

## **‘Driving Innovation, Fairness and Excellence in Australian Higher Education’ – the IRU response**

### **The way ahead**

The experience of the past three years, 2013 to 2016, shows the great difficulty for implementing major changes to higher education funding and regulation as a single package.

The need for change is driven by the impact of making university an integrated part of the education system, accessible by any Australian with the aspiration for university study and the capacity to gain from it combined with expectations for change in how higher education is delivered over the coming decade.

The way ahead is to concentrate on achievable, useful changes where each can be considered and its impact assessed. Changes should be directed at ensuring an effective Australian university system that meets the needs of all Australians for well-educated graduates and valuable research.

Over time changes should serve to educate the parliament and public about the challenges and opportunities for universities, and the ways in which they should be supported.

Much work is required to establish an agreed level of resources based in an assessment of the future requirements, not one simply derived from past levels, that targets expectations of universities across their full suite of roles.

The Government’s fiscal challenge remains clear. Expenditure on universities and students will be examined as much as other areas. However, without the necessary resources from Government, students and business, universities will struggle to continue to deliver excellence in teaching and learning and research. A major cut to funding is not a useful way ahead.

In contrast to many areas of Government expenditure, investment in education, including higher education, is about improving longer-term economic and social outcomes, with a return to Government revenue.

Recent graduate outcomes confirm that graduates remain better positioned than those without a degree while showing the impact of slow economic growth and sluggish employment opportunities. Studies of graduates over the longer term confirm the advantage and suggest that the opportunities for each individual following a degree are better than if they had not undertaken it.

### **IRU position**

The IRU has three objectives that should guide changes for the medium term:

- demand driven funding as the core funding mechanism for supporting all aspirants to gain the higher education that they need including where they opt for an initial ‘sub-bachelor’ degree;
- base university revenue sufficient to maintain universities’ core capabilities to deliver student learning outcomes and research to meet future needs; and
- a focus on allowing universities to opt in to changes with long term significance, testing out changes and encouraging incremental take up.

The four parts of the Government discussion paper are considered against these objectives in the following sections to highlight seven areas for action.

1. A commitment to support each Australian achieve their potential with an initial expansion of sub-degree places, targeting regions of under attainment.
2. Maintenance of an effective HEPP program with sufficient funding that it encourages universities to focus on enrolling students from all backgrounds and rewards those who do so best.
3. Targeted support for universities with 'outer metropolitan' and 'regional' bases to support the effective Australia wide access to university education and research without propping up failing aspects of a university.
4. Further exploration of mechanisms that encourage universities to develop some areas of high achievement, without constructing complex interventionist approval mechanisms.
5. Extending and improving information about student and graduate outcomes.
6. Reworking of the standard Commonwealth Grant Scheme (CGS) and student payments based on:
  - fewer, clearly distinct, funding bands driven by an assessment of the reasonable resource standards targeted at future requirements to deliver expected learning outcomes;
  - simplified student charges in which no student pays any more than the current highest charge;
  - a factor addressing student background, to reward enrolment of a diverse student population; and
  - consideration of an additional factor targeting student outcomes against university level targets tied to accessing higher levels of revenue from Government and student combined.
7. Adjust HELP repayment arrangements in ways that speed up repayment but which do not affect the core elements of HECS-HELP.

## **1. Opportunity and Choice**

The discussion paper usefully confronts the disparity in how Government supports education across different qualification levels. At present there are allocated funding places at sub-bachelor level, demand driven places at bachelor level, and a mix of allocated places and fee based places at graduate coursework level.

Greater coherence about when funded places are available will improve outcomes. The objective is to ensure that each person is supported in achieving their potential, drawing as needed on qualifications through the spectrum of qualifications.

The discussion paper asks:

- how to expand access to sub-degree programs;
- how to resolve the allocation of postgraduate coursework funded places; and
- what to do about higher education provision by providers not currently receiving funding.

### **Sub-bachelor**

The IRU's position has consistently been that the demand driven system should be retained as the core funding mechanism for supporting all aspirants to gain the higher education that they need including the cases where they opt for 'sub-bachelor'.

The standard open demand driven system for sub-bachelor is the ideal option. Limited to universities the large majority of the additional sub-bachelor load would replace bachelor level

enrolment through universities and students being free to agree the more appropriate pathway. The additional cost would only come from students who complete a bachelor degree via the pathway rather than struggle and withdraw following an initial bachelor level enrolment.

At a period where rapid growth in bachelor enrolments has passed, this additional cost would be small, against the gain from supporting a better pathway for an important set of students and ensuring that students who do not complete a bachelor's degree are able exit with a valuable and recognised qualification.

Until restoration of demand driven funding to sub-bachelor courses is feasible the Government should expand allocations to target the outer metropolitan and regional areas of low higher education participation. The expansion should allocate additional sub-bachelor places to universities in those regions with a successful record of transition from sub-bachelor to bachelor, with measures in place to test the impact on participation and completion over time.

### **Postgraduate coursework**

The allocation of funded places for postgraduate courses is the historic outcome of case by case approvals to universities, with limited consistency.

Many postgraduate courses operate effectively through fee revenue, with students able to access FEE-HELP with no loan fee. They should continue to operate on that basis, with individuals able to make the choice for enrolment based on assessment of their future needs and the return from additional qualifications.

However there is an increasing set of professions where entry is dependent on a post graduate qualification where universities are able to offer courses within the constraint of Commonwealth Grant scheme funding and associated student contribution. The issue is how to determine the number Government should fund and how they are distributed across universities.

The principles which should guide the allocation are:

- the allocation of funded post-graduate places should be fair for all universities, ensuring equal treatment and allowing for the different aspirations of each university for postgraduate provision;
- funding for postgraduate places should be at the same rate as for undergraduate; and
- universities should be the prime decision makers about which courses have funded places.

### **Recreating a student learning entitlement**

The discussion paper revives the previous concept of a student 'learning entitlement' that would permit but also limit access to a funded place across all levels. The potential advantage is to give Government some boundaries around how much an open funded system can cost, including at the postgraduate level, tied to a commitment to support each individual achieve their potential.

The previous learning entitlement system attempted to cover all reasonable pathways including some professions with long degree programs and to let graduates earn more entitlement over time to support renewal of skills. However it collapsed under its weight of complex rules and the challenge of enforcement once some students had exhausted their entitlement.

Any renewal would need to have a simpler basis, including for universities to know that a person was eligible well before offers are made.

The policy challenge is that the entitlement approach can advantage those better able to decide early the desirable degree pathway, optimizing their use of the funded entitlement, and the problem of individuals exhausting entitlement towards the end of a degree.

Hence while attractive in a pure policy sense it is difficult to see that recreating a learning entitlement will in reality be a useful tool to moderate overall demand on Government support.

### **Expanding funding to other providers**

The inclusion of other providers into the funding system is not a priority at a time when there is severe constraint on the overall level of Government funding and there is no substantial change to student charges proposed that would integrate the fee based higher education system and the funded university system.

The focus for 2017 to 2020 should be on changes designed for the major, university, players allowing consideration thereafter of other providers to enter if they can work with the arrangements. Just as universities did not receive access to demand driven funding from creation, any newly funded provider should be funded for a set number of places until they demonstrate suitability over a number of years for any access to full demand driven places.

### **Summary: main area of opportunity**

1. A commitment to support each Australian achieve their potential with an initial expansion of sub-degree places, targeting regions of under attainment.

## **2. Fairness and equity**

The discussion paper focuses on:

- the effectiveness of support for disadvantaged students through an Evaluation of the Higher Education Participation Programme (HEPP); and
- support for universities' regional presence.

### **The future for HEPP**

The ability to use HEPP to round out the CGS is critical to encouraging universities to take up students from all backgrounds by weighting funding slightly towards universities with greater numbers of students likely to require support whether they are low SES or not.

A greatly reduced HEPP will lose this impact. As the Table shows the Government plans to cut HEPP significantly, down close to half the initial program, with the main reduction set to come in from 2019-20. The impact will be to greatly reduce the incentive to improve access from people with backgrounds currently less likely to access university.

The IRU has long argued that the main element of HEPPP, funding driven by enrolment of low-SES students, should be considered as part of the Commonwealth Grant Scheme on the basis that the focus should be to improve the incentive for enrolment rather than target a set of particular projects within universities. [Successful-HEPP-faces-death-by-a-thousand-cuts](#). We return to this proposal in section 4, Affordability.

Faced with the major reduction to HEPP the issue becomes whether the proposed review is likely to provide basis for reversing the savings decision. The review's focus on the detail of individual activities suggests not.

If reduced as planned then there should be a substantial focus on whether other uses of the funds might make the reduced program more effective than continuation of the current arrangements greatly cut back. The IRU will address the best options for HEPP in responding to the HEPP review once underway.

***Budget Estimates of HEPP(P) funding, 2011 to 2016 (\$ million)***

Budget Year	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
<b>2011</b>	84.8	145.5	181.1	187.6	<b>194.2</b>					
<b>2012</b>		152.2	167.7	179.6	191.3	<b>205.1</b>				
<b>2013</b>			167.7	177.5	185.6	197.3	<b>190.7</b>			
<b>2014</b>			0.0	165.6	158.9	181.6	173.0	<b>177.2</b>		
<b>2015</b>			0.0	0.0	163.7	175.6	170.7	173.8	<b>186.9</b>	
<b>2016</b>			0.0	0.0	0.0	179.6	146.6	144.0	152.3	<b>110.3</b>

**Supporting the regional presence of universities**

The paper outlines a number of measures that would help regional and outer metropolitan universities to respond to the challenges of the markets in which they operate, particularly the ongoing lack of support for capital investment. The inclusion of outer metropolitan universities among those eligible is a valuable recognition that variation in access to higher education occurs within the major cities, not just between them and the rural and remote areas.

**Summary: main areas of opportunity**

2. Maintenance of an effective HEPP program with sufficient funding that it encourages universities to focus on enrolling students from all backgrounds and rewards those who do so best.
3. Targeted support for universities with ‘outer metropolitan’ and ‘regional’ bases to support the effective Australia wide access to university education and research without propping up failing aspects of a university.

**3. Excellence and quality**

The third section of the discussion paper focusses on:

- use of flagship programs and other funding initiatives to promote excellence; and
- better information for students and Government about student and graduate outcomes.

**Flexibility to introduce flagship courses**

Under this proposal universities would be allowed to set higher fees for a subset of their students who enroll in specific flagship courses on the basis that the course would provide an intensive experience for students in an area of notable research strength for the university. The Government is seeking views on which conditions should be met for the declaration of a flagship course and how the scheme could be best monitored.

IRU members share the concern of most universities that the proposal as presented has many operational problems and would not improve the overall outcomes for the sector.

The operational problems of regulated flexibility are clear.

Any proposition beyond a university deciding what are flagship courses against target parameters involves an external assessment and decision about what is appropriate by people distant from the action. Such an assessment would need to investigate the evidence about how a course is distinctive, whether currently, or prospectively should extra funds be invested in it, and in comparison with other such courses across Australia. This is a highly regulated mechanism that is unlikely to work.

External assessment of the higher fee level and how it, and any additional Government subsidy, is used, such as by the Australian Consumer and Competition Commission, has the same weakness.

Rather than simply reject the concept IRU supports the idea of some flexibility in charges tied to additional investment in a course as an option for students. Further if Government wishes to support some highly renowned programs with international profile there is a case for it to invest in this, not just permit a higher student charge. This would be consistent with the original 2011 proposal for flagships.

To be viable universities would need to ensure that students considering whether to pay more under the proposal would have clear information about the extra benefits they will receive in return for the higher charge, and evidence of its provision. The requirements of the Higher Education Standards for student information would apply.

### **More information for students, Government and universities**

Through the creation of QILT the Government has continued to build up the information available to prospective and current students about the courses they are considering, the progress of students through those courses, student views about the courses, and the outcomes for graduates.

IRU supports the discussion paper's proposals to improve the data collection and to link it better to related information such as income data from the Australian Taxation Office. A better understanding of the longer term outcome for graduates will help show the value from a degree as demonstrated to date by the few in depth studies of graduate success.

Interpretation will remain a point of caution. The outcome for previous students undertaking a course provides no guarantees for future students. The further from the point of study the data is, such as graduate earnings, the more other factors have come to play and the lesser connection to current courses. Much of the data will be useful general information about the benefits of a degree.

This information is also valuable for Government and the public to understand better university education and the implications of policies such as income contingent loans through data about the level of students' debts and the pace of repayment.

The potential use of the data to influence funding allocations is addressed in Section 4 Affordability.

Transparency also should apply to Government, through regular timely publication of data on allocation of funding to universities for each scheme and the number of funded places by institution.

### **Summary: main areas of opportunity**

4. Further exploration of mechanisms that encourage universities to develop some areas of high achievement, without constructing complex interventionist approval mechanisms.
5. Continue to improve information about student and graduate outcomes.

## **4. Affordability**

The fourth section of the discussion paper targets options to:

- rework base Government funding and student charges with a focus on reducing the Government contribution and increasing student payments; and
- reduce the cost of HELP.

## Changes to base Government funding and to student charges

### *A better balance between taxpayers' and graduates' share of higher education costs*

Ultimately it is the Government's decision how it wishes to invest in a country's higher education and how much above that it will allow students to pay. From the perspective of universities, the underlying objective is to have enough revenue (irrespective of origin) to fulfil their missions.

The discussion paper sets out two options to reduce Government base funding:

- reduction of the Government's contribution by 20% as first outlined in the 2014-15 budget; or
- 'small' reduction in the Government grant per student and a 'small' increase in the maximum capped student contribution that institutions may charge so that both contribute equally.

IRU opposes the 20% reduction in Government funding as counter productive to an effective higher education outcomes. Abandoning expansion of funding to other providers reduces one call on Government expenditure that the 20% reduction was intended to fund.

The Government has made the argument that the balance of Government and student investment should alter with each contributing 50%. This would continue the steady rise in the proportion of base funding which students pay.

The current division of Government to student contribution to base revenue is around 58% to 42%, but highly variable for any given student depending on what subjects they study.

A 50:50 division can be achieved by altering either or both of the current inputs. If the change is to be revenue neutral for universities, 8% of the total is shifted from Government to student. This equals a 14% saving for Government and 19% increase for students. If universities are to gain some additional revenue to improve student outcomes then the saving must be reduced.

IRU members remain interested in the Phillips-Chapman model in which universities may charge up to set maximum charge at the cost of a reduction in Government grant equal to a portion of the higher revenue from students. Universities would control how they took up the option with Government savings dependent on the extent universities increase charges to invest in better student outcomes.

### *Establishing the university resource standard and the relativities between disciplines*

Australia requires each person to be fulfilling his or her potential, in a future employment context that is expected to involve much change. The funding structure should encourage people to do so, through supporting each discipline neutrally, letting individual choice drive course selection.

Fundamental to an effective future university system is to establish the reasonable level of revenue which universities require to meet future expectations, and then rework the funding mechanism to ensure best distribution of available Government funding.

This requires an extensive effort to consider current and likely future approaches to delivering higher education and maintaining a viable research base in each university. The emphasis should be future needs, not past expenditure.

The IRU supports the reworking of government funding rates into a simpler, streamlined set, significantly different from each other. The discipline clusters could be reduced from eight to five. The grouping of disciplines that the Government previously proposed is one example.

The student charge bands should be rebased as part of the same process. This analysis should confront whether there is a case for different student charge caps. Currently students pay more for a

unit of accounting than for unit of engineering than for a unit of clinical psychology. The IRU has previously proposed a single student maximum payment on the basis that student payments should primarily reflect the value of acquiring a degree, with the government payment ensuring total revenue reflects significant differences in the costs of delivery by discipline.

Within a requirement that no student pay more than the current highest charge there is considerable scope to reset student contributions along with Government funding by discipline to provide in total the reasonable resource standard.

### ***Other potential factors for the funding model***

The rebasing of the CGS should also consider other elements to ensure that universities have the right incentives to educate all Australians from all backgrounds and work to ensure each student completes a degree.

The first potential element is to redistribute some of the available funding based on student background to complement the remaining equity funding through HEPP. This would make student background an integral part of the funding system, similar to the school funding system.

A second possible element builds off the focus on data about student outcomes and experience to balance the incentives for enrolment with incentives for good student outcomes. Such an element is viable only if tied to additional net revenue from Government and students, to recognise that any increase needs to be returned through better student outcomes.

Funding tied to outcomes needs to be carefully structured, to avoid incentives simply to achieve the notional outcome and to treat each university fairly. A system of university by university targets could achieve this, providing a balancing factor to the incentive for enrolments of the demand driven system.

### ***Structure for a future Commonwealth Grant Scheme and student payments***

Based on the above discussion the IRU proposes the Government lead the reworking of the CGS and student payments, assuming caps on charges remain, that involves:

- fewer, clearly distinct, funding bands driven by an assessment of the reasonable resource standards targeted at future requirements to deliver expected learning outcomes;
- simplified student charges in which no student pays any more than the current highest charge;
- a factor addressing student background, to reward enrolment of a diverse student population; and
- consideration of an additional factor targeting student outcomes against university level targets tied to accessing higher levels of revenue from Government and student combined.

### ***The use of the CGS for teaching and research***

The paper raises the question about the use of CGS funding to support universities' research capability, recognising that the CGS is one Government support for universities' general research capability along with the research block grants. The CGS element covers the reality that many academic staff work across teaching and research roles and many university facilities support both major roles of the university.

Hence the IRU supports the paper's statement that the revision of the funding arrangements must "preserve or enhance the research capabilities of our universities".



### **An affordable HELP system**

Public support for HECS-HELP is built on its essential elements of a loan to cover the student charge, repayments set at reasonable rates against income, and indexation of the balance each year by CPI. Tampering with these core settings would put HECS-HELP at risk.

Arguments that the annual cost to Government of HELP is set to grow enormously are based on worst case analyses that assume that every dollar of HELP is borrowed by the Government on financial markets and ignores that the core program, HECS-HELP, replaces direct Government subsidy. The argument could apply to any Government program but not to all of them at the same time. In essence most Government expenditure is funded from Government revenue. Higher education expenditures including funding the HELP system are no more or less derived from revenue rather than borrowings.

Nevertheless, the issue of containing the costs of HELP is a legitimate Government concern.

The discussion paper raises various options to tighten HELP, which IRU assesses for their likely impact on the core HECS-HELP settings. Those that moderate details of the system but not its substance could be implemented without harm; others alter core aspects and are opposed.

VET FEE-HELP should be considered separately, with Government deciding what level of loss justifies the likely return of better income for those with VET qualifications. It should not be allowed to confuse the debate about higher education funding and charges.

The loan fee should not be extended from the undergraduate elements of FEE-HELP to HECS-HELP and OS-HELP, which would be a de facto 5-20% further rise in the student charge at no benefit to students' education. The initial argument for a FEE-HELP loan fee was tied to it being an extension of Government support to students previously receiving no support, some paying high fees which create a greater risk of non repayment. In contrast HECS-HELP replaces previous Government funding, such that any level of repayment is an improvement for Government.

The proposed changes to repayment settings and indexation of thresholds amend detail of the system, not its essence. These amounts have been increased and decreased several times over the life time of HECS-HELP without significant problem. Of all the changes proposed they have the least consequence, providing the easiest area to reduce the cost to Government.

The other proposals require detailed consideration of their impact, and ease of implementation.

- The life time FEE-HELP limit is a protection against people holding very large balances with small likelihood of repayment. The data about repayment from students who use FEE-HELP has not been published. Evidence that these higher debts were being repaid due to high subsequent earnings would be useful before permitting individuals to accrue further debts.
- The proposals for recovery from estates and for a household income test are ones for the Government to consider for their viability and need. For example the household test would be difficult for an employer to apply when deciding to deduct HELP amounts from salaries.
- To exclude people who have left the workforce, usually due to age, appears a minor saving dependant on universities knowing the workforce standing of each older student and which ignores the potential value for those individuals from study which could contribute to their future health and wellbeing as they age. Student retirees with high incomes would be subject to HELP repayments.

**Summary: main areas of opportunity**

6. Reworking of the standard Commonwealth Grant Scheme (CGS) and student payments based on:
  - fewer, clearly distinct, funding bands driven by an assessment of the reasonable resource standards targeted at future requirements to deliver expected learning outcomes;
  - simplified student charges in which no student pays any more than the current highest charge;
  - a factor addressing student background, to reward enrolment of a diverse student population; and
  - consideration of an additional factor targeting student outcomes against university level targets tied to accessing higher levels of revenue from Government and student combined.
7. Adjust HELP repayment arrangements in ways that speed up repayment but which do not affect the core elements of HECS-HELP.

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