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Reducing Government funding where higher fees are charged

Following the failure of the Government's higher education package to pass the Parliament we now need to explore openly options for the future that that would:

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

The IRU supports further investigation of the Phillips-Chapman proposal to reduce Government funding should universities and other funded providers be permitted to raise fees above current levels. This proposal effectively means tests universities by the fees they raise.

The following restates the position which the IRU put to the Senate's Education and Employment References Committee.

The key attributes of the Phillips Chapman model are:

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

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

> 'Institutions will contribute to meeting the costs of finance learning' - They will receive from government all of the money for charges of up to £6000 (GBP); and pay a levy on the income from charges above the amount to cover the costs to government of providing students with the upfront finance'.[1]

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

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

- the amount of the fee above which Government funding begins to reduce and the higher thresholds where the proportion withheld increases;

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31999/10-1208-securing-sustainable-higher-education-browne-report.pdf See section 5.3, p37

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- the proportion of the additional fee income to be withheld at each threshold; and
- the fees which universities and other providers then set.

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

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

There are many issues needing careful exploration:

1. whether to retain as the starting point for the system:
   - the current CGS bands or change to the Government's simplified 5 band system which the IRU supports,
   - the current three student contribution maxima or simplify to a common standard base charge.

   The current rates will be used in examples to illustrate how the system could work. However, it would be unfortunate to embed for the longer term a set of funding rates that largely reflect cost relativities of 1990 and student charges groups devised in 1996;
2. the interaction with the proposed Commonwealth Scholarships Scheme;
3. the interaction with the requirement that no Australian pay more than an international student for the same degree;
4. whether the system should be applied at the discipline level or calculated at the whole of institution level.

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

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

Submitted to the Senate Education and Employment References Committee 27 February 2015
Updated, 4 April 2015