



## Go8 Submission the Senate Education and Employment Legislation Committee

### Regarding the: Higher Education and Research Reform Amendment Bill 2014

#### Executive Summary

*An adequately resourced higher education system is necessary for Australia to progress.*

Australia requires a diverse higher education system of high quality that responds to varying student needs and interests, produces graduates who can add value as workers and citizens, and advances knowledge that benefits human understanding and economic development. This necessitates an adequate level of sustained investment and the encouragement of provider diversity. To this end the Go8 supports the following measures:

- o continuing the demand-driven system of uncapped undergraduate places for domestic students
- o expanding sub-Bachelor Degree pathway programs within the demand-driven system
- o extending Commonwealth Supported Places (CSP) funding to all TEQSA-approved non-university higher education providers @ 70% of the university funding rate
- o removing price caps for domestic undergraduate students
- o aligning HECS-HELP and FEE-HELP student loan provisions
- o requiring universities to allocate 20% of increased tuition revenue to support students from disadvantaged backgrounds
- o improving the availability of information to guide student choice.

The Go8 believes that the proposed reform measures could be improved by amending the Bill in two main ways:

- i. indexing HELP debts annually by the long-term bond rate when graduate earnings exceed \$50,637, and indexing by the CPI for periods when graduate earnings do not exceed that threshold
- ii. providing a package, including a scholarship component, to assist universities in regional and outer-metropolitan areas.

*The trend of policy has been one of private beneficiaries contributing more to the costs of their higher education*

#### There is no future in going backwards

The *Higher Education and Research Reform Amendment Bill 2014* represents a watershed in the history of higher education policy and financing in Australia. If the Bill is passed, in an appropriately amended form, it will mark the culmination of almost 30 years of policy evolution in Australia.

Since the mid-1980s, the private beneficiaries have been progressively making increased contributions to the costs of their higher education. Initially, higher education for international students was deregulated in terms of student numbers and tuition prices. Then domestic student contributions were built into a system of capped enrolments and controlled prices, with income-contingent loans available through HECS to ensure that participation remained free to the student at the point of delivery. The next step in the early 1990s was to align the domestic postgraduate financing framework with that for international students. Gradually income-contingent loans were extended to postgraduate students and students enrolled with private providers. In 2008 another major step was taken to uncap domestic undergraduate enrolment numbers. The one remaining step in the logic of policy progression is to deregulate domestic undergraduate prices in alignment with the international and postgraduate markets.

If the Bill is passed it will provide a more coherent and financially sustainable foundation for continuing development, open up extensive and diverse opportunities for future generations of learners, and underpin a more globally competitive economy.

If the Bill is not passed, there is no plausible default. No real growth in government funding per student with no flexibility for higher education providers to set tuition prices means, inevitably, erosion of educational quality. That will impact adversely on Australia's own human capital formation and, quickly, on its attractiveness to international investment in and consumption of education services, with serious implications for Australia's longer-term economic competitiveness.

*Government alone cannot meet the rising costs of growing student participation*

No government can afford, without raising taxes or cutting other services, to keep expanding student participation unless it lets the quality of student learning experiences continue to deteriorate.

The governments of 2007-2013 built on the policy precedents since the Dawkins' reforms of the mid 1980s, including HECS, and created another important structural element in the policy architecture – a national higher education regulator, TEQSA. These two elements – HECS-HELP and TEQSA – provide important safeguards of affordability and quality. Those governments, however, could not fund the demand-driven system of uncapped undergraduate places without reducing funding per student, removing pathway programs and cutting funding for research. The Go8 estimates that the impact of the previous Government's Budget cuts on Go8 universities will be around \$1.2 billion to 2019-20. This is about the same as the net impact on Go8 universities of the current Government's first Budget, including an extra two years beyond forward estimates where the 20% CGS cut is in full effect. However, this is partly offset by improvements to research funding.

*The now much bigger scale of higher education requires a new balance among sources of financing*

There is a desperate need for measures to restore the resourcing of universities and provide opportunities for future real growth in funding if we are to benefit from their continued contribution to building Australia's skills base, sustain the significant export industry that education now constitutes, and retain a strong research and innovation base.

There is a compelling case for the general community through its elected governments to maintain an adequate core level of funding for higher education, research, research training and research infrastructure. This recognises that the responsibilities of universities go beyond those of providing higher education opportunities and extend to a range of services that support business and the wider community, some of which are subject to significant market failure. It is reasonable that the students who gain relative financial and social advantage contribute to the costs of their education. However, it is also reasonable to expect that businesses which depend on universities to maintain a flow of highly trained graduates (whose credentials signal their abilities) and businesses who use universities as a source of ideas and expertise that they can draw on as necessary, also contribute in ways that ensure universities can maintain these services and standards. Given that universities in addition are the source of many intangible benefits which can help strengthen and increase the cohesiveness of society and make it more dynamic, there are also good reasons for individual philanthropists and philanthropic organisations to support higher education initiatives.

*There is no realistic alternative to the broad direction proposed in the Government's higher education reform Bill.*

Recapping undergraduate places would be a backwards step, narrow student opportunities (especially for students from groups traditionally under-represented in higher education), stifle innovation, add to institutional compliance costs, and erode Australia's international competitiveness.

A default to the status quo policy settings of the previous government would leave large gaps in funding for teaching and research. Universities would have to enrol more undergraduate students to help recover some revenue, at an added cost to the Commonwealth Budget. This would make it harder for regional and outer-metropolitan universities to find a sufficient number of qualified students. Alternatively, some universities, especially those that have enlarged their enrolments in recent years and now face physical capacity constraints, may prioritise international students over domestic students so that they can gain additional revenue without having to increase enrolments. This would deprive Australians of the right to access services they are prepared to pay for. Already Go8 universities are much larger than the top universities in the world. In the absence of reform, larger class sizes resulting from financial pressure will reduce the capacity of the universities to design their educational programs according to the principles of good teaching and learning that characterise the world's leading universities; Australia would fall behind other nations in the intensifying contest for intellectual talent; there would be no ongoing support for promising mid-career researchers and no future investment in major research facilities. Over time, further reduction in per student funding would be inevitable, as would further cuts to funding for research. Australia's universities would surely fall off the global pace in higher education and research.

To maintain the quality of Australian higher education it is necessary to increase funding from private sources, including from the graduates who gain from higher education as well as from private investors who can expand opportunities for learning.

Growth in Australia's school aged population will raise demand for higher education by at least 285,000 between 2013 and 2030. It will simply not be possible to accommodate this growth cost-effectively within the current model of public universities. It is necessary now to start putting in place a more diverse structure of higher education provision.

*It is imperative for Australia to stay the course of progressive reform...*

Australia has been a world leader over the past 25 years in the business of international education which is now our largest non-resources export sector. Other nations are intensifying their investment in university research. If Australia falls behind in research capacity and performance, the reputation of Australian universities will suffer, it will be harder to attract and retain top intellectual talent, Australia may forfeit its current access to knowledge breakthroughs, and the education services export industry will be damaged.

Fee deregulation will better align costs with benefits and permit universities and other providers to set their prices at the market value of their degrees. The resulting increase in competition will improve sector efficiency and responsiveness.

### Fears versus facts

#### **The evidence suggests that students are not deterred by changes to fees**

- There was no change in low SES enrolment shares over the 1990s, and the move to differential HECS in 1997 did not adversely affect low SES participation in any field of study (Andrews, 1999)
- The introduction of HECS and later changes did not discourage low SES participation (Aungles et al, 2002)
- Low SES students are more concerned about the "perceived relevance of higher education" than the cost of participation, and they are more concerned about costs of living while studying than tuition fees (James, 2002).
- "there is a considerable body of research suggesting that there have been no discernible effects on university enrolments of relatively poor students from either the introduction of or changes to HECS" (Beer & Chapman, 2005)
- There is no evidence that the size of a HELP debt affects decisions about leaving home, getting married or buying a house (Marks, 2008).

*and not be deterred by unfounded fears*

*not supported by facts.*

- A trebling of fees in England, under a capped pricing model, saw a drop in student demand for one year, but the effect was “neither especially large nor enduring”, with participation quickly recovering by 2013 (Usher, 2014).
- From a study of nine countries, “(The) available data suggest that changes in fees (i) have no effect with respect to the gender composition of the student body (female numbers rose faster than male ones in all nine countries), (ii) have little to no effect on the proportion of students drawn from lower socio-economic backgrounds, and (iii) have little to no effect on the ethnic composition of the student body” (Usher, 2014).

Despite the available evidence, concerns have been raised that students from disadvantaged backgrounds may be deterred from participating because:

**Claim 1.** Some universities will raise their prices to excessive heights.

Unlikely:

- with greater competition, universities out-pricing their offerings risk losing students
- a wide spread of prices can be expected in the domestic undergraduate market as already exists in the international and postgraduate fee-paying markets.

**Claim 2.** Some students will be unable to pay to go to university or will be deterred by huge debts.

Unlikely:

*Importantly, under the proposed reform there will continue to be no entry fee to higher education.*

- with the availability of HELP loans, no student should have to pay even \$1 upfront to go to university
- more students from disadvantaged backgrounds will have access to stipends and scholarships to help meet living costs while studying
- graduates earning in excess of \$50,000 a year will have to pay no more than 2% of their income (up to a maximum of 8% for those earning over \$99,000 a year) to repay their debt – the US graduate debt problem cannot occur under Australia’s HELP system
- the increase in support for students from disadvantaged backgrounds would derive from at least 20% of any tuition fee increase that results in revenue above what the university would have received in a price-capped system (net of the 20% cut to government funding per student)
- a progressive redistribution of graduate contributions from those who can and will pay more is a much more equitable public policy than one which imposes burdens on general taxpayers – most of whom have not had access to higher education – to subsidise the private benefits of all students regardless of their needs and means
- there is no evidence to support the claim that changes in fees deter students – from any social group – from participating in higher education.

*Graduates fare well financially and personally.*

### **Graduate earnings**

- Graduates earn on average \$1.2 million more over their lifetimes than non-graduates.
- According to the 2011 Census, the typical graduate commences on a salary of around \$50,000, however this will vary depending on their field of study.
- Graduates enjoy above average income growth over the course of their careers. Average graduate incomes grew in real terms at a rate of 5.7% per annum over the first five years of employment and 2.0% thereafter. Economy wide, real wages grow by around 1.0% per annum.
- In 2011, the top 20% of full time workers were earning at least \$93,739. Graduates were over represented in this category, with more than 28% earning above this amount. After 20 years, 42% of graduates are in the top 20% of earners. Less than 12% of workers without any post-secondary qualifications earn this amount.

- In terms of weekly income, the average full-time employed graduate is \$500 a week ahead of the average full-time employee without post-school qualifications by the age 35.
- Over the life of a HELP loan, average weekly repayments are below \$100 for graduates of all fields except Medicine and Dentistry

*Some unworkable suggestions have been proposed.*

### Sub-optimal suggestions

Some have suggested modifying the reform package by re-regulation or deferred implementation.

#### **Suggestion 1.** Capping fees or borrowing limits

Problems with the suggestion:

- i. the conditions (of monopoly supply or catastrophe) for the application of price ceilings do not apply
- ii. price ceilings would legitimate price rises that cannot be justified by the market position of particular providers
- iii. price ceilings would narrow any spread of price points and thereby narrow student choice
- iv. price ceilings would not allow a progressive redistribution of funds from those who can and will pay more to those who need support
- v. price ceilings would limit the offering of high quality intensive learning experiences
- vi. price ceilings would be anti-competitive
- vii. price ceilings on top of the deep cuts to government university operating grants would erode quality
- viii. price ceilings would impose disproportionate administrative costs on providers
- ix. price ceilings would leave the Government rather than the providers bearing responsibility for price rises
- x. A borrowing limit would have to be set for a lifetime of study, and it is not clear what effect it would have on the behaviour of students or providers.

#### **Suggestion 2.** Deferring implementation of the reforms

Problems with the suggestion:

- i. higher education policy has been drifting for a decade
- ii. windows of opportunity to make structural reform open rarely
- iii. other parts of the world are not standing still waiting for Australia to get its act together.

There are also several aspects of the Bill that are of concern to the Go8. These include:

- o the extent of the funding cut to Commonwealth Supported Places, especially affecting STEM fields
- o the introduction of user charges for research students.

However, the Bill already involves a number of complex parts, and to add further complication to the Senate's consideration would be unhelpful. Issues relating to differential funding rates by field of education will wash out over time as the market takes shape. Efforts to reduce the 20% cut risk further cuts to research. The matter of postgraduate research training is to be subject to review in its own right, and current anomalies can be addressed in that context.

### Real immediate concerns

*Policy clarity is needed now*

It is important that there is clarity of policy by end 2014 so that 2015 can be a year preparing for implementation, including providing prospective students with information to guide their study decisions, and establishing and testing systems.

There are two main concerns with the Bill as proposed.

*Two concerns  
need to be  
addressed*

First, a real interest rate applied to HELP debts would mean that – for the first time – the real value of a HELP debt will increase over time. Graduates who take longer to pay would pay more in real terms. This presents equity issues for lower earning graduates and especially for those who take time out of the workforce, notably women. Graduates who earn less would pay more. While graduates are earning at a level sufficient to make HELP loan repayments it is reasonable to expect them to cover the Government's cost of providing the loan. However, it is unreasonable to have a real rate of interest compounding for graduates with lower or no income growth. To ensure the loan scheme does not produce perverse outcomes, given the aim of HELP is to provide fair access to higher education, the Go8 supports a hybrid structure for HELP debts.

Second, some universities in "thin markets" may have less capacity than others to secure revenue growth from private sources sufficient to make the necessary structural adjustments. The Go8 supports the provision of an assistance package for regional and outer-metropolitan universities, including scholarships for students that can help increase their attractiveness to mobile students, and industry-assistance grants to enable them, for instance, to redesign programs, forge new alliances, and re-tool for next generation cyber-infrastructure provision.

### Recommendations

It is recommended that the Senate pass the Bill with two amendments:

- a. HELP loans should be indexed by the long-term bond rate only when graduate income exceeds \$50,637; when graduate earnings are below that threshold the outstanding debt should be indexed by the CPI.
- b. A package of regional assistance, including scholarships, should be made available to universities in regional and outer-metropolitan areas.

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## Introduction

### The Group of Eight

The Group of Eight (Go8) is a coalition of Australia's leading universities, comprehensive in general and professional education and distinguished by depth and breadth in research.

Go8 universities can be distinguished in the following ways:

- they attract more than half their domestic undergraduate students annually from young school leavers, and more than half of them in the top 10% of school leaver attainment
- they have the highest proportions of graduate students in their domestic and international student profiles
- they are the most research concentrated of all Australian universities
- they account for more than two thirds of Australian university research activity, research income from government and industry, research output, and research training
- they have nurtured every Nobel prize winner educated at an Australian university
- they contribute over 70% of the Fellows of the four Australian learned academies
- they are the only Australian universities ranked in the top 200 on the Academic Ranking of World Universities 2014 and in the top 100 on the QS world ranking 2014.

The Go8, along with the Association of American Universities (AAU), the League of European Research Universities (LERU), and the consortium of research universities of China (C9), was an initiator and foundation signatory group to the Hefei Statement of 2013, defining the characteristics of contemporary research universities. That statement was signed subsequently by the Canadian U15, the UK Russell Group, the Hong Kong 3, Japan's RU11 and the Association of East Asian Research Universities (AEARU). The signatory groups constitute a self-selecting global network of comparable research-intensive universities.

As in the arts, business and sports, so too in education and research, a nation's reputation for excellence is based on its top performers. The 'halo effect' created by the leading performers opens opportunities for other Australian institutions to participate in international competition and prove their strengths.

### The Principles guiding the Go8's policy considerations

The Go8 believes that policy coherence should be guided by the principles of opportunity, fairness and choice in respect of student participation, and by the principles of quality, financial sustainability, structural diversity and institutional flexibility in respect of higher education provision.

*Opportunity:* Participation in higher education should be open to all who can benefit and wish to do so. It should not be limited arbitrarily, for instance, by government policy settings and funding constraints that restrict privately funded options.

*Fairness:* Access to higher education should be fairly available, without systemic barriers to participation. Students should neither be deterred by up-front costs nor denied the opportunity to pay what they can afford.



*Choice:* Students should be free to select the higher education opportunities that best suit their needs and interests. The growing diversity of learner needs and circumstances requires greater opportunity for students to determine the trade-offs that suit them best in terms of quality, convenience, ways and means of learning, and cost.

*Quality:* Higher education should meet acceptable threshold standards of quality. Higher education performance may well vary above the threshold. Quality should be evaluated with reference to the different missions of higher education institutions. Institutions should be publicly accountable for verifying their delivery of higher education of the quality they claim.

*Financial sustainability:* Higher education of acceptable quality should be affordable for the nation on a long-term basis. The provision of higher education should be financed at levels which at least cover costs.

*Structural diversity:* The structure of the nation's higher education system should cost-effectively accommodate the diversity of student needs and circumstances. While different higher education institutions may play different roles, such as in graduate education and research, there should be paths and bridges between them that enable continuous learning.

*Institutional flexibility:* Higher education institutions should have the organisational and operational flexibility they need to respond competitively and collaboratively to change.

### **Key characteristics of Australian higher education**

Table 1 locates higher education in the context of school education and vocational education and training in Australia. Whereas in the schooling sector, parents can exercise freedom of choice among a range of providers, including the price of education services, the options in higher education are much more restricted. It can be seen that higher education is predominantly public. Whereas there are more private than public higher education providers, the private enrolment share represents less than 7% of total enrolment. The public higher education sector is heavily dominated by the single provider category of 'university': "the autonomous, professional, comprehensive, secular, public and commuter university" (Davis, 2014)<sup>1</sup>.

Whereas student/staff ratios in the secondary schooling sector are below 13:1, in universities, on average, they are above 21:1. Student staff ratios reflect relative funding rates per student from the combination of public and private sources of finance. The government funding rate per student is higher on average for primary and secondary schooling than for higher education. Whereas tuition prices in the schooling sector are not controlled by government, except for public schools, prices are fixed by government for public universities for the bulk of their enrolments – domestic undergraduate students.

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<sup>1</sup> Davis, G. (2014). The Australian Idea of a University. *Meanjin*.

**Table 1. Profile of Australian education**

Education Sector	# Institutions	Student enrolments		Student/teaching staff ratios	Average Funding/Student FTE		Range of Funding/Student FTE		Data source
		#	FTE		Government funding	Other funding	Government funding	Other funding	
Primary Schools			1,431,813						
Public (a)	4,827	1,435,857		15.2	\$14,515				1., 2.
Private	1,463	647,532	647,150	16.2					1.
Catholic (b)	1,228	403,055	402,909	17.4	\$9,741	\$1,903			1., 3.
Independent (c), (d)	235	244,477	244,242	14.6	\$7,005	\$6,113		\$0 - c. \$25,000	1., 4., 5.
Secondary Schools									
Public (a)	1,029	906,792	898,102	12.3	\$17,746				1., 2.
Private	363	600,075	599,687	11.5					1.
Catholic (b)	305	333,540	333,450	12.7	\$10,553	\$4,585			1., 3.
Independent (c), (d)	58	266,535	266,237	10.3	\$8,771	\$9,711		\$0 - c. \$32,000	1., 4., 6.
Combined Prim/Sec & Special Schools									
Public	841	Included above							1.
Private	904	Included above							1.
Catholic (b)	180	Included above			\$9,871	\$6,336			1., 3.
Independent (c)	724	Included above			\$7,060	\$10,571			1., 4.
Vocational Education & Training									
Public	2,110	1,943,200	775,500		\$8,586				7., 8.
Private (e), (f)	~3,000	~2,200,000	~802,000		\$0				9.
Higher Education									
Public	38	1,171,737	844,241	21.5					10., 11.
Commonwealth supported (g)		721,997	542,836				\$1,951-\$21,273	\$0 - \$10,085	10., 12.
Fee paying (h)		425,975	275,074				\$0	\$0 - c. \$72,000	10., 13.
Private	91	85,895	58,854						10.

\* Data are for 2012 unless otherwise stated

(a) Average Government funding for Public Schools is for the 2011-12 financial year;

(b) Average funding data for Catholic Schools is for 2011;

(c) Average Government and Other funding for Independent Schools is for 2011-12;

(d) Range of Other funding information is for 2014 and does not include boarding fees;

(e) 2003 data;

(f) Student enrolment FTE has been imputed from the Public VET ratio of number of students to FTE;

(g) Commonwealth supported funding data is for 2014;

(h) Undergraduate International Student Fees in 2014

Data sources:

1. Schools, Australia, 2012, catalogue number 4221.0, ABS;

2. Report on Government Services 2014, Steering Committee for the Review of Government Service Provision;

3. National Catholic Education Commission 2012 Annual Report;

4. Unpublished data, Independent Schooling Council of Australia;

5. School Fees - Effective 1 January 2014, The King's School;
6. Private school parents stung with hefty fee hikes, *The Financial Review*, 14 December, 2013;
7. Australian vocational education and training statistics: Students and courses 2012;
8. Australian vocational education and training statistics: Financial information 2012;
9. Private training providers in Australia: Their characteristics and training activities, Roger Harris et al 2006;
10. Students 2012: Selected Higher Education Statistics; DIICCSRTE;
11. Staff 2013: Selected Higher Education Statistics; DIICCSRTE;
12. Commonwealth supported places (CSP) and Higher Education Loan Program (HELP) Handbook, Department of Education;
13. The University of Melbourne tuition fees 2014: Tuition fee tables for international students, The University of Melbourne

## 'Private' Providers

The public/private divide in Australian higher education is not easy to define. As Norton explains: "there is no single feature of institutional ownership, control, funding or activities that clearly differentiates the two groups of institutions".<sup>2</sup> Self-proclaimed private institutions, like the University of Notre Dame Australia, receive a considerable proportion of their funding from government sources, while some public institutions are in receipt of significant private funds.<sup>3</sup> The current Higher Education Standards Framework recognises a range of criteria through which legitimate Higher Education Providers (HEPs) may vary, including ability to self-accredit, number and level of courses offered, and quantity and breadth of research,<sup>4</sup> none of which are exclusive to public or private domains. For this reason many commentators prefer to refer to "universities" and "NUHEPs" (or non-University Higher Education Providers), rather than continue with the problematic terms of 'public' and 'private'. The Bradley Review concluded in 2008 that the "public-private divide is no longer a sensible distinction"<sup>5</sup>.

NUHEPs offer a rare point of diversity in Australia's relatively homogenous system. Unlike universities, non-university providers are not required to conduct research, allowing them to be staffed by industry professionals rather than academics. This in turn means they are able to offer students a different type of experience from that of more traditional institutions, often teaching-intensive, immersive and industry-focused. The growth in enrolments since the 2005 decision to extend FEE-HELP loans to NUHEP providers suggests that this is an attractive model for some students, when the need for up-front fees is removed.<sup>6</sup> Additionally, the expansion of NUHEPS offers a cost-effective national solution to the problem of accommodating an increasing volume and diversity of student enrolments.

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<sup>2</sup> Andrew Norton, (2010), *Fairness, Diversity and Choice: A Higher Education Funding System Based on Consistent Principles*, Australian Council for Private Education and Training, p.16.

<sup>3</sup> See the Go8 Backgrounder, *Private Higher Education Providers in Australia*, June 2014, at [www.go8.edu.au](http://www.go8.edu.au)

<sup>4</sup> *Higher Education Standards Framework (Threshold Standards) 2011*, <http://www.comlaw.gov.au/Details/F2013C00169/Download>

<sup>5</sup> Denise Bradley, Peter Noonan, Helen Nugent and Peter Scales (2008), *Review of Australian Higher Education: Final Report*, DEEWR.

<sup>6</sup> See the Go8 Backgrounder, *Private Higher Education Providers in Australia*, June 2014, at [www.go8.edu.au](http://www.go8.edu.au)

The Go8, therefore, supports the Government’s proposal to extend Commonwealth Supported Places to NUHEPs, to help encourage diversity of offerings, provide serious competition, and deliver wider choice for students. Determining the rate of funding for NUHEPS is more of a political than a technical matter. Agreement has been reached among interested parties to fund NUHEPS at 70% of the university funding rate per student. The corollary is that ‘university’ title will be heavily contested, and those institutions claiming it will be pressed to demonstrate that they deliver more than teaching, but also perform reputable research and provide valuable services to their communities.

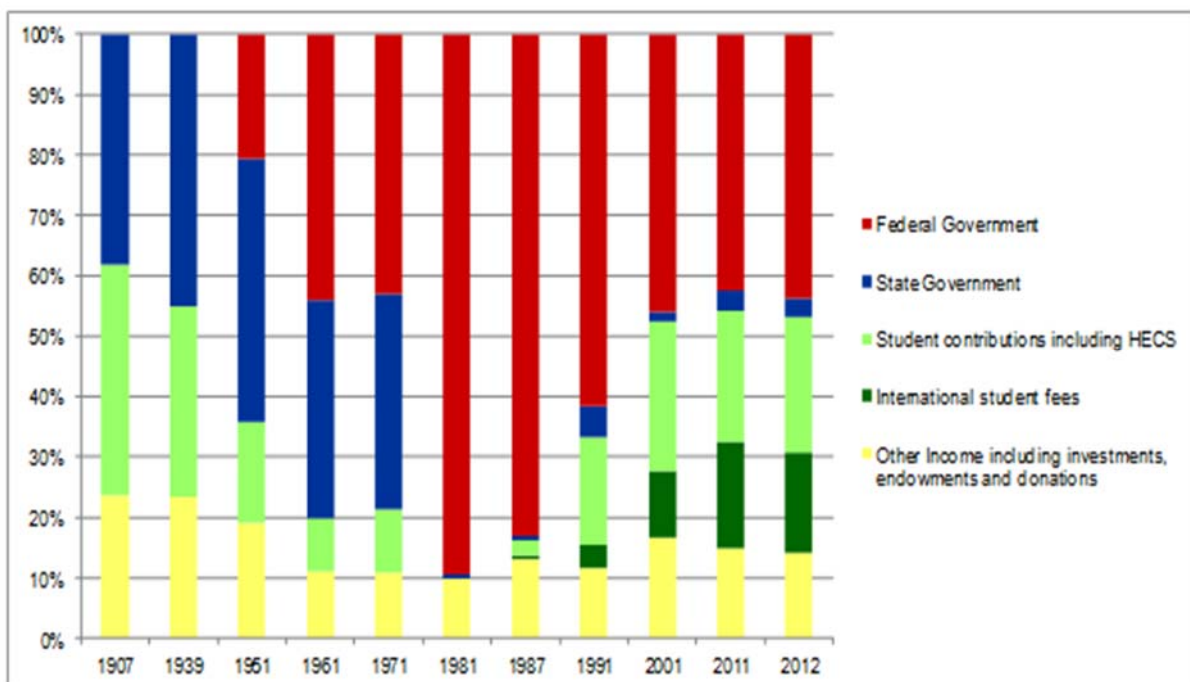
**Trends in the formation of Australian higher education policy**

The course of higher education policy development in Australia may have been one of meandering incrementalism but it has also been steadily heading away from a centrally planned, provider-oriented framework to a more market-based and student-oriented framework.

As can be seen from Figure 1, the Whitlam model of full public funding of higher education (free for students but costly for general taxpayers), which began to take effect from 1974 and whose impact became evident in the early 1980s, has been the regressive aberration rather than the normal model of financing over the past century.

From the mid-1980s, students have been progressively making increased contributions to the costs of their higher education. Initially, higher education for international students was deregulated in terms of student numbers and tuition prices. Then domestic student contributions were built into a system of capped enrolments and controlled prices, with income-contingent loans available through HECS to ensure that participation remained free to the student at the point of delivery.

**Figure 1. Higher education revenue by source, Australia 1907-2012**



The next step in the early 1990s was to align the domestic postgraduate financing framework with that for international students. Gradually income-contingent loans were extended to postgraduate students and students enrolled with private providers. In 2008 another major step was taken to uncap domestic undergraduate enrolment numbers. The one remaining step in the logic of policy progression is to deregulate domestic undergraduate prices in alignment with the international and postgraduate markets. The new normal in higher education policy is deregulation.

Over the 30 year course of designing Australia's higher education policy architecture three important features have taken shape: (i) openness to trade in education services; (ii) the availability of income-contingent loans; and (iii) the establishment of a single national regulator.

Australia is signed on to the General Agreement for Trade in Services, and is open to student mobility through the movement of natural persons and consumption abroad, and the commercial presence of foreign providers and cross-border supply under conditions of national treatment.

Australia's system of HECS-HELP and FEE-HELP income-contingent loans has special features. First, it covers all tuition costs. Second, it enables students, irrespective of their financial means, to access higher education without any up-front costs and without any ongoing costs whilst studying. Third, it requires graduates, once they achieve a certain income threshold, to pay back a proportion of their annual earnings for those years – and only those years – when their earnings exceed the threshold. Fourth, it limits the annual repayment obligation of graduates earning above the income threshold to a modest proportion of their annual income, not exceeding 8% in the case of graduates earning above \$99,000 per year.

The Tertiary Education Quality and Standards Agency (TEQSA) is Australia's independent national regulator of the higher education sector. Among its functions is the National Register of higher education providers, the authoritative source of information on the status of registered higher education providers in Australia. For students and other interested parties, TEQSA makes transparent on the National Register each previously registered higher education provider whose registration has expired, been withdrawn, or been cancelled.

In combination, these three features provide openness to competition with safeguards to affordability and quality. This is a distinctive national advantage.

### **The main elements of the reform package**

The Bill proposes:

- continuation of the demand-driven funding system
- extension of the demand-driven system to sub-Bachelor degree pathway programs
- removal of tuition price caps regulating the amount that students can privately contribute
- the requirement for institutions to allocate 20% of additional fee income to scholarships to support access for disadvantaged students

- government funding of student places in accredited non-university higher education providers at 70% of the university funding rate
- alignment of all HELP loans, with changes to repayment thresholds and interest rates
- reducing the government funding rate per student by 20% on average, with changes to the funding relativities by field of education
- introducing a tuition fee for students enrolled for a higher degree by research

The advantages of this set of integrated policy measures are far-reaching. Increased competition will widen choices for students and improve universities' responsiveness to students' varying needs, abilities, interests and backgrounds. More cost-effective use of public resources will support continued expansion of higher education participation. Providers will have a sharper focus on their institutional missions and an incentive to focus on what they do best and to offer a variety of learning experiences for students.

Whilst the overall reform will undoubtedly benefit students and improve the structure of Australian higher education, there are potential disadvantages for some groups of graduates and higher education providers in the proposed package of measures. The most adverse potential effects can be moderated, however, with modification of the proposed measures in two basic respects: (i) removing the trap of compounding interest rates on low-income graduates; and (ii) providing adjustment assistance to universities in regional and outer-metropolitan regions.

## **Part A: The imperative for reform**

### **The importance of higher education and university research**

It is widely recognised that higher education and university research underpin the social and economic advancement of nations. Around the world there are increasing expectations of universities, through their graduates and research contributions, to find creative solutions to complex problems, strengthen the adaptive and innovative capacity of firms, and improve community wellbeing. A vibrant capacity for higher education and university research is critical to Australian civility and prosperity – advanced human capital underpins progress in knowledge-based economies.

Higher education and university research also build international networks and help the formation of business, diplomatic and personal relationships that further the pursuit of national interests. Higher education is important, too, in developing the breadth of capabilities necessary for communities and institutions to respond intelligently to change, complexity and uncertainty. Above all, higher education can transform the lives of individuals, widen their opportunities and enable them to act and adapt to change with confidence and self-reliance.



## The significance of the higher education industry

Higher education is the preeminent component of the Australian international education industry. Australia is the third most popular destination for international students, attracting nearly 7% of the world's international students. Nearly 300,000 international students will commence study in Australia in 2014, the majority of which will be in higher education. This \$15 billion industry is Australia's fourth largest export, following just iron ore, coal and gold. The economic footprint of international students, however, is much larger than just the fees they pay. International students directly facilitate domestic participation in higher education. They generate significant spillover benefits including job creation and increased tourism and are a key source of migration that can help address skill shortages as well as contribute to Australia's long term economic prosperity and cultural richness.

International education provides significant economic benefits for Australia and it is much more than a business.

"The relationships formed through international education underpin Australia's engagement with the world, and help sustain goodwill, trade and investment. They are the basis of future research collaboration. They open doors for Australia and make Australia's creative and intellectual assets more visible to other countries. They improve our reputation internationally as a centre for learning, research and innovation.

International students contribute intellectually to Australian society. They bring talent to Australia and help to widen the outlook of Australians. They also increase Australia's understanding of the languages, cultures and economies of our trading partners. Through international education, personal and institutional ties are formed. Doing business is easier with people who are already familiar with Australia. When formal diplomatic relations are strained, these ties ensure ongoing dialogue with Australia. Australia cannot afford to be isolated or by-passed in a more knowledge-connected world. Our future will rely on strong international connections and openness."<sup>7</sup>

A 2011 study found that international students' fees subsidised each domestic student by around \$1600.<sup>8</sup> This equates to 10% of a domestic student's total funding (Commonwealth plus student contributions per place). In the absence of international students, this cost would need to be either covered by the government or students or otherwise offset (by say a reduction in course offerings or delivery costs). This structural reliance on cross-subsidies from international students to compensate for under-funding of domestic students' education and university research jeopardises Australia's ability to remain competitive in the international education business in the years ahead. The problem arises primarily because Australian students, unlike international students, are not free to pay what they would be prepared to pay for the educational experiences and qualifications that will yield them lifetime benefits.

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<sup>7</sup> Evans, C. (2012). 'The future of Australia's international education'. Canberra.

<sup>8</sup> Beaton-Wells, M., and Thompson, E. (2011), The economic role of international students fees in Australian Universities, University of Melbourne



*The domestic dilemma: The public funding slippery slope*

The previous Government's framework lacked policy design coherence and balance between demand and supply, resulting in mismatches between presenting students and degree standards, blow-outs in student volumes which grossly exceeded budget estimates, defence of which resulted in arbitrary cutbacks to university core functions via an accumulating 'efficiency dividend', curtailment of pathway programs for students, and no future provision for researcher career development and research infrastructure.

The previous Government set up its new 'demand-driven' policy framework for higher education in 2009. The Government had to make urgent Budget adjustments to offset higher than expected costs:

- in 2010, revising the budget upwards by more than \$1 billion (over four years) to cover growth in enrolments
- in 2011, excluding sub-Bachelor places from demand-driven funding
- in 2012, cutting \$1 billion from university funding: half of the saving from rescinding a vital improvement in funding for the indirect costs of research
- in 2013, imposing 'efficiency dividends' on funding for student places and research block grants.

A decision not to proceed with budgeted increases in SRE funding in the 2012-13 MYEFO cost the sector \$499 million over four years, with the bulk of the cut falling on research-intensive Go8 universities (\$355m).

At the same time, abolishing Facilitation Funding cost the sector \$270 million over four years.

'Efficiency dividends' on all grants under HESA, announced in the 2013-14 Budget, would take a further \$903 million out of the sector. While most of the cut is to the Commonwealth Grants Scheme, it also applies to Research Block Grants. As a result, the Go8 universities carry a bigger share of the overall cut than their enrolments would indicate. Efficiency dividends take \$344 million out of Go8 universities, of which around \$105 million comes out of Research Block Grants.

While efficiency dividends take up to \$50 million in funding from each Go8 university, it is important to note that the earlier cut to SRE has a bigger impact on the Go8 institutions (see Table 2).

**Table 2 – Estimated impact of 2012 and 2013 funding cuts over forward estimates**

	SRE cut 2012	Facilitation funding 2012	Efficiency dividends 2013	<b>total</b>
Sector total	498.8	270.1	902.7	<b>1671.6</b>
Go8	355.3	89.5	343.6	<b>788.4</b>
Sydney	59.8	13.2	52.9	<b>126.0</b>
UNSW	47.4	11.3	45.4	<b>104.2</b>
Melbourne	71.2	11.4	51.0	<b>133.7</b>
Monash	41.7	13.9	49.1	<b>104.7</b>
UQ	44.3	13.0	50.4	<b>107.6</b>
Adelaide	29.2	7.2	27.3	<b>63.6</b>
UWA	28.8	7.4	28.2	<b>64.5</b>
ANU	32.9	12.0	39.2	<b>84.1</b>

Source: Unpublished Go8 analysis

Over the course of this century to date, spending cuts and funding increases have followed one another. Funding boosts tend not to be maintained in real terms over time. Considering growth in the scale of the sector, universities are not much better off than they were in 1996. The funding data do not suggest that universities have done markedly better or worse under governments of either political party. Table 3 compares government funding for universities in 2004, 2007 and 2011 (the latest year for which data are available).

**Table 3. Commonwealth Government grants to universities, 2004 and 2011**

	<b>2004</b>	<b>2007</b>	<b>% change, 2004-07</b>	<b>2011</b>	<b>% change, 2007-11</b>
<b>Australian Government Grants</b>	6,732,243	8,264,144	22.8%	9,420,708	14.0%
<i>Commonwealth Grants Scheme and Other Grants</i>	3,948,398	4,857,125	23.0%	5,005,800	3.1%
<i>Scholarships</i>	159,148	244,643	53.7%	272,822	11.5%
<i>DIISRTE Research Grants</i>	1,296,021	1,294,032	-0.2%	1,239,253	-4.2%
<i>Education Investment Fund and One-off Capital Grants</i>		-		545,345	
<i>Australian Research Council</i>	522,662	612,303	17.2%	663,662	8.4%
<i>Other Australian Government Financial Assistance</i>	806,013	1,256,041	55.8%	1,693,826	34.9%
<b>HECS-HELP - Australian Government Payments</b>	2,032,453	2,304,028	13.4%	2,485,341	7.9%
<b>FEE-HELP - Australian Government Payments</b>	294,638	426,264	44.7%	492,162	15.5%

Growth in funding over the life of the previous Government (2007-11) was more modest than growth over the period 2004-07. CGS (and other grants) funding grew only 3% between 2007 and 2011 (despite strong enrolment growth), compared to 23% in the earlier period. As a result, per student funding was slightly higher in 2011 than it had been in 2004, but was nearly 15% lower than in 2007.

Similarly, research block grants fell 4.2% between 2007 and 2011, following a decline of only 0.2% in the earlier period. As an amount per researcher, though, the decline was fairly similar in both periods.

Competitive grant research funding through the ARC grew by 8.4% between 2007 and 2011, which was less than half the growth rate observed in the earlier period. Growth in competitive grants per research active academic likewise fell from 6.5% to 3%.

Total Commonwealth grants grew by 14% between 2007 and 2011, down somewhat on the rate of increase from 2004 to 2007 (23%).

There were some real improvements in universities' financial position under the previous Government, due to improved indexation and significant boosts to capital funding. Nevertheless, a longer term view shows that the sector did not do much better than stand still, when all costs and revenues are considered. There has been no improvement in base funding rates and no allowance for the step-costs of rapidly growing enrolments. Whilst a professional salaries-based indexation factor was a major and welcome improvement in funding for both education and research, it was quickly wound back through 'efficiency dividends'. Research block grants fell in value even before efficiency dividends were applied. No provision was made for ongoing funding for major research infrastructure. A major boost in capital funding did not address the maintenance backlog.

The previous Government showed little sign of willingness to address underfunding of CSPs identified by both the Bradley and Lomax-Smith Reviews.

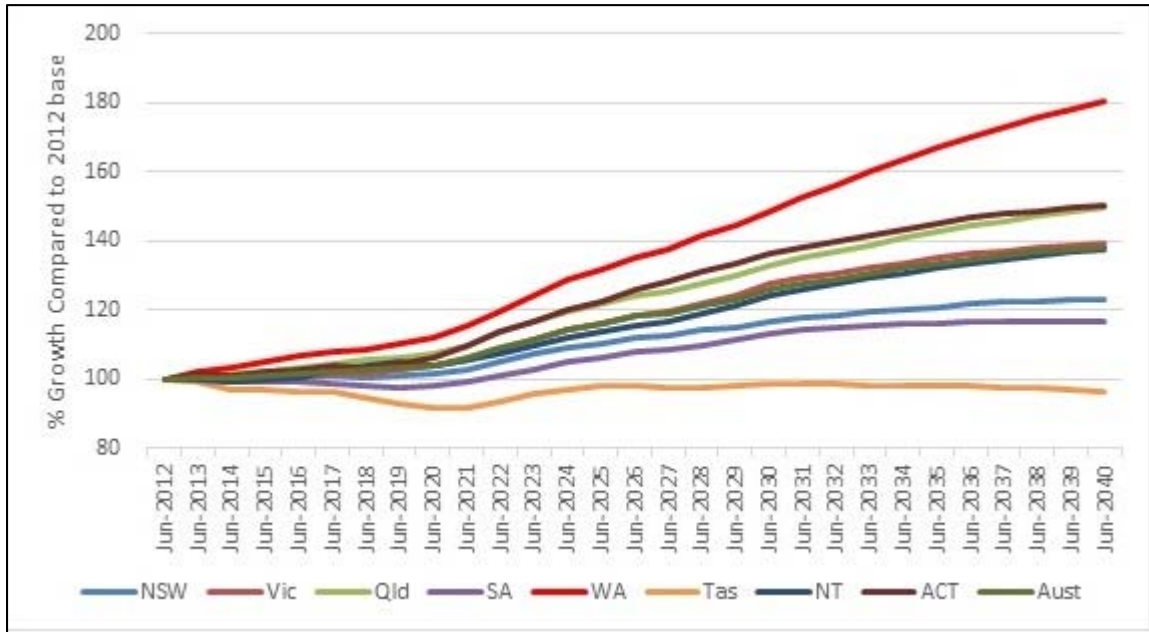
**Time series funding data show that Governments of both parties have made efforts to improve funding for universities at different times and in different ways. But governments of both parties have also found themselves unable to fund all of the sector's financial needs, and have had to make Budget decisions that have been unpopular with the sector.**

**These data point to the limits of any government's capacity to sustain adequate levels of funding for a mass (and post-mass) higher education system. Future governments will not be able to restore real funding rates per student to an acceptable level, while also adequately funding capital and research, within the current funding framework.**

#### *The upcoming surge in school leaver numbers*

It is reported that there have been 190,000 additional domestic students in Australia's universities between 2008 and 2013. That growth reflected an increase in the participation rate without any growth in the population of the school leaver cohort. In the next few years (especially from 2015) however, we will see a demographically-driven rise in school leaver numbers in Queensland, WA and the ACT initially, and then after 2020, from Victoria, NSW, the NT and South Australia (Figure 2).

**Figure 2. Projected growth in population aged 16-18 years by state and territory, Australia 2012-2040**



Source: ABS, *Population Projections (cat 3222.0), Series B*

However school leavers are not the only demographic that pursues entry to higher education. Earlier this year the Group of Eight released a modelling paper providing a range of projections of likely demand for higher education services over the next few decades.<sup>9</sup> Depending on the scenarios used, we estimate that there could be a need to accommodate anywhere from around 100,000 to 500,000 extra students by 2020.<sup>10</sup>

How will future growth in student demand be accommodated? Should the established universities get bigger? Should there be more universities? Or should there be other, less costly, means of meeting the demand? It will soon be necessary to start putting in place the structure to absorb future higher education growth.

<sup>9</sup> See the Go8 Backgrounder: *Future Demand for Higher Education in Australia*, March 2014, [www.go8.edu.au](http://www.go8.edu.au)

<sup>10</sup> Range of scenarios include: participation rates remain constant at 2013 levels; 2% increase in 2013 participation rate across all age groups and levels of study; doubling of postgraduate participation rates for persons aged 25-64 years; a 2 percentage point increase in the overall tertiary participation rate; and different growth rates across different levels of study (diploma, bachelor and postgraduate).

### *Labour force re-skilling and up-skilling*

The Australian Workforce Productivity Agency (AWPA) in its *Future Focus: 2013 National Workforce Development Strategy* emphasised the shift in employment towards technical, professional and managerial jobs – that is, jobs that tend to require post-secondary qualifications. Their report estimated that ‘there will be a million more Professionals by 2025, and Managers and Professionals will comprise 38 per cent of the workforce’. The industries with the biggest projected increase in employment to 2025 are Health Care and Social Assistance; Professional, Scientific and Technical Services; and Education and Training<sup>11</sup>.

Modelling commissioned by AWPA projected that total employer demand for post-secondary qualifications would increase by between 3% and 3.9% per annum to 2025. Demand for qualifications is driven by ‘the increasing size of the labour market, changing employment composition, retirements, skills deepening and skills broadening’<sup>12</sup>.

Projected demand is strongest at higher qualification levels, including postgraduate (3.9-4.9% average annual growth), and Bachelor degrees (3.3 to 4.1% per year)<sup>13</sup>.

In order to meet future demand in the context of a rapidly changing economy and labour market, where workers expect to move between jobs and industries, ‘the tertiary system, too, needs to be flexible and forward-looking, with the capacity to respond quickly to meeting changing industry and individual needs’<sup>14</sup>. A key finding was that ‘We need a tertiary education sector that is more adaptive and better able to respond flexibly and creatively to change’<sup>15</sup>.

## **The global dynamics**

### *Growth in global demand for higher education*

In 2011, nearly 4.3 million students were enrolled in tertiary education outside their country of citizenship. Australia, the United Kingdom, Switzerland, New Zealand and Austria have, in descending order, the highest percentages of international students among their tertiary enrolments<sup>16</sup>.

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<sup>11</sup> Skills Australia (2013), *Future Focus: Key Messages*, <http://www.awpa.gov.au/publications/Documents/Future%20Focus%20key%20messages.pdf>

<sup>12</sup> Skills Australia (2013), *Future Focus*, p.10, <http://www.awpa.gov.au/our-work/Workforce%20development/national-workforce-development-strategy/2013-workforce-development-strategy/Documents/FutureFocus2013NWDS.pdf>

<sup>13</sup> Skills Australia (2013), p.11

<sup>14</sup> Skills Australia (2013), p.13

<sup>15</sup> Skills Australia (2013), *Future Focus: Key Messages*, <http://www.awpa.gov.au/publications/Documents/Future%20Focus%20key%20messages.pdf>

<sup>16</sup> OECD (2013) *Education at a Glance 2013*, p.304

During the 2000-11 period, the number of foreign tertiary students enrolled worldwide more than doubled, with an average annual growth rate of almost 7%<sup>17</sup>. Over the past three decades, the number of students enrolled outside their country of citizenship has risen dramatically, from 0.8 million worldwide in 1975 to 4.3 million in 2011, a more than fivefold increase<sup>18</sup>.

The OECD projects that the number of students in higher education will rise by 100 million over the next quarter century (from 165 million in 2009 to 263 million in 2025), with the number of globally mobile students doubling over that period from 4 to 8 million. This may be a conservative estimate. In Asia alone, over one billion people will move into the middle income bracket of between USD6,000 and USD30,000 per year<sup>19</sup>.

#### *The rise and rise of international and regional mainstream competitors*

China, Malaysia, Singapore and Vietnam, for instance, are building up their domestic education capacity for import replacement and export. Germany and Japan are looking to foreign students to make up for declining domestic demand. You will find in these countries some of the best equipped facilities for learning and research in the world. Several countries, including Japan and South Korea, also have wide satellite footprints and advanced cyber-technology infrastructure and skills. Additionally, they are cashed up. To date we have seen a range of supply-side responses to conventional expectations of obtaining higher education qualifications. More institutions are setting up in other countries, either independently or in partnership with a local institution or provider, and, in some cases, in consortia. Monash University was a pioneer of international branch campuses and now universities of several nations are establishing a commercial presence around the globe, including in Adelaide, Abu Dhabi, Beijing, Kunshan, Singapore and Shanghai.

Technological drivers are simultaneously affecting demand and supply of higher education and research. The power, speed, ubiquity and affordability of information and communications technologies are affecting when, where and how learning can occur, and changing the delivery costs of higher education.

#### *Emergence of new forms of higher education supply*

Transnational corporates are expanding their involvement in higher education provision. Laureate Education Inc., for instance, has a network of more than 75 campus-based and online universities in 29 countries offering programs to 850,000 students. Apollo Education Group Inc., through its subsidiaries the University of Phoenix, Apollo Global, Institute for Professional Development, Western International University and College for Financial Planning, is one of the world's largest private education providers. Publishing houses, such as Pearsons are becoming active in educational provision and assessment.

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<sup>17</sup> OECD (2013) *Education at a Glance 2013*, p.305

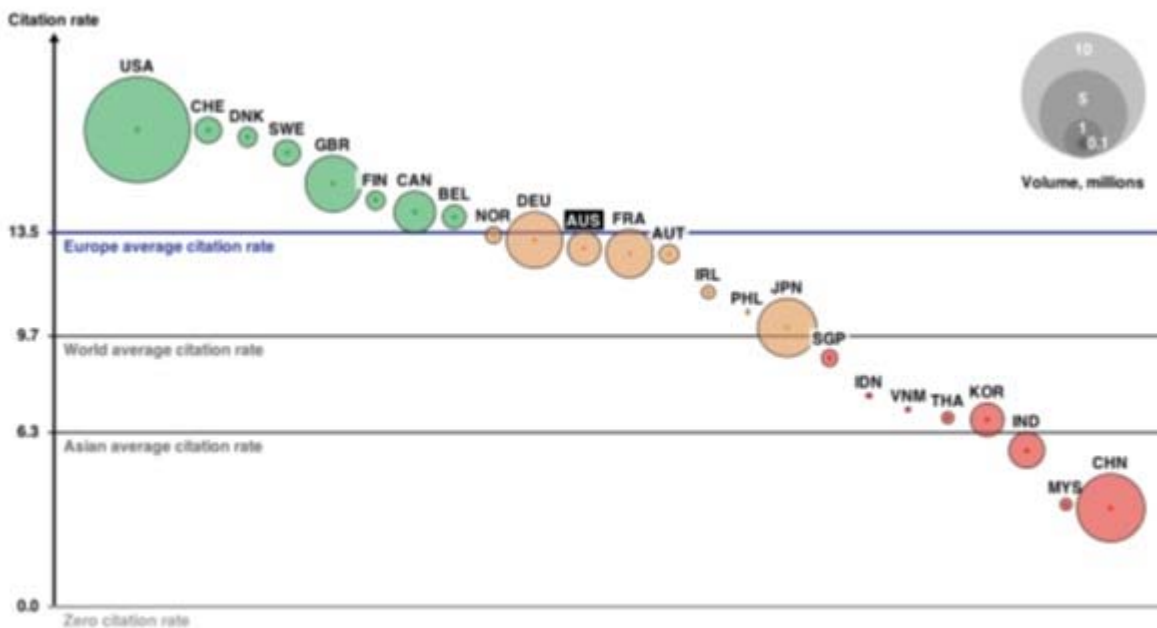
<sup>18</sup> OECD (2013) *Education at a Glance 2013*, p.306

<sup>19</sup> Hajkowicz et al, (2012). *Our Future World: Global megatrends that will change the way we live*. CSIRO.

*Indicators of Australia's slippage behind rising Asia*

International collaboration is vital to contemporary research. In Figure 3, circles are placed vertically and coloured by average citations per paper over the period: green above European average; amber between European and world averages; and red below both. Countries are ordered horizontally by decreasing citation rate; horizontal placement is only to spread out countries. Circles are sized by volume of papers over the period.

**Figure 3. Aggregate national performance**



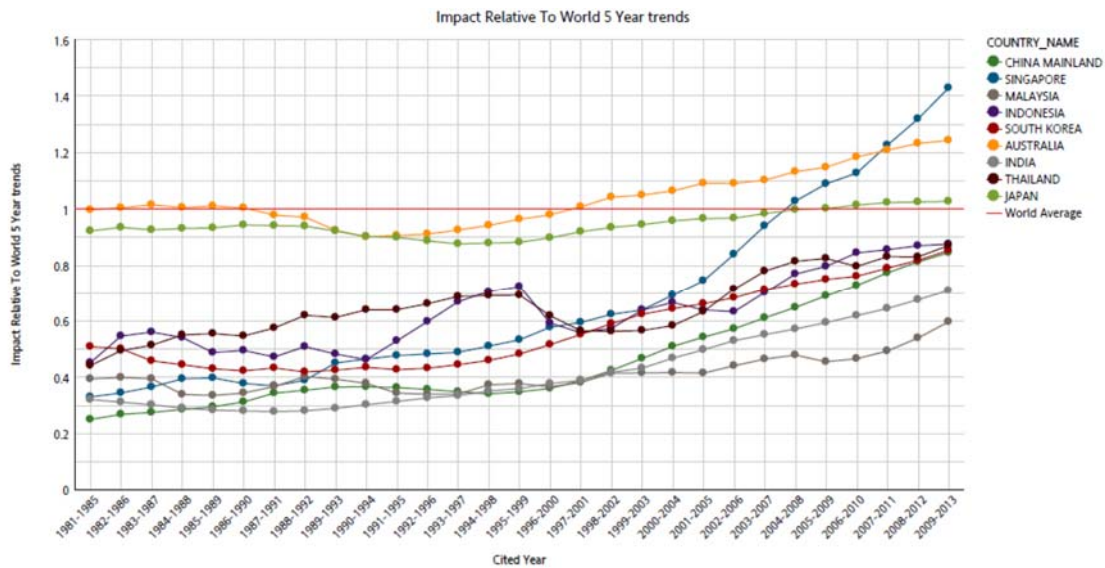
[Source: citations per paper, Scopus Database]<sup>20</sup>

Australia is a participant in the global collaboration that underpins much of modern science. Almost half our research publications have an international connection through co-authorship. We collaborate with scientific powerhouses in Europe and North America, and with the rapidly rising countries in Asia. To remain an attractive partner, Australia must produce high quality science. Achieving performance above world average may not be sufficient if our partners also outperform the world average, by a greater margin. Figure 4 shows that Australian science performs at a lower level, as measured by citation rate per papers, than nearly all the North American and European countries we partner and compete with, lying above world average but below the European average.

<sup>20</sup> West, M. (2013). *Benchmarking Australian Science Performance*. Occasional Paper Series, 6 February. Office of the Chief Scientist. Canberra



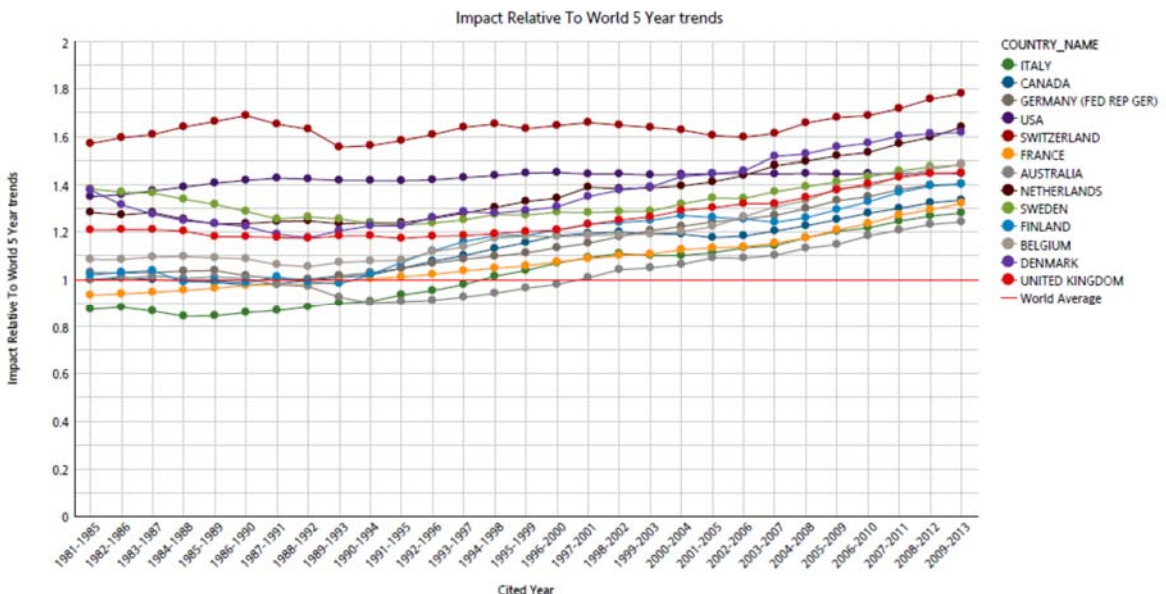
**Figure 4. Impact relative to the world average for Australia and selected Asian countries**



[Source: Thomson Reuters Incites Web of Science data]

While the impact of Australia’s papers has been rising since 1991-95 to above the world average, that of many Asian nations has been rising much faster. Singapore has eclipsed Australia in impact while the heavy investment in university research in countries such as China and South Korea will likely see continued rapid increases in their research impact in the coming years.

**Figure 5. Impact relative to the world average for Australia, USA and Canada and selected European countries**

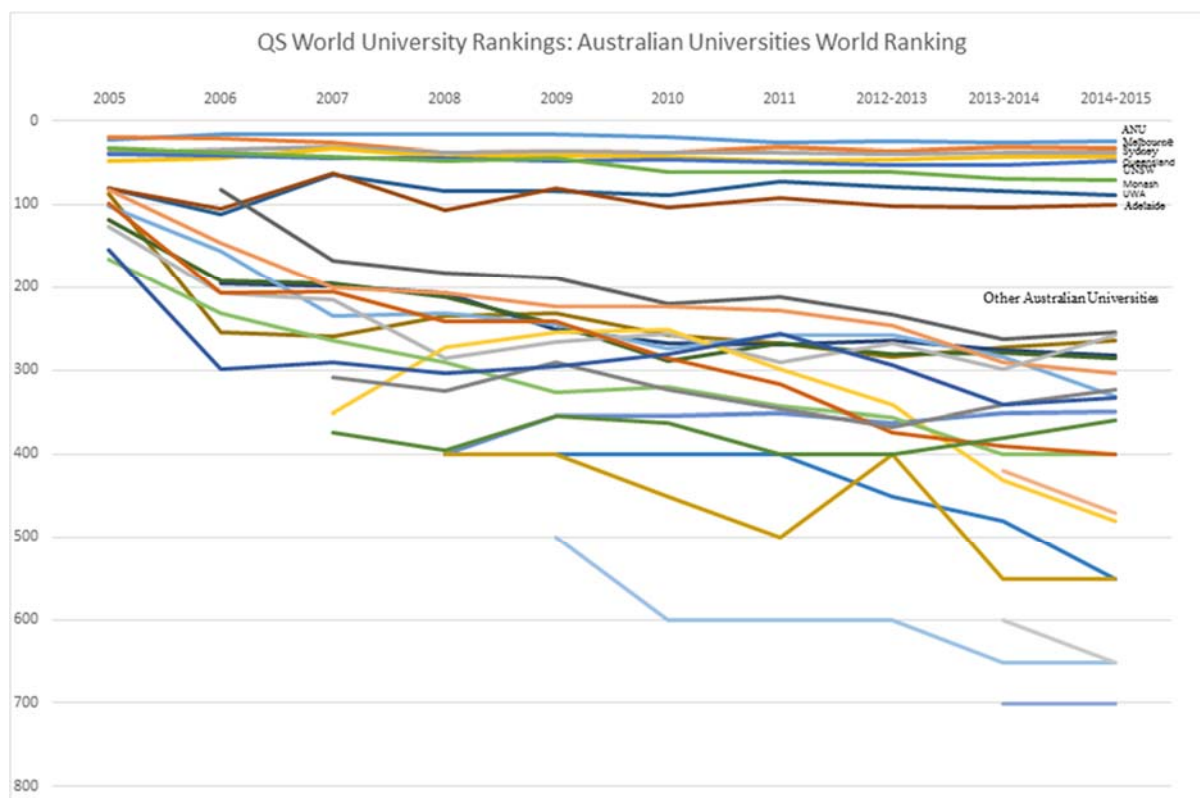


[Source: Thomson Reuters Incites Web of Science data]

Even where Australian institutions do better than tread water, the faster rise of comparable institutions of other countries means we are falling behind. While Australian universities have done well in the latest Shanghai Jiaotong and QS rankings, we cannot afford to become complacent.

University rankings are lagging indicators: they measure past research outcomes. Changes in relative research performance don't show up for a few years. On the QS world university rankings, Australia's Go8 universities have held their position among the top 100 over the period 2005-2014/15, but those previously ranked between 100 and 200 have fallen outside the top 200, as shown in Figure 6. . They have been replaced largely by rising countries of Asia.

**Figure 6. Trends in Australian university rankings on the QS indicators, 2005–2014-15**



More importantly, rankings – by definition – assess Australia's performance relative to rest of the world. And even if Australian universities maintain – or improve – their performance, the rest of the world isn't standing still. In particular, of course, many universities in Asia are emerging as international research powerhouses. It is increasingly with the rising universities of Asia that Australian universities will have to compete.

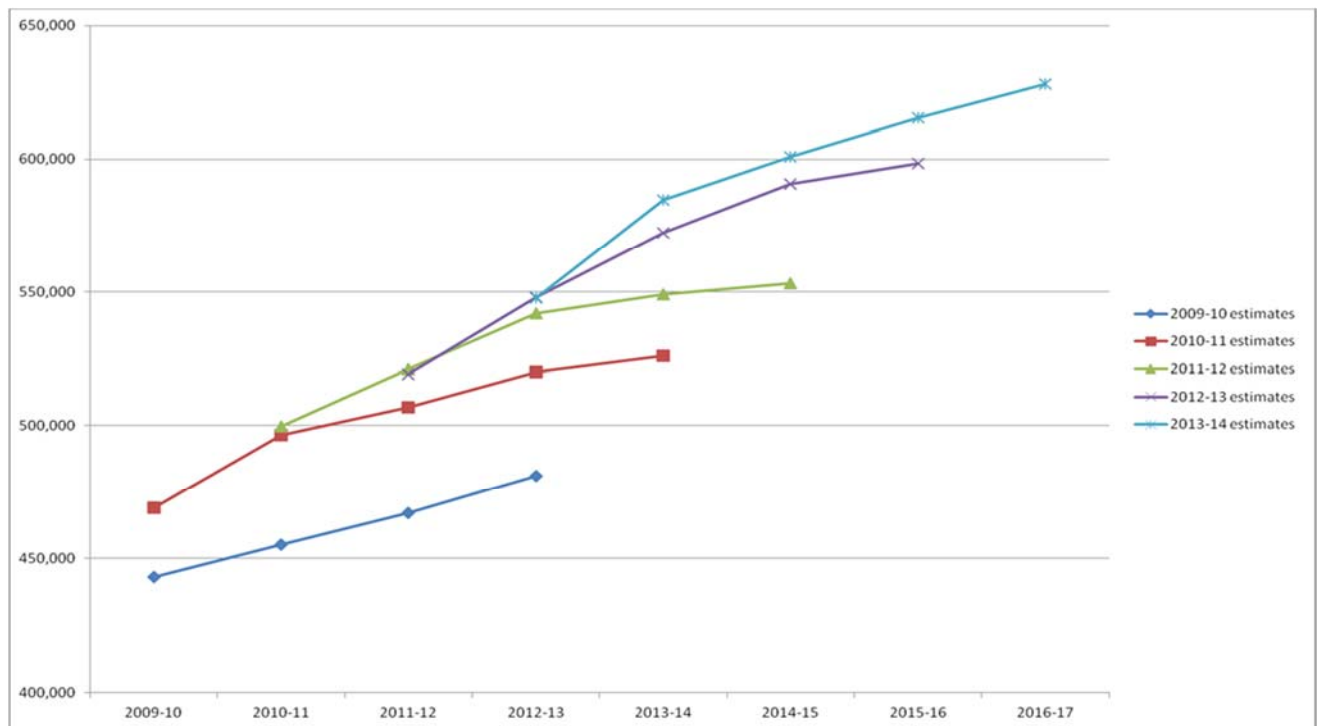
Policy settings that aim to maintain Australia's performance are obsolete in a rapidly changing world. The ground rules have changed, and the challenge will get more demanding over the course of our lifetimes.

## Part B. The evidence in support of the reform

### The cost of the demand-driven system

Under the phased transition to a system of demand-driven funding for places in Bachelor degrees, enrolments have grown much faster than was initially expected and budgeted for. Figure 7 shows projected Commonwealth-supported EFTSL from the 2009-10 Budget (under which a phased transition to demand-driven funding was announced) to the previous Government's final Budget.

**Figure 7. Budget estimates of Commonwealth-supported EFTSL, 2009-10 to 2013-14**



[Source: DIICCSRTE Portfolio Budget Statements, 2009-10 to 2013-14]

In the 2010-11 Budget, Commonwealth-supported EFTSL for 2009-10 (i.e. actuals) were revised upwards by 25,000 (6%) and 2012-13 estimates were revised upwards by nearly 40,000 (8%). There were similar upwards revisions in subsequent years. A linear projection of the original 2009-10 estimates yields an EFTSL figure for 2016-17 that is around 100,000 lower than 2013-14 Budget estimates.

Table 4 shows the EFTSL numbers across the forward estimates for each of the last five Budgets.

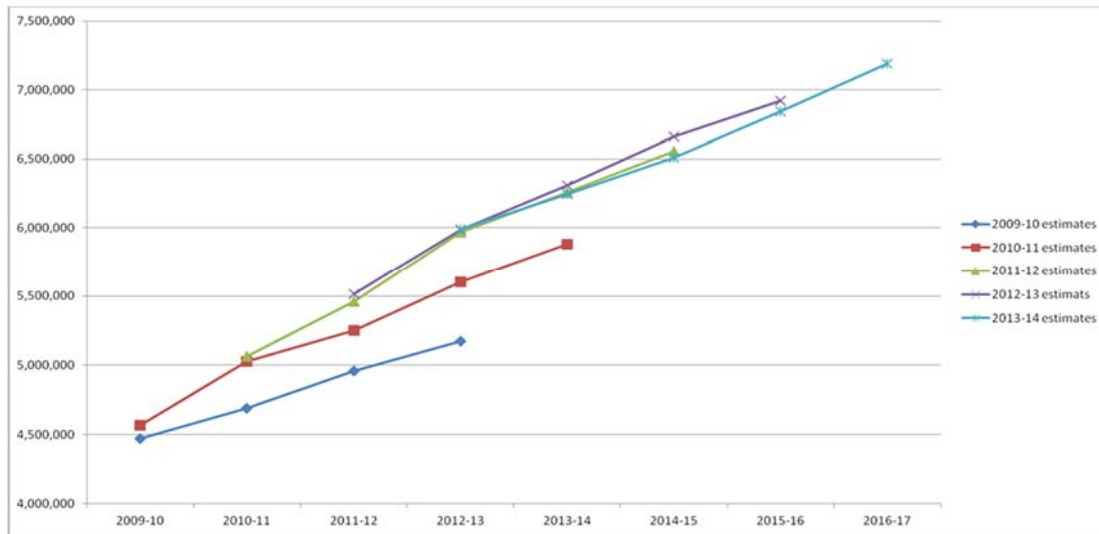
**Table 4. Budget estimates of Commonwealth-supported EFTSL, 2009-10 to 2013-14**

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
2009-10 estimates	443,000	455,000	467,000	481,000				
2010-11 estimates	468,837	496,216	506,646	519,806	526,080			
2011-12 estimates		499,704	521,000	542,000	549,000	553,000		
2012-13 estimates			519,000	547,900	572,400	590,700	598,300	
2013-14 estimates				547,700	584,600	600,800	615,500	628,200

[Source: DIICCSRTE Portfolio Budget Statements, 2009-10 to 2013-14]

Galloping increases in student numbers translate into much bigger than expected increases in the fiscal cost of the demand-driven system. Figure 8 graphs budgeted CGS expenditure from all Commonwealth Budgets from 2009-10 to 2013-14.

**Figure 8. Budget estimates of CGS expenditure, 2009-10 to 2013-14 (\$'000)**



[Source: DIICCSRTE Portfolio Budget Statements, 2009-10 to 2013-14]

In the 2013-14 Budget, revised estimated actual spending for 2012-13 was \$5,990 million – more than \$800 million above the estimate for 2012-13 in the 2009-10 Budget. A linear projection of the original 2009-10 estimates gives a figure for CGS expenditure of just under \$5.9 billion for 2016-17. Actual spending hit this point in 2012-13. By the 2013-14 Budget, projected CGS spending for 2016-17 was 22% above a linear extrapolation of the original (2009-10) projections.

Following annual upwards revisions in EFTSL projections, budgeted CGS expenditure has been revised upwards each year. Modest decreases in 2013-14 are due to the effect of efficiency dividends: ever increasing student numbers meant that per student funding rates had to fall.

According to the Go8's calculations (based on figures in the Budget papers), CGS funding per student was budgeted to fall by about 4.5 per cent in real terms between 2012-13 and 2016-17 (see Table 5).

**Table 5. Nominal and real CGS per student**

	2012-13	2013-14	2014-15	2015-16	2016-17
Aggregate CGS (\$'000)	5,990,178	6,246,873	6,510,604	6,841,232	7,191,203
Projected CSP EFTSL	547,700	584,600	600,800	615,500	628,200
CGS per student	\$10,937	\$10,686	\$10,837	\$11,115	\$11,447
CPI (from Budget papers)	2.50%	2.25%	2.25%	2.25%	2.50%
Index	1.0000	1.0225	1.0455	1.0690	1.0958
Real CGS per student	\$10,937	\$10,451	\$10,365	\$10,397	\$10,447
Index (2012-13 = 100)	100.00	95.55	94.77	95.06	95.52
Decrease	0.00%	4.45%	5.23%	4.94%	4.48%

[Source: Commonwealth Budget papers, 2013-14; DIICCSRTE Portfolio Budget Statement 2013-14]

CGS per student is derived by dividing budgeted aggregate CGS funding by projected Commonwealth-supported equivalent full-time student load (CSP EFTSL). Estimates of real CGS funding per CSP EFTSL deflate nominal data by CPI projections from the Budget papers.

Experience in New Zealand, where a (broader) demand-driven funding system was in place for 15 years (to 2010) suggests that the high and increasing fiscal cost of funding university places means that Governments seek irrational savings at the margins of the system, in order to contain increases in costs while upholding the principle of demand-driven funding. Efficiency dividends announced in April 2013 look like just such irrational marginal savings. This applies also to cuts announced as part of the 2012 MYEFO. Postponing the boost in SRE funding for the indirect costs of research, for example, appears to be a victim of the burgeoning cost of demand-driven funding of CSPs.

#### *The limited options available to Australian students*

As noted by Professor Sandra Harding, chair of Universities Australia, the status quo is not an option. The current system encourages a one-size-fits-all approach that is stifling innovation and shackling institutions to the forms and methods of the past. In contrast, deregulation offers institutions a way of opening doors to the future. In the words of Professor Warren Bebbington, Vice Chancellor of the University of Adelaide:

higher education in Australia could be transformed into the most dynamic system in the world. It would have the rich variety of the US university landscape, but without the crippling debts that American students suffer... In the US, nearly half of all students... attend teaching-only undergraduate colleges offering only Bachelor degrees. Without research programmes, these colleges do a first-class job of teaching: through small classes and an intense extra-curricular programme. Students have an unforgettable, utterly life-changing educational experience... [yet] such institutions are scarcely possible in Australia currently.<sup>21</sup>

At a recent national press club address, Professor Ian Young, Vice Chancellor of The Australian National University and chair of the Group of Eight, spoke of a system where students contemplating university were offered a variety of choices, in terms of learning style, or aspirations, of practical skills or exploration of ideas, of social networks or intimate teaching styles, of research-intensive training or immediate vocational outcomes.<sup>22</sup> A system that is well within our grasp if we have the vision to accept a more flexible approach to higher education.

The previous Government decided to exclude sub-Bachelor places from the demand-driven system. This was done for fiscal rather than policy reasons. Closing pathways subverted the Government's own access and equity goals. Restricting demand-driven funding to Bachelor degree enrolments creates distorting incentives for both universities and students.

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<sup>21</sup> <http://www.timeshighereducation.co.uk/comment/opinion/australia-must-ignore-vested-interests-and-seize-chance-for-change/2012778.article>

<sup>22</sup> [https://go8.edu.au/sites/default/files/docs/article/national\\_press\\_club\\_speech\\_-\\_ian\\_young\\_pdf\\_version.pdf](https://go8.edu.au/sites/default/files/docs/article/national_press_club_speech_-_ian_young_pdf_version.pdf)



## Modelling tuition prices, debt burdens and repayment times

Since the Budget, there have been a number of attempts to estimate the impact of the Government's proposed package of higher education reforms on graduate debt and HELP repayments.

In any modelling, the results depend on the data that is fed into the model, and the assumptions that the modellers use. Models of future graduate repayments make assumptions about the following variables:

- fees
- graduate wages
- interest rates

At this stage, nobody knows what level deregulated fees will be set at. Estimated fees are not results of modelling: they are inputs into the models. Estimates of '\$100,000 degrees' are not produced by modelling: they are assumptions made before running models. To date, modelling has tended to assume fees at the high end, typically involving increases that make up CGS cuts and then rise by 50-100% of this increased base.

Furthermore, presentation of modelling results has confounded fees (the sticker price of a course) with total repayments, which depend on graduate earnings, time to repay and interest rates. The really big amounts quoted in the press are total repayments (often on assumptions of unrealistically low graduate incomes leading to very long times to repay).

### *Graduates fare comparatively well socially and financially*

In addition to the strong private benefits in better labour market outcomes and higher salaries (see below), higher education offers graduates a range of other private benefits including: improved health and higher life expectancy; improved quality of life for graduates' children; better consumer decision making; increased personal social status; and more hobbies and leisure activities.<sup>23</sup>

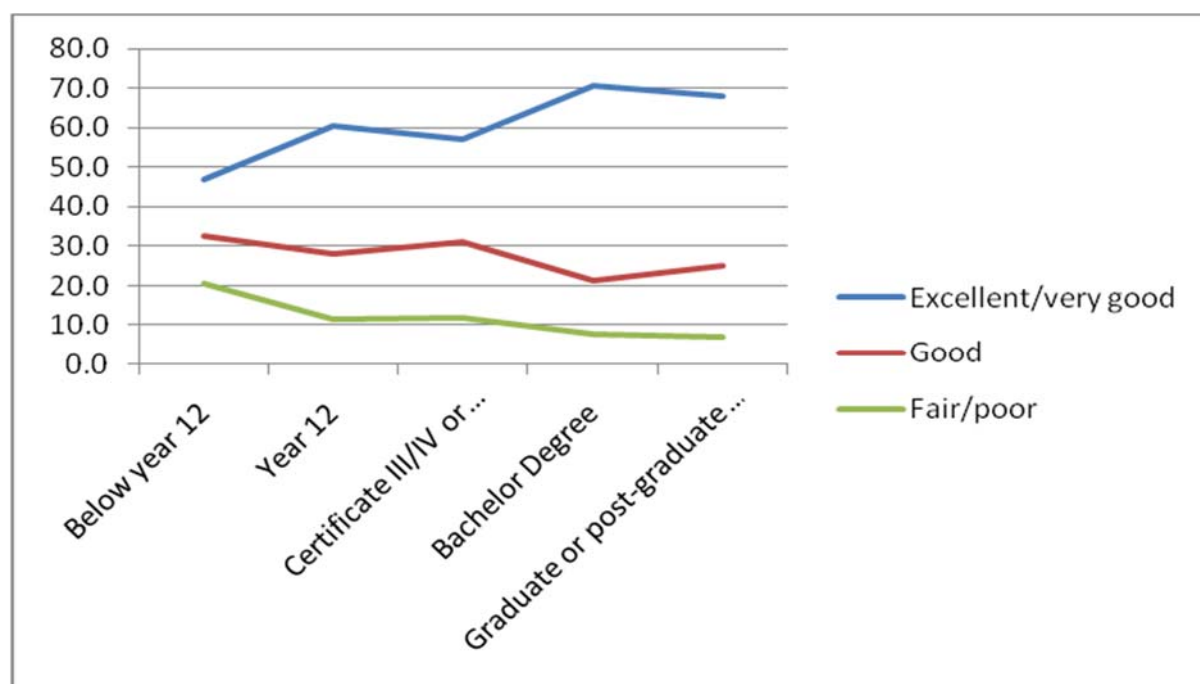
Graduates are also less likely to be smokers, less likely to engage in risky patterns of alcohol use and less likely to report high levels of distress. Graduates are less likely to be victims of crime (especially physical assault) and are much less likely to be detained by police.<sup>24</sup> Figure 9 shows the higher level of self-assessment of health of higher education graduates.

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<sup>23</sup> Institute for Higher Education Policy. 1998. *Reaping the Benefits: Defining the Public and Private Value of Going to College*. Washington, DC.

<sup>24</sup> ABS **National Health Survey** (2007-08); ABS **General Social Survey (GSS)**(2006); Surveys of crime victimisation (ABS 2009-10 Multipurpose Household Survey); Australian Institute of Criminology

**Figure 9. Self-assessed health by educational attainment**

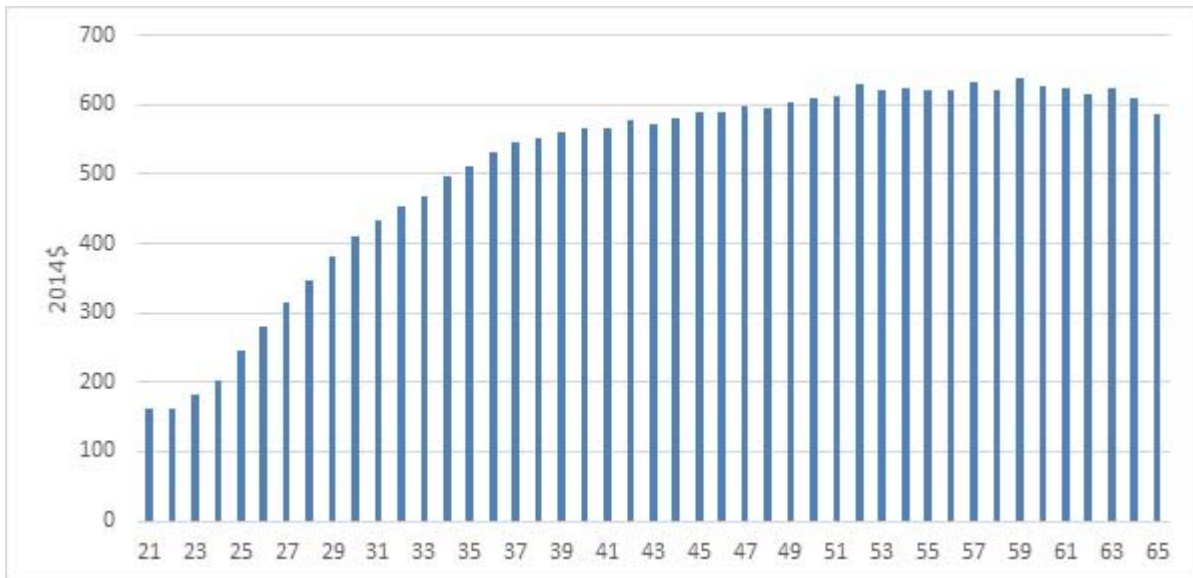


[Source: ABS **National Health Survey** (2007-08)]

- According to the 2011 Census, the typical graduate commences on a salary of around \$50,000, however this will vary depending on their field of study.
- On average, graduates earn \$1.2 million more over their lifetimes than people with no post-secondary qualifications. Graduates earn significantly more than people with VET qualifications.
- Graduates enjoy above average income growth over the course of their careers. Average graduate incomes grew in real terms at a rate of 5.7% per annum over the first five years of employment and 2.0% thereafter. Economy wide, real wages grow by around 1.0% per annum.
- After 10 years working fulltime, 20% of graduates will be earning more than 80% of all full time employees across the country. Less than 12% of workers without any post-secondary qualifications earn this amount.
- Compared to individuals without post-secondary employment, graduates on lower incomes are much more likely to be working part time.
- The unemployment rate of graduates are generally less than half that of individuals without post-secondary qualifications.
- In terms of weekly income, the average full-time employed graduate is \$400 a week ahead of the average full-time employee without post-secondary qualifications by the age of 30. By age 35, the gap is more than \$500 a week (See Figure 10).



**Figure 10. Weekly graduate premium (difference between average weekly earnings of graduates in full time employment and those without post-secondary qualifications)**



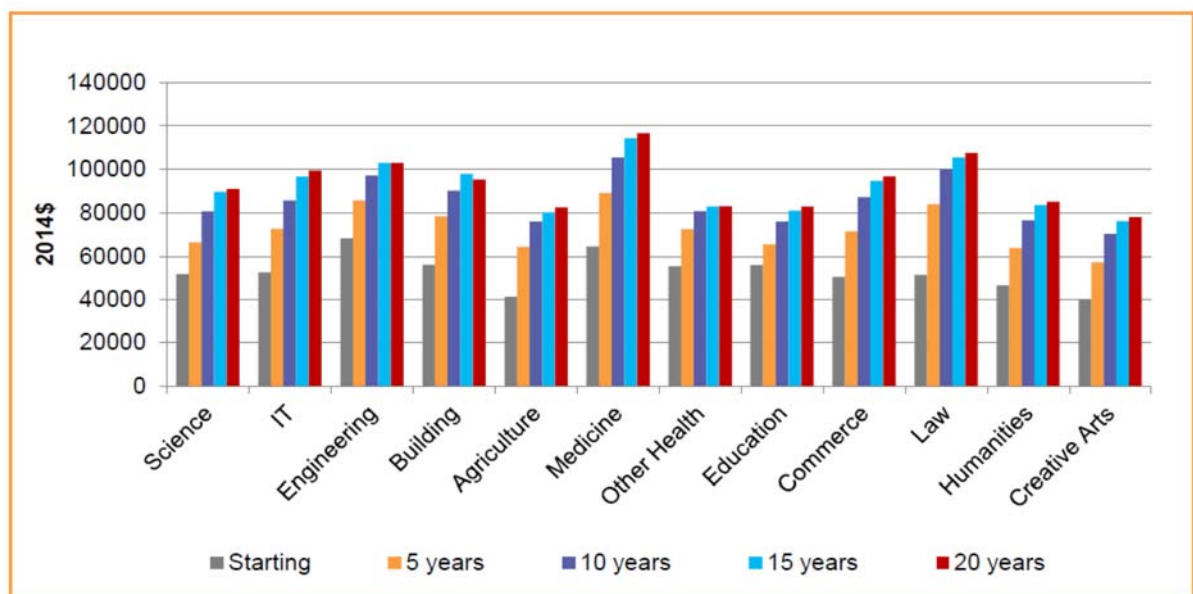
[Source: Go8 analysis of 2011 Census data.]

**Income growth**

Mean graduate earnings by field of study are reported for the first 20 years of their careers in Figure 11. After 20 years of employment, medicine and law graduates are the top performers, earning \$117,000 and \$107,000 per year respectively.

Note that Census data understates graduate earnings at the upper end of the income distribution: the highest category in the Census for weekly income is ‘\$2000 or more’ (\$104,000 a year). Around a third of graduates employed full-time are in this category by the time they are 37 years old.

**Figure 11. Graduate earnings by field of degree and years after graduation**



Source: Go8 analysis of 2011 Census.

### Income distribution

Perhaps a more telling measure of graduate earnings is their relative performance. According to the 2011 Census, the top 20% of full time workers were earning at least \$93,739. Graduates were over represented in this category, with more than 28% earning above this amount. Across the disciplines, medicine (64.6), engineering (46.7) and law (50.2) had the highest proportion of graduates earning in the top quintile. Graduates from creative arts (12.78), education (14.6) and agriculture (20.5) had the lowest proportion of workers earning above this amount. After 10 years working fulltime, 20% of graduates will be earning more than 80% of all full time employees across the country. The proportion of law graduates earning in the top 20per cent after 10 years is 49%; 39% for engineering graduates and 29% for commerce graduates. After 20 years, 42% of graduates are in the top quintile. Less than 12% of workers without any post-secondary qualifications earn this amount.

### Part time employment

Part time employment reflects work-lifestyle preferences and external commitments and is therefore not a true indication of labour market outcomes. For many graduates however, part time employment might only be affordable because of their education. The earning capacity and career opportunities afforded to graduates raises their average hourly wage and means that a threshold income level can be achieved by working fewer days. Consider for example, the proportion of part time workers for graduates and non-graduates, earning approximately between \$34,000 and \$56,000 a year. Of those without any post-secondary qualifications, about a fifth are part time employees (see table below). By comparison, the proportion of workers in part time employment, with a bachelor degree, is nearly double this amount (37.8 per cent). The difference is even greater for females — about half of graduates in this income bracket are working part time, compared to nearly a third of non-graduates. This is a key result as it illustrates the added flexibility afforded to graduates to balance external commitments.

**Table 6. Part-time workers earning between \$34,000 and \$56,000 (%)**

	No post-secondary education	Bachelor degree
Males	14.0	22.7
Females	31.0	46.0
Persons	21.9	37.8

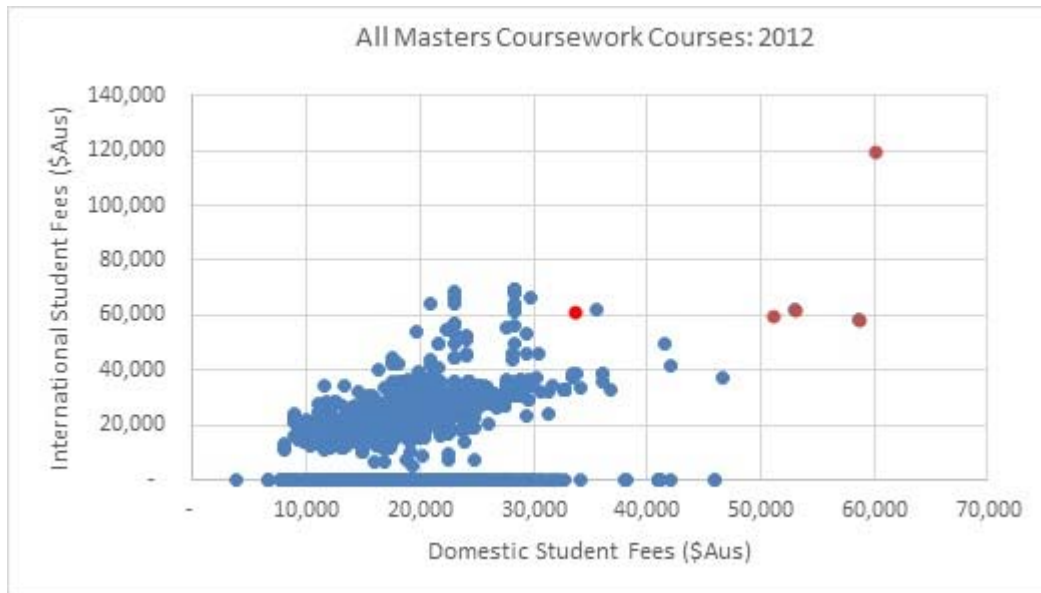
Source: Go8 analysis of 2011 Census.

### *Competition is working in the international and domestic postgraduate markets*

The proposal to deregulate undergraduate domestic fees has been met with concerns that providers will charge uniformly high fees. Some have argued that income-contingent loans could weaken price signals and thus encourage providers to raise fees above their actual

However, there is no evidence to suggest that this would result from deregulation. In fact, an examination of the two deregulated markets already in operation within Australia, namely international and fee-paying domestic postgraduate students, shows a broad range of price points occurring across every broad field of education, creating much more diversity than is the case in the current, regulated system.<sup>25</sup> This is true even for the high prestige/high private rate of return areas such as engineering and management and commerce (see Figures 12, 13 & 14).

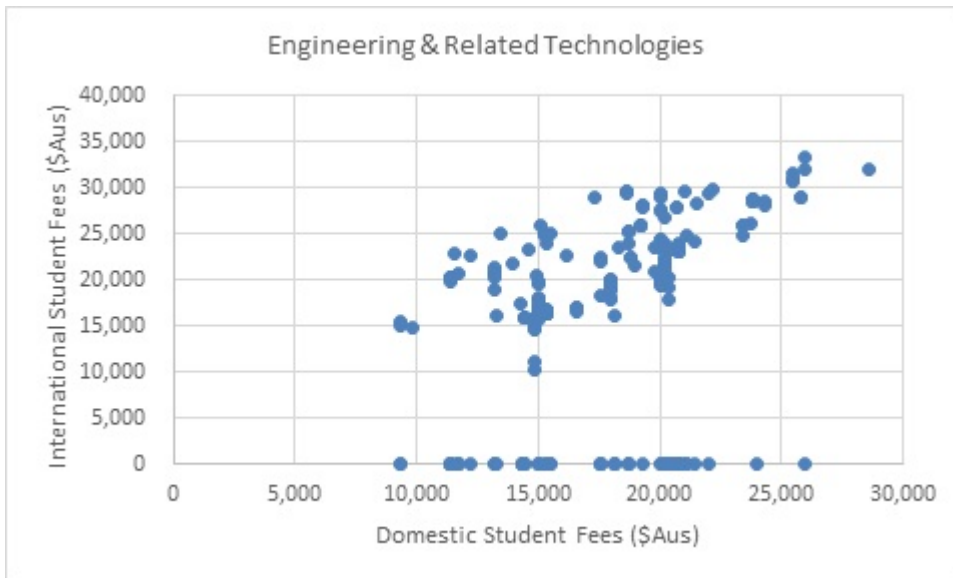
**Figure 12. Indicative Fee for Fee Paying Masters Coursework Courses, Domestic and International, 2012**



Outliers are indicated in orange. Dots that lie along one axis indicate courses offered to one group of students only (e.g. domestic students but not international students). The red dot indicates how the graph is to be read, i.e. the course indicated by the red dot was charged at around \$35,000 to a domestic student, but \$62,000 to an international student. Source: Department of Education, custom dataset.

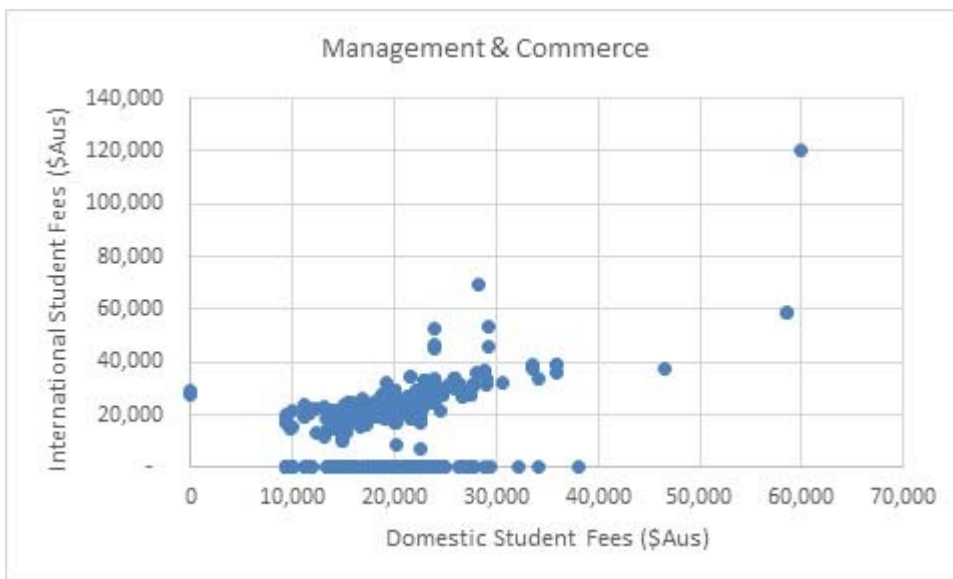
<sup>25</sup> For a more in-depth discussion, see Go8 Policy Note: *Tuition Fees at Australian Universities*, [www.go8.edu.au](http://www.go8.edu.au).

**Figure 13. Indicative fees for Fee Paying Masters Coursework courses, Domestic and International, 2012, in the field of Engineering and Related Technologies**



[Source: Department of Education, custom dataset.]

**Figure 14. Indicative Fees for Fee Paying Masters Coursework Courses, Domestic and International, 2012, in the field of Management and Commerce**



[Source: Department of Education, custom dataset.]

### **Tuition prices and HELP borrowings do not deter students from participating**

Some of the public discussion about the Government’s proposed reforms repeats concerns that were widely expressed more than 25 years ago before the Hawke Government introduced HECS. Some people feared that introducing a fee for university – even one that could be deferred until graduates earned a graduate income premium – would deter some students from participation. In particular, it was feared that fees would deter participation by low SES students.

### **Income-contingent loan provisions differ from mortgage-style loan obligations**

Under the HELP scheme, graduates are obliged to repay only when they have the income to do so. Otherwise, graduates are not obliged to 'clear the debt' over any period. HELP debts are not the same as mortgages or personal loans. HELP loans are fundamentally different in the way they operate. A graduate's HELP debt represents their course fees (minus any upfront payments they may have made). Like any other loan, the debt is discharged once it is paid back in full. Unlike conventional loans, however, the timing and the amount of repayments is determined not by the size of the debt, but by the debtor's income. Most importantly, debtors who do not earn more than the threshold do not have to make repayments at all. There is no penalty for defaulting on a HELP debt, nor can amounts outstanding be recovered from debtors' assets or their estate. Carrying an unpaid HELP debt is no disadvantage to a graduate.

### **Poor students will continue to be able to afford to go**

HELP loans remove up-front financial barriers to access for all students, irrespective of their personal or parental means. Payment is related to income after graduation, rather than financial resources at enrolment. Fees and HELP debts have no impact on most students' financial circumstances while they are studying.

There is no evidence that tuition price rises of the past have deterred any socio-economic group from increasing participation in higher education.

Institutions which increase their fees will have to spend 20% of additional fee income on measures to support access by students from low SES and other disadvantaged backgrounds. These measures will address living costs while studying, which are more of a barrier for poorer students than fees are. The scholarships are made available because the policy permits those who can and will pay more to be able to do so.

The HECS-HELP scheme will continue to operate. The proposed reforms depend on the HELP scheme. HELP's removal of upfront tuition fee barriers is essential to maintaining access. Making payment dependent on returns after graduation, rather than financial resources at enrolment, is entirely consistent with deregulation of fees so that fees reach their market value (i.e. the value of graduate returns).

### **Tuition fee changes have no adverse effects on participation**

A number of studies have found little evidence that either the initial introduction of HECS, or subsequent changes (including increases in fees) had adverse effects on student participation by any group of students. By 2005, there was 'a considerable body of research suggesting that there have been no discernible effects on university enrolments of relatively poor students from either the introduction of, or changes to, HECS' (Beer and Chapman 2005).

Andrews (1999) found that HECS had little impact on the social composition of the student body. He reasoned that this was because the capacity to defer fees through an income-contingent loan addressed prospective students' concerns about fees. But more importantly, Andrews found that 'the primary reason underlying the low participation by low SES groups in higher education relates to values and attitudes towards higher education and not financial considerations'. Andrews found no change in low SES shares of enrolments over the course of the 90s. The move to differential HECS in 1997 did not have an observable effect on low SES participation in study at any of the three new HECS bands.

**Table 7. Share of commencing students from low-SES backgrounds, 17-24 year olds**

Share of commencing students from low SES backgrounds 17-24 year olds		1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Band 1		20.6	19.4	19.8	19.3	19.0	20.2	20.1	20.2	20.1	20.2
Band 2		20.0	20.9	20.7	20.1	20.2	20.8	20.8	21.0	20.3	20.6
Band 3		11.7	15.3	15.3	14.4	12.7	12.2	12.4	12.4	13.2	12.3
All		19.9	20.1	20.1	19.5	19.4	20.2	20.2	20.3	19.9	20.1

Source: Higher Education Students data base

The fact that low SES students maintained their share during a time of booming enrolments shows that low SES enrolments and participation increased in absolute numbers at the same rate as for all students. Other countries have not succeeded as well as Australia in maintaining low SES shares as participation has massified (see for example Blanden and Machin 2004 on England). In the case of Germany, for instance, where tuition is free, the proportion of students enrolling in higher education from low socio-economic households has declined significantly.<sup>26</sup>

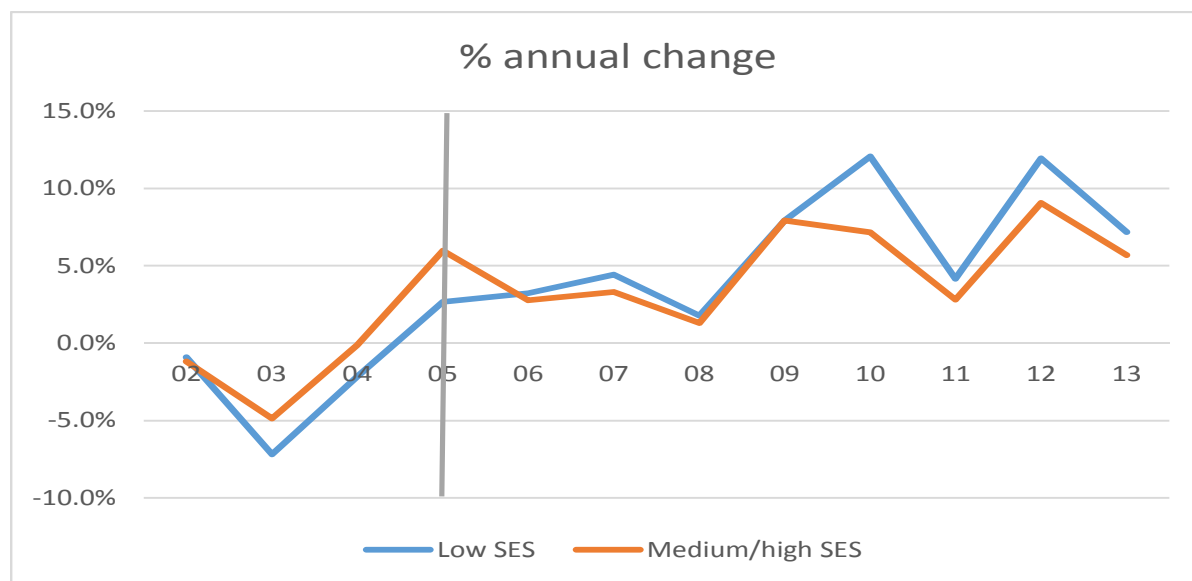
Aungles et al 2002 found that 'the introduction of HECS and its variants since [1989], have not discouraged overall participation in higher education among persons from a low SES background'. While the 1997 move to differential HECS had a negative impact on the number of low SES males in the most expensive courses, this was very small in absolute terms (100 students).

Analysis of domestic undergraduate commencements over time (low SES versus other) shows demand recovering in 2005 as maximum student contributions increased by 25%, though growth slowed over the next few years (with low SES growth edging higher than medium/high SES). The medium term story is that after 2005, growth in low SES commencements has been stronger than growth in medium and high SES commencements.

<sup>26</sup> Elke Middenhorff, Beate Apolinarski, Jonas Poskowsky, Maren Kandulla & Nicolai Netz (2013). Die wirtschaftliche und soziale Lage der Studierenden in Deutschland, 2012:20. Sozialerhebung des Deutschen Studentenwerks, Bundesministerium für Bildung und Forschung.



**Figure 15. Annual change in domestic undergraduate commencements by SES, 2002-2013**



[Source: Department of Education, Higher Education Statistics Collection]

Nevertheless, people from low SES backgrounds remain under-represented in universities. This appears to be due to factors other than fees.

James (2002) found that low SES secondary students were more worried about the cost of attending university than were higher SES students. These concerns, however, related to opportunity costs and living costs at least as much as they were about fees. Further, it was only a minority of low SES students that held these concerns. More importantly, James found that financial concerns were not the main issue for low SES students: rather the main barrier was 'the perceived relevance of higher education'.

Negative impacts of low SES on higher education participation tend to occur earlier in students' educational careers. An important paper by Cardak and Ryan (Cardak and Ryan 2006) found 'no evidence that credit constraints deter high achieving students from attending university in Australia, a country with an income contingent loan scheme for higher education tuition fees'. Cardak and Ryan found that at a given ATAR, there was no difference in university participation by SES. Just as importantly though, the study found that low SES students were less likely to 'translate' ability (measured by performance on standardised tests in Year 9) into a corresponding ATAR score. In other words, bright low SES students do less well at ATAR than equally bright higher SES students. Cardak and Ryan find that this – rather than fees – explains the participation gap between high and low SES groups.

The studies cited above are now quite old, but they answer conclusively questions about the impact of key stages in the development of HECS-HELP on participation and equity (the initial introduction of HECS in 1989; different HECS fees for different courses from 1997; and the 25% increase in student contributions in 2005). There is no evidence that fees deter students, even those from poor backgrounds. There are solid grounds to believe that under-representation of low SES people in higher education is due to other factors.



### *Higher student shares of costs do not reduce student demand for any group*

There is similar evidence from other countries that fees do not reduce higher education participation. A study of changes in higher education financing, including higher student fees, in 12 countries, carried out for the European Commission by Canadian higher education expert Alex Usher found very limited evidence of changes in demand resulting from changes to fees. One of Usher's headline findings was that 'rises in fees seemingly have no detectable negative effect on aggregate demand and enrolment', unless the change is 'exceptionally large'. Usher attributes the continued willingness of students to invest in higher education to the 'high level of personal benefits'.

Comparison of time series participation data from different countries shows that 'access to higher education is increasing everywhere and that actual cost-sharing policies followed have seemingly very little influence on the rate of increase'<sup>27</sup>. Usher's study also found that changes in fees had 'little to no effect on the proportion of students drawn from lower socio-economic backgrounds'. From a study of nine countries, "(The) available data suggest that changes in fees (i) have no effect with respect to the gender composition of the student body (female numbers rose faster than male ones in all nine countries), (ii) have little to no effect on the proportion of students drawn from lower socio-economic backgrounds, and (iii) have little to no effect on the ethnic composition of the student body" (Usher, 2014).

Even in England (where fees were introduced in 1998, and then trebled in 2006), the data show a trend increase in participation that is not affected by changing fees. For all social groups across the income distribution, participation rates 'grew steadily' from 2004 to 2013. When fees changed, there was a slight rise before and a slight drop afterwards, before the trend resumed. Usher attributes this to 'government's habit of announcing policy changes eighteen months in advance', and resulting fall in deferral rates the year before fee increases.

More importantly, over the period 2004 to 2013, the participation gap between top and bottom income groups narrowed slightly. This is a marked contrast to earlier trends, before England introduced university fees: Blanden and Machin (2004) found that the participation gap widened from 14 percentage points in 1981 to 37 points in 1999, as enrolments grew massively. Blanden and Machin draw the obvious conclusion that this expansion in (wholly taxpayer funded) higher education 'disproportionately benefited children from relatively rich families'.

The further trebling of fees in England in 2012 caused a drop in demand in the first year. However, the effect was 'neither especially large, nor enduring'. Offers had fully recovered by 2013, while applications were on the way back. By 2014 (beyond the scope of Usher's study), application rates in England were at record levels. Applications from 18 year olds from disadvantaged backgrounds were also at record levels<sup>28</sup>. In his recommendations, Usher advised an integrated approach to financing and student aid (for example, income-contingent loans).

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<sup>27</sup> Usher, Alex (2014), *Do changes in cost-sharing have an impact on the behaviour of students and higher education institutions*, Vol 1. Comparative Report, European Commission

<sup>28</sup> UCAS applications data, January 2014, <http://www.ucas.com/news-events/news/2014/uk-application-rates-country-region-sex-age-and-background-2014-cycle-january>

### *Graduate debt has not been a deterrent to participation*

In addition to concerns about access to university, it is sometimes argued that graduating with a HELP debt disadvantages graduates or delays home ownership or family formation. A study by Marks (2008) found no evidence that the size of a HELP debt effected decisions about leaving home, getting married or buying a house. There was a negative impact on decisions to start a family, but the effect was smaller than that of being in full-time work (positive for men; negative for women) or being married or in a de facto relationship. In any case, only a small minority of graduates had a HELP debt big enough to have even this modest impact on their decisions about family formation.

### **How does a HELP debt affect graduates?**

The HELP system of student loans means that graduates only repay when they earn enough to be able to do so. Repayments are a specified proportion of a graduate's income (which cannot exceed 8%). Debt burdens that are disproportionate to graduate income – like those affecting some graduates in the United States – are impossible in Australia.

For those earning more than the repayment threshold, having a HELP debt reduces graduates' weekly take-home pay by a small amount, ranging from \$41 (at the repayment threshold) to \$155 (at an income of just over \$100,000). For those earning less than the repayment threshold, there is no effect.

In their first year out of university, many graduates make no HELP repayments, as their income has not reached the repayment threshold (\$53,345 in 2014-15). Average graduate earnings in generalist disciplines (Humanities, Science, Commerce) are below the threshold one year out, as are average earnings in IT, Agriculture and Law.

Graduates in higher earning professional fields do, on average, make HELP payments in their first year of employment, but weekly amounts are small. Teachers and Architects pay \$43 a week on average, as do Health graduates (outside Medicine and Dentistry). Engineers pay \$66 a week and Doctors \$70. Only Dentists average payments of more than \$100, due to their high earnings.

Repayments increase with graduate income, but remain manageable. Over the life of a HELP loan, average weekly repayments are below \$100 for graduates of all fields except Medicine and Dentistry.

Any fee increases will not raise graduates' weekly repayments: repayments are determined by graduates' incomes, not by fees or the size of the debt.

A graduate's HELP debt represents their course fees (minus any upfront payments they may have made). Like any other loan, the debt is discharged once it is paid back in full. Unlike conventional loans, however the timing and the amount of repayments is determined not by the size of the debt, but by the debtor's income. Most importantly, debtors who do not earn more than the threshold do not have to make repayments at all.

It is misleading to think of a HELP liability in the same way as a conventional loan debt. There is no penalty for defaulting on a HELP debt, nor can amounts outstanding be recovered from debtors' assets or their estate. Carrying an unpaid HELP debt is no disadvantage to a graduate. The practical effect of a HELP debt is a small reduction in net income for those earning above the threshold. For those earning less, there is no effect.

#### **How is HELP intended to work?**

- The HELP scheme allows students to defer 100% of their university fees: the student pays nothing upfront.
- The Government pays the student's fees for them: this is a loan to the student. Although the student incurs a debt, they are not required to make any repayments until they reach an income threshold. In 2014-15, this is \$53,345. At this income, repayments are limited to 4% of a debtor's income. Repayments increase progressively up to a maximum of 8% at \$99,070. Under the Government's Budget proposals, the initial repayment threshold will drop to around \$48,000 (in 2014 dollars), but the repayment rate at this level will only be 2% (repayment rates for other income brackets will continue to apply).
- As weekly amounts, repayments are modest. In their first year after university, graduates employed full time pay \$61 on average. Repayments are relative to income, not to the size of the debt. A bigger debt does not mean higher repayments. For a given level of income, it will mean the debtor takes longer to repay.
- The Government is proposing to introduce a real interest rate on HELP debts, meaning graduates would pay more in total (in real terms) the longer they took to repay. The effect would be regressive: graduates who earn less would pay more.

### **Part C. The benefits that can flow from the reform**

#### **Solving the problems of the current policy framework**

Alongside the challenges of increasing external competition, there are serious internal problems with the current policy and financing framework for higher education and university research. From 2012, the Government has deregulated the volume of Bachelor degree students that it will fund universities to enrol. For domestic undergraduate students, the Australian Government continues to regulate tuition prices at a common amount for all universities via (i) a government subsidy per place – the Commonwealth Grant Scheme (CGS) funding rate and (ii) a maximum permissible student contribution amount.

A Government-subsidised enrolment system that is deregulated as to university enrolment quantity but price controlled, and closed to lower cost providers and shorter-cycle programs, is not coherent, sustainable or equitable.

The policy exposes taxpayers to unknown future costs and without pressure for cost-containment.

- Universities which carry research cost overheads are the highest supply cost option have a protected position while competitors are structurally impeded.
- No account has been made for future student demand, whether driven by demographic or participation factors.

The policy encourages all universities to enrol more students for purposes of income growth.

- As the selecting institutions absorb larger shares of the top students the recruiting institutions are forced to enrol more under-prepared students

The policy focusses on access rather than success.

- No provision has been made for extra costs to compensate for learning deficits, with risks to wastage (higher attrition) or lower quality.
- Shorter-cycle programs (1-2 years) at diploma and associate degree levels have been constrained, yet they may be more suited to students with lower levels of preparation than presenting for a longer-cycle degree (3-5 years).
- The evidence shows that shorter cycle courses are an effective pathway into university for students from backgrounds of educational disadvantage.

The policy is socially regressive in that it prohibits those who can and would pay more from doing so, and requires a larger relative contribution from those in the taxpaying community who are less able to pay.

The underlying problem is the policy approach of funding all universities on the assumption of sameness along with a belief that regulation will drive performance improvement.

Primarily, policy and funding settings in higher education should be designed to benefit students. Student-centred funding is a vital part of a student-centred rather than provider-centred policy framework. An open policy framework that maximises student choice is most likely to increase the responsiveness of the system and to encourage providers to innovate, diversify and compete, in order to cater to varying student needs and circumstances.

Deregulation recognises that the distributed decisions of students, and the responsiveness of diverse higher education suppliers to their interests, produces a better alignment between need and capacity than centralised allocation. A deregulated system requires universities to get more serious about offering the courses that students want, and how they want them delivered. Deregulation rewards those providers who identify their key markets and refine and structure their offerings accordingly. Deregulation enables and requires higher education providers to focus on what they do best. By playing to their strengths, providers can maximise their success, improving quality and responsiveness, reducing duplication and furthering consolidation and differentiation. The competitive pressure of the deregulated environment induces suppliers to offer distinctive services, realise economies of scale and scope, and seek out opportunities for collaboration along the supply chain, including with competitors. Thus deregulation offers the potential for improvements in the efficiency of higher education delivery nationwide.

A more flexible, competitive and differentiated system will:

- meet learners' increasingly diverse needs;
- encourage private sector growth as part of a more productive services sector industry
- maximise genuinely world-class research; and
- help Australian suppliers to be even more effective players in international education.

A more sustainable system will limit the Commonwealth's fiscal exposure, better recognise the balance of public and private benefits, and safeguard access and equity.

A more balanced, market-based policy design should aim to:

- Remove the anomalies and perverse incentives of the current policy framework and foster mission-driven institutional positioning
- Reduce the costs to government of increasing participation in higher education, without eroding quality
- Establish a fairer balance in the sharing of costs between students and general taxpayers, in recognition of the substantial private benefits that graduates accrue over their lifetimes
- Give less-well prepared school leavers better opportunities to succeed in higher education and open up broader pathways for them
- Improve the fit of graduate output with labour market requirements
- ensure that students do not face up-front financial barriers to access or disproportionate debts of on graduation
- Promote the phased expansion of a vigorous private sector of high quality higher education providers, with incentives for investment in delivery capacity early in the decade, as a means of absorbing growth in school leaver demand from 2020, and as a platform for serving growth in international student demand
- Enable established universities to position themselves gradually against increasing competition, including by allowing some universities to focus on their teaching and community service missions without pressure to try to build a comprehensive research profile
- Strengthen research capacity and performance in Australia's strongest universities and fields.

### **The effects of competition**

In a more competitive system, it is not safe to make assumptions about the behaviour of institutions (and students) based on what applied in a system with capped volume or prices. Universities, however prestigious, will only be able to charge what the market will bear – that is, what students are willing to pay. As institutions and students get used to price competition over the first few years of the new system, it will get harder for universities to set high fees. There will be more competition among different providers on price, quality and variety. Students will increasingly want to know what they're getting for their fees. Genuine competition on price and quality will work to break down established perceptions and prejudices (e.g. among employers) based on a vague sense of prestige, and will focus students' and employers' attention on actual quality and results. This will in turn influence student demand and expectations.

Universities can be expected to offer different kinds of student experience, teaching methods, opportunities for industry placements and pathways into employment. Different universities will bring different strengths and selling points to the market. There is no reason to believe that Go8 universities will out-compete everyone on everything.

On the basis of private provider behaviour here and elsewhere we can expect niche offerings to be created, new geographic locations to be served, particular population segments to be catered for, and alternative delivery models to be offered.

There will likely be a big increase in innovation in the design and delivery of higher education, including mixed mode provision and more collaboration between different provider types. Higher education will become more flexible and responsive to students' needs.

New providers may bring to Australia the innovations developed elsewhere of making courses available on an almost continuous basis rather than two or three times a year, locating learning centres in readily accessible places, standardising curriculum content so that learners can continue when they move from one region to another, emphasising career preparation and employing teachers who have practical professional experience. Some may put on courses, in consultation or collaboration with businesses, to meet specific local labour market requirements, with flexible capacity to expand or contract as demand changes.

Some may expand their on-line offerings, making creative use of the capacities of technology and the multiple means that young people use for learning, often simultaneously. New providers may enter with niche programs for specific market segments tailored to fit their particular needs and circumstances. Others may concentrate on pathway programs for the domestic market drawing on their success in the international student market, such as the Navitas model. Some may venture into secondary high-school/tertiary college hybrids, along the lines of the Chicago model, offering students programs articulating with an Associate Degree, or dual-credit classes. Others may build on TAFE programs to provide articulation to both a Bachelor's and Master's degree, along the lines of Mills College Oakland, California.

Reforms and the opening up of the sector that follows will attract private investment to improve resourcing. This may include direct investment from the top institutions in the US, Europe and Asia, as well as from technology firms active in cyber universities and other online delivery in places like India, Japan and South Korea.

#### **Part D. The consequences of not progressing the reform**

The Government has inherited a policy framework for higher education that has been unravelling. Ad hoc cuts made for budgetary rather than policy purposes are damaging universities. The most adverse impacts are falling on those universities that do most of the research which underpins the capacity of other industries, builds Australia's reputation for excellence and opens doors internationally. We cannot afford to let current policy anomalies drift too far.

Other nations with which Australia competes and collaborates are intensifying their investment in university research. If Australia falls behind in research capacity and performance, the reputation of Australian universities will suffer, it will be harder to attract and retain top intellectual talent, Australia may forfeit its current access to knowledge breakthroughs, and the education services export industry will be damaged.



Failure to embark on the reform would see rapid erosion of quality and reputation, constrain opportunities for students, and risk undermining Australia's competitiveness, not least in export of services. These are very high stakes for Australia. If we miss the opportunity now to make the breakthrough that will open up expansive new opportunities, we will subordinate our future generations.

Current policy and funding settings are neither sustainable nor effective. The status quo is not an attractive option for Australia's universities or students.

A default to the status quo would leave large gaps in funding for teaching and research. Universities would be pressed to enrol more undergraduate students as a means of recovering some revenue, and with added costs to the Commonwealth Budget. Alternatively, some universities, especially those that have enlarged their enrolments in recent years and now face physical capacity constraints, may prioritise international students over domestic students so that they can gain additional revenue without having to increase enrolments. This would deprive Australians of the right to access services they are prepared to pay for. Already Go8 universities are much larger than the top universities in the world. Larger class sizes resulting from financial pressure will reduce the capacity of the universities to design their educational programs according to those principles of good teaching and learning that characterise the world's leading universities. It would be harder for regional and outer-metropolitan universities to find sufficient qualified students.

As Australian government funding is unlikely to expand at a rate sufficient to match the growth in student demand without diminution of quality, it becomes increasingly necessary to tap the potential of private sources of financing for higher education consumption and investment.

### **The default alternatives**

#### **Scenario 1. *The status quo ante* (no cuts no fee deregulation).**

This scenario would involve:

- continuation of the partially demand-driven system involving uncapped places for Bachelor degrees at established universities
- allocated funding for limited pathway programs
- continuation of current HECS-HELP and FEE-HELP loan provisions
- efficiency dividends applying to all program payments
- termination of NCRIS
- cessation of Future Fellowships

#### **Scenario 2. *Cuts to CSP funding without fee-deregulation***

Proposed changes to higher education funding currently before Parliament include a sizeable cut to Commonwealth subsidies for student places, and deregulation of fees. While both are contentious, most would agree that the worst case scenario for the sector would be a funding cut without fee deregulation. Universities would simply have to absorb the cut, in addition to funding cuts initiated by the previous Government, and this could only result in a serious deterioration of educational quality.

Commonwealth Government subsidies for university places are delivered through the Commonwealth Grant Scheme (CGS). The Government is proposing changes to funding rates, which add up to an overall cut of just under 20%. If CGS funding is cut but caps on fees are retained, universities may seek to make up lost revenue by enrolling more students. This would not be a good outcome, either for universities or for students, since arbitrary funding incentives would distort behaviour and rapid growth would threaten the quality of the student experience.

At the new funding rate per EFTSL set by the 2014-15 Budget, Go8 universities would need to enrol about 19,500 additional FTE students in 2016 to offset the impact Government's proposed CGS cut on Go8 universities. In 2017, that figure would rise to nearly 34,000.

For context, Go8 had 153,500 Commonwealth-supported EFTSL in 2012, out of a total of 548,000.

To get these numbers, there would have to be around 9800 extra commencing EFTSL in 2015, rising to 12,250 in 2016, and 17,100 in 2017.

If Go8 universities expanded their intakes to make up for funding cuts, there would be fewer qualified students available to other universities. The universities would have to offer places to less well prepared students, with negative effects on their reputation and possibly quality.

As the demand-driven system was phased in, offer rates increased by 5 percentage points (2013 compared to 2009). While growth at the Go8 was only 2 p.p. (and offer rates fell at IRU universities), offer rates rose by 8.5 p.p. at RUN universities and 10 p.p. at non-aligned universities. In both of the latter cases, offer rates exceeded 100% by 2013/29.

If there were funding cuts, and Go8 universities significantly grew their intake, other universities would have little alternative but increase their own enrolments in proportion. Offer rates would go even higher and ATARs lower.

Alternatively, some universities may opt to increase international student enrolments where tuition prices are market based. This option could also be pernicious in denying Australian students opportunities that others can and will pay for.

### **Scenario 3. Cuts to research funding**

The Minister has the discretion not to allocate fully to the maximum amount identified for 'other grants'. If the Government sought to realise savings through cuts to research, whether cuts to ARC grants or cuts to research block grants or both, this would devastate Australian universities' research capacity and performance. It would freeze the Australian research effort for at least a generation.

The Australian higher education system would suffer major reputational damage and would lose international credibility. This would not only damage international collaboration between Australian and overseas universities in research and other areas: it would also put at risk Australia's \$15 billion international education sector.

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<sup>29</sup> Department of Education, *Undergraduate Applications, Offers and Acceptances*, various years

Large scale research cuts would have major and long-lasting negative impacts well outside the higher education sector itself. First, Australia's credibility as an innovative, smart nation would be damaged, perhaps irreparably. Where other countries are seeking to increase investment in research and innovation to secure their futures in a rapidly changing and increasingly competitive world, Australia would be seen to be – self-destructively – doing the opposite.

Many of Australia's most promising intellects would seek careers and opportunities overseas which would be denied them at home. Fewer of the Australian diaspora would return. Australia would be a less desirable destination for talented people from around the world, who would go to North America, Europe and increasingly Asia instead.

A tarnished reputation would reflect a less favourable reality: Australia would lose capacity to innovate following research cuts on this sort of scale. Australia would be much less equipped to answer the big social, economic, environmental and technological questions of our time. Even more so, decimating university research would take away Australia's capacity to ask the questions that will concern us in the future.

In essence, the Government has to make choices. The choices available to it are to:

- (i) continue with uncapped places or to cap places**
- (ii) continue to regulate tuition prices or to deregulate tuition prices**
- (iii) maintain or raise government funding rates per student, or lower funding rates per student.**

If the choice is to continue with uncapped places then either the Government must at least maintain current levels of funding per student. If the Government cannot maintain the funding rates it cannot continue with an uncapped system without letting quality erode. The most sensible option is to continue with uncapped places and deregulate tuition prices, while maintaining (albeit at a slightly lower level) reasonable government funding per student. This is the only formula, short of recapping, that will sustain quality in Australian higher education for future generations.

## **Part E. Suggested variations to some elements of the Government's proposed package of measures**

### **Core issues**

All universities groups share a number of concerns about aspects of the package, including:

- the application of the long-term bond rate to HELP debts, which would be regressive for some groups of graduates;
- the importance of sustaining student access and viable higher education provision in regional areas.

### *The structure of HELP debt*

A real interest rate will mean that – for the first time – the real value of a HELP debt will increase over time. Graduates who take longer to pay will pay more in real terms. This presents equity issues for lower earning graduates and especially for those who take time out of the workforce.

There are options for addressing these issues with only a minor impact on the Budget. One option would be to continue to index debts at inflation while a graduate's earnings are below the repayment threshold, with real interest rates charged only above the threshold.

Currently, interest is not charged on HELP debts. Any debt that has been outstanding for more than 11 months is indexed by the Consumer Price Index (CPI) each year on 1 July. This means that HELP debts increase only with inflation. Unlike a personal loan from a bank, it does not matter how long a graduate takes to pay off their HELP debt: the value of the debt does not increase in real terms.

This is an important element of the design of the HELP scheme, and a protection for graduates. In particular, it protects graduates who earn less than the HELP repayment threshold (currently \$53,345), or who take time out of the workforce (e.g. parents raising children).

The Government proposes to charge a real interest rate at the government long-term bond rate, capped at 6%. Currently, the government bond rate is 3.9%, but it varies. CPI is currently 2.5%.

The bond rate is the interest rate that the Government pays on the money that it borrows to lend to students as HELP loans. The Government borrows money at the bond rate and lends it at CPI: this is a cost to the Government (estimated at \$190 million in 2013-14)

While a real interest rate would eliminate this cost to Government, it would have a negative effect on lower earning graduates. HELP debt would increase in real terms while graduates were under the repayment threshold or out of the workforce. The end result would be that graduates who earned less would pay more. This would be a regressive system and contrary to the design of the HELP scheme.

Analysis by the Group of Eight shows that lower income earners would pay twice as much interest as high earning graduates under the Government's proposal to impose the long-term bond rate on all outstanding HELP debt.

### **Other issues for later consideration**

The Go8, along with some others, also is concerned about increasing the longer-term costs of undertaking higher degrees by research. In most cases the private rates of return to a PhD are lower than for Bachelor's and Master's degrees. The policy rationale for imposing a fee on HDR students appears to be related to price signalling in order to deter frivolous consumption. There is a real risk, however, that talented research students may choose not to progress to higher degree studies. We suggest that matter be deferred pending a fuller review of research training, including the structure of the current Research Training Scheme.

The severity of the 20% cut to government funding rates, could put upward pressure on tuition prices, especially in STEM fields. However, issues relating to differential funding rates by field of education will wash out over time as the market takes shape. The Go8 is concerned that efforts to reduce the 20% cut could risk further cuts to research.

## **Part F. Refutation of other suggested variations to the Government's proposed measures**

There are two main advocated variations to the Government's proposals that warrant particular discussion: capping prices or borrowing limits; and deferring implementation of the reforms.

### **Capping tuition prices or setting borrowing limits**

Price regulation may take a variety of forms. The most common are (a) obligatory price floors, (b) mandated price ceilings and (c) limits on the rate at which prices may rise.

Price floors are set above the equilibrium price point between supply and demand. They are designed primarily to protect suppliers. Price floor regulation in the milk industry, for example, would require that one litre of milk cannot be sold for less than \$x. Price ceilings are set below the equilibrium price point between supply and demand. They are designed primarily to assist consumers. Price ceiling regulation in the milk industry, for example, would require that one litre of milk cannot be sold for more than \$y.

Price ceiling regulation has been used in various industry sectors, to limit abuse of market power by a dominant supplier, particularly in contexts of privatisation of public monopolies, or to prevent price gouging in disastrous circumstances, e.g. for bottles of water after a tsunami or for foodstuffs during wartime. Because of the associated inefficiencies, price caps are generally only applied for a limited period. Black markets can emerge when price capping is prolonged.

### **10 reasons why tuition price ceilings would be inappropriate and counter-productive**

#### **1. The conditions for the application of price ceilings do not apply**

There is no necessity for tuition price ceilings in Australia's markets for higher education services. Australia is not faced with a catastrophic event that gives rise to opportunities for price gouging by unscrupulous suppliers of rationed goods. As can be seen in the market for international students at the undergraduate and postgraduate levels, there is no monopoly pricing problem. The domestic postgraduate market, where some 2 out of 3 students avail themselves of income-contingent HELP loans, is the best indicator of likely developments in a price deregulated undergraduate market.

## **2. Price ceilings will legitimate price rises that cannot be justified by the market position of particular providers**

Capping tuition prices condones charging fees at the cap, which becomes the default price. It justifies, by fiat, price rises that may not be able to be justified by differentiation of provision. It legitimates higher prices to be charged by providers that do not add value to student learning. Under the guise of preventing price gouging by the most prestigious it encourages and legitimates parasitic pricing by the least competent. It licences weak providers to put their prices up for Australian students above the level they could command competitively and, thereby, supports inefficiency.

This was the experience in Australia following Brendan Nelson's 2003 package, to allow universities to charge up to 25% above the then prevailing student contribution amount limit. Within a short period all universities were charging at the maximum permissible level for all their courses. The few institutions that held out initially came under pressure to lift their prices so that they did not look inferior.

In England in 2010, the Cameron Government rejected the advice of the Browne Committee to deregulate tuition fees without a price ceiling and decided instead to allow universities to charge up to £9,000 per year. In 2014-15, more than 90 per cent of English universities will charge £9,000 for at least some courses. Only 10 institutions out of 120 charging undergraduates more than £6,000 will not impose the maximum annual tuition cost of £9,000. Universities that charged an average fee of under £7,500 a year in 2012-13 were able to fill only about half of the 9,600 extra "core-and-margin" places allocated to them.

In the absence of a price ceiling, universities will be compelled to justify their tuition fees. Universities will need to present a value proposition to students — be it employment prospects, student experience, course quality, research quality, specialities, international linkages, work placement, infrastructure, teacher-student ratios, flexible delivery methods or other. Each of these issues will be a point of differentiation and competition that is reinforced by the price signal. When price signals are muted by artificial caps, so too are the incentives for universities to develop and innovate along these lines.

## **3. Price ceilings will narrow any spread of price points**

Both the Australian and UK experiences show that imposing a cap results in all providers moving to the cap. The "perception of lower quality with lower price" issue is unlikely to happen in a proper spread of prices, because suppliers are under greater pressure to be more explicit about the nature of the services they offer in order to attract the students most interested in those services. One low price amongst a sector of higher prices stands out as an outlier. When you have a real market operating you get a spread of price points, as is apparent in the domestic postgraduate and international student markets.

## **4. Price ceilings will not allow a progressive redistribution of funds from those who can and will pay more to those who need support**

A price-capped system would reduce the capacity for some universities to offer high-quality intensive learning experiences for which there is demand from those students who can and will pay the extra costs, and from whose payments the enriched experiences can be offered to less advantaged students via tuition price discounts, stipends and other forms of support.



## **5. Price ceilings will limit the offering of high quality intensive learning experiences**

Price capping a service, like education, as distinct from a product, like milk, can limit the capacity for tailoring provision to the characteristics of students. Premium priced intensive courses with low student-teacher ratios and/or highly-specialised training in high-cost learning environments would be difficult to provide. Price capping discriminates against those students needing the most expensive processes to help them achieve even a standardised output let alone a distinguished one.

## **6. Price ceilings will be anti-competitive**

The very action of a group of universities approaching government to cap prices constitutes collusion, as the intent is to reduce the freedom of competitors to offer differentiated services for the benefit of consumers. The purpose of capping is rent seeking, to protect certain universities from actual and relative losses. A well-functioning market in education services will not create artificial barriers for students that reduce their choices for learning by provider type, mode of learning or level of award.

## **7. Price ceilings on top of the deep cuts to government university operating grants will erode quality**

Price capping usually involves a producer having to achieve internal efficiency improvements to make a profit. However, as pricing flexibility for higher education providers is being introduced alongside deep cuts to university operating funds, the additional constraint of price capping would be severe, especially in high-cost fields.

## **8. Price ceilings will impose disproportionate administrative costs on providers**

Continuing to cap tuition prices for domestic undergraduate students would continue to impose regulatory restrictions and administrative cost on universities and other higher education providers. It is important to note that regulatory review was considered as part of the Hilmer report on competition policy. Of particular relevance to this exercise is the principle adopted by COAG in February 1994 that:

‘Proposals for new regulation that have the potential to restrict competition should include evidence that the competitive effects of the regulation have been considered; that the benefits outweigh the likely costs; and that the restriction is no more restrictive than necessary in the public interest.’

## **9. Price ceilings will leave the Government rather than the providers bearing responsible for price rises**

Price ceilings leave with Government rather than with higher education providers the responsibilities for price setting. For universities this necessarily limits their operating autonomy. The Government rather than the providers bears the political costs of determining student costs, yet without knowing the real costs of a particular course by a particular provider.

## **10. A borrowing limit is also problematic**

The option of a borrowing limit is also problematic. An upper loan limit would have to be set at a high level to accommodate students in the most-expensive, longer-duration study programs, even for a Bachelor's Degree. A loan limit would have to be even higher if it were to cover post-Bachelor study and lifetime learning. There is also nothing to indicate what if any effect a loan limit would have on student behaviour.

### *Deferring implementation of the reforms*

There has been a long conversation about how to finance an accessible, high quality higher education system over many years. This conversation has involved the higher education sector, politicians and policymakers and the public. The West Review in 1997 canvassed more flexible forms of financing in a more competitive system. The Nelson 'Crossroads' exercise in 2002-03 involved extensive consultations leading to limited pricing flexibility.

Since 2007, there have been six reviews, and a myriad of consultation exercises on a wide range of policy issues. The core decision needs to be made: to align the domestic undergraduate policy framework with that for the domestic postgraduate and international higher education markets – by uncapping domestic undergraduate tuition prices.

Especially since the previous Government took the historic step of uncapping student numbers, discussion about how to pay for a demand-driven system has become both better informed and more urgent. A few years ago, fee deregulation was a policy position that seemed unlikely. As the demand-driven system has expanded, along with the costs it imposes on the Budget, more and more people both inside and outside the sector have come to consider fee deregulation as the least worst option for funding an expanding system while maintaining quality. It is a much better option to allow prices to be determined by those who provide and consume services variously across the nation than to have them arbitrarily set and controlled by officials in Canberra.

Taking some time to design reforms to the sector may have face appeal but the reality is that people know what needs to change. There is also extensive experience in operating in open markets for higher education services. There is a risk that an extended period of further consultation about basic policy design would work to subvert the kind of changes the sector needs, by delaying some key initiatives for too long and by winnowing the most politically contentious elements. In the end, this would damage the timeliness, practicability and coherence of the reforms to the detriment of students.

## **Part G. Conclusions and recommendations**

The Go8's consideration of the Bill leads to broad endorsement of the direction of reform along with concern to amend some elements to avoid potentially adverse consequences for particular groups of graduates and institutions.

## Seeking to expand access and opportunity

The Government's proposed reforms would expand access to higher education in three main ways.

- i. Access to higher education would continue to be free at the point of delivery.
  - There would continue to be no up-front financial barrier to higher education
  - Students do not have to pay while studying
  - With HELP loans, graduates are required to pay only when their annual income exceeds \$50,637
  - The amount of their HELP repayment cannot exceed a set proportion of their income (2% - 8%)
- ii. Students from disadvantaged backgrounds would have more access to scholarships and, importantly, stipends, to help them succeed in their studies.
  - The increase in support for students from disadvantaged backgrounds would derive from at least 20% of net tuition income from prospective graduates who are willing and able to pay more than uniformly capped prices set in Canberra
  - A progressive redistribution of student contributions from those who can and will pay more, is a much more equitable public policy than one which imposes burdens on general taxpayers – most of whom have not had access to higher education – to subsidise the private benefits of all students regardless of their needs and means.
- iii. There would be more pathways for students who need to make up for earlier learning deficits.
  - There is considerable evidence indicating students who move through pathway programs have a higher likelihood of successfully completing their degrees.

These three factors are of fundamental importance. They explain why the Go8 supports the broad progressivity of the Government's policy agenda.

## Accepting the realities of the funding dilemma

A central dilemma faces any political party in government as higher education participation expands from an elite phase (some 15% of age cohort attending in the mid-1980s) to a 'mass' phase (around 35% participating at the end of the 20<sup>th</sup> century) towards a 'universal' phase (>50% participating, already well-exceeded in Canada, Finland, Japan, Singapore, South Korea and elsewhere). Continuing to develop our human capital is essential to sustaining a competitive economy and a prosperous and sophisticated society. The dilemma is how to pay for it in a fair, efficient and sustainable way. A demand-driven higher education system of near-universal (post-mass) participation requires a different approach to financing than that which applied in the elite and mass eras. It is impossible, without a much higher taxation base or cutbacks to services in other areas, to sustain growth with quality without increasing private contributions to costs.

## Understanding that the status quo is not a viable option

A default to the status quo policy settings of the previous government would leave large gaps in funding for teaching and research. Universities would have to enrol more undergraduate students to help recover some revenue, at an added cost to the Commonwealth Budget. This would make it harder for regional and outer-metropolitan universities to find sufficient qualified students. Alternatively, some universities, especially those that have enlarged their enrolments in recent years and now face physical capacity constraints, may prioritise international students over domestic students so that they can gain additional revenue without having to increase enrolments. This would deprive Australians of the right to access services they are prepared to pay for.

Already Go8 universities are much larger than the top universities in the world. In the absence of reform, larger class sizes resulting from financial pressure will reduce the capacity of universities to design their educational programs according to the principles of good teaching and learning that characterise the world's leading universities; Australia would fall behind other nations in the intensifying contest for intellectual talent; there would be no ongoing support for promising mid-career researchers and no future investment in major research facilities. Over time, further reduction in per-student funding would be inevitable, as would further cuts to funding for research. Australia's universities would surely fall off the global pace in higher education and research.

## Choosing to progress the policy evolution rather than go backwards

The Higher Education and Research Reform Amendment Bill 2014 represents a watershed in the history of higher education policy and financing in Australia. If the Bill is passed, in an appropriately amended form, it will mark the culmination of almost 30 years of policy evolution in Australia.

From the mid-1980s, students have been progressively making increased contributions to the costs of their higher education. Initially, higher education for international students was deregulated in terms of student numbers and tuition prices. Then domestic student contributions were built into a system of capped enrolments and controlled prices, with income-contingent loans available through HECS to ensure that participation remained free to the student at the point of delivery. The next step in the early 1990s was to align the domestic postgraduate financing framework with that for international students. Gradually income-contingent loans were extended to postgraduate students and students enrolled with private providers. In 2008 another major step was taken to uncap domestic undergraduate enrolment numbers. The one remaining step in the logic of policy progression is to deregulate domestic undergraduate prices in alignment with the international and postgraduate markets.

## Improving fairness

It is generally fairer for the direct beneficiaries of higher education to pay their way than to have their costs paid by others who do not share the benefits. It is progressive to tap those who can and will pay more in order to provide additional support for those who need it most. Access will continue to be free at the point of delivery for all students irrespective of their social and financial circumstances

## Seizing the opportunity for coherent and financially sustainable reform

Windows of opportunity open rarely to make fundamental structural reform in politically-contested fields, such as higher education financing. Typically, policy breakthroughs occur in the first term of a new government

## Avoiding unnecessary complexity

The Government's reform agenda has many moving parts. It will be challenging for universities and other providers, as well as for government officials and, not least, for students, to get ready for the reform. Adding further complications to the proposed measures, particularly more regulatory overlays and case-specific provisions, is likely to make implementation and decision making more difficult.

## Resolving the current uncertainty

Higher education policy has been drifting for more than a decade. Other nations and institutions are not standing still waiting for Australia to get its act together. Most importantly, future students need to know what their options are, and higher education providers need an adequate lead-time to prepare offerings, advise prospective students, and set up information systems. Thus it is necessary that the policy framework is clarified by end 2014, so that 2015 can be a year of preparing for implementation in 2016.

## Conclusions

The *Higher Education and Research Reform Amendment Bill 2014* represents a watershed in the history of higher education policy and financing in Australia.

If the Bill is passed, albeit in amended form, it will mark the culmination of almost 30 years of policy evolution in Australia, provide a more coherent and financially sustainable foundation for continuing development and innovation, open up extensive and diverse opportunities for future generations of learners, and underpin a more globally competitive economy. Policy and financing arrangements for domestic undergraduate students would be brought into alignment with those pertaining in the international and domestic postgraduate student markets.

If the Bill is not passed, there is no plausible default.

The opportunity costs of not passing the Bill are substantial. In view of the politics of the matter, it is difficult to envisage another attempt being made in the foreseeable future to achieve the structural reform that is necessary. Thus Australia will be condemned to a protracted period of further policy drift, with decision makers knowing nonetheless that the policy and financing settings are wrong and unsustainable.

The alternative is for the Senate to seize the opportunity and set Australia on the right path to a more responsive, diverse and sustainable higher education system.

To this end the Go8 supports the following measures:

- continuing the demand-driven system of uncapped undergraduate places for domestic students
- expanding sub-Bachelor Degree pathway programs within the demand-driven system
- extending Commonwealth Supported Places (CSP) funding to all TEQSA-approved non-university higher education providers @ 70% of the university funding rate
- removing price caps for domestic undergraduate students
- aligning HECS-HELP and FEE-HELP student loan provisions
- requiring universities to allocate 20% of increased tuition revenue to support students from disadvantaged backgrounds
- improving the availability of information to guide student choice.

The Go8 believes that the proposed reform measures could be improved by amending the Bill in two main ways:

- iii. indexing HELP debts annually by the long-term bond rate when graduate earnings exceed \$50,637, and indexing by the CPI for periods when graduate earnings do not exceed that threshold
- iv. providing a package, including a scholarship component, to assist universities in regional and outer-metropolitan areas.