

## **IRU submission: Principles of the *Higher Education and Research Reform Bill 2014* and related matters**

### **Overview**

The need for further change in higher education is clear.

Over the past six years Governments of both sides have endorsed the need for all interested Australians to access higher education to meet their needs.

The challenge remains to design the funding and charges regime that ensures universities and other higher education providers can deliver the quality of education outcomes required now and into the future, at a viable level of Government investment.

The Coalition Government's solution is to reduce the rates of Government funding spreading its support across students at all higher education providers, with universities and other providers raising the additional revenue required through fees. The Government's package, expressed in the *Higher Education and Research Reform Bill 2014* (the Bill), continues to generate considerable opposition targeted at its combination of a 20% cut to funding rate and unconstrained fee deregulation.

In its submission to the related Senate Education and Employment Legislation Committee inquiry the IRU argues for passage of the Bill with amendments that:

- complete the suite of amendments previously proposed by the IRU to the *Higher Education and Research Reform Amendment Bill 2014*, beginning with a much lower Government saving from the Commonwealth Grant Scheme; and
- address cross bench Senators' concerns about the potential negative consequences of introducing fee flexibility.

The focus of this IRU submission to the Senate Education and Employment References Committee is to address Senators' concerns. It explores what substantive changes are feasible that would:

- substantially alter the current settings in a way that could be sustained for a decade or more;
- complete open access to higher education, the fundamental change put in place since 2009;
- give universities and other providers a means to generate the needed revenue; and
- make best use of Government investment within overall fiscal constraints.

The crux of the issue is the impact of fee deregulation. To overcome the concerns various proposals have been put forward to constrain the potential for high fees that reach beyond reasonably justifiable levels. Of those proposals the IRU supports:

- creation of an independent expert panel to oversee the implementation of the final agreed package, identifying problems and advising Government about them; and
- further investigation of the Phillips-Chapman proposal to reduce Government funding as universities and other providers raise fees above current levels. This proposal
  - removes the upfront cut to university funding that would force all universities to raise fees immediately,
  - supports universities move towards the needed resource level over time, knowing that high fees would see Government funding reduce,
  - provides an alternative way to redistribute current Government funding to support all undergraduate higher education.



The IRU rejects all proposals to re-instate controls over the number of students which universities whether as a means to control expenditure or to prevent some people accessing higher education. Demand driven funding ensures that higher education will respond to future growth in the need for higher education, particularly from those areas now still under-supplied, without further Government interventions and controls. It should not be sacrificed in a shortsighted search for savings.

There are two practical issues for the introduction of new arrangements:

- with the Bill not set for debate in the Senate until late March 2015 the time frame for any changes needs review covering both when any changes will take effect and to reconsider which students would be subject to the new arrangements. It makes sense now to exclude from the new arrangements all students enrolled in 2014.
- a structural adjustment fund will assist universities to make the transition to the agreed future system. The fund should support universities through the transition to avoid nationally undesirable outcomes. It should target agreed national issues of importance, but avoid geographically based presumptions of need. The funds should be for a set period to ensure they support transition and are not an ongoing prop. Once in place the need to supplement funding to address any weaknesses will be a question for future Governments.

There needs to be resolution of the ongoing NCRIS annual funding crisis. Australia needs an ongoing, long-term program of investment in research infrastructure that provides reasonable certainty of investment and access for all researchers to funded infrastructure. Such a program should support the breadth of research including industry driven research, should consider the importance of regional and outer-urban research ecosystems to support business outcomes across Australia and should be coherent with research infrastructure globally.

## **Structure of submission**

In support of these conclusions the IRU submission below addresses:

1. The principles for higher education funding and regulation (Terms of Reference i)
2. Alternatives to the Government's deregulation proposal (Terms of Reference ii)
3. The demographic rationale for demand driven funding (Terms of Reference iii)
4. Research Infrastructure, to emphasise the importance of ongoing funding for NCRIS (Terms of Reference vi)
5. Other issues from the Terms of Reference
  - the need for effective transition support (Terms of Reference iv),
  - the need to rework the timing for changes and the inclusion of students in the new arrangements (Terms of Reference vii)..

## 1. The principles for higher education funding and regulation

The Bill does not contain any formal Principles. In this section the IRU sets out the fundamental requirements of a viable medium term higher education funding and charges regime.

These are:

1. Universities should have the resources needed to provide effective, high quality, future focused education that meets the needs of all students
2. All Australians with the potential for higher education should be supported at the higher education provider of their choice
3. Higher education should be affordable, with all Australians eligible for HELP so that they need not pay fees upfront nor incur debt greater than is likely to be repaid across a working life.
4. Government should invest in students' higher education, consistent with Government fiscal capacity, to support all Australians develop their capability
5. Higher education should be responsive to the various needs of students, industry, Government and communities
6. Higher education in Australia must be competitive internationally.

## 2. Alternatives to the Government's deregulation proposal

The IRU's submission to the Legislation Committee argues that the approach of Governments of both sides has not and will not deliver the significant increase in Government funding rates sufficient to teach students to the standard required. Governments have not taken past opportunities to increase funding rates in this way, despite recommendations from the Bradley report and the Lomax-Smith report.<sup>1</sup>

The IRU considers that the lesson is clear: Governments will invest in additional students, they will not invest more for each student, regardless of the resources universities need.

It is against this conclusion that the IRU approaches the discussion to develop constructive alternatives to the model in the Bill of cuts to funding rates, expansion of the demand driven system, and deregulated fees. We consider additional fee flexibility is a necessary component of any viable alternative for it to ensure that:

- there is access to additional revenue per student;
- Government's fiscal constraints can be met; and
- the expansion to sub-bachelor and other higher education providers can be included.

This part of the Submission therefore:

- supports creation of an external monitoring process for any new arrangements, with an emphasis on the way in which universities and other providers set fees;
- explores the various proposals for alternative ways to increase fee flexibility while ensuring that student fees remain within reasonable levels and that Government funds are well targeted: and
- shows the problems with options that focus on Government funding as the solution.

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<sup>1</sup> *Review of Australian Higher Education: Final Report, 2008 and Higher Education Base Funding Review, Final Report, 2011*

### ***External monitoring***

The IRU supports creation of an independent expert panel to oversee the implementation of the final agreed package with a focus on identifying problems and advising Government about them. The body should be tasked to identify fees that seem unreasonable but it should not be responsible for approving fee levels.

This panel would sit alongside the Government's commitment to direct the Australian Competition and Consumer Commission (ACCC) to monitor prices in higher education<sup>2</sup>, using the ACCC's general powers to investigate any industry and act against institutions which misuse market power, drawing on its expertise concerning price setting.

The combination of sector expertise and the scrutiny of the ACCC would ensure effective monitoring of any the implementation of major changes and early highlighting of any issues.

### ***Alternatives that preserve fee flexibility***

This section explores three alternatives:

- the Phillips-Chapman means testing of Government funding against fees that go above defined levels;
- letting universities choose if and when to enter the new arrangements; and
- capping the fee or capping access to HELP.

#### **i. Reducing Government funding where higher fees are charged**

The IRU supports further exploration of the concept that where universities charge higher amounts the level of Government funding should be reduced, effectively means testing universities by the fees they raise.

The key attributes of the model are:

- universities can operate at current funding rates and charges if they wish, giving them control over whether and when to increase charges;
- it gives universities greater flexibility to set fees, knowing that as fees rise they will give up increasingly more Government funding, which should dampen particularly high level fees;
- it creates a saving for Government, which is the greater the more that universities raise fees but there is no upfront saving from lowering Government investment for every student.

David Philips and Bruce Chapman have worked up how such a model might work in Australia, set out in Professor Chapman's submission to the Committee. The English Browne Review's report *Securing a Sustainable Future For Higher Education* of 2010 proposed a similar model to the UK Government before it choose instead to increase the cap on student charges to £9000 (GBP):

'Institutions will contribute to meeting the costs of finance learning' - They will receive from government all of the money for charges of up to £6000 (GBP); and pay a levy on the income

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<sup>2</sup> Christopher Pyne, Minister for Education and Training, to the House of Representatives, Wednesday 25 February 2015

from charges above the amount to cover the costs to government of providing students with the upfront finance'.<sup>3</sup>

The basis of the model is that as fees rise a proportion of the additional fee revenue is offset by reduced Government funding. The rate of the offset is to increase as fees reach higher thresholds, for example beginning at 10% and rising to 50%.

The model is simple to outline but there are many variants which need to be carefully analysed to test how it would work for the best outcome. The model involves three distinct factors which interact:

- the amount of the fee above which Government funding begins to reduce and the higher thresholds where the proportion withheld increases;
- the proportion of the additional fee income to be withheld at each threshold; and
- the fees which universities and other providers then set.

The examples which Phillips and Chapman use to illustrate it involve quite high rates of withholding, starting at 20% and rising to 80%. This acts to depress interest in higher charges, so containing fee increases, but also could create very large savings to Government. If the parameters are set too harshly universities will gain little from the potential to set fees and little will change. It may also lead some current, non-funded, providers to remain outside the system.

Conversely if the rates are set too generously the concerns about particularly high fees may not be resolved while Government may not achieve the savings needed to support the intended expansion of the system.

There are many other issues needing careful exploration:

- the interaction with the proposed Commonwealth Scholarships Scheme;
- the interaction with the requirement that no Australian pay more than an international student for the same degree;
- whether to retain as the starting point for the system:
  - the current CGS bands or change to the Government's simplified 5 band system,
  - the current three student contribution maxima

The current rates will be used in examples to illustrate how the system could work. However, it would be unfortunate to embed for the longer term a set of funding rates that largely reflect cost relativities of 1990 and student charges groups devised in 1996;

- whether the system should be applied at the discipline level or calculated at the whole of institution level.

The withdrawal of Government funding as fees rise could mean longer term that Government's investment shrinks to a very low level. For example in England revenue for students of humanities and social sciences comes solely from students with no direct Government subsidy. With the significant guess work initially involved about how much funding would continue to be provided any proposal should require that Government funding did not drop below current overall levels, by commitments to re-invest funds into higher education.

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<sup>3</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/31999/10-1208-securing-sustainable-higher-education-browne-report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31999/10-1208-securing-sustainable-higher-education-browne-report.pdf) See section 5.3, p37



On balance the IRU considers the model one that should be explored in more depth. If there is then broad interest in it as a viable way ahead there should then be considerable testing and discussion before a final version could be endorsed and necessary legislation agreed.

## **ii. Let universities choose if and when to enter the new arrangements**

Senator Wang floated the proposal that universities choose whether to retain current funding with capped charges or enter fee flexibility with the offset of reduced funding rates. The proposal is similar to the means testing model with the difference that there is a straight, single cut to funding when fee flexibility is taken up versus a graduated reduction tied precisely to the extra fees charged.

The option would create a transition towards a deregulated fee system, allowing those universities most confident about it to initiate the change with others able to take longer to make the transition or potentially never doing so. It would remove the 'big bang' element of the Government's package, supporting identification of any problems before they affect the whole system and allowing a better sense of how fee deregulation would operate in practice.

The proposal would reduce the savings intended to fund other parts of the package. Hence some aspects of the expansion would need to be delayed. Overall the idea is a useful one but it may not sufficiently address concerns.

## **iii. Capping HELP or the Fee**

The IRU opposes raising caps on student charges rather than opening up greater fee flexibility since experience shows that it leads to all universities to charge at the cap.

To contain fees to a level considered acceptable a proposal is to set a cap on the fee that could be charged (hard cap) or a cap on the HELP debt that a person could incur by year or degree (soft cap). Both create the strong risk that in determining the cap the Government effectively sets the new standard charge for the large majority of students. Australian and international experience shows that universities will charge at the maximum permitted rate where that is set. A cap would thus ensure higher fees rather than act to curb them at the designated point.

It ultimately is very similar to proposals to raise the current student contribution limits by an amount equal to the needed additional revenue, which would shift the balance of Government to student but create no other structural change.

## ***Increase Government funding?***

Universities long argued for a major increase in Government funding rates for the CGS and related programs. With Governments facing tight fiscal settings for some time ahead there is no reasonable expectation that this will change.

The IRU rejects all proposals to reduce the number of people accessing higher education as a way to offset the cost of higher funding rates. The significance of the introduction of demand driven funding is set out in Section 3 below.

At a practical level re-imposing limits to the enrolments would only create significant savings if the universities were forced to reduce the number of students enrolled. The rapid expansion in place since 2009 has slowed substantially since 2013, with projections for continued slow growth in the years to come. Further, there could be no guarantee that any reductions from limiting places would be used to improve funding rates long term.

### 3. The demographic significance of demand driven funding

To encourage all eligible students to seek a place at university is a fundamental transformation that makes higher education an integral part of the education pathway for Australians. The Kemp-Norton Review of Demand Driven Funding confirmed the value from, and success of, this change<sup>4</sup>.

The decision to stop controlling numbers in higher education and align with primary and secondary education in encouraging participation follows constant growth in the demand for higher education as employment changes and societal expectations change.

A major factor was the doubling of year 12 completions from being for the minority, 35% of the age cohort in 1980, to for the majority at 77% in 1992, with small fluctuations since.<sup>5</sup> This doubled the base group of university eligible students, and extending it across all regions. The expansion in higher education during the 1990s, partly funded through the introduction of HECS, was a direct outcome.

After a period of little growth in places during the 2000s the transition to the demand driven system over 2010 to 2012 allowed universities to meet the pent up growth in demand for higher education over the previous decade and population growth in regions like the Gold Coast with traditionally low higher education take-up. It has lifted participation rates significantly in many areas with lower than standard participation but there remains a way to go, particularly for regions beyond the capital cities. , To recreate caps, controlling the number of places in each university, would freeze the inequities in supply yet again.

With that backlog reduced in most areas we now need to service the annual increment that reflects the changing school leaver demographic, reduce the remaining inequities in supply and meet the steady growth in the employment that targets graduates.

The levelling off of demand at a national level over the past two years reflects that much of the past build up has been met, although by region there remain considerable differences. Re-imposition of caps would simply create a future buildup of pressure for places, and deprive many people in the meantime, particularly where current levels of supply are still comparatively low.

The HECS generation which was the first to be expected to complete year 12 schooling and for many to go to university will provide the growth in demand required for universities to expand again later this decade. School completion will be the norm, with a bachelor degree common. The HECS generation parents will look for their children to complete year 12 at a minimum, and look to higher education, or high level vocational education, as something their children should access.

Arguments against the demand driven system posit that it must drive down the capability of the student group, in part based on a misplaced assumption about the standard of students in decades past. It is important that people enrolling are ready for university study and are given the learning environment that supports the best learning outcomes. These are responsibilities for universities and other providers.

However, whatever views may be held on variation in academic potential across different people it is implausible that the variation in school leaver take up of university places from lows of around 25% of the cohort in a region up to 60% or more in others does not reflect under-use of potential among those from the former areas.

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<sup>4</sup> *Report of the Review of the Demand Driven Funding System, 2014*

<sup>5</sup> ABS, National Schools Statistics Collection Australia 1985, CATALOGUE NO. 4221.0, Table 11 and ABS, Australian Social Trends March 2011, Year 12 Attainment, ABS catalogue no. 4102.0

In Victoria in 2009 24% of Year 12 completers from the Hume region went on to university, whereas 56% of students from the Eastern Metropolitan Region did so. By 2012, the proportion had increased to 29% and 63% respectively.<sup>6</sup> Similarly in Queensland in 2009 21% of students from the West Moreton and Wide Bay-Burnett regions went on to University, compared to 43% of Brisbane students. By 2012 university participation from West Moreton and Wide Bay-Burnett increased to 27% and 26% respectively, while the increase from Brisbane students was more marginal, to 45%.<sup>7</sup>

There are similar but less extreme variations by SES status. In Victoria the proportion of year 12 students in the low SES quartile going to university has increased from 37% (2009) to 45% (2012) and in the lower middle quartile from 38% to 46%. Both groups still significantly lag the high SES quartile, with 61% of these students moving on to University in 2012.

Those data suggest that the 40% attainment target is not a challenging proposition for an economy more and more focused at high skilled employment. 40% completion of a bachelor degree is already the norm for various groups, typically people from higher socio economic backgrounds and also for women in some States.

It grossly misstates the argument of the Bradley Review to suggest that its intent would be met once we reach a position of 40% of those between 25 and 24 having a degree such that caps should be reinstated to hold attainment at that point. The target was defined as a credible but challenging level of increase to improve the skill levels of the future Australian workforce. The logic of the argument was the need for additional skills, with undergraduate degrees a major element.

Options to control access by mid and low ATAR entrants exaggerate the actual number of such entrants and the likelihood that they are unsuitable. The analysis of the 2014 offers for university places shows 7,192 out of 227,394 offers were to people with a recent ATAR of 50 or less. The number has grown since 2009, when it was 1653 but remains a tiny part of offers.<sup>8</sup> Those applicants are more likely to be women, who particularly need further education to ensure employment.

It also misstates the nature of the ATAR which ranks the school leaver age cohort, half of which by definition must be ranked at 50 or lower. With school completion rates over 70% those with apparently low ATARs have demonstrated the capability to complete schooling and look for further education and training.

An argument sometimes raised is that growing higher education provision is keeping people from useful vocational qualifications. The traditional paradigm positions those with a university degree ahead in educational capability from those with vocational education and training (VET) qualifications, particularly a trade qualification, and also ahead of those who rely on their year 12 certificate.

It has never been the case that all school leavers with a high ATAR have applied for university. Even in the 90+ ATAR band some do not; between 70 and 90 the numbers not progressing to university have been more sizeable.<sup>9</sup> At least a quarter of growth since 2008 has come from additional people with ATARs above 70 pursuing university higher education.<sup>10</sup>

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<sup>6</sup> Victorian Department of Education and Early Childhood Development, On Track: Destinations of School Leavers (Multiple reports) <http://www.education.vic.gov.au/about/research/pages/ontrack.aspx>

<sup>7</sup> Education Queensland, Next Step Survey Statewide Reports (Multiple reports) <http://education.qld.gov.au/nextstep/>

<sup>8</sup> *Undergraduate Applications, Offers and Acceptances, 2014*, Department of Education, 2014, pp43-44.

<sup>9</sup> *Department of Industry, The Demand Driven System: Undergraduate Applications and Offers, February 2013*

<sup>10</sup> Group of Eight, Policy Note Number 3: *University Admissions*, February 2012





The changing nature of university students would suggest that there is overlap in the educational potential of those undertaking VET as those completing higher education when many trades are becoming more complex not less. This challenges assumptions about who undertakes university study.

Studies of graduate incomes and the nature of graduate jobs have to engage with the changing nature of employment against the question of whether graduates do sufficiently better than they would each have done without a degree. The relevant comparison is with low skilled employment. In the context of demand driven funding that many people of moderate educational attainment, commonly women, apply and work through several years to gain a degree indicates that they see a value in the endeavor.

*Demand driven funding ensure that higher education will respond to future growth in the need for higher education without further Government interventions and controls. It should not be sacrificed in a short sighted search for savings.*

#### 4. Research Infrastructure

The Bill is linked to the Government's wish to extend for a further year the funding to maintain and operate major research infrastructure facilities and services, which is to be offset by the savings which the Bill would provide. However, it is not sensible to allow the question of research infrastructure to be tied to the fate of a major reshaping of resourcing for university education.

The IRU has consistently called for an ongoing, long-term program of investment in research infrastructure that provides reasonable certainty of investment and access for all researchers to funded infrastructure. As underlined by the 2014 National Commission of Audit (NCOA), quality research infrastructure is a critical component of Australia's research and development system. It is essential that the Government commit to ongoing funding for critical research infrastructure, with renewal of the National Collaborative Research Infrastructure Strategy (NCRIS) the priority.

A comprehensive program for research infrastructure should support the breadth of research including industry driven research. Major research infrastructure is essential as research projects grow larger and research questions more complex. To ensure the infrastructure supports the breadth of research across Australia, industry should be afforded access on the same terms as public sector research organisations. The IRU supports a reassessment of existing research infrastructure provision and requirements to reshape the road-map for infrastructure investment so that it covers the needs of innovation active industries.

The need to provide infrastructure should be coherent with research infrastructure globally, ensuring Australian based researchers' access to international based resources not available here and international access to Australian based infrastructure that is rare or unique. Links with Asia are of particular importance in this respect, given the significant achievements in research capability in the region and geographic proximity to Australia.

The long term commitment of resources will give researchers and all other stakeholders including industry much-needed confidence to pursue major issues through long-term research projects capable of responding to discoveries.

It is vital that investment in research infrastructure retain a regional perspective. IRU members, which were established as research-intensive universities across the outer urban areas of Australia's capitals and in major provincial cities, are the main counter to the tendency for Australian research and researchers to concentrate in the inner circle of Australia's capital cities. Achieving the outcomes expected of the universities necessitates an effective research ecosystem that supports the researchers linking them to researchers elsewhere in Australia and the world. Research conducted for, in and by researchers in Australia's peri-urban and regional areas will encourage the creation of localised research ecosystems, characterised by engagement between research organisations, industry, government and communities, addressing significant local issues as well as problems of national and international importance. IRU members also show the value of shared research infrastructure.

*There should be an ongoing, long-term program of investment in research infrastructure that provides reasonable certainty of investment and access for all researchers to funded infrastructure. Such a program should support the breadth of research including industry driven research, should consider the importance of regional and outer-urban research ecosystems to support business outcomes across Australia and should be coherent with research infrastructure globally.*

## 5. Other issues

### ***Structural adjustment pressures: Ensuring an effective transition for higher education providers***

Universities should be supported to make the transition to a system open to all providers and fee flexibility through a structural adjustment fund for universities committed to raising higher education attainment in outer metropolitan and rural regions.

The Government has committed \$100 million to date, with a focus on regional areas. \$500 million is required, which would be consistent with the 2009 package to introduce demand driven funding which allocated \$402 million for transition.

IRU members, as universities serving outer metropolitan and significant non-capital city regions, need to test how potential students in our catchment areas will respond.

The potential issues include major shifts in where students enrol, reductions in revenue if students are not willing to pay, the level of fees required to maintain sufficient revenue, undermining of research capability dependent on base funding, and the closing down of special delivery options to target regions which have been explicitly subsidised from the main operations of a university.

*A structural adjustment fund will assist universities to make the transition. The fund should support universities through the transition to avoid nationally undesirable outcomes. It should target agreed national issues of importance, but avoid geographically based presumptions of need. The funds should be for a set period to ensure they support transition and are not an ongoing prop. Once in place the need to supplement funding to address any weaknesses will be a question for future Governments.*

### ***Timing of changes***

The Government initial announcement intended that most of the changes would take effect from 1 January 2016, applying to all students enrolling from the day following the budget announcement. Universities have been planning for the potential for the package to go ahead but have not been able to implement decisions while waiting on confirmation that the package was to go ahead and with what modifications.

*With the Bill not set for debate in the Senate until late March 2015 the time frame for any changes needs review covering both when any changes will take effect and to reconsider which students would be subject to the new arrangements. It makes sense now to exclude from the new arrangements all students enrolled in 2014.*

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