Go8 submission to the Senate Economics Legislation Committee inquiry: Budget Savings (Omnibus) Bill 2016

The Group of Eight (Go8) welcomes the opportunity to make a submission to Senate Economics Legislation Committee inquiry into the Budget Savings (Omnibus) Bill 2016.

The Go8 comprises Australia’s leading research intensive Universities. In 2015 collectively we educated nearly 367,000 students or 26% of students in Higher Education in Australia. On latest available figures our investment in Research and Development is over $6 billion and we earn two-thirds of the research income earned by Australian universities through collaboration with industry.

In this context, the Go8 submission responds to the measures in the Omnibus Bill related to Higher Education and Research. In particular:

- Schedule 1—Minimum repayment income for HELP debts;
- Schedule 2—Indexation of higher education support amounts;
- Schedule 3—Removal of HECS-HELP benefit;
- Schedule 5—Australian Renewable Energy Agency’s finances;
- Schedule 11—Student start-up scholarships; and
- Schedule 22—Rates of R&D tax offset.

In making this submission the Go8 recognises the importance for Budget repair in the current fiscal environment.

Please note that the comments and recommendations below represent the views of the Go8 network; member universities may also make their own, more detailed submissions.

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Key Points
On balance:
1. The Go8 supports the adjustment to the minimum repayment income threshold for HELP debts;
2. The Go8 does not support the change of the indexation of higher education amounts to CPI;
3. The Go8 supports the removal of the HECS-HELP benefit for early childhood education, mathematics and nursing;
4. The Go8 does not support cuts to the budget of the Australian Renewable Energy Agency;
5. The Go8 does not support the cessation of student start-up scholarships payments from 1 July 2017 – ending current grandfathering arrangements into the student start-up loan; and
6. The Go8 supports the incremental changes to the rates of R&D tax offset under the R&D Tax Incentive.

Background and discussion

Schedule 1—Minimum repayment income for HELP debts

In its recent policy position paper Priority Directions the Go8 emphasised the need to protect the sustainability of the HELP scheme as Australian Higher Education’s most significant access and equity measure.

Any change having the potential to increase the costs to student needs to be considered carefully, in particular the sustainability of HELP in the context of the current fiscal environment. Recent analyses by the Grattan Institute\(^1\) and the Parliamentary Budget Office\(^2\), respectively, show the costs of providing HELP will likely increase substantially in the future, with much debt unlikely to be collected.

In this context, it is important to note that one of the largest risks outlined in the reports referenced above relates to the costs of the VET FEE HELP loans scheme and not Higher Education loans.

On balance, the Go8 is supportive of the modest reduction of the HELP repayment threshold to $51,956 for the 2018 – 19 income year with the repayment at this level reduced to 2% of repayment income - down from 4% - as a contribution to improving the sustainability of HELP.

Under the Omnibus Bill arrangements, the reduction of the lowest tier repayment rate of 4% to 2% will result in some workers with a HELP debt paying a lower rate than under previous arrangements while still improving the sustainability of HELP as a whole.

\(^1\) Norton, A. and Cherastidtham, I., 2016, HELP for the future: fairer repayment of student debt, Grattan Institute
\(^2\) Parliamentary Budget Office, Report no. 02/2016, Higher Education Loan Programme: Impact on the Budget
Schedule 2—Indexation of higher education support amounts

The indexation of higher education support amounts by the Higher Education Grants Index (HEGI) was introduced in 2012 along with the Demand Driven funding for bachelor degrees other than medicine provided by universities. The rationale for this change in the indexation regime was to link the rate of indexation to the actual cost increases experienced by higher education providers.

In particular, as recommended by the Bradley Review, the HEGI comprises:

- a 25% weighting of CPI – to represent overhead costs;
- a 75% weighting of the Wage Price Index for Professional, Scientific and Technical jobs – to represent salary costs for the university workforce; and
- a 10% discount on the wage price index to drive productivity in Higher Education.

As such, this represents a measured and costs driven approach to indexation which already includes a reasonable productivity component.

In Priority Directions the Go8 recommended a costing exercise for the delivery of Higher Education which was also committed to in the Government consultation paper Driving innovation, fairness and excellence in Australian education released in May 2016. The Government is currently undertaking the first steps in such an exercise.

The aim of the costing exercise is to know accurately the cost of delivering Higher Education and to fund it accordingly and efficiently. In addition to the implementation of this costing base, annual indexation is required to maintain the accuracy of the costing structure and to prevent real cuts in funding. To that end, the HEGI – designed to reflect the indexation of Higher Education costs – provides more policy coherence than the CPI indexation proposed in the Omnibus bill.

For these reasons the Go8 recommends the retention of HEGI in the indexation of higher education support amounts as part of a strategic measures to fund the delivery of Higher Education.

The retention of HEGI needs to be looked at in the context of the cost of Commonwealth funding of higher education being far exceeded by the economic benefit higher education contributes to the economy.

Commonwealth spending on higher education and research is an investment. The returns to the community and the nation as a whole are significant.

Economic modelling shows that universities contribute economically in three ways:

1. The impact of our operations alone, which are estimated to have contributed $25 billion to the economy in 2013 and accounted for 1.5 per cent of GDP.
2. The impact of our skilled graduates on productivity and the economy. In total, university education added an estimated $140 billion to our economy in 2014. This is a significant return on an investment of $24 billion – representing university spending from all sources in 2013. Commonwealth Government funding for universities in 2013 was about $15.5 billion.

GDP is approximately 8.5 per cent higher due to the impact of university education on productivity.

3. The impact of our accrued research, technology and innovation being used in industry and society which is valued at $160 billion p.a. in 2014, equivalent to almost 10 per cent of Australia’s GDP.3 For every 1000 university graduates who enter the Australian workforce, 120 new jobs are created for people without university degrees. The wages of people without a degree are boosted by $655 a year - or $12.60 a week - when more graduates join the national workforce.4

A study conducted for the Base Funding Review in 2011 estimated that every additional year of higher education undertaken in Australia generated externalities worth $6000 to $10,000 per student5.

Data published by the OECD in 2014 show while the net present private benefit of a degree for a man in Australia was around US$123,000 (A$165,000), there was also a net public benefit per graduate of US$71,000 (A$95,000).6 For female graduates, the net private benefit was US$53,000 (A$71,000), while the net public benefit for US$42,000 (A$56,000) per graduate7.

Schedule 3—Removal of HECS-HELP benefit

The HECS-HELP benefit for mathematics, nursing and early childhood graduates who work in eligible occupations was introduced in the 2008-09 Budget (originally for early childhood education graduates) to encourage both greater enrolments in these fields and for these graduates to work in field after graduation.

It is in doubt whether this measure has had its desired impact and itself has been a cost effective driver for increased numbers of graduates in these disciplines.

5 Bruce Chapman and Kiatanantha Lounkaew (2011), Higher Education Base Funding Review: The Value of Externalities for Australian Higher Education, DEEWR, Canberra
6 OECD (2012), What are the returns on higher education for individuals and countries?, Education Indicators in Focus, 2012/06, https://www.oecd.org/edu/skills-beyond-school/Education%20Indicators%20in%20Focus%202012.pdf
On balance Go8 supports the removal of the benefit, as in the context of the current fiscal environment the funds could be redistributed to other areas of more benefit to students.

**Schedule 5—Australian Renewable Energy Agency’s finances**

The Go8 opposes a provision in the Bill which would cut the Australian Renewable Energy Agency (ARENA) of most of its funding as well as its ability to make grants. This proposed cut is a significant threat to renewable energy research, innovation and education in Australia.

The Go8 believes that these cuts will undermine the substantial progress made in the development of renewable energy technology and will impede Australia’s capacity to drive economic growth through meeting our target for carbon emission reduction.

For 30 years there has been an Australia renewable energy funding agency in one form or another. This funding has led to significant success in the generation of renewable energy technology and in the provision of education. For example, the worldwide photovoltaic industry owes its existence in large measure to Australians who were supported by grants from Government renewable energy agencies. Billions of dollars of benefits have accrued to Australia in the form of dramatically reduced cost of PV systems, increased renewable energy business activity in Australia, reduced greenhouse gas emissions, royalties, shares and international student fees. The Australian-developed PERC solar cell is just one example. It has annual sales of $10 billion, and very rapid growth making it a leader in worldwide solar industry.

Support for research and innovation at universities lies at the heart of accelerated growth of the renewable energy industry. It supports later stage commercialisation directly through technology development.

ARENA fills an important gap in the technology path to commercialisation and there is no similar funding to take technologies across the so called ‘valley of death’, which bridges the gap between early stage technologies and pilot-demonstration scale. While other funding schemes, such as the Australian Research Council, can support the small scale development of technology at universities (to Technology Readiness Level, TRL 4), further development requires co-funding from schemes like ARENA and industry to demonstrate it at a scale that de-risks its commercialisation path. Sustained funding to ARENA is consistent with the development of the National Innovation & Science Agenda to deliver economic prosperity to Australia. It is also notable that similar schemes are available in most industrialised countries of the world.

**Schedule 11—Student start-up scholarships**

In *Priority Directions* the Go8 emphasised the importance of improving equity outcomes in Higher Education. In particular, it was noted that successive governments had withdrawn from equity-based Commonwealth
Scholarships including reducing the scope of the Relocation Scholarship, reductions in HEPPP funding and, in particular, the conversion of Start-up scholarships to income contingent loans.

Schedule 11 of the Omnibus Bill takes this withdrawal a step further, in what is clearly a retrospective measure, by removing grandfathering of the Start-up Scholarship scheme from 1 July 2017. While an argument can be made that this change goes toward normalising rules, it is estimated it will affect 80,000 students, all of whom undertook higher education with the reasonable expectation that Start-up funding would continue to be a scholarship and not a loan – income contingent or otherwise.

The provision of start up scholarships instead of loans is particularly important to encourage and enable study by regional, rural and Indigenous students. These equity groups have been significantly under-represented in higher education. The scholarships have not only enabled access to higher education but have enabled access to key courses, such as medicine and health professions, and produced skilled graduates in these areas which is vital to regional, rural and Indigenous communities.

These graduates then go on to repay their HELP loans, pay higher tax to the government and contribute significantly to the economic gain of their community and nationally. The benefits far outweigh the cost of the scholarship versus loan scheme.

For these reasons the Go8 does not support the cessation of the student start-up scholarship payment from 1 July 2017.

**Schedule 22—Rates of R&D tax offset**

Any reduction in R&D funding should always be considered carefully. While the Go8 – as large suppliers of research in Australia – are reluctant to support any reduction to incentives for business to be involved in R&D, the cuts proposed can be considered prudent in the current fiscal environment, especially if it goes towards maintaining the scheme’s sustainability. However, in this context it is also important to seek improved outcomes from the remaining R&D tax incentive fund.

The R&D tax incentive seeks to encourage innovation and research activities in Australian industry which might otherwise not occur. In 2014–15 the Australian Government will invest close to $2.4 billion in R&D through the Tax Incentive. This amounts to over a quarter of the Australian Government’s support for science, research and innovation and is almost equivalent to funding for the NHMRC, ARC and CSIRO combined.

The Go8 has advocated for a number of measures in its submission to the review of the R&D tax incentive, including:

- Differential rates of incentive depending on type of R&D activity, with higher rates for engagement with public research organisations; and
- Leveraging activity generated through the Industry Growth Centre initiative.
These measures would have the effect of driving better R&D collaboration between industry and the Higher Education sector – connecting the economy directly to the world class research and researchers produced by Australia’s universities.