

CHAPTER 3

Enhancing choice, innovation and access

3.1 This chapter begins by examining the proposed deregulation of student fees, analysing the key concerns expressed by submitters and witnesses. It draws on lessons learned from higher education systems abroad, and describes why the proposed reforms are unique in the world of higher education.

3.2 The chapter also identifies barriers to education still faced by some students, and outlines measures within the Higher Education and Research Reform Amendment Bill 2014 (the bill) which will help address those barriers.

3.3 Finally, the chapter looks at the proposed changes to Commonwealth contribution funding clusters, describing how these will be simplified and streamlined.

Deregulation of fees: striking the right balance

3.4 Fee deregulation and reductions in government spending are individual measures within a comprehensive package of reforms which are designed, through consultation, to improve the quality of the sector in the interest of students and the nation. Measures such as deregulation must be seen as part of a whole reform package, which is why all providers support the initiative. It is a fact that postgraduate and international student fees were deregulated over 20 years ago, and many providers see deregulation as the next logical step needed to keep Australia at the forefront of the competitive global market.¹

3.5 The table below, taken from the bill's Regulation Impact Statement, illustrates the overall effect of the estimated change in government contribution that will occur as a result of the proposed reforms. The figures show both the potential decreases, but also increases, likely to be experienced by students, the weighted average being 20 per cent.

1 See for example Universities Australia, *Submission 60*, p. 4.

Figure 2: Approximate change in government contribution²

Discipline(s)	Old funding clusters	Estimated Government contribution (grandfathered students)*	New funding tiers	Government contribution (new students)	Change
Law, accounting, administration, economics, commerce	1	\$2,004	1	\$1,805	-10%
Humanities	2	\$5,566	2	\$6,021	+8%
Social studies	3	\$9,849			-39%
Communications (excluding audio visual)	5	\$12,112			-50%
Computing, behavioural science, welfare studies, sport, built environment, other health	3	\$9,849	3	\$9,033	-8%
Education	4	\$10,246			-12%
Visual and performing arts	5	\$12,112			-25%
Mathematics	3	\$9,849	4	\$12,045	+22%
Clinical psychology, allied health, foreign languages	5	\$12,112			-1%
Nursing	6	\$13,523			-11%
Engineering, science, surveying	7	\$17,220			-30%
Environmental studies	8	\$21,855			-45%
Dentistry, medicine, veterinary science, agriculture	8	\$21,855	5	\$18,067	-17%
<i>Weighted average</i>					-20%

3.6 The reforms are intended to give higher education providers freedom to operate within a dynamic economic environment. Institutions would be able to make independent choices about fees, teaching methods, courses to be offered, scholarships and other services.³ The department explained that deregulation would:

...enable institutions to access the resources they need to deliver world class education, ensuring Australia is not left behind at a time of rising performance by universities around the world.⁴

3.7 However, the proposal to end regulatory control over the amount providers can charge students for tuition is also arguably the most controversial aspect of this

2 Regulation Impact Statement, Higher Education and Research Reform Amendment Bill 2014, p. 70. See also Explanatory Memorandum, Higher Education and Research Reform Amendment Bill 2014. See also Higher Education and Research Reform Amendment Bill 2014, Bills Digest No. 33. 2014–15, 8 October 2014, available at: http://parlinfo.aph.gov.au/parlInfo/download/legislation/billsdgs/3436314/upload_binary/3436314.pdf;fileType=application/pdf (accessed 15 October 2014).

3 Australian Department of Education, *Submission 98*, p. 2.

4 Australian Department of Education, *Submission 98*, p. 2.

bill, with a large number of submitters concerned about fee deregulation paving the way to exorbitantly expensive degrees.⁵

3.8 As discussed below, the committee heard evidence refuting this view.

Skyrocketing fees – fact or fiction?

3.9 The committee is aware that scare campaigns about the cost of degrees skyrocketing to \$100 000 and beyond have been rife since these reforms were announced:

Since the May budget there has been extensive commentary and speculation about the budget measures, including claims they will herald the arrival of hefty university fees that will impose significant debt on students. Such speculation is alarmist and unhelpful.⁶

I think there is a lot of scaremongering around what is going to happen, but Australia has a completely different system to the United States, for example. One of the bedrocks of that is our income contingent loan scheme and the fact that students are not paying upfront and they do not need to repay until they reach an income threshold level.⁷

3.10 Warnings about hefty degree costs came from submitters such as the National Tertiary Education Union:

Analysis undertaken by the NTEU found that the cost of attaining a university degree in Australia will rise substantially as a result of these changes and there will be cases where the cost of a degree at some Australian universities will exceed \$100,000. The NTEU's latest analysis shows that the cost of attaining a five year medical degree, for example, would rise from about \$50,000 at present, to well over \$90,000 as a direct result of government cuts to funding per student and the imposition of interest rates on student debt. The analysis shows that universities would only need to increase fees by as little as 10% above that necessary to compensate for cuts to funding for there to be \$100,000 degrees.⁸

3.11 And were echoed by the Australian Council of Trade Unions:

5 See for example Australian Education Union, *Submission 68*; Professor Jacqueline Phillips, *Submission 1*; National Tertiary Education Union, *Submission 111*; University of Melbourne Graduate Student Association, *Submission 64*, p. 2. See also Michelle See-Tho, 'Melbourne University students could face fee rises of more than 60 per cent, Vice-Chancellor Glyn Davis warns', *The Age*, 31 May 2014, available at: <http://www.theage.com.au/victoria/melbourne-university-students-could-face-fee-rises-of-more-than-60-per-cent-vicechancellor-glyn-davis-warns-20140531-39ap1.html> (accessed 15 October 2014).

6 University of Western Australia, *Submission 45*, p. 3.

7 Ms Helen Zimmerman, Group General Manager, Government and Stakeholder Relations, Navitas Limited, *Proof Committee Hansard*, 7 October 2014, p. 52.

8 National Tertiary Education Union, *Submission 111*, p. 9.

Based on fees currently being paid by international students and even some domestic students attending private universities, the cost of some university degrees is estimated to exceed \$100 000.⁹

3.12 Other submitters presented these views even more strongly:

Deregulating [student fees]...allows universities to price gouge domestic students rather than the international students they have used so far as 'cash cows'. As the Government is taking funding out of the higher education sector in an 'efficiency dividend', student fees may rapidly approach the world market prices that international students pay.¹⁰

3.13 The fear appears to be that higher education providers, without modelling and no longer restrained by regulation, will increase fees in the knowledge that there will always be those who can afford them and in complete disregard of those who cannot. Such projections of fees spiralling out of control, rendering higher education unattainable for many, appear to be unwarranted however.

We have absolutely no intention to gouge students. We would certainly be taking into account future earnings in setting the fees because we would not want to set fees that were too high for particular professions.¹¹

3.14 The committee also heard evidence that:

[Y]ou could have a system where you gave the power to a body, whether that body was TEQSA or the Australian [C]ompetition [&Consumer] [C]ommission, to disallow a price increase on a set of statutory grounds. The types of statutory grounds that I would be thinking of would be the relationship of the cost of the degree in delivery, to future earnings, to any effects on national need in areas of industry or otherwise and to any reasonable degree of cross-subsidisation within a university.¹²

3.15 The University of Western Australia (UWA) informed the committee of its decision to be among the first to signal its pricing intentions in order 'to counter much uninformed speculation about possible fee levels.'¹³

Based on the current legislation, UWA proposes to set an annual fee (student contribution) of \$16,000 commencing in 2016 for domestic (Commonwealth-supported) students per annual fulltime enrolment (48 points of credit) in any of our five undergraduate degrees (BSc, BA, BCom, BDesign, BPhil(Hons)). The price will be subject to annual indexation.¹⁴

9 Australian Council of Trade Unions, *Submission 69*, p. 1.

10 Politics, Philosophy and Economics Society of La Trobe University, *Submission 49*, p. 3.

11 Professor Gregory Craven, Vice-Chancellor, Australian Catholic University, *Proof Committee Hansard*, 23 September 2014, p. 8.

12 Profssor Gregory CVraven, Vice-Chancellor of the Australian Catholic University, *Proof Committee Hansard*, 23 September 2014, p. 9.

13 University of Western Australia, *Submission 45*, p. 4.

14 University of Western Australia, *Submission 45*, p. 4.

3.16 The National Centre for Social and Economic Modelling, based at the University of Canberra, the only Australian university which does not support fee deregulation,¹⁵ looked at the cost implications of UWA's decision to set an annual fee of \$16 000:

The main findings of the results are not at all surprising—that is, roughly speaking, we have got a doubling of fees. So \$16,000 for the basic courses at the University of WA would be roughly a doubling of the up-front costs...and at least a doubling of the repayment costs... This is over the entire repayment period. This is in nominal terms. It might be preferable to look at this in terms of constant price version, but in terms of the actual dollar repayments, they increased from around \$31,000 up to \$143,000.¹⁶

3.17 Questions were raised, however, concerning the methodology applied to the National Centre for Social and Economic Modelling (NATSEM) modelling, and therefore its reliability.¹⁷

3.18 Other submitters understood that the benefits of deregulation extend beyond the economic argument, and reminded the committee that exaggerated estimates of future course costs should not obfuscate the benefits of the reform package, such as its capacity to boost equity in the interest of students. Ms Vicki Thompson, director of the Group of Eight, said:

...the reality that some medicine, and psychology degrees already cost taxpayers \$100,000..."That's a bit of a scare campaign. There are degrees now that cost \$100,000 — it's just that the student is not paying it. The taxpayer is."¹⁸

3.19 The Australian Liberal Students Association also submitted that:

The reality is that the HECS-HELP system will still be in place and you will not have to pay up-front fees. But because that is not in the public debate as much as the other points have been, we can get the very dangerous outcome that the scaremongering, rather than the reality, is having an impact on access to higher education and the choices high-school students make.¹⁹

3.20 The Council of Private Higher Education (COPHE), a peak body representing private higher education institutions across Australia, which enrol almost 10 per cent of the nation's higher education students and offer degrees from undergraduate to

15 University of Canberra, *Submission 79*.

16 Mr Ben Phillips, Principal Research Fellow, National Centre for Social and Economic Modelling, University of Canberra, *Proof Committee Hansard*, 8 October 2014, p. 33.

17 See discussion, *Proof Committee Hansard*, 8 October 2014, pp 37–38.

18 The Daily Telegraph, 19 October 2014, <http://www.dailytelegraph.com.au/news/nsw/university-debt-backflip-federal-government-to-dump-university-student-loan-hikes/story-fni0cx12-1227094918337> (accessed 23 October 2014).

19 Mr Matthew Simon, Secretary, Australian Liberal Students Federation, *Proof Committee Hansard*, 10 October 2014, p. 21.

doctorate level, argued that cost estimates support the view that 'the total cost of these degrees, at \$30–70,000, and paid when they are earning, need not panic students.'²⁰ COPHE added that its members 'have indicated that whatever they receive in Commonwealth support for students will be passed on to students through reduced tuition.'²¹

3.21 Furthermore, while it is true that providers would have unfettered ability to determine fee levels, it is possible that fees will only need to rise enough to compensate for the decrease in Commonwealth funding. In some instances fees will in fact go down. COPHE submitted that all students, except for those currently enrolled in teaching courses, will benefit from lower fees as a result of the reform package.²²

The impact of competition on price

3.22 There is strong evidence supporting the view that fee deregulation will boost equity and innovation. For one, while it is true that deregulation would allow providers to determine—in the context of their particular circumstances—the price they charge for courses, it will at the same time require providers to compete on price in order to attract students.²³ Higher education providers will therefore focus on offering students the best possible product, rather than packing lecture theatres with students in order to meet funding shortfalls.

3.23 In fact, proof that deregulation will encourage competition on price already exists:

In a sense, we do not need to speculate too much, because we already have a fully deregulated system with an income contingent loan in place. We call it postgraduate education in Australia. The system that we are proposing for undergraduates already exists there. So let's look at what happens in that particular sector—no speculation required. The first thing you notice is that there is price competition. When you look at the prices across Australia's universities, there is a factor of three between the lowest and highest in terms of the fee charged by institutions.²⁴

What about high cost degrees?

3.24 The committee also examined degrees known for being expensive, and considered how the reforms would impact on these.

20 Council of Private Higher Education, *Submission 48*, p. 3.

21 Council of Private Higher Education, *Submission 48*, p. 3.

22 Dr Donald Owers, AM, Chair, Council of Private Higher Education, *Proof Committee Hansard*, 7 October 2014, p. 66.

23 See for example Australian Catholic University, *Submission 25*, p. 8; Australian National University, *Submission 103*, p. 1; University of Wollongong, *Submission 139*, p. 7; Group of Eight Australia, *Submission 46*, p. 41.

24 Professor Ian Young AO, Vice-Chancellor and President, Australian National University, Chair, Group of Eight Australia, *Proof Committee Hansard*, 9 October 2014, p. 69.

3.25 For example, the committee heard evidence that the graduate starting salary for students who complete a degree in medicine is \$60 000, and that income progression over five years is around 5.5 per cent per annum. While there is a wide variance in earnings between different medical specialisations, a self-employed general practitioner (GP) earns approximately 1.7 times the average wage. Self-employed specialists earn around 4.3 times the average wage, and, after 20 years' employment, 42 per cent of students who graduate with a medical degree are in the top earning quintile.²⁵

3.26 These figures support the view that medical graduates' career earnings are more than sufficient to service the student debt accrued. Since the HELP student loan system guarantees that debts only have to be paid when earnings are adequately high, the committee is confident that graduates of high cost degrees are insured against unserviceable debts.

Lessons from overseas – why our system is better

3.27 Some submitters were concerned that the proposed reforms would see Australia emulating overseas higher education systems—such as those in the United States (US) and United Kingdom (UK)—where deregulation brought undesirable consequences.²⁶

3.28 In the US, some student debt burdens are disproportionate to graduate income.²⁷ The US system also stands out in other unenviable ways, some of which were brought to the committee's attention:

Among developed economies, the United States stands out for its failure to adapt its higher education system to the needs of a modern knowledge economy...undergraduate education is in a state of crisis, failing to meet either the needs of the economy for educated workers or its historic role as an engine of social mobility. The proportion of US males with university education is actually falling. Although substantial progress has been made in promoting gender and ethnic balance at leading universities, the reverse is true with respect to social class.²⁸

3.29 Professor John Quiggin explained to the committee that, in the US, even for those who manage to graduate, degrees from lower-tier institutions do not, in general, provide a route into the upper end of the income distribution. The wage premium for an associates degree over a high school education is only about 20 per cent.

25 Australian Medical Association, *answer to questions on notice 3*, 9 October 2014, p. 2.

26 See for example Dr Matthew Fitzpatrick, *Submission 8*, Professor John Quiggin, *Submission 20*; Mr Trent Bell, *Submission 44*; Dr Stephen Lake, *Submission 43*. See also Ms Jessica Dean, President, Australian Medical Students Association, *Proof Committee Hansard*, 10 October 2014, pp 14, 17.

27 Group of Eight Australia, *Submission 46*, p. 46.

28 Professor John Quiggin *Submission 20*, p. 4.

Community college pays off only for the minority who are able and tenacious enough to manage the transfer to a bachelor's degree, and then to complete that degree.²⁹

3.30 Professor John Dewar, Chair of the Legislation and Financing Working Group, was not convinced of the validity of any comparison with the US. He explained the US system was not one national system as would be the case here:

[The US higher education system]...is a very complicated system. It is not a single system, it is multiple systems. I know that there is significant debate about the level of student indebtedness there and the impact of unconstrained fee charging environments on student fees.³⁰

3.31 Similarly, a submission from the Group of Eight explained that debt burdens like those in the US are not possible in Australia:

...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%).³¹

3.32 By contrast, in the US crippling debts are incurred by graduates:

...of the for-profit institutions, not because of the level of the tuition fee, which is actually lower than the not-for-profits, but because there is no provision of loan support for the students. The students then graduate and they have to repay very quickly against Credit Foncier loans, mortgage-style loans, from banks, and if they have not got employment—and a few of them haven't had in the last few years after the 2008 recession—they get caught in traps. In Australia that cannot happen.³²

3.33 The committee put questions to multiple witnesses on this, and formed a strong impression that the higher education system the government is looking to implement is unlike any other system in the world. Professor John Dewar, Chair of the Legislation and Financing Working Group—established to advise the government on components of the higher education reform package—confirmed this view.³³

3.34 In the United Kingdom (UK), for example, student fees are capped, which may instinctively be an attractive measure if the goal is to prevent very high fees, but was found to in fact be detrimental:

One of the lessons we learn from that sort of system is that, if you cap fees, institutions will move very quickly towards the cap. This takes us into a whole different debate...That is why I am opposed to capping, in either a

29 Professor John Quiggin *Submission 20*, p. 5.

30 Professor John Dewar, Chair, Legislation and Financing Working Group, *Proof Committee Hansard*, 8 October 2014, p. 16.

31 Group of Eight Australia, *Submission 46*, p. 38.

32 Mr Michael Gallagher, Executive Director, Group of Eight Australia, *Proof Committee Hansard*, 9 October 2014, p. 71.

33 Professor John Dewar, Chair, Legislation and Financing Working Group, *Proof Committee Hansard*, 8 October 2014, p. 15.

hard form or a soft form, the amount of fees universities can charge. The UK evidence is very clear on that point—as is the Australian evidence from previous occasions on which the student contribution cap has been lifted. When it was lifted in the early 2000s under Minister Nelson, universities very quickly raced to the cap. There was no real price differentiation. So I think there are lessons to be learnt from overseas.³⁴

3.35 Professor Dewar explained that the effect of increasing student fees varies between cohorts of students. He explained that, in the UK, students from disadvantaged backgrounds had continued to enrol in healthy numbers, but that enrolments from other cohorts had dropped following fee increases:

The cohort we think is of most concern are the mature-age and part-time students, who in the UK have declined quite significantly in number since those fees were introduced. Correspondingly, and perhaps counter-intuitively, there has been almost no impact on the propensity of disadvantaged students to enrol in universities in the UK.³⁵

3.36 However, the Australian loan scheme differs from that of the UK. In a Higher Education Policy Institute (HEPI) report by Ms Libby Hackett, Chief Executive of University Alliance (UK) and a visiting Senior Research Fellow in higher education policy at the University of the West of England, it was noted:

the major difference is that in Australia, virtually every student will be able to access a Government fee loan (either subsidised or not) that is repaid on an income-contingent basis. The only students that could not access a loan would be those that had reached their FEE-HELP lifetime maximum loan allowance of \$96,000. In England, however, Government fee loans are limited to particular groups of students. This is because there is only one type of Government fee loan in England and it carries a significant subsidy and therefore has to be rationed. England has prioritised first-time undergraduate students at this time. The consequence has been growing pressure on postgraduates, some part-time and mature entrants and those seeking to re-train (known as ELQ students) who cannot access a public loan.³⁶

Committee view

3.37 The committee is of the view that comparisons with other higher education systems are unhelpful as a directly comparable system does not exist. The committee

34 Professor John Dewar, Chair, Legislation and Financing Working Group, *Proof Committee Hansard*, 8 October 2014, p. 15.

35 Professor John Dewar, Chair, Legislation and Financing Working Group, *Proof Committee Hansard*, 8 October 2014, p. 15.

36 Libby Hackett, Chief Executive of University Alliance (UK), *A comparison of higher education funding in England and Australia: what can we learn?*, April 2014, p. 12.

is confident that the HELP system of student loans, discussed in further detail later in this chapter, provides adequate insurance against debt outpacing income growth, and is for this reason of the view that students who take on higher-cost courses will be in a position to service their loans once they are established in their chosen careers.

3.38 The committee for this reason concluded that the safeguards in place in Australia, such as the income contingent loan scheme, will see our system improve with deregulation without experiencing the negative consequences seen abroad.

3.39 The committee is sensitive to community concern about fee increases. However, ascertaining whether this bill would indeed have the effect of driving up prices is not served by scaremongering. Concerted campaigns against these reforms have skewed the public debate and done the community a great disservice.

I think the uncertainty that there currently is around the fee environment and the level of fees will undoubtedly have affected their decision-making for this round of applications.³⁷

3.40 The committee sees no compelling evidence supporting assertions that fees will rise so dramatically that large swathes of the population will opt out of higher education. The career advantages gained through higher education will continue to motivate people to pursue degrees, much as they have done since deregulation began three decades ago. Furthermore, the continued ability to 'learn now, pay later' through student loans, which ensure that loan repayment is contingent on income will ensure that students only have to repay a proportion of the total cost of their degrees once they begin benefitting from them.

3.41 In addition, competition for student enrolments will ensure that providers keep costs in check. It is not logical or in providers' interests to make education prohibitively expensive.

3.42 Deregulation means that providers will no longer be beholden to government and subject to the budgetary whims of the day. They will have the freedom to develop innovative and sustainable business models which equip them for 21st century challenges, and give our higher education institutions an edge in the competitive global market.

3.43 Fee deregulation will widen choices for students and improve the higher education sector's ability to respond to varying levels of student demand, student ability, interests and backgrounds. The committee is satisfied that the reforms will ensure Australian students can enjoy the best higher education options in the world.

3.44 Ultimately, deregulation is not just about the bottom line. Removing government intervention and red tape is about allowing the sector the space to foster creativity and innovation. Fee deregulation will lead to greater competition, and with greater competition comes greater choice. In combination with this reform package as a whole, deregulation will benefit individuals and entire communities.

37 Professor John Dewar, Chair, Legislation and Financing Working Group, *Proof Committee Hansard*, 8 October 2014, p. 17.

3.45 However, the committee considers it necessary to address the organised scare campaigns about impending fee increases. For this reason, the committee urges the government to consider communicating the benefits of deregulation through a public education campaign.

Addressing barriers to education

3.46 One of the principal aims of this bill is to ensure that potential students have a clear pathway to higher education regardless of their circumstances or background, support through their education and choice as to where they will study.

3.47 Currently, a number of student cohorts are at risk of significant impediments in terms of access to higher education. These include students from lower socioeconomic backgrounds, regional students, Indigenous students, mature-age students and those with low Australian Tertiary Admission Rank (ATAR) scores.

3.48 The proposed reforms seek to improve access for these groups by encouraging student mobility, expanding the scope of the demand driven funding system for higher education and introducing a safety net in the form of the new Commonwealth Scholarship Scheme. The committee examined whether the relevant measures of the bill do enough to expand access to higher education and ensure that at-risk cohorts are not disadvantaged in relation to other students.

Extending funding to non-traditional higher education providers

3.49 The government proposes to expand the demand driven system, continuing the work of the previous government, such that private universities and non-university higher education providers registered by TEQSA will have access to demand driven bachelor places.³⁸ In supporting students who choose to study at these institutions the government is promoting equity and enhancing opportunity. Currently only seven non-university higher education providers receive a small allocation for government subsidised student places each year,³⁹ leaving the vast majority of students at these non-university higher education providers to pay full tuition fees.

Innovation and competition

3.50 These reforms will provide private universities and non-university higher education providers with the flexibility they require to effectively specialise and differentiate from one another.

The expansion of the demand-driven system to include more non-university higher education providers... will further influence the sector by sharpening competition, which will drive innovation and diversity, thereby offering new and alternative pathways of access. Their alternative business models

38 Explanatory Memorandum, p. 16.

39 Explanatory Memorandum, p. 16. Specifically, in 2014 non- university higher education providers received subsidies for approximately 7 300 places. See: Explanatory Memorandum, p. 16.

will encourage cost-effective practices serving as a floor to moderate fee rises.⁴⁰

3.51 Addressing the inequity which currently exists, generally speaking, the benefits of the demand driven system that was first introduced under the Labor government in 2012, do not flow to those students who elect to undertake studies at institutions other than public universities.

Government invests in higher education because there is clear evidence that there is a public benefit from having an educated population. All universities in Australia, public or private, are not for profit organisations, which meet the same quality standards, engage in the same functions (teaching, scholarship, research, community engagement) and contribute the same level of public benefit to the wider community. As such, the justification for providing government subsidies is equally applicable to all universities.⁴¹

3.52 The committee heard evidence from various stakeholders that non-university higher education providers often operate in niche areas that may be under served by the public system. Specifically, Study Group International, a non-university higher education provider, explained that as non-university private higher education providers often endeavour to meet a need in an industry they do not believe is being adequately met by the system, the proposed changes would result in 'an environment that creates a higher level of competition within non-university private providers but also between public providers and non-university private providers [that] can only promote more of that innovation.'⁴²

3.53 The committee also notes that the TEQSA Advisory Council is currently considering how vigorous competition can drive innovation...

It can allow choice to students; it can empower them not just to select between different universities, different institutions and different courses but also to choose between different modes of delivery, different structures of degree and different fees.⁴³

Recognition of sub-bachelor qualifications

3.54 Commonwealth subsidies will also be provided on a demand driven basis for eligible students enrolling in TEQSA accredited higher education diplomas, advanced diplomas and associate degrees, in line with the recommendations of the *Bradley Review*.⁴⁴ Currently the government is subsidising 19 243 sub-bachelor student

40 Professor Timothy John Brailsford, Vice Chancellor, Bond University, *Proof Committee Hansard*, 9 October 2014, p. 62.

41 The University of Notre Dame Australia, *Submission 22*, p. 1.

42 Mr Warren Jacobson, Managing Director, Stud Group Australia P/L (Incorporating ACPE Limited), *Proof Committee Hansard*, 7 October 2014, p. 58.

43 Professor Peter Roger Shergold, Chair, Tertiary Education Quality and Standards Agency Advisory Council, *Proof Committee Hansard*, 7 October 2014, p. 75.

44 Explanatory Memorandum, p. 16.

places.⁴⁵ However, under the proposed changes, the department expects to see this number 'increase by more than 80 000 a year by 2018 (35 000 at bachelor level, 48 000 at diploma, advanced diploma and associate degree level), an increase of around 9 per cent.'⁴⁶

Improving the efficiency of the system

3.55 The Kemp-Norton *Review of the Demand Driven Funding System* found that expanding access to sub-bachelor pathway courses would lead to the improved efficiency of the higher education system by better matching students with appropriate courses.

It would address student quality concerns about lower ATAR entrants, by increasing their academic preparation before they enter a bachelor-degree course. It would provide a lower risk entry point for low SES students. In combination with the inclusion of non-university higher education providers in the demand driven system, it would remove the unfairness inherent in diploma students in private colleges paying much higher annual tuition charges than bachelor-degree students in public universities.⁴⁷

3.56 The focus of these reforms is on increasing access to quality higher education. The government recognises that the non-traditional higher education system has a strong vocational focus and clear linkages to pathways into higher education from VET programs. Northern Melbourne Institute of TAFE provided evidence before the committee that this approach is particularly applicable for their students with low-socioeconomic and disadvantaged backgrounds, as well as their high proportion of first-in-family students and mature age students.⁴⁸

Equity, access and opportunity

3.57 The government's proposed expansion of the demand driven funding system for higher education received support from both private universities and non-university higher education providers and their respective students. Submitters examined the ability of the reforms to address funding inequities in the current system and emphasised the increasingly important role of supported pathways to bachelor and post graduate studies.

Many TAFE students are first in family to undertake higher education, and are often from lower SES and disadvantaged backgrounds. TAFE offers an accessible alternative to university. Domestic and international research demonstrates that the prospect of university education can be intimidating and a 'step too far' for many of these students. Greater choice in higher

45 Explanatory Memorandum, p. 16.

46 Department of Education, *Submission 98*, p. 6.

47 The Hon. Dr David Kemp and Andrew Norton, *Review of the Demand Driven Funding System*, report, April 2014, p. 58, available at: <http://docs.education.gov.au/node/35537> (accessed 14 October 2014).

48 Dr Charlotte Brack, Acting Deputy Director Programs – Higher Education, Northern Melbourne Institute of TAFE, *Proof Committee Hansard*, 9 October 2014, p. 43.

education provider, along with more equitable funding arrangements, may ease barriers to participation and will be welcomed by many students and parents as a result.⁴⁹

3.58 The proposed expansion of the demand driven funding system will facilitate increased and more equitable access to higher education.

This may include students completing diploma and advanced diploma programs at TAFE, who did not consider undertaking further study due to a lack of aspiration and confidence to complete higher education in a university setting.⁵⁰

3.59 Further, the amendments will allow non-university higher education providers to better fill any voids that may present in specific regions for local provision of education, to better service the needs of communities. In this light, Chisholm Institute explained to the committee how they had built their degrees on industry strength.

With Monash being the only university in our region, there were very few opportunities locally because of the required ATAR. Many students in our region only enrolled in a higher education offering after completing a VET qualification. Many students in our region are 'first in family' for tertiary study and come from a low-socioeconomic background. They are predominantly mature aged and also have significant work and family commitments. The opportunity to offer higher education programs has been critical, but our degrees currently cost about \$37,000.⁵¹

3.60 Nearly 12 per cent of domestic undergraduate students at Bond University come from rural or regional areas. The university informed the committee that a sub-bachelor diploma program in 2015 would cost a student \$22 800, and an undergraduate diploma in university English studies in 2015 would cost \$32 528.⁵²

The student voice

3.61 With respect to the bill's proposed extension of Commonwealth subsidies on a demand driven basis to eligible students enrolling in TEQSA accredited higher education diplomas, advanced diplomas and associate degrees, the committee heard substantial evidence about the ability of these sub-bachelor courses to provide effective mechanisms for students to undergo expeditious training in areas linked to vocational outcomes as well as the value of such studies to provide pathways into higher education. The cost of such higher education was also discussed.

3.62 Ms Katrine Arch a mature-age student who is currently studying a Bachelor of Complementary Medicine at Endeavour College of Natural Health provided evidence to the committee.

49 TAFE Directors Australia, *Submission 100*, p. 3.

50 Holmesglen Institute, *Submission 29*, p. 4.

51 Ms Maria Peters, Chief Executive Officer, Chisholm Institute, *Proof Committee Hansard*, 9 October 2014, p. 42.

52 Professor Brailsford, response to questions on notice, 9 October 2014, p. 1.

I am excited about the potential for being on an equal footing with a student studying at a university. I choose to love natural health and holistic healing. Unfortunately, there is no university offering for what I want to do. The current system penalises those who choose to look for alternative ways to learn or, in my case, in fields that are not yet accepted in mainstream Australia.⁵³

3.63 Miss Sara Moad, a second year Bachelor of Dance student at Wesley Institute, emphasised the current inequity and financial disadvantage students experience simply because they choose a career in a profession that is not well represented at public universities.

If and when the bill is implemented, I will have already graduated, with a debt of \$56,000, of which \$11,000 is an administration fee of 25 per cent—more than I need to save for a house deposit. Compare this with my brother, who will have completed a three-year degree in design at a public university, with a HECS debt of around \$15,000. I will pay more than three times the amount... How is that equitable? Professionals in the performing arts have the ability to share so much with their communities and build culture, and often do so despite earning a lower income compared to other professions.

3.64 Mr Anthony Donald a student who is currently studying business at Christian Heritage College (CHC) also provided evidence before the committee. Mr Donald stated that he was 'one of those stereotypical people who did not do well in high school' and had very little of idea of what he wanted to do once he had finished year 12. Mr Donald explained that through CHC he was able to enrol and complete a diploma in ministry and thereafter pursue a business course.⁵⁴

3.65 In obtaining evidence from students studying at higher education institutions outside Australia's public university system, the committee focused its attention on the current costing per annum of courses and how much the reform package would save students. In this context, it is important to consider the benefits students will experience from the provision of Commonwealth Grant Scheme funding to non-traditional higher education providers, who may elect to lower their student fee as a result of Commonwealth support. COPHE explained that:

Member institutions of the Council of Private Higher Education have indicated that whatever they receive in Commonwealth support for students will be passed on to students through reduced tuition and some have already indicated they will hold their 2014 tuition fees through 2016 if reforms are in place.⁵⁵

53 Ms Katrina Arch, Student, Endeavour College of Natural Health, *Proof Committee Hansard*, 7 October 2014, p. 63.

54 Mr Anthony Donald, Student, Christian Heritage College, *Proof Committee Hansard*, 7 October 2014, p. 62.

55 COPHE, *Submission 48*, p. 3.

3.66 Of equal import is the removal of the HELP student loan fee of 25 per cent for FEE-HELP and 20 per cent for VET-FEE HELP, and the removal of the FEE-HELP lifetime limit.

The proposed removal of FEE-HELP and VET FEE-HELP fees will reduce the cost of education for students in full-fee paying courses. This will remove a deterrent to students considering study in these courses, and reduce their total cost of education.⁵⁶

3.67 The government is tightly focused on improving admission strategies to higher education, including providing alternative mechanisms to admission to universities. As such, these proposed changes to the funding and regulatory framework will bring the government in line with the evolution of non-traditional higher education providers as integrated tertiary providers. Non-traditional higher education providers, including TAFE Directors Australia endorsed this reform.

Commonwealth funding is required to support the increasingly important role TAFE plays in broadening student choice and access, strengthening the capacity and reach of the system, particularly in regional areas and addressing critical skills in the Australian economy.⁵⁷

Ensuring quality

3.68 Questions were raised at the hearing about the ability of Australia's higher education framework to provide adequate assessments of private universities and non-university higher education providers, in line with community expectations regarding quality and reputation. However, the process for becoming a higher education provider is the same for all higher education providers: public universities, private universities, as well as all other non-university higher education providers, such as TAFE, all have to meet the same high standards.

3.69 Notably, Navitas Limited, a private education company, approximated that there are currently only 150 non-university providers of higher education providers operating in Australia.⁵⁸

3.70 With respect to accreditation of higher education programs through TEQSA, various Institutes of TAFE made it clear that as a regulator in the higher education sector TEQSA 'regulates very rigorously, and as... non-university provider[s] we certainly apply the same rigour to ourselves and to the curriculum.'⁵⁹

This means that our graduates achieve the same learning outcomes and at the same levels as their university counterparts... there is an expectation that academic staff have a thorough knowledge of their disciplined field and its latest research findings and their applications, in addition to an

56 Regulation Impact Statement, p. 60.

57 TAFE Directors Australia, Submission 100, p. 7.

58 Ms Helen Zimmerman, Group General Manager, Government and Stakeholder Relations, Navitas Limited, *Proof Committee Hansard*, 7 October 2014, p. 52.

59 Ms Mary Faraone, Chief Executive, Holmsglen Institute, *Proof Committee Hansard*, p. 42.

understanding of contemporary scholarship and of learning and teaching. This is required both by TEQSA and by professional accreditation bodies. Without that accreditation, our students would be considerably disadvantaged in the degrees that they graduate with. With regard to the qualifications of our staff, we believe they are equivalent to the increasing number of teaching-intensive or teaching-focused staff at universities⁶⁰

3.71 Study Group International explained that the accreditation process through TEQSA was rigorous and 'can take up to 12 to 18 months and maintaining registration requires continuous investment in quality assurance and improvement.'⁶¹ The committee also heard evidence about the Quality Indicators for Learning and Teaching (QILT), and the vastly improved MyUniversity website that will serve informed and active consumers.⁶²

3.72 The proposed QILT indicators are a performance measure instrument that was announced as part of the 2014–15 Budget:

The QILT provides a coherent suite of Government endorsed surveys for higher education, that cover the student life cycle from commencement to employment. Higher education providers will receive data from the surveys relating to their students and graduates, supporting their continual improvement efforts in key areas such as teaching practices, learner engagement and student support... Importantly, students and families will have better information about higher education institutions on which to base their decisions. This, in itself, reduces the system's reliance on regulation to support quality.⁶³

3.73 Professor Peter Shergold, Chair of TEQSA Advisory Council, highlighted the necessity and value of the QILT indicators to Australia's 'immature' higher education market. Professor Shergold emphasised the role of the proposed QILT indicators in ensuring all higher education providers report in the same way so that Australia has an informed and transparent market in which students can make informed decisions.⁶⁴

You need to know that you can look on there and see for every provider of higher education what the student satisfaction is at that institution, what the student outcomes are, what the employer satisfaction is. That helps you to

60 Dr Charlotte Brack, Acting Deputy Director Programs – Higher Education, Northern Melbourne Institute of TAFE, *Proof Committee Hansard*, 9 October 2014, p. 43.

61 Mr Warren Jacobson, Managing Director, Study Group Australia P/L (Incorporating ACPE Limited), *Proof Committee Hansard*, 7 October 2014, p. 52.

62 Mr Warren Jacobson, Managing Director, Study Group Australia P/L (Incorporating ACPE Limited), *Proof Committee Hansard*, 7 October 2014, p. 52.

63 Regulation Impact Statement, pp. 26–27.

64 Professor Peter Roger Shergold, Chair, Tertiary Education Quality and Standards Agency Advisory Council, *Proof Committee Hansard*, 7 October 2014, p. 80.

judge whether you want to pay more or less between one institution and another.⁶⁵

3.74 The department also acknowledged the importance of transparency and outlined information about higher education providers that would be available to Australians through QILT:

Accountability for quality will be enhanced through more transparent information to inform choice of study options for students and their families. New information provided through the Quality Indicators for Learning and Teaching (QILT) will compare how successful previous graduates have been at finding jobs and what other students and employers think of a course.⁶⁶

Committee view

3.75 The committee is convinced the expansion of the demand driven funding system to private universities, non-university higher education providers and sub-bachelor qualifications will ensure equitable access for all students, irrespective of their choice of study or provider.

3.76 The committee is satisfied that the proposed measures will improve the efficiency of the higher education system by providing appropriate and effective pathways for all students. Specifically, the committee considers that these measures are necessary to facilitate pathways to higher education for those students from lower socioeconomic backgrounds, regional students, Indigenous students, mature-age students and those with low ATAR scores.

3.77 The committee is persuaded by evidence that the proposed changes will create an environment of healthy competition between non-university providers and also between public and non-university private providers such that innovation will flourish.

3.78 The committee notes stakeholder concerns about the professional accreditation process of private universities and non-university higher education providers. However, the committee is satisfied that TEQSA is an appropriate and satisfactory quality agency, and that the QILT indicators will ensure Australia has an informed and transparent higher education market.

3.79 It is the committee's view that an awareness campaign to communicate to students, particularly those from target cohorts, the impact of the changes to their future studies could allay concern and ensure students are fully informed.

Commonwealth Scholarship Scheme

3.80 A key component of the government's higher education reforms is the establishment of a new Commonwealth Scholarship Scheme. Under the proposal, institutions with more than 500 students enrolled would be required to put 20 per cent of the additional revenue raised through fee increases towards 'activities to improve

65 Professor Peter Roger Shergold, Chair, Tertiary Education Quality and Standards Agency Advisory Council, *Proof Committee Hansard*, 7 October 2014, p. 80.

66 Department of Education, *Submission 98*, p. 2.

access and participation.⁶⁷ The committee understands that this measure is intended to ensure disadvantaged students are given every opportunity to access higher education.

The Government's reforms to higher education will provide opportunities for regional universities and the regional communities they serve. By uncapping sub-bachelor places, the Government will allow an additional 80,000 students to access Commonwealth subsidies by 2018. This includes more people from disadvantaged backgrounds, from rural and regional communities and those who need extra assistance to complete their studies. The new Commonwealth Scholarships scheme will allow universities to offer scholarships to students from regional and remote areas.⁶⁸

Students from low SES backgrounds

3.81 The submission received from the Australian Department of Education explained that the introduction of demand driven funding has expanded enrolments and improved access for students from disadvantaged backgrounds:

Between 2012 and 2013, domestic undergraduate low socio-economic status (SES) student enrolments increased by 7.2 per cent to 124 193, with an improvement in the participation rate of low SES domestic undergraduate students from 17.1 per cent in 2012 to 17.3 per cent in 2013.⁶⁹

3.82 Ms Jenny Lambert, Director of Employment, Education and Training at the Australian Chamber of Commerce and Industry, explained that by increasing access to education overall, the uncapped, demand-driven system has also helped disadvantaged students:

Only four per cent of working-age Australians were at university in the late 1980s, just prior to the fees being reintroduced. Now there are close to double that. The uncapped demand-driven system in place now has allowed more students than ever to access universities, including those from lower socioeconomic backgrounds. This has happened despite fees, as the opportunity for economic rewards drives behaviour and, when access is freed up, people respond.⁷⁰

3.83 This echoes the findings of the Kemp-Norton review, commissioned to look at and make recommendations in relation to the demand driven funding system. The reviewers concluded that the system increased opportunities for students from lower socioeconomic backgrounds:

Universities offered thousands of new student places in anticipation of the demand driven system. In 2013, the equivalent of 577,000 full-time

67 Explanatory Memorandum, Higher Education and Research Reform Amendment Bill 2014, p. 9.

68 Department of Education, *answers to questions on notice*, 20 October 2014, p. 11.

69 Australian Department of Education, *Submission 98*, p. 8.

70 Ms Jenny Lambert, Director of Employment, Education and Training, Australian Chamber of Commerce and Industry, *Proof Committee Hansard*, 8 October 2014, p. 18.

students received Commonwealth support in paying their tuition costs, an increase of more than 100,000 on 2009....These new places have been widely distributed. There are more students from the major cities and from regional and remote areas, more students from all socio-economic backgrounds, and more Indigenous students. There are more undergraduate students in all major fields of education. Every public university increased its number of Commonwealth supported students between 2009 and 2012.⁷¹

3.84 However, the committee recognises that disadvantage continues to act as a barrier to higher education for some, and that it is imperative that this bill ensures that money is available to address this. In the committee's view, the package ensures that higher education will be cost free at the point of delivery for all students, and that under the HELP scheme students will continue to have no obligation to repay their debt until they have sufficient income to do so.

Students from regional communities

3.85 Domestic enrolment at regional universities has grown at a higher rate than the average for all public universities since the introduction of demand driven funding for bachelor degrees in 2012. This is indicative of regional universities' capacity for innovation and ability to take advantage of new policy settings.⁷²

Regional universities are well placed to capitalise on the unlimited availability of sub-bachelor places, both by enrolling more students in their own right and forming partnerships with other local providers such as TAFE [technical and further education] institutes. A number of universities have already forged partnerships with regional TAFEs to develop new courses or expand operations into previously underserved locations where there are poor higher education attainment rates, but good VET [vocational education and training] preparation to diploma level. Regional TAFEs that are approved to operate as higher education providers will also be able to provide additional opportunities for regional students and support the economic development of their communities.⁷³

3.86 However, students from regional communities face more than just the costs incurred through course fees. Professor Sandra Harding, Vice-Chancellor and President of James Cook University, explained that it is a fallacy assume that it is any cheaper to study or conduct research in regional areas:

[I]t is no cheaper to be in regional areas than it is to be in metropolitan areas. Indeed, depending on where you are there are increased pressures sometimes, particularly when you are in smaller communities where there is low rental availability and high cost attached to rents. That really can be

71 Review of the Demand Driven Funding System, Final report, p. x, available at: <http://docs.education.gov.au/node/35537> (accessed 15 October 2014).

72 Department of Education, *Submission 98*, p. 9.

73 Department of Education, *Submission 98*, p. 10.

very expensive. Similarly, the cost of food, amenities and utilities can all be higher in some areas.⁷⁴

Committee view

3.87 The committee notes that the costs to study or conduct research vary greatly depending on geographical location.

3.88 The committee understands that regional universities can potentially benefit greatly from the reform package, as discussed in the following section. At the same time, the committee is of the view that steps must be taken to ensure that the financial barriers students face are recognised and that students from regional communities have access to metropolitan higher education institutions, should they choose to study there.

3.89 Given that guidelines for eligibility for the scholarship scheme are yet to be released, the committee is of the view that scope exists for them to be weighted towards assisting students living away from home.

3.90 Furthermore, the committee is persuaded by evidence that the uncapped, demand driven system has increased overall access to higher education. In principle this applies equally to areas of study which are known for being more expensive, such as medicine. For this reason, the committee is inclined to support complete deregulation of the undergraduate higher education sector, recognising that this entails uncapping undergraduate medical degree places.

Recommendation 1

3.91 The committee recommends that guidelines for the Commonwealth Scholarship Scheme seek to address some of the financial barriers faced by students from low SES backgrounds and regional communities in accessing higher education.

Addressing 'thin markets' in regional areas

3.92 One aspect of the package that received substantial commentary from submitters was the effect of the reform package on 'thin markets' in regional areas. While a number of submitters acknowledged the benefits of the reform package for regional universities in the extension of sub-bachelor places, they emphasised the disproportionate effect of the package as a whole on regional universities and called for the government to provide a structural assistance package to assist rural and regional higher education provider to adapt to the new system.

3.93 Charles Sturt University, who have the second highest number of low-SES students in Australia highlighted the concerns of regional universities.

... if we are essentially relying on the ability of students to pay fees to fund research aspirations, that is going to have a disproportionate effect on

74 Professor Sandra Harding, Vice-Chancellor and President, James Cook University, *Proof Committee Hansard*, 7 October 2014, p. 6.

regional universities. So we therefore think there needs to be some sort of package which actually assists with that, with the details to be determined.⁷⁵

3.94 Regional Universities Network (RUN) highlighted the significant gap that exists between higher education attainment in Australian capital cities compared with regional Australia.

The further away from capitals, the lower the post-school education attainment. In 2011, 31 per cent of people aged 25-64 who lived in major cities held a bachelor degree or above, compared to about half that in regional Australia; 18 per cent of Australians living in inner regional areas had a degree, declining to 15 per cent for outer regional areas and down to only 12 per cent for very remote areas... It is critical to grow the proportion of educated professionals working in the regions, if regional Australia is to have sufficient, educated professions to fully participate in the world economy.⁷⁶

3.95 With respect to regional Victoria, Federation University of Australia explained:

... if the legislation remains demographically neutral, higher education participation rates in regional communities will continue to decline and the net migration flow of that 18-to-35 age group out of regional Victoria will continue to decline.⁷⁷

3.96 Federation University of Australia also submitted that without a regional adjustment package the University would have to significantly cross-subsidise their students to survive.⁷⁸

3.97 Flinders University highlighted the importance of regional higher education providers for regional economies and regional social cohesion.

... our experience, both in the Riverland and in regional South Australia, and now in the Northern Territory, is that if we recruit people from the territory and train them in their territory, they are likely to stay in the territory as doctors. That part of the story is something that needs to be recognised.⁷⁹

75 Professor Andre Vann, Vice Chancellor, Charles Sturt University, *Proof Committee Hansard*, 8 October 2014, p. 68.

76 Regional Universities Network, *Submission 56*, p. 3.

77 Professor David Battersy, Vice Chancellor, Federation University of Australia, *Proof Committee Hansard*, 10 October 2014, p. 1. The 32 per cent increase in student fees is the Federation University of Australia's modelling in light of the proposed changes in the reform package. See Professor David Battersy, Vice Chancellor, Federation University of Australia, *Proof Committee Hansard*, 10 October 2014, p. 6.

78 Professor David Battersy, Vice Chancellor, Federation University of Australia, *Proof Committee Hansard*, 8 October 2014, pp 5-6.

79 Professor Michael Barber, Vice Chancellor, Flinders University, *Proof Committee Hansard*, 10 October 2014, p. 8.

3.98 The National Union of Students emphasised the tendency of rural and regional students who are studying at rural and regional universities to remain in their communities.

They have every intention of studying and going back into their communities and practising social work or being teachers, of going back into their communities and practising in their local areas. I think there also needs to be an acknowledgement of that.⁸⁰

3.99 Professor Henry Ergas, acknowledged the legitimacy of the concerns raised by the rural and regional higher education community, however, submitted that with the correct assistance, rural and regional higher education providers could prosper within the proposed new reform package.

I see that Wollongong, which is a regional university, in a sense—it is in an area that is certainly not a terribly high-income area and that attracts many students from low-socioeconomic-status families—is adjusting quite successfully to those changes. I think regional universities will be able to position themselves in such a way as to attract students and funding over time. But that will take time. It will require changes. And ensuring that they are able to do so is important, not merely for those regional communities but also for enhancing competition in the system as a whole.⁸¹

3.100 The department also provided evidence to the committee demonstrating the proven abilities of regional universities to successfully adapt to structural change.

Regional universities have always shown strong capacity to innovate and take advantage of new policy settings. The introduction of demand driven funding for bachelor degrees in 2012 has seen domestic enrolments at regionally headquartered universities grow at a higher rate than the average for all public universities... In a deregulated fee environment, regional universities will have scope to set tuition fees at levels that will both cover their cost of delivery and make their offerings competitive with other providers in the market.⁸²

Committee view

3.101 The committee recognises that rural and regional higher education providers deliver high quality and essential educational and research services that are vital for Australia's remote communities, our regional economies and regional social cohesion.

3.102 The committee acknowledges that it is not in the national interest to lessen the participation rate of regional Australians in higher education and acknowledges the difficulties that rural and regional higher education providers will experience as a result of the reform package.

80 Ms Deanna Taylor, President, National Union of Students, *Proof Committee Hansard*, 10 October 2014, p. 12.

81 Professor Henry Ergas, *Proof Committee Hansard*, 9 October 2014, p. 82.

82 Department of Education, *Submission 98*, pp 9–10.

3.103 The committee believes that tackling the cultural and social issues of access to higher education for those students from lower socioeconomic backgrounds, 'first in family' for tertiary education and regional areas, is paramount to ensuring the evolution of career pathways envisaged by this reform package.

Simplifying the Commonwealth contribution funding clusters

3.104 In order to simplify Commonwealth subsidies, Schedule 1 of the bill proposes to change the current cluster funding arrangement.⁸³ Specifically, it proposes to streamline the eight funding clusters into five funding tiers.⁸⁴ The rationale for the change is to 'incorporate a more rational reflection of factors relevant to the cost of delivery' as identified by the Base Funding Review (BFR).⁸⁵

Disciplines were allocated to a particular cluster based on the standard teaching method and infrastructure required to deliver the course as well as the private benefits for graduates, drawing on the work of the BFR. The BFR suggested five discipline groups as an appropriate framework for the Commonwealth Grant Scheme, arguing that the current model 'would be improved by reducing the number of funding clusters.'⁸⁶

3.105 The BFR held targeted consultations with stakeholders to obtain views from the sector about the principles and recommendations to inform its response.⁸⁷ The BFR also received 161 submissions in response to a consultation paper released prior to the targeted consultations with stakeholders.⁸⁸

3.106 In restructuring the clusters arrangements, the department has taken into account a range of variables, including the standard teaching method, infrastructure costs, and the estimated prospective value of respective disciplines to students.⁸⁹

The new funding clusters were developed based on the following principles:

- Simplifying the system to reflect only major differences between disciplines.
- Grouping disciplines based on average relative cost of delivery.
- Private benefits for graduates.⁹⁰

83 Explanatory Memorandum, p. 15.

84 Regulation Impact Statement, p. 68.

85 Regulation Impact Statement, p. 68.

86 Department of Education, *answers to questions on notice*, 20 October 2014, p. 9.

87 Australian Government, Department of Industry, *Base Funding Review*, <http://www.industry.gov.au/highereducation/Policy/BaseFundingReview/Pages/default.aspx>, (accessed 21 October 2014).

88 Australian Government, Department of Industry, *Base Funding Review*, <http://www.industry.gov.au/highereducation/Policy/BaseFundingReview/Pages/default.aspx>, (accessed 21 October 2014).

89 Regulation Impact Statement, p. 68.

3.107 As proposed, the five tiers are:

Tier 1 – Low cost courses with traditional lecture and tutorial format with high private returns: Management and Commerce, Food and Hospitality, Mixed Field, Law and Economics.

Tier 2 – Other low cost courses with traditional lecture and tutorial format: Society and Culture (including social studies and humanities, but excluding law, economics, clinical psychology and foreign languages) and Communications (excluding audio visual studies).

Tier 3 – Medium cost courses that combine traditional lecture and tutorial format with significant practical experience requirements – Computing, Behavioural Science, Welfare Studies, Other Health, Architecture and Building, Education, and Creative Arts (excluding communications).

Tier 4 - Laboratory based disciplines with small class sizes and/or high equipment costs: Science, Engineering, Allied Health, Nursing, Environmental Science, Clinical Psychology, and Foreign Languages.

Tier 5 - High cost disciplines with high infrastructure costs and/or intensive teaching: Agriculture (excluding environmental science), Medicine, Dentistry, and Veterinary Science.⁹¹

3.108 The committee notes that:

Under the new five clusters some important disciplines have a lower funding reduction than the average 20 per cent reduction. These include: teaching, health (including nursing), foreign languages, veterinary science and agriculture.⁹²

3.109 A number of submitters examined the impact of the proposed changes to the cluster arrangements on specific disciplines and questioned their necessity.⁹³

3.110 In assessing the student impact of the transition to a deregulated higher education environment, some submitters were of the opinion that the system would be better understood if there was a flat 20 per cent reduction across all disciplines.

It will be easier to understand if there is simply a uniform reduction across all disciplines, rather than adding into what is already a fairly complicated mix of changes these new changes to funding clusters. I think we understood that there was a strong policy rationale behind the proposal for the five as opposed to the eight, but we felt that to throw that in at the same

90 Department of Education, *answers to questions on notice*, 20 October 2014, p. 21.

91 Regulation Impact Statement, p. 68.

92 Department of Education, *answers to questions on notice*, 20 October 2014, p. 21.

93 Professor Deborah Terry, Vice Chancellor, Curtin University, *Proof Committee Hansard*, 7 October 2014, p. 27; Professor Andrew Vann, Vice Chancellor, Charles Sturt University, *Proof Committee Hansard*, 8 October 2014, p. 60; Australian Catholic University, *Submission 25*, p. 3.

time as doing everything else risked creating serious confusion in the minds of potential students.⁹⁴

3.111 In contrast, others provided evidence that a uniform reduction arrangement would result in major disadvantage to particular disciplines, such as nursing and teaching and to universities who have specialised in particular disciplines and therefore would not have capacity to cross-subsidise courses to cushion reductions.⁹⁵

3.112 Charles Sturt University (CSU) argued that the five tiers, as proposed, fail to take into account regional labour market demand, graduate earnings or the impact of increases in course fees on student enrolments in professional disciplines.⁹⁶

3.113 In evidence before the committee, Professor Andrew Vann, Vice Chancellor of CSU, expressed concerns about the level of cuts and subsequent fee increases in areas of chronic labour market shortage in rural and regional areas, with students already hesitant to enrol in such disciplines.⁹⁷

Funding levels that reflect costs

3.114 Equally, the committee received submissions and took evidence at the hearing that supported the simplification of the Commonwealth funding clusters.

ACU [Australian Catholic University] strongly supports the differential level funding of courses as proposed by the Government. The Government's figures take into account the cost of delivering the course and the capacity for the student to repay based on the difference in salaries earned in different disciplines.⁹⁸

3.115 Professor Dewar, Chair, Legislation and Financing Working Group explained that there was no clear correlation between the different rates across the current system of eight clusters and the costs of delivery of disciplines, and therefore, they had been the subject of criticism.

They were historically derived and no-one really had a good rational to explain them... The view was taken that, as part of these reforms, we would shift the allocation of government subsidy onto a more rational footing.⁹⁹

3.116 The department submitted that 'the new five clusters resolve anomalies with the current eight funding clusters and reduce the complexity of the Commonwealth Grant Scheme.'¹⁰⁰

94 Professor John Dewar, Chair, Legislation and Financing Group, *Proof Committee Hansard*, 8 October 2014, p. 11.

95 Australian Catholic University, *Submission 25*, p. 3.

96 Charles Sturt University, *Submission 61*, p. 7.

97 Professor Andrew Vann, Vice Chancellor, Charles Sturt University, *Proof Committee Hansard*, 8 October 2014, p. 60.

98 Australian Catholic University, *Submission 25*, p. 3.

99 Professor John Dewar, Chair, Legislation and Financing Working Group, *Proof Committee Hansard*, 8 October 2014, p. 12.

3.117 The department also explained that:

The subsidy levels associated with the existing funding clusters are primarily based on historical decisions from the 1980s and do not reflect the relative costs of course delivery today. As a consequence, if eight funding clusters are retained and fees are deregulated, there is a potential for fee setting to be more complex and less transparent to students.¹⁰¹

3.118 In response to criticisms about the proposed changes to the cluster arrangements and their potential to impact on disciplines such as science and engineering, the department submitted that:

[T]he alternative proposal of retaining the eight funding clusters with a consistent reduction in subsidy funding across the clusters would adversely affect teaching, nursing, IT, architecture and welfare courses. Such an arrangement would favour around one-third of universities compared to the proposed five clusters (for most the gain would be marginal), while two-thirds of universities would be worse off, a number of them significantly, due to their high proportion of teaching and nursing students.¹⁰²

3.119 In the context of a deregulated higher education environment, where higher education providers will have the ability to increase fees to offset reduced Commonwealth funding, the current cluster structure is not sustainable.

The alternative eight cluster proposal would have the greatest negative financial impact on universities that have less capacity to increase revenue from students, in particular regional universities.¹⁰³

The Panel has concluded that the base funding model would be improved by reducing the number of funding clusters.¹⁰⁴

3.120 The department acknowledged that the new five funding clusters would affect institutions differently dependent on their discipline profiles, giving the following example:

Institutions with high proportions of students enrolled in teaching and nursing, such as some regional universities, have lower than average reductions in per student funding.¹⁰⁵

Committee view

3.121 The committee considers that the streamlining of the current eight funding clusters to five funding tiers is necessary to implement the package of reforms. The committee is also satisfied that adequate consultation with the higher education sector

100 Department of Education, *answers to questions on notice*, 20 October 2014, p. 21.

101 Department of Education, *Submission 98*, p. 9.

102 Department of Education, *Submission 98*, p. 9.

103 Department of Education, *Submission 98*, p. 9.

104 *Higher Education Base Funding Review*, October 2011, p. 54.

105 Department of Education, *questions on notice*, 20 October 2014, p. 21.

was conducted with respect to the BFR that made the recommendation to reduce the funding clusters.

3.122 The committee acknowledges that these reforms reflect factors relevant to the cost of the delivery of higher education courses, and that the proposed changes are limited and appropriate to ensure universities have the means to resource their institutions.

3.123 The committee is persuaded that the proposed relative level of government contribution is based on the relativities identified in the BFR and that the resultant reduction of Commonwealth subsidies to certain courses is justified in order to create a sustainable demand-driven system.

3.124 The committee considers that it is important to decrease the regulatory burden on higher education providers, and is convinced that these amendments will improve the regulatory framework of the sector. The committee nonetheless recognises the challenges inherent in moving to a deregulated system, and urges the government to address these challenges through a structural adjustment package. This package should prioritise tailored assistance for providers catering to regional, rural and disadvantaged students.

3.125 The committee is persuaded by evidence that the proposed changes to the funding cluster arrangement will have a greater impact on some higher education providers, and as such, transitional support arrangements are necessary for such entities to ensure the government's intended outcomes.

Recommendation 2

3.126 The committee recommends that the government explore the provision of a structural adjustment package to assist certain sections of the higher education sector transition to a fully deregulated system.