

CHAPTER 2

Key issues

2.1 Successive governments have taken steps to deregulate and reform the higher education sector. Consequently, the student contribution to the cost of higher education has risen steadily since the 1980s, when the then-Labor Government initiated the transition to a user-pays system for Australian university students.¹

2.2 Many years and many small steps later, this is the crux of the dilemma facing decision-makers: Australia's higher education system has served the country well, but growing demand and budgetary constraints mean that the status quo is unsustainable. Higher education providers now operate in a partially reformed, overregulated system which discourages innovation and diversity and stymies the nation's competitiveness in a rapidly evolving global market. To be among the best in the world Australia must ensure excellence in higher education—we either evolve or we get left behind.

2.3 The government's vision for a high performing, innovative and globally competitive higher education and research sector has been outlined in detail by the Minister and in the committee's report into an earlier iteration of the Higher Education and Research Reform Bill 2014 (the bill), the Higher Education and Research Reform Amendment Bill 2014 (the former bill).² Although the government was disappointed by the defeat of the former bill in the Senate, its pursuit of excellence in higher education remains undiminished. The government therefore listened to stakeholders and took their concerns on board, and the resulting bill is a clear reflection of this. It preserves the core elements of the government's reform package whilst introducing a number of changes.

2.4 It is not the committee's intention to re-analyse the principal elements of the proposed reforms—this analysis was comprehensively achieved by the committee's report on the former bill—but rather to examine the new elements of the legislation. This report will therefore limit focus primarily on new measures proposed by the bill.

Fine-tuning higher education reforms

2.5 The challenges faced by Australian higher education policymakers are not unique to this country:

[T]he major issue confronting political systems across the world is to devise a policy framework which ensures the long-term financial sustainability of

1 Senate Education and Employment Legislation Committee, *Report on the Higher Education and Research Reform Amendment Bill 2014*, October 2014.

2 Senate Education and Employment Legislation Committee, *Report on the Higher Education and Research Reform Amendment Bill 2014*, October 2014. See also the Hon Christopher Pyne MP, *second reading speech*, House of Representatives, 3 December 2014.

the higher education system given its central importance in a knowledge-based economy.³

2.6 Submitters recognised these challenges, as did the committee's report on the former bill, which identified a number of tangible ways of improving the reform package:

Recommendation 1

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.

Recommendation 2

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.

Recommendation 3

The committee recommends that the government examine HELP indexation measures in light of evidence presented to the committee, recognising unforeseen impacts of the proposed reforms on students.

Recommendation 4

The committee recommends that the government explore avenues to recover HELP debts of Australians residing overseas.⁴

2.7 The government listened to these recommendations, as well as to proposals from cross-bench senators, and has achieved what one submitter described as 'a remarkable level of consensus across the higher education sector'.⁵ Following this committee's report on the former bill and extensive consultation, the government has:

- incorporated safeguards to ensure domestic student fees are lower than international student fees;
- withdrawn the proposal to amend the rate at which student HELP debts are indexed;
- provided for a pause on student debt indexation for primary carers of children under five while they are earning under the minimum repayment threshold;
- proposed a structural adjustment fund designed to help universities—particularly regional universities—transition to a more competitive market; and
- proposed a new scholarship fund for universities with a high proportion of students from low socioeconomic backgrounds.

3 University of Wollongong, *Submission 19*, p. 2.

4 Senate Education and Employment Legislation Committee, *Report on the Higher Education and Research Reform Amendment Bill 2014*, October 2014, p. xi.

5 La Trobe University, *Submission 52*, p. 1.

2.8 The new measures would promote equitable treatment of all students, irrespective of where they study while at the same time improving the financial sustainability of HELP. Key changes to the proposed legislation are examined below.

Indexation arrangements

2.9 The indexation of student HELP debts was a key point of contention during the committee's inquiry into the former bill.⁶ The government's decision to drop plans to charge higher interest on student loans therefore received strong support from submitters to this inquiry.⁷

2.10 As put by the Go8:

Keeping CPI as the indexation factor for HELP loans means graduates who take longer to pay won't pay more in real terms. This is an important protection for lower income graduates and those who take time out of the workforce (and a key element of the design of HECS).⁸

2.11 Victoria University added:

This restores the idea of Bruce Chapman and his fellow architects of HECS that income-contingent loans provide some insurance against risk for those investing in their education, and is a move which Victoria University applauds.⁹

2.12 As well as retaining the CPI as the indexation rate for HELP debts, the bill would also introduce relief measures for primary carers of children under five when they are earning under the minimum repayment threshold. This too received strong support from submitters.¹⁰

Committee view

2.13 The committee notes that its report on the former bill, tabled in October 2014, recommended that the government re-examine its plans to change indexation arrangements for student loans, and is pleased that this recommendation was heeded. The committee is of the view that continuing to index student debt in line with CPI will mitigate any potential unintended consequences a change of arrangements may have had.

6 Senate Education and Employment Legislation Committee, *Report on the Higher Education and Research Reform Amendment Bill 2014*, October 2014.

7 See for example Australian Council for Private Education and Training, *Submission 15*, p. 2; Universities Australia, *Submission 7*, p. 8; Monash University, *Submission 18*, p. 1; University of Western Sydney, *Submission 14*, p. 3; Federation University Australia, *Submission 24*, p. 3; Deakin University, *Submission 25*, p. 2.

8 Group of Eight, *Submission 30*, p. 3.

9 Victoria University, *Submission 35*, p. 3.

10 See for example Group of Eight, *Submission 30*, p. 3; Deakin University, *Submission 25*, p. 2; Federation University Australia, *Submission 24*, p. 3.

Supporting disadvantaged students

Commonwealth Scholarship Fund

2.14 Establishing a new Commonwealth Scholarship Scheme to help disadvantaged students is a key component of the government's higher education reforms. The measure would require institutions with more than 500 students to put 20 per cent of additional revenue raised through any fee increases towards improving student access and participation.¹¹

2.15 The committee's report on the former bill offered detailed analysis of the proposed Commonwealth Scholarship Fund.¹² It is not the intention of the committee to re-visit this proposed measure, save to acknowledge diversity in views on how money from the fund can best be allocated.

The University of Wollongong, for example, whilst supportive of the establishment of the fund in principle, proposed a progressive alternative to the flat 20 per cent of revenue.¹³ The University of Wollongong also suggested that the money should perhaps not be pooled for allocation:

[The fund] is an important component to address the inequality in access to education, particularly for students from low socioeconomic backgrounds. The University is also proposing that the Commonwealth Scholarships Fund be allocated at the institutional level rather than from a centrally funded pool.¹⁴

Committee view

2.16 The committee notes the above suggestions, and supports further examination of their viability in the future.

Structural adjustment fund

2.17 The bill introduces a \$100 million structural adjustment fund to assist institutions with higher proportions of disadvantaged students, such as those from regional areas and newer metropolitan universities.

2.18 This was welcomed by many submitters, however some were concerned that the fund may not 'provide explicit support for Australia's regional students and universities' and may 'therefore dissipate the quantum accessible by regional providers.'¹⁵ To ameliorate this risk, Federation University Australia proposed establishing a complementary regional fund:

11 Explanatory Memorandum, Higher Education and Research Reform

12 Senate Education and Employment Legislation Committee, *Report on the Higher Education and Research Reform Amendment Bill 2014*, October 2014.

13 See University of Wollongong, *Submission 19*, p. 3.

14 University of Wollongong, *Submission 19*, p. 4.

15 Federation University Australia, *Submission 24*, p. 3.

...to offset systemic competitive inequalities that divide metropolitan and non-metropolitan tertiary education provision. This will have the effect of addressing the urgent needs of regional providers (regional adjustment fund) while easing competition for funding by other providers (structural adjustment fund). A regional adjustment fund could be incorporated within the structural adjustment fund.¹⁶

2.19 The committee notes that the bill would give the Minister discretion over the awarding of grants from the new structural adjustment fund, and notes calls for increased clarity on how regional providers' interests would be ensured.

Expanding opportunity to more students

2.20 Much of the debate surrounding the proposed reforms has focused on universities, specifically, university fees. A very high profile scare campaign conducted by political opponents of the reforms has unfortunately also had the effect of drowning out discussion about measures pertaining to non-university education providers, which are likely to have a very positive effect. As put by the Australian Chamber of Commerce and Industry (ACCI):

Extending the uncapped demand driven system to non-universities in the higher education sector will even further enhance competition and will most likely lead to private institutions lowering the fees paid by students in response to competition and as a reflection of subsidies.¹⁷

2.21 For a variety of reasons, not every prospective student will want to pursue an education through a public university. Many enrol with alternative institutions '...because they deliver better outcomes for particular students, often in niche areas or through smaller teaching cohorts.'¹⁸

2.22 Students choosing private providers, for example, represent ten per cent of higher education enrolments, but currently do not enjoy many of the benefits extended to their peers at public universities:

To continue to discriminate against them surely goes against the principle of equitable access that underpins our higher education system, and indeed, civil society.¹⁹

2.23 As Mr Dean Warwick, studying through distance education at Tabor Adelaide, stated:

[I]f I complete my studies and graduate and leave with a similar degree that someone from a public university gains, and end up working with the same young people that the person from the public university is going to work with, why should I be disadvantaged and have a larger debt because I chose

16 Federation University Australia, *Submission 24*, p. 3.

17 Australian Chamber of Commerce and Industry, *Submission 50*, pp 7–8.

18 Council of Private Higher Education, *Submission 32*, p. 1.

19 Council of Private Higher Education, *Submission 32*, p. 1.

to study the degree that I thought would be more applicable to work with youth than a different degree that had youth work subjects thrown in?²⁰

2.24 The Council of Private Higher Education (COPHE) illustrated the inequity of the current system with the following table:²¹

		HECS Debt Public University Student*	HELP Debt Private Provider Student #
Education	Bachelor Degree 4 years	\$24,608	\$60,800 - \$79,000
Humanities	Bachelor Degree 3 years	\$18,456	\$45,600 – \$59,850
Social Science	Bachelor Degree 3 year	\$18,456	\$45,600 – \$55,800
Business	Bachelor Degree 3 year	\$30,799	\$45,600 - \$55,200

*2015 costs to student for a degree assuming all units are in the same field – Commonwealth Website

2015 costs at the lower end through to the mid-range including the 25% loading paid to the Commonwealth. There is no Commonwealth subsidy (CSP) currently available for these students.

2.25 COPHE posited that the extension of Commonwealth Supported Places (CSPs) to non-university higher education providers (NUHEPs) and students at private universities is critical to addressing this inequity. Given that many students from disadvantaged and low socio-economic backgrounds are enrolled with these providers, the question of fairness and equity becomes even more salient.²²

2.26 The committee noted that support for extending the demand-driven system to all bachelor and non-bachelor courses is widely supported, and that the flow-on benefits are recognised, as is the contribution made by private universities. As put by the University of Notre Dame, discussing the contribution of private universities:

The current system of funding, first introduced in 2012, is not a true “Student Demand Driven system” in so far that neither the government subsidies nor the HECS-HELP scheme flow to those students who choose to attend a university other than a historically defined public university (with some exceptions). 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

20 Mr Dean Warwick, *additional information*, received 6 March 2015, p. 3.

21 Council of Private Higher Education, *Submission 32*, p. 2.

22 Council of Private Higher Education, *Submission 32*, p. 2.

such, the justification for providing government subsidies is equally applicable to all universities.²³

For similar reasons expressed in the point above, The University of Notre Dame Australia is supportive of the amendments in the Bill which will extend the current Demand Driven system to all bachelor and sub-bachelor courses at non-university higher education providers (NUHEPs) which are registered at TEQSA [Tertiary Education Quality and Standards Agency]. We believe that this will increase competition, diversity and real choice for students and that quality will be maintained through the requirement of TEQSA registration.²⁴

2.27 The argument for increasing equity was succinctly put by the Australian Council for Private Education and Training (ACPET):

The reforms will not only address the fundamental inequity faced by some 100,000 higher education students enrolled with non-university higher education providers but open up new opportunities for more students to undertake higher education that best meets their needs and circumstances and those of industry and the broader Australian economy.²⁵

Committee view

2.28 The committee agrees that students studying with non-university or private providers have been largely overlooked in the discourse around these reforms. This is regrettable. The committee concurs with assessments made by COPHE and ACPET, and believes that the potential benefits to these students, if the reforms are enacted, are immense.

2.29 It is easy to assume, incorrectly, that higher education equals an education through one of the well-known public universities. It is important to remember, however, that a large number of students pursue different alternatives, and it is unfair to treat them less favourably. These are students who are gaining valuable skills which they, their communities and the nation will reap great rewards from.

Concerns about fees

2.30 Fees have, arguably, been the focal point of debate the government's higher education reforms.

2.31 The committee's report on the former bill examined fee deregulation and noted that a) increased competition should serve to keep costs manageable, and b) the benefits of increasing access to higher education, particularly the economic benefits to individuals and the nation, far outweigh any slight increase to some course costs.²⁶ Furthermore, given that there is no reliable evidence to suggest that fees will rise

23 University of Notre Dame, *Submission 40*, p. 1.

24 University of Notre Dame, *Submission 40*, p. 2.

25 Australian Council for Private Education and Training, *Submission 15*, p. 1.

26 Senate Education and Employment Legislation Committee, *Report on the Higher Education and Research Reform Amendment Bill 2014*, October 2014.

unacceptably high, and that students will not be asked to contribute to these costs until they can afford to, the committee concluded that the spectre of skyrocketing course fees was little more than a politically driven scare campaign.²⁷

2.32 Over the course of this inquiry the committee noted suggestions aimed at addressing concerns about fee increases. One such proposal came from Professor Bruce Chapman, an academic economist and one of the architects of HECS in 1988. Professor Chapman posited that the government could curb increases by reducing subsidies to universities as fees increase. The operational terms were described thus:

For each subject cluster the government allows a price to be charged (let's label this x) and at this price all the revenue charged to the enrolling student is received by the institution (and is registered as a normal HECS debt owed by the student). Universities still have complete price discretion, but unlike the current Budget proposals, if the price imposed on the course exceeds x , there will consequently be a reduction in the government's overall grant to that university. Further, to make sure that there are likely to be significant and unambiguous effects on university price setting, the reduction in grants will become increasingly more severe the higher the prices are set.

Thus the scheme is designed to limit the imposition of high prices in a HECS-type world, but with parameters to be chosen by the government that achieve this objective without excessively reducing university autonomy to charge the sorts of prices that make sense in their particular educational, geographic and socio-economic environments. It is essentially a conditional market-based reform, very similar to proposals suggested by David Phillips in 2012 and the Browne Report provided to the UK government on fee deregulation in 2010.²⁸

2.33 Professor Chapman also noted that that this instrument is commonly used by governments and provided some other examples:

- a) To meet the immunisation requirements for the Family Tax Benefit Part A supplement parents need to have their children immunised during the financial years that each child turns 1, 2 and 5 years old (unless a case is made against this on conscientious grounds);
- b) Many governments private higher education subsidies to students studying abroad, but these subsidies have to be repaid in the event that graduates choose not to return and work for the funding agency (the government) for given periods; and
- c) Whilst not about behavioural change, it is commonplace for governments to reduce social security if recipients increase their

27 Senate Education and Employment Legislation Committee, *Report on the Higher Education and Research Reform Amendment Bill 2014*, October 2014.

28 Professor Bruce Chapman, *Submission 9*, p. 6.

income from paid work, for example with respect to eligibility for and the level of Youth Allowance.²⁹

Committee view

2.34 The committee acknowledges that a persistent fear of rising course fees is distorting discourse around the reform package, but has not, during this or its previous inquiry, seen reliable evidence suggest unreasonable increases might eventuate.

2.35 The committee noted with interest Professor Chapman's proposal, aimed at ensuring that fee increases are kept reasonable. The proposal is not incompatible with the reform package currently before the Senate, and the committee considers it might be worthwhile for its content to be examined further.

Should we undo the demand-driven system?

2.36 One of the alternatives to the reform package is "re-capping" places, essentially scrapping the demand-driven system.³⁰

2.37 The committee notes the historically bipartisan approach to the demand-driven system, which has served the sector well and brought considerable benefits to the students and education providers. As put by Ms Belinda Robinson, Chief Executive of Universities Australia, the demand-driven system 'was one of the tremendous reforms that came out of the Bradley Review from the previous government.'³¹ Ms Robinson added:

It has enabled many more people with the ability, the aptitude and the desire to have a university education to go to universities. It does mean that all of those, in fact, who have the aptitude and desire to go to universities are able to do so. It has opened up enormous opportunity. It has opened up the opportunity to really transform people's lives. We are very strong supporters of the demand-driven system. The bill that we are talking about at the moment does not propose any change to that. We would be very strongly opposed to any change to the demand-driven system.³²

2.38 The committee understands that undoing the demand-driven system is not a widely supported, viable—or even desirable—alternative. As put by Professor Peter Dawkins, Vice Chancellor and President of Victoria University:

I am opposed to recapping...Victoria University's mission is about transforming the lives of students from diverse backgrounds, and we see the transformational effect that a tertiary education has on students from underprivileged backgrounds and students who do not always do that well at school, for example, yet can end up doing brilliantly at university. And I think this demand-driven system has opened up opportunities for tertiary education for many students who would not have had that opportunity, and

29 Professor Bruce Chapman, *Submission 9*, pp 5–6.

30 See *Proof Committee Transcript*, 6 March 2015, p. 4.

31 Ms Belinda Robinson, Chief Executive, *Proof Committee Transcript*, 6 March 2015, p. 4.

32 Ms Belinda Robinson, Chief Executive, *Proof Committee Transcript*, 6 March 2015, p. 4.

it is just great to see that happening. Our major focus with those students who have come into the system who might not have come in before is focusing on making them successful and I think that is they key issue for government policy—not excluding them from the system. And there are some students who are being extremely successful but who if you recapped the system would not enter the system.³³

Committee view

2.39 The committee notes the benefits of the demand-driven system, as outlined in its report of 2014,³⁴ and has received no compelling evidence to support "re-capping" places. The committee is therefore not of the view that places should be capped, as this would only serve to reduce the equity of access which the demand-driven system has made possible.

Domestic student fees

2.40 Addressing genuine stakeholder concerns about domestic student fees relative to overseas student fees, the bill proposes to amend guidelines so that Commonwealth supported students are not charged more than non-Commonwealth supported students. This will be achieved by ensuring that:

...the tuition fee for a non-Commonwealth supported student for a unit of study must not, except in exceptional circumstances, be less than the sum of the tuition fee a Commonwealth-supported student pays and the Commonwealth contribution amount.³⁵

2.41 Because non-Commonwealth supported students are generally overseas students, this measure will exert downward pressure on fees for domestic students.

Doing nothing is not an option

2.42 This inquiry unfortunately unfolds in a highly politicised environment. This has obfuscated the fact that deregulation of the sector has long been recognised as desirable by both major parties.³⁶ It is also regrettable that politically-inspired derailing of the debate and reforms will primarily affect students.

It concerns the Go8 that the need for bold reform is being viewed by some as a political whim rather than a necessity for the benefit of future students and through them Australian society and the Australian economy.

33 Professor Peter Dawkins, Vice Chancellor and President, Victoria University, *Proof Committee Transcript*, 6 March 2015, p. 23.

34 Senate Education and Employment Legislation Committee, *Report on the Higher Education and Research Reform Amendment Bill 2014*, October 2014.

35 Mr James Griffiths, Higher Education and Research Reform Bill 2014, Bills digest no. 69, 2014–15, p. 9.

36 See Senate Education and Employment Legislation Committee, *Report on the Higher Education and Research Reform Amendment Bill 2014*, October 2014.

It would be courageous to consider that defeat of this legislation, or even any compromise position, can deliver a lasting solution for the sector and, importantly, its students.

As a result, future Governments will still have to deal with the problem as will all future members of the Senate.³⁷

2.43 The Regional Universities Network (RUN) stated:

Run has welcomed the debate on higher education over the last 12 months. It has prompted broader public discussion about the role of universities and the university system's contribution to Australia's economic and social progress at a national and local level.

However, we are very concerned if this higher education debate remains highly charged, overtly partisan and unresolved. This uncertainty is particularly detrimental to 'non-traditional' students, who may lack the confidence and familial history – but not academic capacity – to embark on university studies.³⁸

2.44 It is a fact that successive governments have signalled that they cannot continue to meet the financial requirements of a demand driven higher education sector. The system is simply unsustainable. Without deregulation and in the absence of adequate government resourcing the only other way to maintain adequate funding for the system would be through increased taxation. The committee is aware that there is little public appetite for raising taxes.³⁹

2.45 It is also a fact that, as demand for higher education grows, so too will costs.

While demand for University places is currently fairly flat, demographic growth will drive a large increase in demand early in the next decade. The Go8 estimates that total demand for tertiary places will rise by 563,000 to 2030 (including 160,000 in Bachelors places). Therefore, the costs of maintaining a high quality, demand-driven higher education system can only increase.⁴⁰

2.46 The Innovative Research Universities stated:

Current revenue from Government and students does not support the high quality university education that universities wish to provide and that students and the public expect.

...

37 Group of Eight, *Submission 30*, p. 2.

38 Regional Universities Network, *Submission 10*, p.2.

39 See Senate Education and Employment Legislation Committee, *Report on the Higher Education and Research Reform Amendment Bill 2014*, October 2014. See also Group of Eight, *Submission 30*, p. 2.

40 Group of Eight, *Submission 30*, p. 2.

There is a well-established gap between the resources available to universities and the resources required to meet long term outcomes for higher education.⁴¹

2.47 The Australian Technology Network stated in its submission:

The ATN is a strong advocate of the demand driven system as a significant reform, which ensures access for all students who qualify to attend an Australian university. However, the ATN recognises that the cost of that reform has been significant and is not sustainable in the current economic climate of strong fiscal restraint across all portfolios.⁴²

2.48 The Go8 concluded there are several choices open to our political leaders, including that Government (the taxpayer) increase its funding per student, in addition to funding the critical research mission of our universities; increase the percentage of the costs carried by graduates; or do nothing and settle for the status quo, noting:

This simply transfers the challenges of higher education sustainability to the next generation. It would lead to a decay of the quality of our higher education and would represent a failure in our duty of care to the nation. It would also put at risk one of Australia's most important export industries.⁴³

2.49 The committee noted that the "do nothing" approach did not receive strong support from the sector. It is clear that the status quo is unsustainable as demand for higher education continues to grow.

2.50 Put simply, more money is required if the system is to continue to perform. As put by Professor Peter Dawkins:

I would say that we are under a fair degree of financial stringency in seeking to achieve our objectives, and that we need to invest more and more. It is becoming tougher as we expand tertiary participation, but it is right to expand it, and we just need to invest more to make the students successful. We are determined to improve the quality of teaching and learning. We are determined to improve the student experience, and various reviews of funding suggest that, in order to achieve world-class standards in teaching and learning, particularly with a broad participation, students need additional funding. So that is what we are anxious to ensure happens.⁴⁴

Conclusion

2.51 The committee is pleased to see that extensive consultation by the government has refined the former bill. The committee is satisfied that the core of the government's world-leading higher education reform package remains while improved provisions are made for disadvantaged students.

41 Innovative Research Universities, *Submission 47*, p.2.

42 Australian Technology Network, *Submission 33*, p.6.

43 Group of Eight, *Submission 30*, p.4.

44 Professor Peter Dawkins, Vice Chancellor and President, Victoria University, *Proof Committee Transcript*, 6 March 2015, p. 25.

2.52 If enacted through this bill, the government's higher education reforms will expand choice for students, remove impediments to competitiveness directly caused by longstanding overregulation and secure the financial sustainability of the system. In turn, this will translate into more control for students over their education, a renewed vigour and opportunity for our universities to excel in the global arena, and on ongoing commitment to one of the fundamental principles of the Australian higher education system: that no student, regardless of background, is required to pay upfront costs to access the education of their choice. That principle, in its simple elegance, is the premise for this reform package.

2.53 Australia needs these reforms. The committee urges decision makers to see through politically motivated scare campaigns and focus instead on the long term benefits of the proposed measures.

Recommendation 1

2.54 The committee recommends that the Senate pass the bill.

Senator Bridget McKenzie

Chair