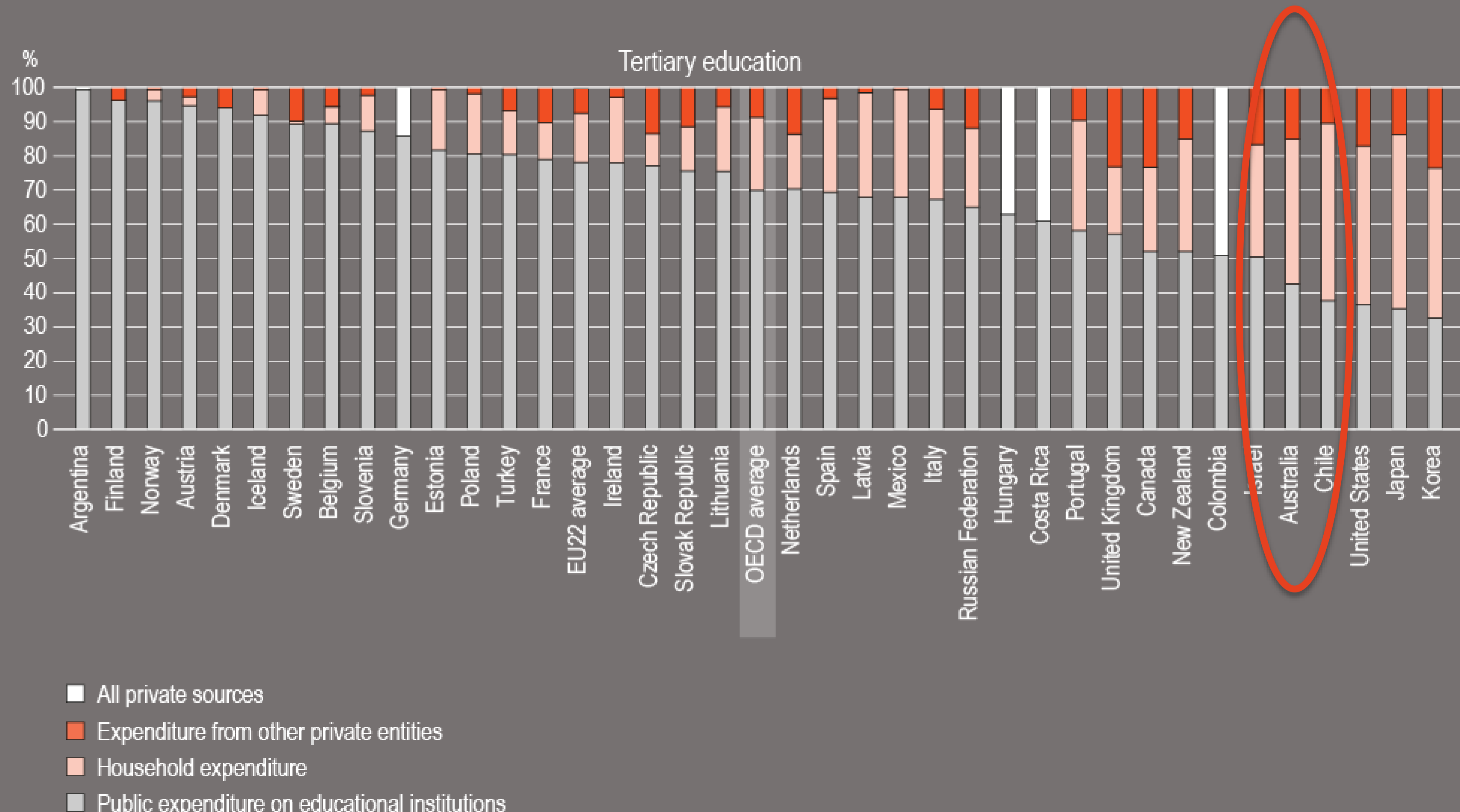
Average annual tuition fee charged to full-time national students, converted to USD using PPPs for GDP, academic year 2013/14



Source, OECD Education at a Glance 2016, p.234

FACT 2 – AUSTRALIA'S LEVEL OF PUBLIC INVESTMENT IN TERTIARY EDUCATION IS ALREADY LOW BY INTERNATIONAL STANDARDS

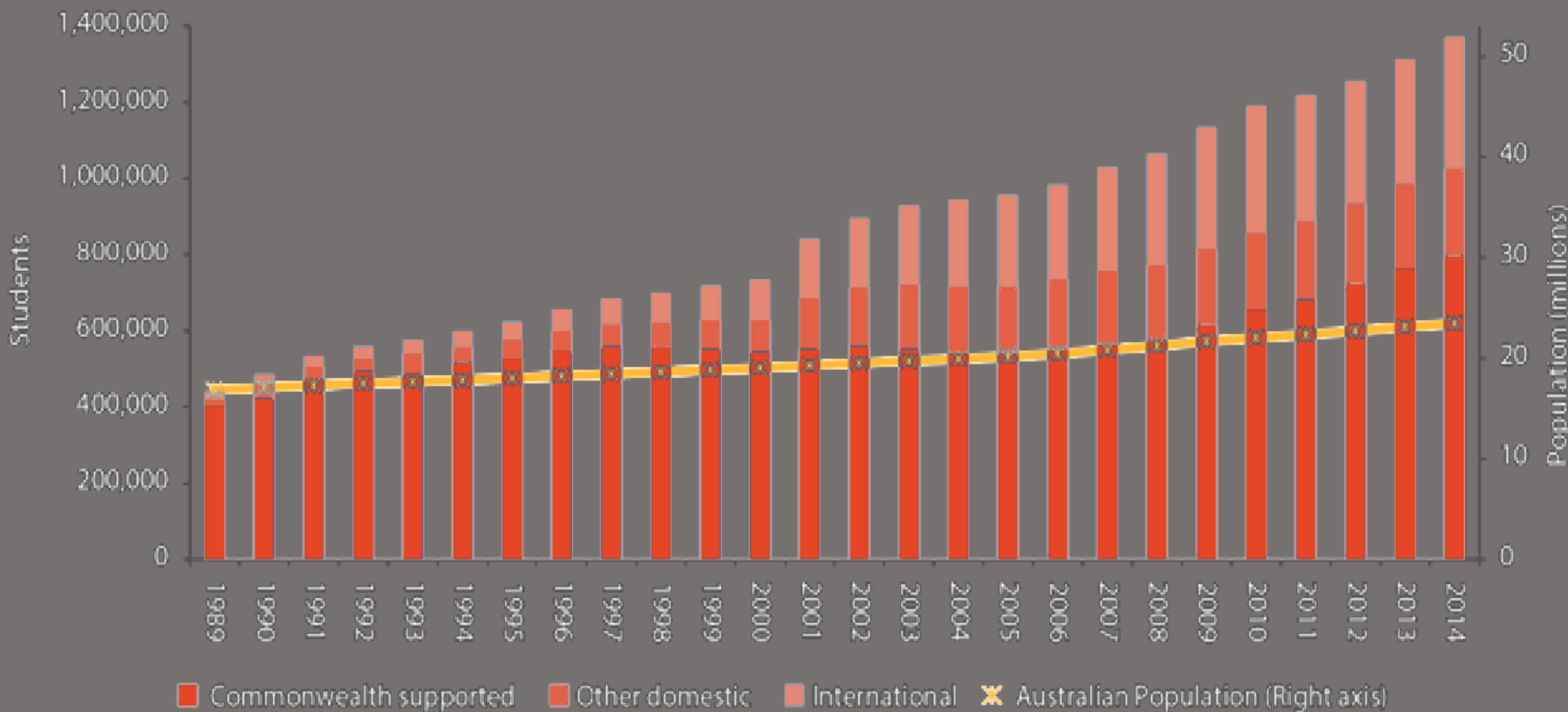
Distribution of public and private expenditure on tertiary education institutions (2013)



Source, OECD Education at a Glance 2016, p.213

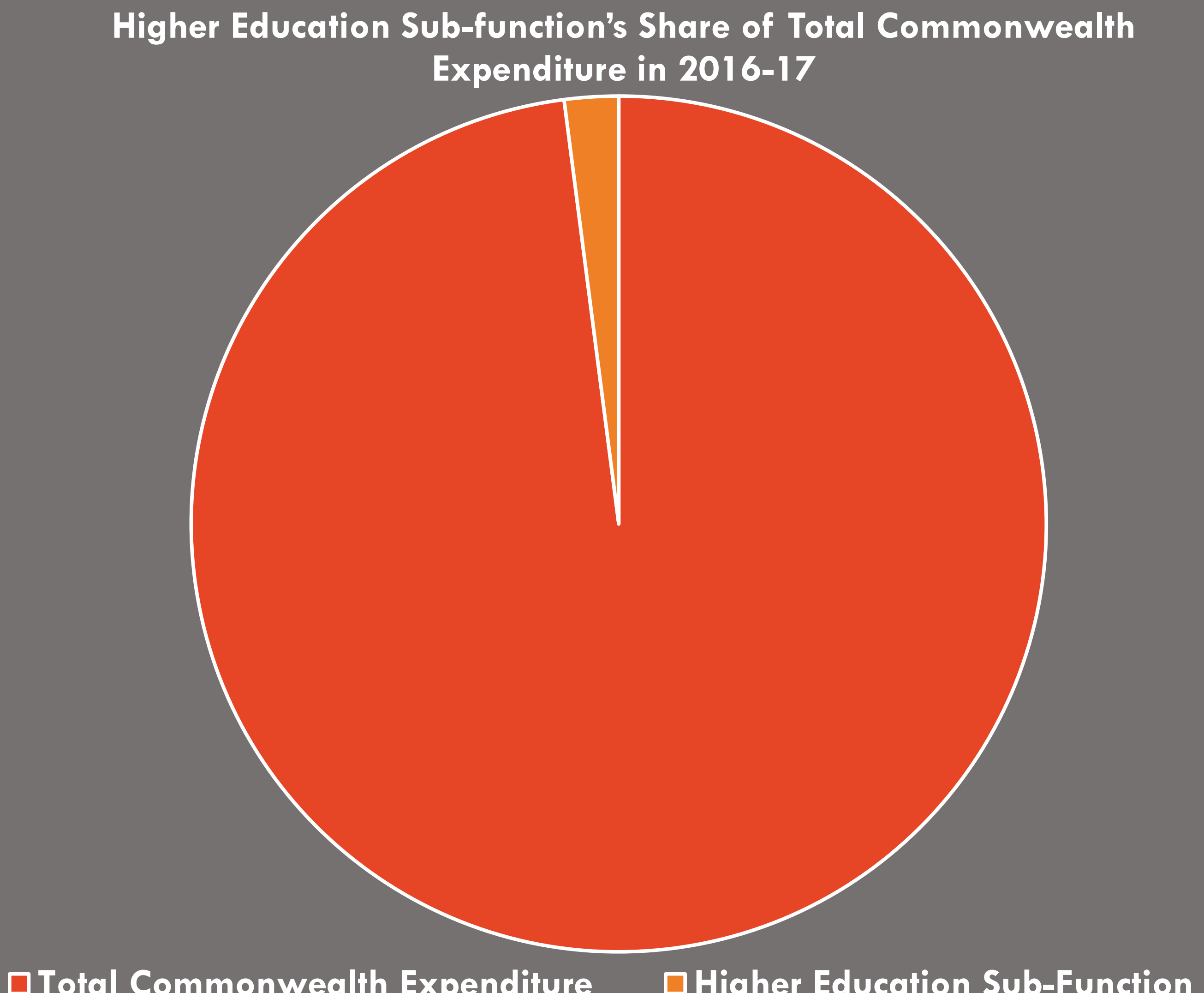
FACT 3 – THE COST OF SUPPORTING THE HIGHER EDUCATION SYSTEM IS INCREASING BECAUSE PARTICIPATION CONTINUES TO INCREASE

Trends in higher education participation in Australia



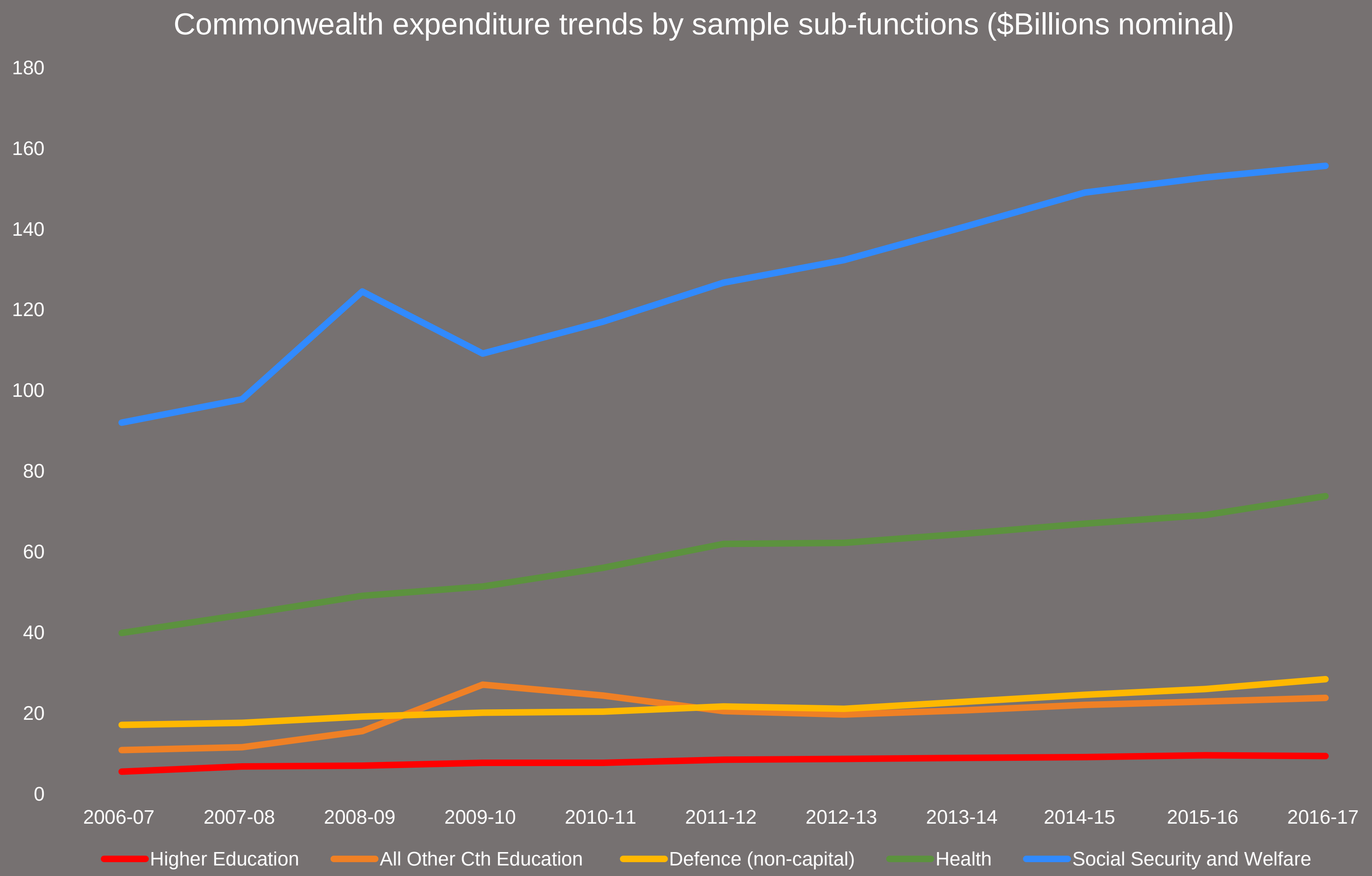
Source, Commonwealth Department of Education and Training,
Driving Innovation, Fairness and Excellence in Australian Higher Education, Options Paper, May 2016, p.6

FACT 4 – FEDERAL GOVERNMENT EXPENDITURE ON HIGHER EDUCATION ACCOUNTS FOR JUST 2 PER CENT OF TOTAL GOVERNMENT COSTS



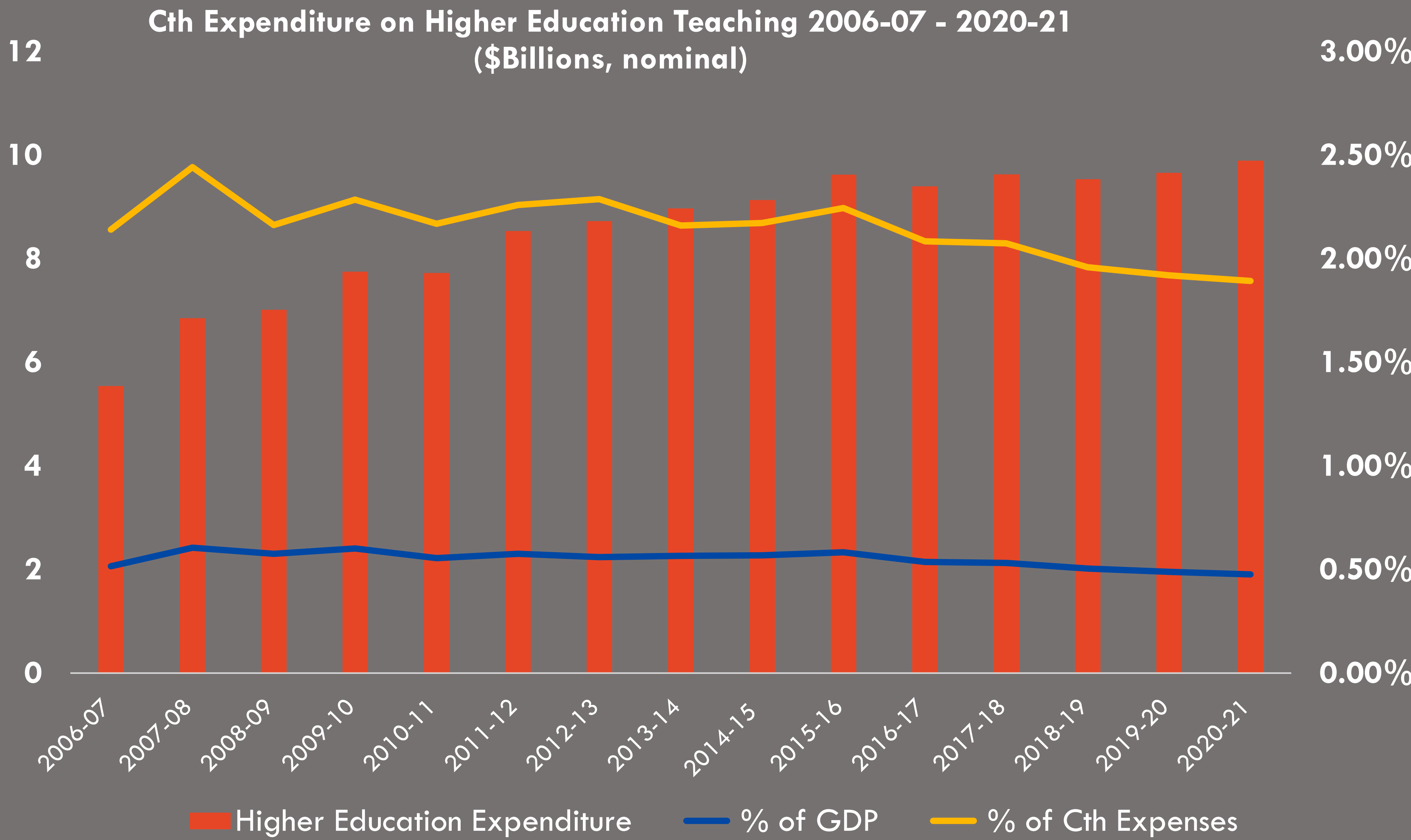
Source, Commonwealth Budget 2017-2018, Budget Paper 1, p.6-7 & p.6-18

FACT 5 – CUTTING FUNDING FROM AUSTRALIA'S UNIVERSITIES CANNOT FIX THE BUDGET PROBLEM



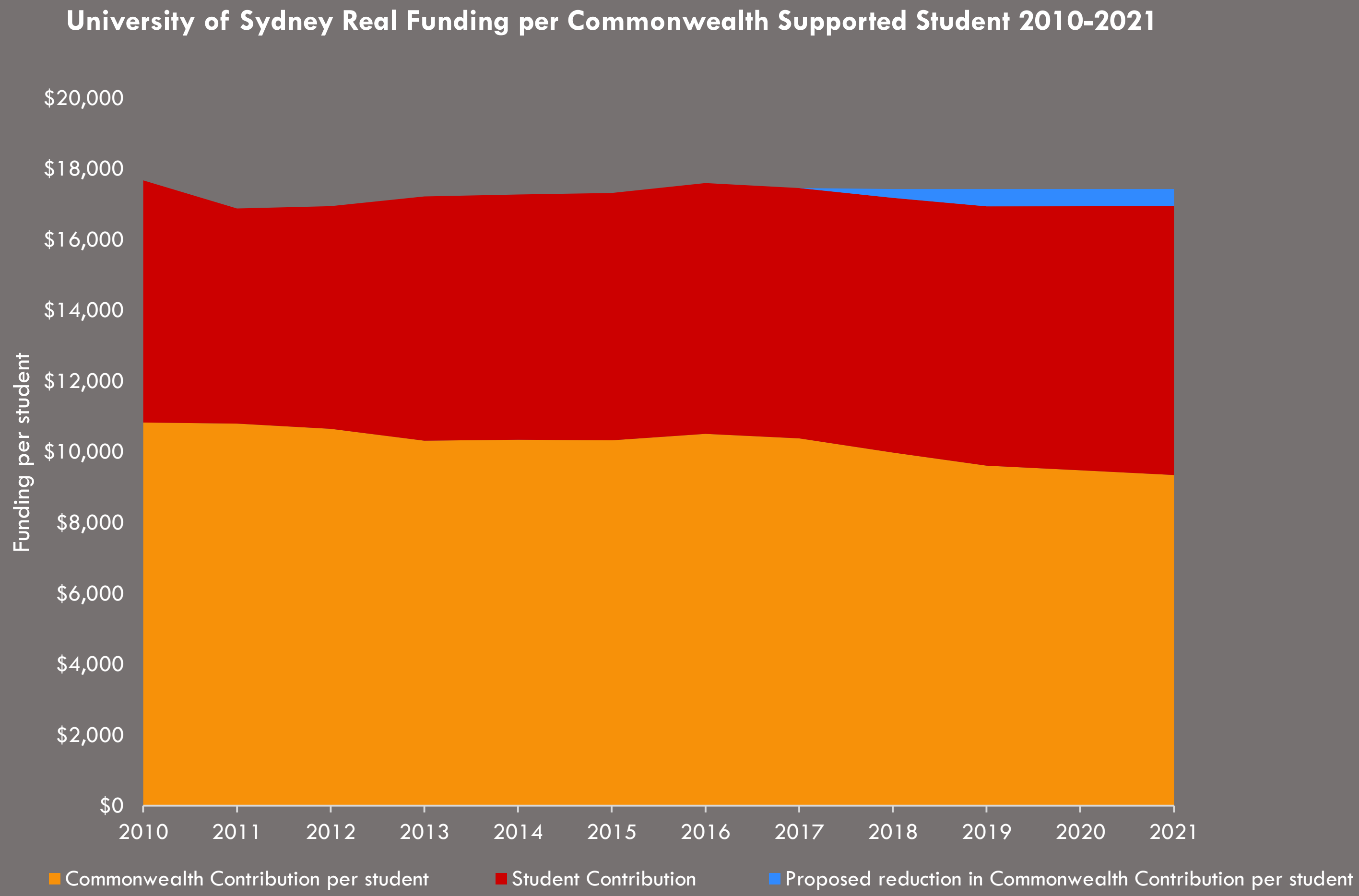
Source, Commonwealth Budget Paper No.1 2006-2017

FACT 6 – FEDERAL FUNDING FOR HIGHER EDUCATION IS NOT GROWING AS A SHARE OF GDP OR OF TOTAL GOVERNMENT OUTLAYS



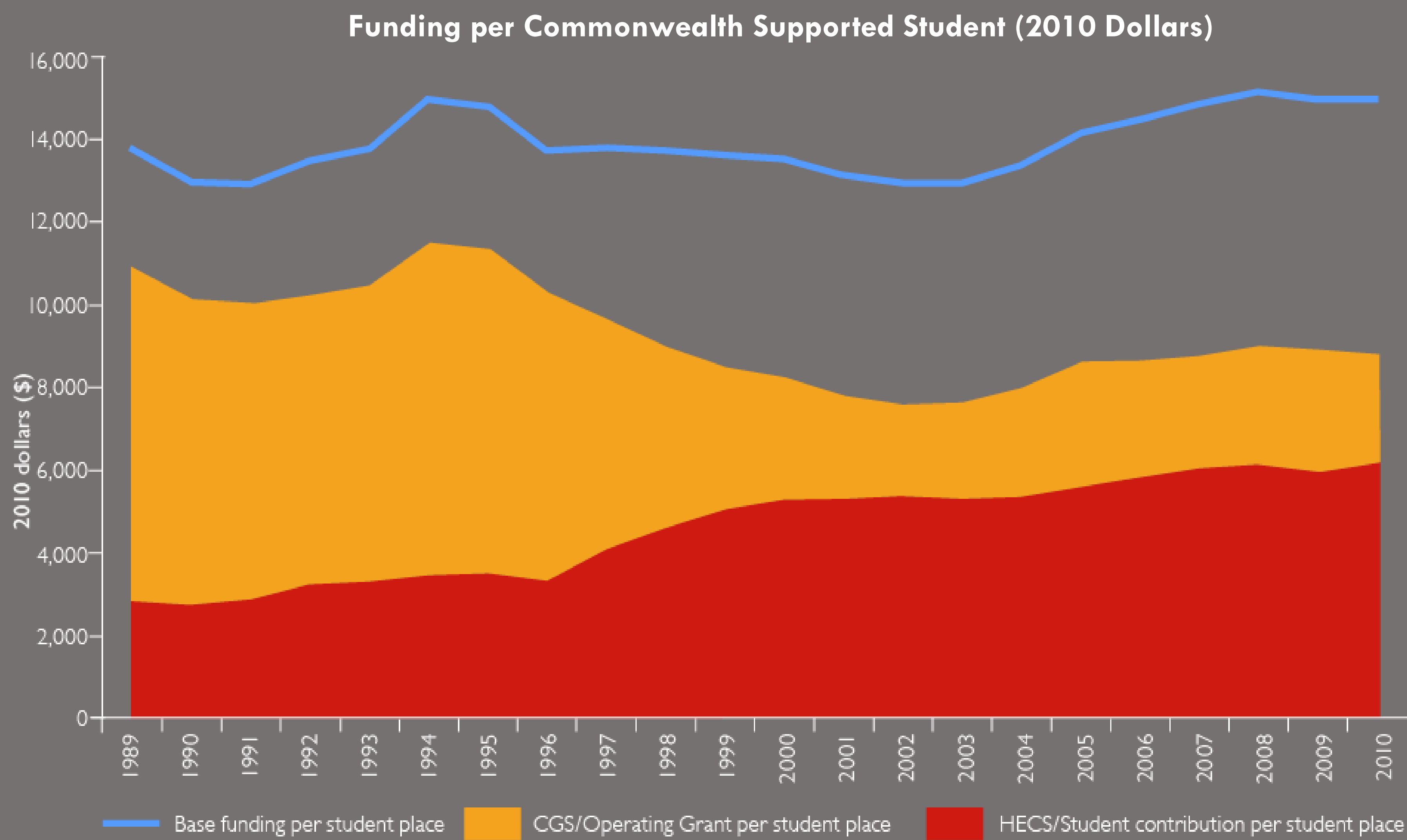
Source, Commonwealth Budget Paper No.1 2006-2017

FACT 7 – THE REAL VALUE OF FUNDING THE UNIVERSITY OF SYDNEY RECEIVES FOR EACH COMMONWEALTH SUPPORTED STUDENT IS NOT INCREASING. IT WILL BE REDUCED IF THE BILL IS PASSED.



Amounts adjusted to 2010 dollars using the relevant Higher Education Indexation Factor (HEIF) and Higher Education Grants Index (HEGI) applied to Commonwealth and Student Contributions.

FACT 8 – THE LONG TERM TREND IS TOWARDS STUDENTS PAYING MORE, AND THE GOVERNMENT LESS



Source, Base Funding Review, Final Report (2011), p.4

FACT 9 – AUSTRALIAN UNIVERSITIES ARE NOT MAKING HUGE SURPLUSES

University of Sydney true operating results 2016 and 2015

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	2016 $m	2015 $m
Operating revenue	2,167.4	2,030.4
Operating expenses	2,027	1,872.1
Operating margin	140.4	158.2
Deductions		
Philanthropic funds	-93.3	-69.4
Investment funds	-15.5	-38.1
Capital grants	-5.8	-10.6
Specific purpose grants	10.3	34.1
Underlying operating result	10.5	6
Share of revenues	0.5%	0.3%

Source, University of Sydney Annual Reports 2015 and 2016

Date	29 May 2017

Paper title	Expected funding impacts on the University of Sydney of key elements of the Federal Government's Higher Education Reforms
For further information	Mr Tim Payne, Director, Higher Education Policy and Projects, Office of the Vice-Chancellor and Principal, tim.payne@sydney.edu.au; 02 9351 4750

EXECUTIVE SUMMARY

In response to the Federal Government's 10 May 2017 Budget measures, the University has conducted initial modelling of the likely impact on it of key measures contained in the proposed Higher Education Reform Package.[1] A summary of the modelling undertaken and the likely outcomes, as well as the assumptions and limitations of the modelling, are presented below and in the two attachments. The key findings of this initial modelling are:

1. A funding reduction for the University of $51.4 million over the four years 2018-2021 arising from the combined impacts of the proposed efficiency dividend, increases in student contributions and corresponding reductions in Commonwealth contributions for each supported student. As a result of these measures, by 2021 the University's base funding will be $15 million less than it would otherwise have been - representing a 2.7% real funding cut. **Appendix 1**

2. The cuts will be felt across all of the University's faculties but around 70% of the impact relates to students enrolled in four of our larger faculties: Science; Arts and Social Science; Medicine and Engineering Information Technologies. **Appendix 1**

3. A net funding increase of $2.3 million over the four years arising from the combined impacts of the extension of medical student loading to veterinary science and dentistry units and of the application of the efficiency dividend to these loadings.

4. Approximately $22 million annually from 2018 will be 'at risk' as a result of the Government's decision to make 7.5% of Commonwealth Grant Scheme (CGS) funding performance contingent. **Appendix 1**

5. Based on available information, it is not possible to accurately predict the likely impact on the University's revenues of the Government's proposed introduction of changes to fee and payment arrangements for New Zealand citizens and most permanent residents, or of the proposed student-centred model for the allocation of postgraduate Commonwealth Supported Places (CSPs). Further modelling of these measures will be undertaken as additional information becomes available.

BACKGROUND / CONTEXT

The Higher Education Reform Package proposes a number of measures that will affect the University's funding. For this initial modelling, the following key reform proposals were identified as likely to have an impact on revenues related to Commonwealth supported students:

1) The changes to student contribution amounts and funding cluster rates from 2018 comprising:

    a. increases to student contribution amounts of 1.824% annually for the next four years (7.5% by 2021), with a corresponding reduction in the Commonwealth contribution per Equivalent Full Time Student Load (EFTSL).
    b. The application of an efficiency dividend to funding cluster amounts under the CGS in 2018 and 2019.

2) The extension of the existing Medical Student Loading to veterinary science and dentistry units of study starting in 2018 (currently $1394 per EFTSL in 2017).

[1] https://www.education.gov.au/higher-education-reform-package-0

3) The introduction of a performance-based element to CGS funding, for 7.5% of total CGS funding annually from 2018.

4) The removal of Commonwealth Contributions for most New Zealand citizens and Australian permanent residents for students commencing after 1 January 2018.

5) The introduction of a student-centred model for distribution of postgraduate CSPs.

OUTCOMES OF THE UNIVERSITY'S INITIAL MODELLING

Impacts of the efficiency dividend, changes to student and Commonwealth contributions

The modelling shows that the combined impact on the University of these measures is approximately -$7.3 million in 2018, rising to -$14.5 million in 2019 before levelling out, for a total of -$51.4 million over the next four years.

Year	2018	2019	2021	2021	Total 2018-2021
$ Variance to current funding	-$7.3m	-$14.5m	-$14.7m	-$14.9m	**-$51.4**
% Variance to current funding	-1.42%	-2.78%	-2.76%	-2.73%	

Assumptions
All modelling and variances presented are in comparison to a business as usual position based on the continuation of current funding arrangements (indexation from current 2017 rates, no change to student contribution amounts or funding clusters and no efficiency dividend). The modelling undertaken is based on current 2017 CSPs load by funding cluster, student contribution (HECS-HELP) band and faculty of teaching, with a small increase to reflect the likely year end position. Beyond this, no assumptions about growth in future years have been included.

All CGS rates for future years are based on actual published yearly rates for 2018-2021 provided by the Government. These published rates exclude indexation in the years 2019-2021 and estimated indexation of 2% has been applied in the modelling. All HECS-HELP rates for future years are based on the published 2018 rates, with estimated future HECS-HELP amounts based on the Government's advised increase of 1.824%p.a plus indexation.

See **Appendix 1** for a breakdown of the expected impacts on the University's individual faculties.
See **Appendix 2** for the changes to the Commonwealth and student contributions rates by funding cluster on which the modelling is based.

New loading for veterinary science and dentistry units

The modelling shows that medical student loading will reduce by $229,000 over four years, assuming the efficiency dividend is applied to loading amounts. However, veterinary science and dentistry units will receive new loading, approximately $625,000 in 2018 and $2.5 million over the next four years.

In this modelling, we assume that the loading value will remain consistent with the medical student loading rate and that the amounts will be subject to CPI increases in future years. The loading amounts include the efficiency dividend in 2018 and 2019.

Based on current arrangements for medicine, the modelling assumes that the loading will be restricted to professional qualifications - that is, to courses leading to registration as a veterinarian or dentist. If the Bachelor of Oral Health also qualifies, additional funding will be forthcoming, however this is not currently included in the estimates.

See **Appendix 1** for details.

Performance contingent funding

The Government has proposed that 7.5% of CGS funding will be performance contingent. Using the CGS amounts outlined in modelling for efficiency dividend impacts, the estimated value of the funding potentially at risk is $21.9 million in 2018 and a similar value in future years. Over the four-year period to 2021, this amounts to approximately $87 million of funding that could be at risk if the University does not reach KPIs to be agreed with the Government. Limited detail about the method of distributing this funding is available, therefore modelling is of low certainty, beyond this upper level estimate. However, the Government has indicated that funding forfeited by low-performing institutions will be redistributed to other institutions, therefore opportunities for increased revenue may exist. The modelling does not currently attempt to estimate this.

See **Appendix 1** for details, including estimates by faculty of CGS funding potentially at risk.

Changes to New Zealand citizens and permanent residents

Under current arrangements, most Australian permanent residents and most New Zealand (NZ) citizens are treated as domestic students for the purposes of receiving a CGS subsidy but are not eligible for HELP loans to meet the cost of their student contributions.

Under the proposed reforms, from 1 January 2018 most NZ citizens and permanent residents will cease to be eligible for CSP places and instead will be required to enrol as fee-paying students, with access to FEE-HELP loans. The change will apply to commencing students in 2018 onwards. NZ students and other permanent residents currently enrolled will continue under the existing arrangements.

Approximately 500 EFTSL NZ students currently commence studies with the University of Sydney each year. Modelling of the impacts of this change is currently difficult, due to a lack of certainty around how future prospective students affected by this measure are likely to respond to the fee increases this change will introduce. Uncertainty over how prospective NZ and permanent resident students respond to the Government's new requirements for Australian citizenship adds another level of uncertainty. Additional modelling will be undertaken as details become available.

Introduction of a 'student-centred' model for allocation of Postgraduate CSPs
Modelling of the impacts of this change are currently difficult, due to a lack of clarity around the proposed process and intelligence on the likely student behaviour. Additional modelling will be undertaken as details arise.

Appendix 1 Outcomes of modelling - Higher Education Reform Package

Appendix 2 Impacts on base funding (CGS + HECS) - per EFTSL breakdown by cluster and student contribution band

THE UNIVERSITY OF SYDNEY

Date	29 May 2017

Appendix 1
Outcomes of modelling – Higher Education Reform Package

BAU vs proposed changes	Changes to Student Contribution and CGS Amounts: Efficiency Dividend + HECS / CGS changes: Variance to Total CSP Funding ($,000)		Medical, Veterinary and Dental Loading ($,000)		Total Impact of proposed changes to CSP funding ($,000)		7.5% Performance Contingent Funding ($,000)	
Teaching Area	2018	2018-2021	2018	2018-2021	2018	2018-2021	2018	2018-2021
Arts and Social Sciences	-$1,754	-$12,637			-$1,754	-$12,637	($4,625)	($18,210)
University of Sydney Business School	-$348	-$2,455			-$348	-$2,455	($305)	($1,004)
Dentistry	-$111	-$781	$153	$619	$42	-$162	($397)	($1,591)
Engineering and Information Technologies	-$813	-$5,709			-$813	-$5,709	($2,720)	($10,852)
Health Sciences	-$531	-$3,612			-$531	-$3,612	($1,821)	($7,251)
Medicine (Sydney Medical School)	-$984	-$6,920	-$32	-$229	-$1,016	-$7,148	($3,449)	($13,798)
Nursing and Midwifery	-$265	-$1,870			-$265	-$1,870	($925)	($3,702)
Pharmacy	-$173	-$1,155			-$173	-$1,155	($632)	($2,522)
Science	-$1,690	-$11,934	$472	$1,908	-$1,218	-$10,026	($5,560)	($22,167)
School of Architecture, Design & Planning	-$213	-$1,462			-$213	-$1,462	($687)	($2,727)
Sydney Conservatorium of Music	-$203	-$1,459			-$203	-$1,459	($637)	($2,539)
Sydney Law School	-$180	-$1,273			-$180	-$1,273	($132)	($412)
DVC Indigenous Strategy and Services	-$1	-$8			-$1	-$8	($3)	($11)
DVC Registrar	-$0	-$3			-$0	-$3	($1)	($5)
University Centres (PROV)	-$20	-$144			-$20	-$144	($51)	($201)
University Total	**-$7,286**	**-$51,421**	**$593**	**$2,298**	**-$6,693**	**-$49,123**	**($21,945)**	**($86,992)**
	High Confidence						Low Confidence*	

Notes:
* Estimated maximum CGS funding at risk based on modelled value of CGS funding in 2018- 2021 under proposed arrangements.

THE UNIVERSITY OF SYDNEY

Date	29 May 2017

Appendix 2

Impacts on base funding (CGS + HECS) – per EFTSL breakdown by funding cluster and student contribution band

Comparison of proposed 2018-2021 per EFTSL funding amounts for commonwealth-supported places by Cluster and HECS Band and variance to current (BAU) arrangements																
				2018	2018			2019			2020			2021		
Cluster code	HECS band code	*Cluster - Field of Education*	Funding	BAU (estimated)	Proposed Rate	Variance to BAU	Variance %	Proposed Rate	Variance to BAU	Variance %	Proposed Rate	Variance to BAU	Variance %	Proposed Rate	Variance to BAU	Variance %
1	**3**	*Law, Accounting, Administration, Economics, Commerce*	CGS	$2,120	$1,741	-$379	-17.88%	$1,365	-$755	-35.61%	$1,164	-$956	-45.09%	$959	-$1,161	-54.76%
			HECS	$10,756	$10,951	$195	1.81%	$11,150	$394	3.66%	$11,353	$597	5.55%	$11,560	$804	7.47%
			Total Funding	**$12,876**	**$12,692**	**-$184**	**-1.43%**	**$12,515**	**-$361**	**-2.80%**	**$12,517**	**-$359**	**-2.79%**	**$12,519**	**-$357**	**-2.77%**
2	**1**	*Humanities*	CGS	$5,896	$5,604	-$292	-4.95%	$5,316	-$580	-9.84%	$5,196	-$700	-11.87%	$5,074	-$822	-13.94%
			HECS	$6,444	$6,561	$117	1.82%	$6,680	$236	3.66%	$6,801	$357	5.54%	$6,925	$481	7.46%
			Total Funding	**$12,340**	**$12,165**	**-$175**	**-1.42%**	**$11,996**	**-$344**	**-2.79%**	**$11,997**	**-$343**	**-2.78%**	**$11,999**	**-$341**	**-2.76%**
3	**1**	*Behavioural Science or Social Studies*	CGS	$10,433	$10,030	-$403	-3.86%	$9,635	-$798	-7.65%	$9,490	-$943	-9.04%	$9,343	-$1,090	-10.45%
			HECS	$6,444	$6,561	$117	1.82%	$6,680	$236	3.66%	$6,801	$357	5.54%	$6,925	$481	7.46%
			Total Funding	**$16,877**	**$16,591**	**-$286**	**-1.69%**	**$16,315**	**-$562**	**-3.33%**	**$16,291**	**-$586**	**-3.47%**	**$16,268**	**-$609**	**-3.61%**
	2	*Mathematics, Statistics, Computing, Built Environment or Other Health*	CGS	$10,433	$10,030	-$403	-3.86%	$9,635	-$798	-7.65%	$9,490	-$943	-9.04%	$9,343	-$1,090	-10.45%
			HECS	$9,186	$9,353	$167	1.82%	$9,523	$337	3.67%	$9,696	$510	5.55%	$9,872	$686	7.47%
			Total Funding	**$19,619**	**$19,383**	**-$236**	**-1.20%**	**$19,158**	**-$461**	**-2.35%**	**$19,186**	**-$433**	**-2.21%**	**$19,215**	**-$404**	**-2.06%**
4	**1**	*Education*	CGS	$10,856	$10,492	-$364	-3.35%	$10,136	-$720	-6.63%	$10,017	-$839	-7.73%	$9,896	-$960	-8.84%
			HECS	$6,444	$6,561	$117	1.82%	$6,680	$236	3.66%	$6,801	$357	5.54%	$6,925	$481	7.46%
			Total Funding	**$17,300**	**$17,053**	**-$247**	**-1.43%**	**$16,816**	**-$484**	**-2.80%**	**$16,818**	**-$482**	**-2.79%**	**$16,821**	**-$479**	**-2.77%**
5	**1**	*Clinical Psychology, Foreign Languages or Visual and Performing Arts*	CGS	$12,832	$12,418	-$414	-3.23%	$12,015	-$817	-6.37%	$11,885	-$947	-7.38%	$11,752	-$1,080	-8.42%
			HECS	$6,444	$6,561	$117	1.82%	$6,680	$236	3.66%	$6,801	$357	5.54%	$6,925	$481	7.46%
			Total Funding	**$19,276**	**$18,979**	**-$297**	**-1.54%**	**$18,695**	**-$581**	**-3.01%**	**$18,686**	**-$590**	**-3.06%**	**$18,677**	**-$599**	**-3.11%**
	2	*Allied Health*	CGS	$12,832	$12,418	-$414	-3.23%	$12,015	-$817	-6.37%	$11,885	-$947	-7.38%	$11,752	-$1,080	-8.42%
			HECS	$9,186	$9,353	$167	1.82%	$9,523	$337	3.67%	$9,696	$510	5.55%	$9,872	$686	7.47%
			Total Funding	**$22,018**	**$21,771**	**-$247**	**-1.12%**	**$21,538**	**-$480**	**-2.18%**	**$21,581**	**-$437**	**-1.98%**	**$21,624**	**-$394**	**-1.79%**
6	**1**	*Nursing*	CGS	$14,326	$13,911	-$415	-2.90%	$13,508	-$818	-5.71%	$13,390	-$936	-6.53%	$13,269	-$1,057	-7.38%
			HECS	$6,444	$6,561	$117	1.82%	$6,680	$236	3.66%	$6,801	$357	5.54%	$6,925	$481	7.46%
			Total Funding	**$20,770**	**$20,472**	**-$298**	**-1.43%**	**$20,188**	**-$582**	**-2.80%**	**$20,191**	**-$579**	**-2.79%**	**$20,194**	**-$576**	**-2.77%**
7	**2**	*Engineering, Science, Surveying*	CGS	$18,242	$17,682	-$560	-3.07%	$17,136	-$1,106	-6.06%	$16,966	-$1,276	-6.99%	$16,795	-$1,447	-7.93%
			HECS	$9,186	$9,353	$167	1.82%	$9,523	$337	3.67%	$9,696	$510	5.55%	$9,872	$686	7.47%
			Total Funding	**$27,428**	**$27,035**	**-$393**	**-1.43%**	**$26,659**	**-$769**	**-2.80%**	**$26,662**	**-$766**	**-2.79%**	**$26,667**	**-$761**	**-2.77%**
8	**2**	*Agriculture*	CGS	$23,153	$22,486	-$667	-2.88%	$21,835	-$1,318	-5.69%	$21,645	-$1,508	-6.51%	$21,452	-$1,701	-7.35%
			HECS	$9,186	$9,353	$167	1.82%	$9,523	$337	3.67%	$9,696	$510	5.55%	$9,872	$686	7.47%
			Total Funding	**$32,339**	**$31,839**	**-$500**	**-1.55%**	**$31,358**	**-$981**	**-3.03%**	**$31,341**	**-$998**	**-3.09%**	**$31,324**	**-$1,015**	**-3.14%**
	3 *	*Dentistry, Medicine, Veterinary Science*	CGS	$23,153	$22,486	-$667	-2.88%	$21,835	-$1,318	-5.69%	$21,645	-$1,508	-6.51%	$21,452	-$1,701	-7.35%
			HECS	$10,756	$10,951	$195	1.81%	$11,150	$394	3.66%	$11,353	$597	5.55%	$11,560	$804	7.47%
			Total Funding	**$33,909**	**$33,437**	**-$472**	**-1.39%**	**$32,985**	**-$924**	**-2.72%**	**$32,998**	**-$911**	**-2.69%**	**$33,012**	**-$897**	**-2.65%**

** Excludes loading amounts for Medicine, Dentistry and Veterinary Units of Study*

Note: Proposed CGS amounts are exact values published by the government for 2018-2021. All amounts are in 2018 dollars and do not include estimates of CPI indexation in 2019-2021.

*Proposed Student Contribution Amounts (HECS) are as published for 2018. Student Contribution Amounts for 2019-2021 are the prior year amount * 1.01824, rounded down to the nearest dollar.*

2018 BAU estimate is based on a CPI increase of 1.51% increase on 2017 rates, rounded down to nearest dollar.