

Review of demand driven funding: submission from the Innovative Research Universities

Overview

The Innovative Research Universities (IRU) is a network of seven research intensive universities established in the outer urban areas of Australia's capitals and in major regional cities to stimulate economic, community and individual advancement. We bring universities with comprehensive activities across teaching and research to areas where higher education participation and attainment are low, and where the university's research and creation of graduates can strengthen the social and economic prosperity of the region.

The demand driven system has given IRU members the opportunity to expand provision of higher education, improving the outcomes they deliver to their regions and to the nation. The IRU supports continuation of the demand driven funding to allow its full potential to be realized.

This submission addresses the issues set out in the Review's Terms of Reference through the following structure:

- A. evidence for the success of the demand driven system focusing on Terms of Reference 2 to 6, with discussion of the common criticisms of the system;
- B. proposed improvements addressing problems in the implementation of the system, Terms of Reference 1:
 - inclusion of sub-bachelor places in the demand driven arrangements,
 - an effective mechanism for allocating a set number of funded post-graduate places, and
 - making low-socioeconomic status (low SES) participation funding a true incentive scheme by incorporating it into the Commonwealth Grant Scheme (CGS) with consequent reduction in unnecessary regulation; and
- C. potential areas for more significant change which maintain the key element of the demand driven arrangements:
 - whether the students contribution maxima should be changed, and
 - mechanisms to permit universities to voluntarily exclude courses in particular discipline areas from the Commonwealth funded system, making them instead solely student funded.

Individual university submissions will address in detail the evidence in relation to that university, in particular addressing items 5 and 6 of the Terms of Reference where the individual actions to ensure effective support for students and the achievement of suitable learning outcomes matters more than generic commentary.

In summary the IRU considers that the demand driven system:

- is in its initial stages where its full implications for the interaction of potential students and institutions and are yet to be established and the outcomes from it barely measurable;
- supports universities to be more flexible and creative in responding to demand for their services necessitating changes in the approach to teaching and learning which challenge traditional models of the past half century;

- has led to a valuable increase in enrolments which will flow through into a more skilled and educated workforce and society; and
- has assisted universities widen access to improve opportunities for people from backgrounds currently well under-represented to gain the skills and knowledge they need to prosper.

Hence the IRU recommends that:

1. *the Review conclude that the demand driven funding system is proving an effective system for meeting demand for higher education, producing graduates suited to future workforce needs, with growth concentrated in science, engineering and health programs.*

To improve the operation of the demand driven system through reducing unnecessary ongoing Government intervention in the details of higher education delivery the IRU recommends that:

2. *the cap should on sub-bachelor places should be removed with the original arrangements restored;*
3. *the Review support a formula driven allocation of postgraduate places as the most consistent way to align a limited allocation of places with the demand driven system;*
4. *the low SES participation payment background should be a loading within the CGS, with the same integrated accountability focused on the enrolment and education of students; and*
5. *further simplification of administrative arrangements consistent with allowing universities and student to define where and how higher education is delivered.*

To ensure the long term sustainability of the demand driven model the IRU recommends that the Review:

6. *explore the value of a single maximum student charge set up to the current highest maxima to reduce pressure on increases to Government expenditure; and*
7. *explore for its potential permitting universities to opt a major area of teaching out of the Commonwealth funding system to operate on a fee paying basis for all students in that university in that area.*

16 December 2013

A. The success of demand driven funding

1. Why was the demand driven funding system introduced?

The demand driven system is the outcome of the Review of Australian Higher Education (Bradley Review).¹ The review argued that Australia needed a better skilled and educated workforce to be achieved through a significant increase in the proportion of the population with a bachelor degree. The review highlighted the extensive evidence that Australia was not encouraging each person to achieve to her or his potential with significant variations in the take up of higher education across different groups of society and across different regions.

The Bradley Report argued that the issues identified would best be addressed through encouraging universities to expand to enrol all interested and suitable students, with funding for all enrolments. It proposed two markers for success:

- an increase in attainment for those aged 25-34 to 40%;% and
- an increase in enrolments of students from low-SES backgrounds to 20% of all students.

The system relies on individuals to have sufficient understanding of their interests and potential for productive employment to seek higher education in a field relevant to them and with a provider suitable for them. It relies on universities being willing to expand provision to meet demand and determined to provide higher education with suitable outcomes for their student cohorts.

The Bradley Review also recommended related changes which go beyond demand driven funding:

- a national quality mechanism to provide greater surety that expansion in places does not lead to unsatisfactory outcomes for students; and
- increases in funding both per student and through reward payments targeting the quality of teaching and learning and for access to university from under-represented groups.

An assessment of the demand driven system has to take account of its interaction with established trends and the impact of other external factors such as the changes in the nature of teaching and learning both actual and predicted.

Demand driven funding has been subject to many criticisms since release of the Bradley Report, most predictive of imagined futures. These include that it will:

- lead to closures of courses, if not the closure of whole universities, particularly those which are smaller or based on regional areas;
- produce numerous graduates in low cost disciplines worsening graduate employability;
- not be viable without also opening up charges; and
- inevitably lower standards through admitting people who are not capable of higher education study.

The remainder of this Section considers the experience to date, including whether any of these concerns are bearing fruit.

¹ Bradley, Noonan, Nugent and Scales, *Review of Australian Higher Education*, Commonwealth Government, 2008

2. The outcomes for student participation and access

The IRU analyses the impact of demand driven funding using a baseline of data from 2009, when the Government announced it would implement the Bradley Report outcomes. Since 2010 universities have known the intended policy settings and operated accordingly. The full system took effect in 2012.²

By 2013 undergraduate student places have grown about 94,000 places, an increase of 21%. The IRU members have grown by 14,000 places, an increase of 19%. Appendix A sets out the data on funded undergraduate load by university from 2008 to 2013.³ At the simplest level the system has worked to increase enrolments. The following sections consider the major implications of the growth.

Graduate attainment

With the first increase in places due to the new arrangements in 2010, and two enrolments fully under the new arrangements to date, very few additional students have yet graduated as a result of demand driven system.

This means that the growth in attainment for Australians aged between 25 and 34 from 29% when the Bradley Report was written to an estimated 35% in 2013⁴ is largely a result of previous higher education and immigration settings. The large increase in enrolments since 2009 should push the level of attainment higher but this will not be seen in the data for the 25 to 34 year old target group until 2017 and beyond when the graduates from the 2010 and forward cohorts reach the target age in significant numbers.

The steady rise to date confirms the trend towards greater levels of higher education, which the demand driven system enhances.

Access for under-represented groups

Over the period 2009 to 2012, participation increased from several equity groups, including students from low-SES backgrounds, Aboriginal and Torres Strait Islander students, and students from regional and remote areas students.⁵ These are all groups where the IRU is a leader in improving access, enrolling 15% of all Australian students which include 25% of all Aboriginal and Torres Strait Islander students, 29% of remote students, 17% of regional students (narrowly defined) and 19% of all low-SES students.⁶ At the same time each group, other than remote students, increased as a proportion of the student body, indicating that the growth in places was more likely to draw on people from backgrounds that have been under-represented.

² R James and C King, 'Creating a demand driven system', *Tertiary Education Policy in Australia*, Edited S Marginson, Centre for the Study of Higher Education. , July 2013 is an analysis of data up to 2012. Later data generally confirms earlier trends.

³ Department of Industry, Higher Education Statistics: Students (Multiple reports)

<http://www.innovation.gov.au/highereducation/HigherEducationStatistics/StatisticsPublications/Pages/Students.aspx>

⁴ ABS estimates, *Education and Work, Australia*, May 2013. The figures are volatile year to year due to estimating limitations. The upward trend is consistent.

⁵ Department of Industry, Higher Education Statistics: Student Equity Groups (Multiple reports)

<http://www.innovation.gov.au/highereducation/HigherEducationStatistics/StatisticsPublications/Pages/Students.aspx>

⁶ See <http://www.iru.edu.au/media/43436/iru%20select%20statistics%20-%20sept%202013.pdf>

The increases are yet small if positive, with the lead indicator of low-SES enrolments passing the previous high in the early 2000s in 2012. Hence confidence in the real extent of the improvement can only come if maintained in coming years.

To ensure the improvement continues in Section B below the IRU argues for:

- including the sub-bachelor programs in the demand driven system to ensure pathway options for students with potential to complete a bachelor degree but underdeveloped study skills and base knowledge; and
- implementing the low-SES funding line as intended to maintain the funding incentives for action.

Increasing participation from traditionally under-represented groups is necessary in meeting the Bradley Report's objectives for maximising future economic and social outcomes by ensuring improved higher education attainment for people from all backgrounds. The outcome is also a probable one from any expansion since there is a smaller pool for growth among groups already well represented.

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

In Victoria in 2009 24% of Year 12 completers from the Hume region went on to university, whereas 56% of students from the Eastern Metropolitan Region did so. By 2012, the proportion had increased to 29% and 63% respectively.⁷ Similarly in Queensland in 2009 21% of students from the West Moreton and Wide Bay-Burnett regions went on to University, compared to 43% of Brisbane students. By 2012 university participation from West Moreton and Wide Bay-Burnett increased to 27% and 26% respectively, while the increase from Brisbane students was more marginal, to 45%.⁸

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

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

3. The outcomes for skills development and needs in the economy

Discipline changes

The data on the changes in enrolments by discipline show considerable variations indicating a system responding to demand, with demand reflecting students' preferences and considered views about their future needs, consistent with their assessments for future skills needs.

⁷ Victorian Department of Education and Early Childhood Development, On Track: Destinations of School Leavers (Multiple reports) <http://www.education.vic.gov.au/about/research/pages/ontrack.aspx>

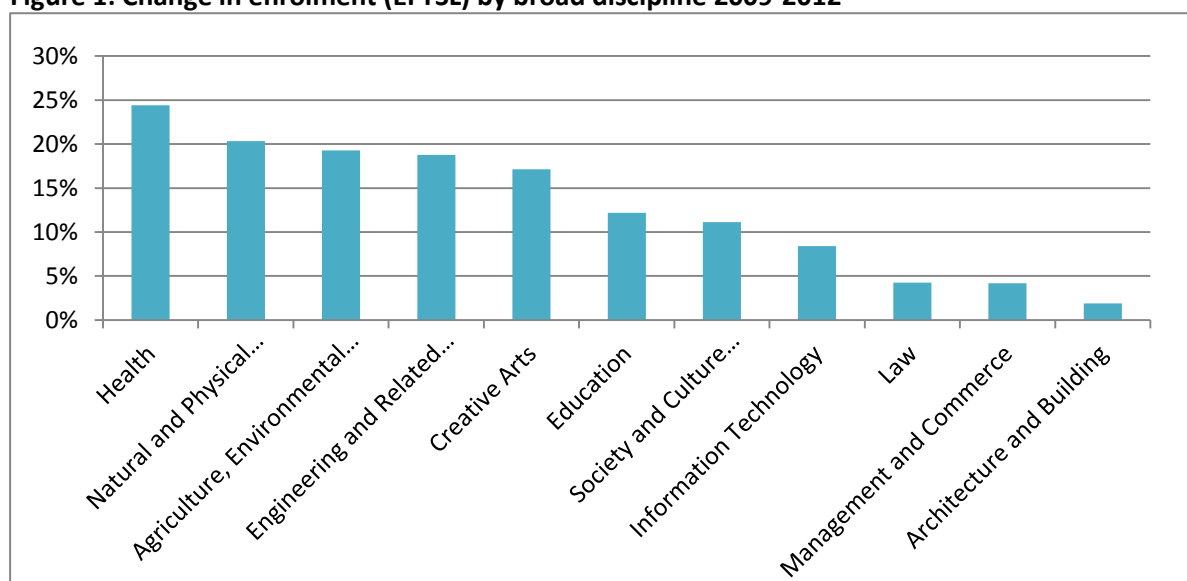
⁸ Education Queensland, Next Step Survey Statewide Reports (Multiple reports) <http://education.qld.gov.au/nextstep/>

Since 2009 the number of students in science, technology and health courses has grown much more than for business, law and arts. The previous capped system discouraged growth in these important disciplines because universities had to win additional funded places in high delivery cost disciplines to permit expansion. Demand driven funding has allowed students and universities to correct the imbalance in the incentives of the previous allocated places system.

- The number of Australian bachelor students in the natural and physical sciences was 20 per cent higher in 2012 than in 2009, growing from 63,000 students (full time equivalent) to nearly 76,000.
- Likewise in the smaller agriculture and environmental sciences the growth was 19 per cent, up to 7,000 students.
- Engineering grew from 27,000 to 32,000 students, also 19 per cent growth.
- By contrast, law and business have each grown by 1000 and 2500 respectively, 4 per cent in both cases, since 2009.⁹

The data is important to counter the assumption, driven by misplaced theory and misunderstanding of how higher education cluster funding works, that the system will spawn large numbers of students in generalist, and usually low cost, courses.¹⁰ The theory is misplaced in that it assumes low cost equals the best margin on revenue. The reaction perhaps reflects experiences in VET funding where funding was made available to all providers but not well scaled to the likely cost differentials across industries.

Figure 1: Change in enrolment (EFTSL) by broad discipline 2009-2012



⁹ Department of Industry, Higher Education Statistics: Students (Multiple reports) available at <http://www.innovation.gov.au/highereducation/HigherEducationStatistics/StatisticsPublications/Pages/Students.aspx>

¹⁰ For example Jennifer Westacott, CEO, of the Business Council of Australia's address to the Universities Australia national conference 2013

Developing skills for a wide range of people

A common concern about the demand driven system, particularly in opinion pieces on editorial pages is that expanding access to university necessarily drives down the quality of university graduates.¹¹ The argument of a risk to 'quality' focuses on entry capability, not what people gain through their degree and their level of knowledge and skill at graduation.

Debate tends to dwell on individuals. The Government's responsibility is to assess the educational capability of all of us, and seek to encourage its development, at least to the level required for employment and effective living.¹² If only the top fifty per cent of primary school students could enter high school, the 'quality' of high school students would be higher – and the educational outcomes for Australia overall much lower.

The same issue applies to universities for the 40% subset targeted by demand driven funding. Government could limit universities to a small highly select group of students, ensuring they are well educated, and neglect developing the capability of the other students who enrol forcing them to rely on school and vocational qualifications. Or, as the demand driven system encourages, universities can take up the challenge to educate the broad range of suitable students. This gives students the opportunity to make the most of their own potential, supporting them to choose the best educational program for their own needs and aspirations.

IRU members have shown that people with a wide range of entry capability can gain from university study and complete a degree. They have done so since their foundation. That does not hold back the very academically able. What it does mean is Australia has more people with greater knowledge of the world and greater capability to contribute to it.

It costs to expand educational opportunity. As need pushes and societal wealth increases education has been extended initially to require basic writing and mathematics, then full primary, early secondary, now year 12 and increasingly a post year 12 qualification. The evidence is clear. Given the right circumstances most people are capable of further learning.

The traditional paradigm positions those with a university degree ahead in educational capability from those with vocational education and training (VET) qualifications, particularly a trade qualification, and also ahead of those who rely on their year 12 certificate.

An argument sometimes raised is that growing higher education provision is keeping people from useful vocational qualifications. The relevant question is whether higher education qualifications should be reserved, and tightly capped for those with the higher levels of educational potential with VET qualifications for those who follow or is the current intermixture more useful?

It has never been the case that all school leavers with a high ATAR have applied for university. Even in the 90+ ATAR band some do not; between 70 and 90 the numbers not progressing to university have been more sizeable.¹³ At least a quarter of growth since 2008 has come from more people with ATARs above 70 pursuing university higher education.¹⁴

¹¹ For example Judith Sloan, "Demand-driven uni places lower standards," *Weekend Australian* 23-24 November 2013

¹² See further IRU, No scandal in ATAR's growing irrelevance, <http://www.iru.edu.au/news/executive-director's-comment.aspx>

¹³ Department of Industry, *The Demand Driven System: Undergraduate Applications and Offers*, February 2013

¹⁴ Group of Eight, Policy Note Number 3: *University Admissions*, February 2012

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

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

Supporting future innovation

The supply of capable undergraduates is important for future innovation. The demand driven system is enhancing future opportunities through the stronger growth in key science and technology disciplines, as set out above. It is also providing the basis for universities to meet demand in new areas which may deliver future economic benefit. Shifts in demand have always led changes in the supply of university places and which have then driven staff appointments and research. The demand driven arrangements allow this to occur more quickly and more flexibly.

4. The outcomes for universities: growth, diversity, innovation and competition

When first announced there were concerns that demand driven funding would cause students to concentrate in a few universities causing problems for smaller universities and those in regional areas.

The experience to date is counter to that. The growth rate has been larger in universities, such as IRU members, located in communities where higher education participation rates have been historically lower, rather than the already large inner city universities. This strengthens the options available to Australians seeking university education and has supported smaller universities grow to a more efficient size.¹⁵

Extent of competition

With all universities able to grow in response to the level of applications there has been only limited direct competition for students. There is some suggestion that in the larger markets of Melbourne and Sydney some institutions may struggle to maintain recent growth in numbers but to date that has not occurred.

The growth has allowed universities to explore and emphasise the ways in which they meet the needs of potential students. This involves both ensuring that the common courses are designed and taught well and creating distinctive courses reflecting different needs.

It is important not to overvalue diversity as an outcome across universities. IRU members, reflecting their locations, wish to provide a comprehensive choice for residents of their regions as well as compete in the capital city student markets. Too schematic an approach to market segmentation acts against the value of choice in keeping universities attentive to good teaching and student needs and, if taken to an extreme, risks becoming anti-competitive.

¹⁵ R James and C King, 'Creating a demand driven system', Tertiary Education Policy in Australia, Edited S Marginson, Centre for the Study of Higher Education, July 2013

Each university should be, and is, distinctive but there is good reason that for any given characteristic many universities show similarities. The advantage of an open system of funding is that each institution can develop as it thinks best, and adapt to the outcomes it achieves whether positive or negative.

The implications of responding to student choice

It is common for the full implications of major changes to take time for to be understood. It is often very useful: a major disruption in university education is of no value to any party, whereas the gradual adaptation of the potential from demand driven funding has ensured a smooth transition.

For it is clear that universities are only beginning to understand how the student market works under demand driven funding. If universities are still learning, potential students, their families and their schools are even less well informed.

The continued emphasis on ATAR cut off points is one example. In a system where universities can take as many students as their staff, facilities and judgement of suitability permit the question of rationing reduces. Where a university wishes to delimit suitability for a course, or all courses, it makes more sense to focus on the evidence of each person's achievement against a defined level of knowledge and capability, not how the applicant stands compared with the next person.

Over the next few years as potential students understand the changes it is likely that more significant changes will emerge, rewarding those institutions which better adjust courses and teaching.

5. Learning and teaching and the implications for quality

There is no evidence for a fall in quality which would require an exit analysis of graduating students, comparing those who enrolled from 2012 with those from earlier periods. There is considerable evidence that universities have improved the approach to teaching considerably over past decade, ensuring that students are able to learn to the required level. Programs to assist students in first year have shown that attrition and progression gaps can be overcome with quality teaching and support. IRU members' individual submissions will provide evidence of this to the Review.

The greater challenge for university teaching is the response to the changes in delivery modes and opportunities from digital technologies. The pressure on university funding for the past three decades has seen the range of courses continue to develop, removing those in less demand and, introducing new areas. Across all areas the tendency has been towards larger classes accompanied by a much stronger emphasis on academics' skills in teaching larger groups and a more diverse range of students. Changes in technology now promise or threaten to overturn common practice reducing the lecture to material a student can access in multiple ways with staff time targeted to interactions with students about that material. The differences between distance and campus based learning look smaller as both rely more strongly on digital materials.

All universities are working to keep ahead of these developments. This impact is largely neutral to the demand driven system, applying across the world to all higher education systems, selective and open access. The major impact that demand driven funding has is that students have greater capacity to recognise universities that adapt the new technologies better.

6. Fiscal implications

The expansion in delivery has required an equivalent expansion in Government investment. Part of the increase has been due to the shift to the medium to high cost science, technology and health qualifications, pushing up average Government investment per student place. The future pressure is

less strong with the major growth spurt complete as universities have met the initial gap in supply. The 2013 Budget estimated that funded undergraduate places would rise from 512,600 (2012-13) to 589,000 (2016-17), steady growth which will underpin the capability of a major part of the Australian workforce.¹⁶

The increase in Government expenditure is a major, important investment in the future. Section C considers two ways to reduce the pressure on Government without undermining the essential elements of demand driven funding.

Recommendation 1

1. *That the Review conclude that the demand driven funding system is proving an effective system for meeting demand for higher education, producing graduates suited to future workforce needs, with growth concentrated in science, engineering and health programs.*

B. Improvements to address problems in implementation

The previous Section set out the success of the demand driven funding system and addressed the major criticisms of it.

In response to the first term of reference for the Review which asks for advice on “the effectiveness of its implementation, including policies regarding the allocation of sub-bachelor and postgraduate places” the IRU proposes four areas to improve the functioning of the system:

- including the sub bachelor places within the demand driven arrangements;
- creating a realistic, formulaic basis for setting the number of funded postgraduate coursework places for each university on the basis that Government should not fund postgraduate courses where students fees successfully cover costs;
- improving low-SES participation payments, to allow them to operate as intended by the Review of Higher Education through simplified regulation; and
- further simplification of administrative arrangements consistent with allowing universities and student to define where and how higher education is delivered.

7. Commonwealth funded sub-bachelor places

Ensuring pathways into bachelor degrees

Sub-bachelor provision is an important mechanism for developing higher education learning skills as the basis for subsequent bachelor study. It targets individuals with the long term capability for bachelor study who do not have the necessary skills and preliminary learning to have a high likelihood of success if enrolled in the first year of a bachelor degree.

Enrolment in Diploma and Associate Degree programs allows a focus on skill development and essential learning tied to the initial stages of a bachelor degree that opens the way for successful students to complete a degree, with credit. Enrolment in enabling programs provides a shorter pathway focused at skill development but without credit.

¹⁶ Portfolio Budget Statements 2013-14, Budget Related Paper No. 1.12, Industry, Innovation, Climate Change, Science, Research And Tertiary Education Portfolio, p87

Under initial demand driven plans no restrictions were intended on funded sub-bachelor places. In November 2011 the then Minister, Senator Evans, announced that there would be a cap on funded sub-bachelor places, using the alleged negative impact on diploma and advanced diploma delivery in TAFEs as the rationale.¹⁷

Including these places within the demand driven arrangements as originally intended would have minimal financial impact and improve the effectiveness of funding overall:

- where students go on to enrol in a bachelor degree, the credit they receive means in total the funding for them to complete a degree will usually be between zero and one EFTSL more than if they had enrolled immediately in a bachelor degree; while
- because they are better prepared such students will gain more from follow on bachelor studies, and be more likely to complete.

Ensuring that the sub-degree pathway is available also reduces the community debate about applicants with lower school outcomes entering university immediately by providing a transition process that tests and develops suitability for bachelor level study.

The impact on other providers

Senator Evans' decision was based on a misplaced desire to protect TAFEs engaging in higher education provision. The nature of demand driven funding is that students should exercise their choice about which course option best suits them, and which provider. Where TAFEs have pushed beyond their prime VET remit, knowing that they would be competing with funded universities it is not reasonable to protect them. In most cases TAFE students in higher education qualifications access FEE-HELP to pay a charge which is at a level comparable to the student contribution. It is universities which are the constrained parties.

TAFEs and other VET providers also provide VET diplomas and advanced diplomas for people with mid-level VET skills looking to upgrade those skills. Under the previous capped university funding arrangements some TAFEs sought to attract school leavers unable to access a university place to these programs, undermining their role as advanced VET qualifications. Such students now have the choice of real higher education provision. If that undermines the viability of VET qualifications it is a question for VET policy to address.

Supporting languages

The allocation of Sub-bachelor places also supports Diplomas of Languages, which support students enrolled in most professional degrees where a language is not a permitted option, to learn a language. The diploma of languages provides an important option for the many school students who have studied a language to year 12 but whose degree choice otherwise prevents continued study of that language.

Six IRU universities offer a language diploma, with the seventh holding back due to having no places to allocate to it. The IRU Asian Languages Network is working to ensure students at any IRU member can access any of the four Asian languages an IRU member teaches. If the network is successful in building demand for languages the universities will need additional funded places.

With Government objectives to increase substantially the take up of Asian languages including language diplomas within demand driven funding would ensure access where there is demand and

¹⁷ Senator The Hon Chris Evans, Minister for Tertiary Education, Skills, Jobs and Workplace Relations, "Ensuring a sustainable tertiary education sector" 1 November 2011

remove the need for specific allocation rounds, such as that recently announced¹⁸, where the Minister chooses among competing applications for places.

Recommendation 2

2. *The IRU recommends that caps on sub-bachelor places should be removed with the original arrangements restored.*

8. Commonwealth funded Post-graduate places

Prior to 2007 funded postgraduate places had been largely restricted to graduate diplomas in education and health, with all others privately funded through student fees, with FEE-HELP to assist students. The previous Government reversed this from 2008, with additional approvals made course by course in response to university applications. The additional funded places have been driven by:

- pushing previously bachelor qualifications into postgraduate courses, whether as a profession wide change or in response to the plans of some universities; and
- professional bodies arguing that a postgraduate qualification in addition to the bachelor degree is the base requirement for practice.

The consequence is that about 40 percent of all postgraduate places are Commonwealth funded.¹⁹ There is, however, considerable variation university by university. The cost impact meant the previous Government then placed a freeze on further approvals, leaving many universities with developments in train and no logical sense to why particular courses were funded and others not.

The IRU argues that:

- Government funding should target the provision of bachelor and sub-degree programs ahead of postgraduate to ensure Australians have access to an initial degree funded to support a high quality outcome;
- the allocation of funded post-graduate places should be done fairly for all universities, ensuring equal treatment and addressing current imbalances;
- funding for postgraduate places should be at the same rate as for undergraduate; and
- universities should be the prime determinant of which courses funded places are used for.

The approach is the most consistent with the demand driven arrangements for undergraduate places but recognises that Government funding cannot be open ended at the postgraduate level when large numbers of students have been able to finance such courses. The arrangement gives universities the main say about whether and where funded postgraduate places are available, to respond to demand and locally assessed need. To restrict the total number of such places universities would have a formula driven allocation which should be applied consistently to all universities. Universities would determine the best use of the places they are allocated. These would tend to support access to important professional areas but could also support general access to postgraduate education.

¹⁸ The Hon Christopher Pyne MP, Minister for Education, *Coalition announces additional university places*, November 2013

¹⁹ Department of Education, Employment and Workplace Relations, *Consultation Paper: Allocation and funding of Commonwealth Supported Postgraduate Places*, November 2011

The proposal is also neutral to the continuing development of graduate degrees as enhancements for professional practice initially and then as profession driven standards for practice. It is not wrong that the level of education required to be effective in a particular field should rise. In all professions, beyond the clergy, a degree program has become the expectation over the past one hundred and fifty years, superseding previous apprenticeship models. However, it is important that professional bodies do not force such changes through relying on Government funded places to support them.

A system where universities have some funded places, there are fee based courses, and potential students consider the real value to them of each option, would ensure good coverage of courses without undue pressure on Government finances.

Recommendation 3

3. *The IRU recommends that the review support a formula driven allocation of postgraduate places as the most consistent way to align a limited allocation of places with the demand driven system.*

9. Improving low-SES participation payments

To provide universities with a clear incentive to improve enrolments of students from Low-SES backgrounds the Review of Higher Education recommended the creation of an additional funding element. In accepting the proposal the then Government defined the element as “a financial incentive to expand their enrolment of low-SES students, and to fund the intensive support needed to improve their completion and retention rates”²⁰.

The payment replaced a long standing equity program that focused at support for particular equity initiatives with extensive reporting and limited integration with mainstream university operations.²¹ As an incentive program the key issue is whether universities respond in the way expected. The objective is to enrol more low socio-economic status (low SES) students. The reward funding for successfully doing so, and the risk of losing funding if numbers drop, removes the need to monitor the specific expenditure a university may take to achieve a positive result.

A successful participation outcome will be where people from all backgrounds do enrol in similar proportions, with universities’ services effectively supporting all enrolled students. Effective action needs to be a whole of university issue that is part of all areas’ operations. If universities are forced to demonstrate how funds are used they will be less likely to integrate them with base funding and be more likely to engage in distinct easily marked projects.

In practice, the participation payment is closely tied to the base grant funding universities receive to provide courses for students. To address the likely needs of low-SES students universities need to focus on the overall suitability of the teaching and learning they provide, both the mainstream classroom activities and various support services for students.

These services target the learning deficits which many low-SES students have. However, not every person from a low-SES background suffers such challenges, nor do people from middle and high SES backgrounds necessarily not suffer from them. Further the definitions of low-SES are defined to identify broad communities not to be accurate down to each individual. For universities to structure programs that only support low-SES students as the current guidelines direct means they could

²⁰ Australian Government, *Transforming Australia’s Higher Education System*, 2009, p14

²¹ See IRU, “Why Acquitting the Low-SES loading is a Waste”, November 2012, <http://www.iru.edu.au/news/executive-director's-comment/why-acquitting-the-low-ses-loading-is-a-waste.aspx><http://www.iru.edu.au/news/executive-director's-comment.aspx>

service students with limited need for those particular supports and not support others who do. As a result most universities focus on addressing the learning skills of students as identified for each individual, knowing that in doing so they will address the needs of low-SES students.

As implemented the payment has been structured as an Other Grant with the reporting accountabilities of the previous, Higher Education Equity Program, rolled over, ignoring that the loading was created to replace HEEP and be more effective. Those accountabilities include an ongoing focus on reporting specific activities and acquittal of the funds, both of which discourage an integrated approach to student services delivery that ensures all students gain needed support.

With the tentative but steady rise in the proportion of low-SES students the payments should be allowed to work as initially intended. However the Review could explore whether it could be more targeted. The Australian education system ensures most highly capable individuals will achieve at school to gain entry to a university with the study skills for future success. It is as universities push out enrolments that they engage with students more likely to need learning support. Hence the low-SES payment could be more targeted by funding only those students over an initial percentage, for example 5%, which would target support to those universities most active in expanding access.

Recommendation 4

4. *The IRU recommends that the low SES participation payment background should be a loading within the Commonwealth Grant Scheme, with the same integrated accountability focused on the enrolment and education of students.*

10. Improving administrative arrangements

The Government has announced it will implement the proposals in the *Review of Reporting Requirements for Universities*.²² Consideration should now be given to further simplification of administrative arrangements consistent with allowing universities and student to define where and how higher education is delivered. Areas to explore are:

- the provision in HESA for funding agreements, currently reflected in the Compacts process should be streamlined to the legal essentials confirming funding and universities' agreement to the base conditions of funding. The important need for Government to engage with universities about their plans and developments should be achieved through discussions to that end as and when useful for both parties. Where specific funding allocations need agreement the funding agreement should only cover those elements relevant to the university;
- the public arrangements for universities to set out the qualifications, and related units and charges which they will offer. The current arrangements are derived from a model of yearly provision that requires changes to work through a university's own systems through to the Government requirements for confirmation well in advance of a new year. Use of electronic publication and the flexible nature of demand driven system argues against the need for a common time frame well in advance of course delivery..

Recommendation 5

5. *The IRU recommends further simplification of administrative arrangements consistent with allowing universities and student to define where and how higher education is delivered.*

²² PhillipsKPA, December 2012

C. Potential areas for more significant change

Beyond the specific Terms of Reference which the IRU has addressed in the previous Sections, the Review is asked to “recommend possible areas for improvement to ensure that the system better meets its objectives, is efficient, is fiscally sustainable, and supports innovation and competition in education delivery”.

There are pressures on the system which could encourage consideration of more significant changes to the current arrangements, while retaining demand driven funding as the main driver of Government funding for higher education. The IRU explores two in this Section:

- whether the students’ contributions maxima should be changed; and
- mechanisms to permit universities to remove courses in particular areas from the funded system, making them solely student funded.

1. Changing student contribution arrangements

Universities, supported by all recent reviews of funding, argue that additional funds per student are needed to ensure the desirable learning outcomes for students. In the current fiscal settings there is little opportunity for Government to make this investment. That places pressure back onto student contributions about which there is regular debate, extending from an argument that no direct Government funding is required²³ to arguments that Government funding should be buttressed by unlimited student payments.

The potential to charge students more, within a cap, is bounded by the associated commitment to provide income contingent loans to cover the charge. As charges increase the risk grows that, first, more people will be deterred from higher education and, second, that those who do will be less likely to repay their debt over their lifetime.²⁴

The number of people with a debt is not the major consideration, as each person is required to make repayments according to their income. The size of individual debts is important for as they have grown over the past fifteen years in line with increased charges, the estimate of the proportion of loans not to be repaid has also risen from initial estimates of about 15% to a predicted 22% in 2016-17.²⁵

At current rates for Government supported places, should students be fully liable for the current Commonwealth contribution, this would increase student debt on graduation by between \$6,000 for students of undergraduate commerce programs to over \$100,000 for medical, dentistry and veterinary graduates, with consequent pressure on the viability of income contingent loan arrangements.

Hence, the IRU supports retention of a cap to the amount a student can be charged as part of their Commonwealth supported education.

²³ Grattan Institute Graduate Winners Assessing the public and private benefits of higher education, August 2012

²⁴ IRU, *At what point does HECS break?* August 2012,

<http://www.iru.edu.au/media/35574/at%20what%20point%20does%20hecs%20break%20-%20iru%20comment%20on%20grattan%20report%20aug%202012.pdf> IRU, “At what point does HECS break?” August 2012, <http://www.iru.edu.au/news/executive-director's-comment.aspx>

²⁵ *Portfolio Budget Statements 2013-14, Budget Related Paper No. 1.12, Industry, Innovation, Climate Change, Science, Research And Tertiary Education Portfolio*, p93

However, the current student contribution arrangements are badly in need of a major overhaul to give coherence to the charges. The current discipline by discipline contribution maxima have little rationale. Rather they reflect the accumulation of short term changes, many based in political judgements about where the charge could be increased.

The last major change to include units of commerce, business and accounting in Band 3, the highest charge band, undermined any sense that the higher bands reflected either the likely cost of the course, which has superficial validity, or the potential for graduate earning, an unsatisfactory basis for setting charges based on generalisations about graduates in particular disciplines. In effect, if business units can cost the top amount, it is not clear why any other discipline should be less.

Australia requires graduates across a range of disciplines. Students should not be influenced by a cost factor in their choice of course but focus on what is likely to best suit them. That is the nature of a student driven system. It also fits well with research that students will pursue their preference for a course, regardless of the variation in charges. Graduate earnings will then contribute through taxation system to Government revenue.

The IRU restates its support for a single student contribution maximum,²⁶ as is the case in England which has now also embraced a full demand driven model. If the maximum were set between the current second and third band it would generate a substantial increase in revenue, reducing the pressure on Government to increase funding, while permitting universities to provide better education to students and reducing any perverse incentive to enroll students to generate revenue. There would be an impact on future HECS-HELP debts but if the band three level is sustainable for students of business and accounting units it should be sustainable for students enrolled in other disciplines.

The proposal is consistent with student and provider taking greater responsibility for education choices and outcomes.

The alternative supported by the Base funding Review²⁷ that students should pay a common proportion of the notional revenue for their units, is predicated on a common level of expenditure for each discipline area across all universities. If the objective is to permit more diversity, the funding system needs to reduce its steering, which a single maximum student charge set at a realistic level would do.

Recommendation 6

- 6. The IRU recommends that the Review explore the value of a single maximum student charge set at the current highest maxima.*

2. Options to open up choices further

One pressure on the demand driven system is from universities which argue they should be able to provide a highly resourced option to students which would be significantly different from standard courses and supported by a significantly higher student charge. The concept clashes with the underlying principle of demand driven funding for universities to provide choice based on their use of essentially the same resourcing envelope.

²⁶ IRU, Recommendation to the Base Funding Review, March 2011
<http://www.iru.edu.au/policy/2011.aspx?page=2>

²⁷ The Hon Dr Jane Lomax-Smith, Professor Louise Watson and Professor Beth Webster, Higher Education Base Funding Review Final Report, October 2011

An option which the IRU puts to the Review team to consider for its potential and implications is that universities be permitted to opt out of Commonwealth funded places in specific disciplines to offer places based on student payments supported by FEE-HELP with its maximum loan per person. The opting out would apply to all students in that discipline area, requiring the university to make a considered decision about each program area. It would avoid the murky outcome of previous undergraduate fee paying arrangements where Australian students would pay different amounts yet receive the same education.

In proposing this option the IRU assumes that the majority of universities, including IRU members, teaching particular disciplines would continue to do so under current arrangements. Australians would continue to be able to access good quality higher education in all fields in their State.

Recommendation 7

- 7. The IRU recommends that the Review explore the potential for universities to voluntarily opt out of Commonwealth supported places for selected discipline areas and to instead offer fee-paying places to all students in those discipline areas.*

16 December 2013

Appendix A: Commonwealth Supported EFTSL 2009-2013

Table 1: Commonwealth Supported EFTSL by Provider 2009-2013

Provider	2009 actual	2013 estimate	Increase 2009-2013	
			Actual	%
Charles Sturt University	12308	14615	2307	18.7%
Macquarie University	12570	17682	5112	40.7%
Southern Cross University	6543	7075	532	8.1%
The University of New England	7465	9459	1994	26.7%
The University of New South Wales	19220	23004	3784	19.7%
The University of Newcastle	16127	18833	2706	16.8%
The University of Sydney	23184	25685	2501	10.8%
University of Technology, Sydney	14636	15884	1248	8.5%
University of Western Sydney	21541	26916	5375	25.0%
University of Wollongong	10868	13086	2218	20.4%
Deakin University	16642	23125	6484	39.0%
La Trobe University	16122	19197	3075	19.1%
Monash University	24279	27995	3716	15.3%
RMIT University	14837	20028	5191	35.0%
Swinburne University of Technology	6928	13897	6969	100.6%
University of Ballarat	3624	4497	873	24.1%
The University of Melbourne	19884	21920	2036	10.2%
Victoria University	11162	12621	1459	13.1%
Central Queensland University	5801	7619	1818	31.3%
Griffith University	19608	22515	2907	14.8%
James Cook University	8082	9813	1731	21.4%
Queensland University of Technology	22540	25608	3068	13.6%
The University of Queensland	21160	26010	4850	22.9%
University of Southern Queensland	8305	9956	1652	19.9%
University of the Sunshine Coast	4313	6236	1923	44.6%
Curtin University of Technology	14873	19554	4680	31.5%
Edith Cowan University	11357	13030	1672	14.7%
Murdoch University	7567	8512	945	12.5%
The University of Western Australia	12128	14913	2784	23.0%
Flinders University	8944	12186	3242	36.3%
The University of Adelaide	10798	13212	2414	22.4%
University of South Australia	15021	17065	2044	13.6%
University of Tasmania	10766	13433	2667	24.8%
Charles Darwin University	3781	4568	787	20.8%
The Australian National University	6673	7098	425	6.4%
University of Canberra	6231	8127	1895	30.4%
Australian Catholic University	9202	15915	6713	73.0%
Australia Total	465088	570886	105799	22.7%

Table 2: Commonwealth Supported EFTSL by University Grouping 2009-2013

Grouping	2009 actual	2013 estimate	Increase 2009-2013	
			Actual	%
Innovative Research Universities	80230	95623	15394	19.2%
Group of Eight	137327	159837	22510	16.4%
Australian Technology Network	81906	98138	16231	19.8%
Regional Universities Network	36139	44842	8791	24.3%
Other	129485	172446	42872	33.1%
Total	465088	570886	105799	22.7%

Source: Administrative Data from the Higher Education Group of the now Department of Education.