

Inquiry into the Higher Education and Research Reform Amendment Bill 2014



Australian Veterinary Association Ltd

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The Australian Veterinary Association (AVA) is the national organisation representing veterinarians in Australia. Our 8500 members come from all fields within the veterinary profession. Clinical practitioners work with horses, farm animals, such as cattle and sheep, companion animals and wildlife. Government veterinarians work with our animal health, public health and quarantine systems while other members work in industry for pharmaceutical and other commercial enterprises. We have members who work in research and teaching in a range of scientific disciplines. Veterinary students are also members of the Association.

We would welcome the opportunity to appear before the Committee to discuss our submission in more detail.

Executive summary

While the impact of the higher education reforms may be modest for some degrees with strong post-graduate incomes and fees that already match up quite closely to the cost of the degree, veterinary degrees will be severely impacted.

The reasons why the impacts will be so severe are:

- Veterinary qualifications require 5-7 years of university training.
- Veterinary courses are expensive to deliver with significant laboratory, technological, clinical and live animal inputs.
- Veterinarians have lower earning potential than other similar professions with a starting salary of \$47,330 and average total income of \$77,000 (2011-12 tax return data). Veterinary remuneration compares unfavourably with graduates of similarly-priced courses – for example average total income for medical GPs in 2011-12 was \$149,000 and for dentists was \$147,000.
- Veterinary schools are already underfunded and this was acknowledged in the report of the Review of the Demand-Driven Funding System.
- Veterinary students are predominantly females (around 80-90%) who often reduce their employment while looking after children. The new arrangement will severely disadvantage these women.
- As the course requires a large amount of face-to-face class time and clinical placements, veterinary students find it extremely difficult to maintain any reasonable casual employment to help fund their education.

The changes to the funding and regulation of higher education will severely impact the veterinary workforce and its ability to provide an essential service to Australia's economy and communities.

Recommendations

To mitigate this impact, the Australian Veterinary Association recommends a moratorium be placed on increases to Commonwealth-supported places in veterinary science until veterinary workforce planning can be completed. There is already a limit on Commonwealth-supported places in medicine and the public-interest case is equally strong for a similar limit on veterinary science places. This will have the added benefit of budget certainty for the government in relation to one of the most expensive tertiary courses.

In addition, the Australian Veterinary Association recommends a limit be placed on the fees able to be charged to veterinary students to balance the high cost of delivering the course with the low remuneration levels across a veterinarian's whole career.

Overview

An effective, sustainable veterinary workforce is essential to Australia. Veterinarians ensure the safety of the food we eat and export, care for the health and welfare of livestock, and are necessary to help identify and respond to a serious disease outbreak.

Public funding of veterinary education and research is an investment in Australia's future. It is critical that veterinary schools are funded appropriately and sustainably.

A veterinary science degree takes five to seven years of study, depending on the university, is one of the most expensive courses for universities to provide, leads to a relatively low income and is predominantly undertaken by women. As a result, the higher education reforms will impact veterinary students more than any other student group.

Changes

Fee deregulation

The cap on fees universities are able to charge students will be lifted and the student contribution will be determined by the universities. This is proposed to commence from 1 January 2016, however all students starting their degrees after 14th May 2014 will be subject to fee increases from January 2016.

Government funding reduction

Presently, the federal government pays the universities \$21,273 per annum for each Commonwealth Supported Place (CSP) veterinary student (2014 Funding Cluster 8a) and the student contributes to a maximum of \$10,085. The university therefore potentially receives a combined \$31,358 per veterinary student each year.

The bill proposes that veterinary science will be in Funding Cluster 5 which will also include dentistry, medicine and agriculture. For each CSP in this cluster the government proposes to pay \$18,067, equating to a 15% cut to federal funding for veterinary students.

For the universities to address the funding shortfall created they must firstly charge each student the lost \$3,206 as a minimum. This requires an increase in student fees from \$10,085 to \$13,291 - a 32% increase - to maintain existing levels of funding.

**To maintain existing funding levels, universities need to
increase veterinary student fees by 32%**

This will mean that student loans after 5 to 7 years of study will be approximately \$66,500 to \$93,000 if current funding of the veterinary schools is to be maintained.

Higher Education Loans Program (HELP)

Changes to the Higher Education Loans Program would see a slight drop in the HECS-HELP repayment income threshold to \$50,638, and an increase to the annual indexation applied to HELP debts from the existing CPI to a rate equivalent to the yield on the Treasury 10-year bond rate capped at six per cent a year.

The 10-year Treasury bond rate (currently at 3.75%) is significantly higher than the current interest rate charged which is equal to the CPI. The 10-year bond rate has consistently exceeded the inflation rate, as measured by the CPI. The average rate for bonds has been 5% over the last decade, while the CPI has averaged 2.7%. This change in interest implies that the interest charged on HECS-HELP debt will now always exceed the CPI, resulting in a faster increase in the compound growth of debt. The new interest rate will significantly increase both the time it takes to repay the loan and the total amount paid.

There are many factors that will affect the debt repayment time for veterinary students including starting salary, career progression, interest rates, and any time out of the workforce. Australian Veterinary Association modelling suggests that it will take 24-34 years to pay off a veterinary degree.

Other implications

Submissions to the Higher Education Base Funding Review 2011 provided data on the costs of delivering courses that have a large component of laboratory-based teaching, such as medicine, dentistry and veterinary science (CGS funding cluster 8). Evidence provided showed that these courses have costs for teaching and scholarship that are consistently above the funding received. Despite receiving an increase in funding in 2008, veterinary science was still shown to be underfunded in the 2011 review, both in terms of the resourcing required and in comparison with the funding provided internationally. This finding was in line with previous studies in this area, and reflects the very high costs of delivery in these fields, particularly for clinical placements.

**In a deregulated fee environment the veterinary schools' only option
to address the funding shortfall will be to increase student fees even
further.**

All veterinary schools will have to determine their market position and what fees they can and should charge. These decisions may be based on costs and other assumptions rather than market dynamics.

Student debt

The AVA has modelled the fees and debts veterinary students are likely to face in a deregulated environment including all measures included in the bill and an alternative model proposed by Bruce Chapman presently being considered by the government. The modelling compares repayments under the existing policy to a deregulated system under a range of scenarios.

The assumptions for all modelling detailed below are:

1. A starting salary of \$47,330[#]
2. Salary growth rate of 3.0% each year* + 2.7% CPI for future value
3. Repaying loan at the minimal prescribed rate.

[#]Based on GradStats 2013 - Graduate Careers Australia + CPI *Growth rate based on salary information from AVA annual workforce survey 2014

Current scenarios

a) Five year veterinary degree

Assumptions:

1. Student loan of \$50,425 (based on student contribution of \$10,085 per year)
2. CPI = 2.7% (which is average over the last 10 years).

Currently, a student undertaking a five year veterinary degree takes 15 years to repay his or her student debt.

b) Seven year veterinary degree

Assumptions:

1. Student loan of \$66,182 (based on student contribution including a 3 year science degree at \$8614 and 4 year veterinary degree at \$10,085 per year)
2. CPI = 2.7% (which is average over the last 10 years).

Currently a student undertaking a seven year veterinary degree takes 18 years to repay his or her student debt.

Presently students contribute around \$50,000-\$67,000 for their education. The associated HELP loans take around 15-18 years to repay

Post-reform scenarios with universities maintaining current funding

a) Five year veterinary degree

Assumptions:

1. Student loan \$66,455 (based on \$13,291 per year)
2. Bond rate 5% (average over last 10 years).

If universities make no changes other than to increase student contributions to compensate for reduced government funding, it will take a student 24 years to repay his or her debt, and the total amount paid (including capital and interest) will be \$132,896.

b) Seven year veterinary degree

Assumptions:

1. Student loan \$93,037 (based on \$13,291 per year for both science and veterinary components)
2. Bond rate 5% (average over last 10 years).

If universities make no changes other than to increase student contributions to compensate for reduced government funding, it will take a student 30 years to repay his or her debt, and the total amount paid (including capital and interest) will be \$223,063.

To maintain the current veterinary school funding it is estimated that students will contribute around \$67,000-\$93,000 and it will take 24 to 30 years to repay their HELP loans and they will make repayments totalling around \$135,000 to \$225,000

Post-reform scenario with no income for 5 years due to family leave

Assumptions:

1. 7 year veterinary degree
2. Student loan \$93,037
3. Bond rate 5%
4. Working full time all other years, wage increase still 3%+CPI per year and resuming work at the same level of employment.

If universities make no changes other than to increase student contributions to compensate for reduced government funding, and the student receives no income for 5 years while raising a family, it will take a student 34 years to repay his or her debt, and the total amount paid (including capital and interest) will be \$276,354.

If a female veterinarian takes 5 years off to raise a family then the time to repay stretches out to over 34 years and total HELP repayments to over \$275,000

Post-reform scenario with veterinary schools increasing fees by 20%

Assumptions:

1. 7 year veterinary degree
2. Student loan \$111,644
3. Bond rate 5%.

Media commentators have estimated an average increase in fees of 20% as a result of a deregulated market. If veterinary schools increase fees by a further 20% in addition to replacing reduced government funding with contributions from students, a student will take 33 years to repay his or her debt with a total repayment cost of \$301,095.

If in the deregulated environment universities lift the student contributions fee a further 20%, it will take around 33 years to repay a veterinary degree and HELP repayments will be over \$300,000

Post-reform scenarios with CPI applied in years while income less than \$56,000

a) With 5 years of no income during family leave

Assumptions:

1. 7 year veterinary degree
2. Student loan \$93,037
3. Bond rate 5%
4. CPI 2.7%
5. Working full time all other years, wage increase still 3%+CPI per year and resuming work at the same level of employment.

If universities make no changes other than to increase student contributions to compensate for reduced government funding, the student receives no income for 5 years while raising a family, and the debt accrues at the CPI rate while income is less than \$56,000, it will take a student 30 years to repay his or her debt, and the total amount paid (including capital and interest) will be \$213,097.

This is a reduction of 4 years and \$63,257 compared with interest being charged at the bond rate over the whole life of the loan.

b) With an additional 20% increase in fees

Assumptions:

1. 7 year veterinary degree
2. Student loan \$111,644
3. Bond rate 5%
4. CPI rate 2.7%

If veterinary schools increase fees by a further 20% per year on top of replacing reduced government funding with contributions from students, and the debt accrues at the CPI rate while income is less than \$56,000, it will take a student 31 years to repay his or her debt, and the total amount paid (including capital and interest) will be \$270,327.

This is a reduction of 2 years and \$30,768 compared with interest being charged at the bond rate over the whole life of the line.

The proposal that CPI only be applied until income is over \$56,000 will only decrease the repayments marginally and is not sufficient to alleviate the impact on the veterinary profession

Summary

Base Case - for cost recovery from lost federal funding only								
Occupation/Course	Repayment length (years)			Initial Debt		Total Repayment		
	New	Current	Difference	New	Current	New	Current	Difference
5 year degree	24.0	15.0	9.0	\$66,455.00	\$50,425.00	-\$132,896.00	-\$64,661.16	\$68,234.84
7 year degree	30.0	18.0	12.0	\$93,037.00	\$66,182.00	-\$223,063.00	-\$88,613.78	\$134,449.22
7 years with 5 years off	34.0	21.0	13.0	\$93,037.00	\$66,182.00	-\$276,354.00	-\$96,073.89	\$180,280.11
7 years with 5 years off (B)	30.0	21.0	9.0	\$93,037.00	\$66,182.00	-\$213,097.00	-\$96,073.89	\$117,023.11
Base Case + 20%								
Occupation/Course	Repayment length (years)			Initial Debt		Total Repayment		
	New	Current	Difference	New	Current	New	Current	Difference
7 year degree	33.0	18.0	15.0	\$111,644	\$66,182.00	-\$301,095	-\$88,614	\$212,481
7 year degree (B)	31.0	18.0	13.0	\$111,644	\$66,182.00	-\$270,327	-\$88,614	\$181,713
10 year Treasury Bond interest rate 5% per annum								
(B) - CPI only until income greater than \$56,000								