

Future-proof, The BCA case for a coherent secondary and tertiary education system – IRU response

Future-Proof, the Business Council of Australia's case for a coherent secondary and tertiary education system, is a valuable articulation of the reality that all Australians need to complete year 12 and then complete at least one further qualification, whether vocational or higher education, to be confident of a successful working life.

The BCA deserves praise for presenting the case and encouraging all parties to engage.

The paper rightly argues that the various components of education need to work together to support each person. Each sector has its particular challenges, which tend to dominate the ongoing policy discussion. There is sense to the policy approaches sharing common elements, subject always to whether they fit, recognising that there are important differences that should not be ignored.

Future-Proof has two main elements.

The first is the analysis of the need for an effective school and tertiary education system that provides all Australians with both a useful level of knowledge about society and the world and the essential capabilities for employment. These are not conflicting ambitions but have long been part of education systems.

The second is consideration of the regulatory, funding and charging arrangements that could ensure the education system delivers as expected.

Future-Proof addresses the first element well but the second is less well considered. Too much recycles tired 'reforms' that have not proved practicable. If we are to be more imaginative about the need for a cohesive secondary and tertiary system, we need to bring more imagination to the discussion about how it should be achieved. The funding and regulatory arrangements have to face up to the consequences of almost all Australians needing to achieve a tertiary level qualification.

The Paper ignores a significant part of university operations – research and innovation. While these can be formally considered distinct, the extensive overlap in personnel (the academic mind that researches and teaches) and the facilities that support it in practice argue against any simplistic separation.

The challenge ahead is to have the needed discussion to create a stronger sense of common purpose about the need for the system, finally putting down arguments that all would be well if we could have things as they were in 1960 or 1980.

In the following sections the IRU considers:

1. the future prospects for life and work with their implications for education and training;
2. the clear need for tertiary education outcomes for all Australians;
3. the BCA proposals for regulatory, funding and charges arrangements, with focus on ensuring good higher education outcomes.

This response uses 'education' as a general term that covers both acquisition of knowledge and of skills for both understanding the world and for ensuring capability as an economic producer.

1. Future prospects for life and work with their implications for education and training

Recent analyses of the future workforce tend to concur that by 2025 or 2030 many current jobs will not exist or will be very different in nature. Some estimates are that up to half of jobs will be substantially affected. These predictions will have some aspects right but equally, based on past experience with similar assessments, will not have seen many of the changes to come and will overstate the significance of others.

The more positive analyses argue that new jobs will emerge, with an emphasis on knowledge worker roles and on worker creativity as the way to continue to have valuable employment for most Australians. This has been the response to previous changes in the way in which we learn and work.

The forces at work include the impact of digital technologies, continued mechanization of roles with significant levels of repetition, and further integration into world economies both of the immediate Asian region and across the globe.

In considering the implications of fifty percent of jobs not being present in twenty years, it is valuable to reflect on expectations in 1990 of the future workforce. This was before email or the internet was in common use. In effect, almost every job in Australia now has altered in significant ways over the past two to three decades and some notable roles from the past have been lost.

This does not mean that we will sail easily into the 2020s, but it does show that constant change can be integrated.

To do so requires an education system that works.

2. The need for tertiary education outcomes for all Australians

Future-Proof's strength is its clear understanding that post school education, building off year 12, is necessary for almost all Australians. Public commentary still contains flippant comments about over educated people doing jobs that do not need their level of education. These attitudes reflect the 1970s when few people finished school, a subset undertook a trade, and a small number gained degrees.

The system was failing then. It caused the 1980s effort, led by the Commonwealth, to double school completion rates. This in turn created a large number of people ready for university education and allowed vocational education to provide more highly skilled qualifications than previously.

Future-Proof sets out clearly the advantage from large numbers of people having higher levels of education than was standard even two decades ago.

There is a major challenge to update community assumptions. It is an important task for all sides of politics, supported by the education sectors and groups like the BCA.

- Having a skilled trade or having a degree no longer positions a person ahead of most others – it positions the whole group to be effective in the future world economy. The test is whether earnings are higher for the individuals than if people had not completed those qualifications and that average earnings continue to rise.
- The Graduate Outcomes Survey 2017 report confirms the advantage. The median salary for graduates continues to be higher than the year before and to grow just ahead of inflation (CPI deflator) at a time of generally flat wage growth. That is, expansion in the number of graduates has not been too fast for the labour market to respond to.
- The Survey, along with the related Employer Satisfaction Survey show the importance of a degree to prepare people for the workforce, which is more significant than the precise degree area. This is important in the world ahead where the nature of work is expected to keep changing, often rapidly.
- There is no conflict between vocational education and higher education. The challenge is to ensure access to both to complete the rapid demise of people with no post school qualifications in the workforce.

There remains considerable difference in take up by the region a person comes from. The data from the Longitudinal Study of Australian Youth shows the variable uptake of post school education across the different SES quintiles and that significant numbers are yet to acquire either.

Using the 2006 Cohort who mostly completed school in 2008 and were able to commence university from 2009, we can see the considerable variation in likelihood of completing a HE qualification, rising strongly upwards with SES standing; and the contrasting drop in VET completions.

Completion of Higher Education and Vocational Education by Socio-Economic background

LSAY Cohort 2006 Wave 10 (2015) Highest completed qualification						
	Q1 - poorest	Q2	Q3 - median	Q4	Q5- richest	All
No Post School	32.9%	27.1%	22.6%	16.2%	20.0%	23.6%
VET	44.2%	43.8%	39.4%	31.7%	16.2%	34.8%
HE	22.9%	29.1%	38.0%	52.0%	63.8%	41.6%
Total						100%

- Assumptions about what jobs require a qualification and at what level need to be turned around to focus on how a person with such qualifications can enhance the role and hence the productivity of the workgroup or organisation.

3. The BCA proposals for regulatory, funding and charges arrangements

Future-Proof proposes various set of goals plus eight design features for a tertiary system. This response does not address the detail of the various goals – they largely set out useful objectives and framing principles.

This Section provides an initial commentary on the likely value and implications of the design features as the basis for further debate.

The IRU response is not structured to mimic the eight BCA headings since they yoke some distinct points together and in some places pre suppose issues that need debate.

1. A universal entitlement to a limited amount of support

The entitlement concept intends that all eligible people should be able to gain a suitable education. It is a crucial requirement for supporting a national tertiary education system, building off the reality that schools have long operated in an entitlement, demand driven, environment.

However, the wording “universal entitlements” generally means an argument to define how much support a person should receive, with a focus on an upper limit.

The need to limit access is driven by perceptions of some people over using Government resources than any strong evidence that many people in fact do.

The proposal for an entitlement structure needs to be judged against the balance of the work to define, administer and enforce it compared with the reduction achieved in over use of Government funded education. The previous higher education entitlement cracked once sufficient people began to reach its caps.

One potential gain would be to create a defensible means to give access to funded postgraduate courses. In this area an entitlement could cost more than it saves with people encouraged to use the entitlement to the full.

1. VET and Higher education

It is very important to be clear where VET and HE are different, particularly the contrast between longer-term qualifications like the bachelor and PhD against short term, qualifications, parts of which involve certification of current skills rather than inculcating them.

Significant parts of the paper rightly discuss the challenges of previous changes in VET when applied to large numbers of providers engaging with many individuals, often for small amounts of time.

The paper generally ignores that a large part of VET provision is not for a whole qualification but for people to acquire particular skills and knowledge of immediate interest. The questions of funding and charges become particular harder for this, and its relevance to a learning entitlement complex.

2. Neutrality: across sectors and providers?

It is an important starting proposition that a person's decisions about what education to pursue is driven by what is likely to be best for them. It should not be adversely influenced by institutional, sector and government rules.

The key test for neutrality is that an individual can access the support they need for their ambition, not a forced neutrality across providers that ignores the range of operational imperatives.

The essence of demand driven funding is that supporting an individual's choice is the best option to ensure we have capable people across the breadth of areas a functioning country requires. It underpins the IRU position that the charge for a person should be constant with Government support making up the gap to the reasonable cost of the delivery.

Arguments for neutrality tie to the debate about whether there are specific roles, rules and funding for education bodies established by Governments against others. The debate needs to consider seriously the mix of intents by institutions, confronting how the different institutional types pose distinct risks – across Government established institutions, nonprofit bodies and for-profit. All three will look to make best use of Government resources and opportunities.

Universities have a long-term horizon, they wish to exist for many decades if not centuries. They and non-profit organisations do not direct funds externally to owners, but they can be at risk of not making best use internally of revenue. The useful spillovers from the presence of an education institution should be incorporated (p77 recognises this). For-profit providers have a clear short-term ambition and a legal requirement to extract a surplus from operations to give to the owners.

3. How do we pay for a universal tertiary system: funded by government and the individual

The need for Governments to lead in ensuring suitable education options are available to all Australians is clear. The value from the additional and evenly acquired education across the population is considerable.

The real debate is about the contribution of the individual, looking across what each will contribute from taxation, through up-front payments and through income contingent payments.

The argument for universal achievement of schooling and a subsequent qualification undermines the 1990s argument that the still small set of people entering higher education ought to pay for the advantage they receive. The turnaround means that those who do not achieve this expectation will be disadvantaged and may have a call on government for support.

The theoretical concept of public and private benefits is not supported by a coherent calculation to apply it. The argument at p62 about greater private benefits at higher levels of education is predicated on people with higher levels of education being rare, giving them a special lift. The point of the current debate is to extend initial tertiary qualifications to all for benefit to overall economic outcomes and individuals.

The assertion that a ratio of public to private benefit is definable by discipline falters against:

- the case that there will be considerable changes in employment in the future, such that what looks useful now to society or which appears to generate great incomes could well change;
- the error of using averages to set payments for groups which will have considerable range in actual incomes and actual level of public benefit.

4. Student payments

The Paper maintains, with no effort to justify it, that “full fee deregulation can be effective”. It is not clear why this outcome remains a given rather than one of the various options, and an unlikely one at that.

The over application of market theories falters against education being a product that is intended to set up the market effectively by ensuring all the players are suitably prepared.

The argument that each person should pay something upfront would be a backward step for higher education where there is little to no evidence that people sign up in ignorance creating major debts out of balance with the learning acquired.

The risk area is in vocational education and there for a subset of providers. There should be controls over provider right for students to use income contingent payments that tests suitability. This could include students paying some money themselves with immediate access to income contingent funds accessed through another body than the provider.

5. Income contingent payment systems

As most people in the workforce come to have vocational or higher education qualifications it raises questions about the relation of the income tax system to supplementary payments through HELP and similar schemes.

The limits of HELP are wrongly ascribed to the total amount of notional payments due to be made. The risks of such systems is related to the size of the individual payments to be made; greater number of individuals do not greatly alter the risk. Compare one million people each with a \$10,000 payment with 100,000 people with a \$100,000 payment each – both sum to \$10 billion. The former is much likely to be paid and paid quickly. The apparent problems of HELP come from the rise in the amount each person needs to commit to pay not to having many more of them using the system – where payments due greatly exceed to payments likely to be made HELP will fail.

However estimates of the cost to Government from income contingent payment systems need to be realistic about what they are modelling as set out in [Four Questions for the PBO](#) and [Three Problems](#).

Income contingent payments have often replaced direct Government payments. Any dollar paid is a gain to Government compared with fully funding. Pretending that the Government is running a loans scheme to calculate its loss is foolish.

6. Calculate the cost of the system – or should we calculate the price?

The weakest aspect of *Future-Proof* is the lack of a coherent approach to how diverse or standard delivery should be. Some elements suggest that an open market be the outcome, such as the un-argued assumption that unfettered charges are the desirable outcome. Other elements postulate a high level of Government intervention and standardization, notably the concept of contracts and enforcement and that there is a standard normalized cost of efficient delivery that can be neatly divided into public and private benefit elements.

From an open market perspective there is no natural cost or price; every course has a range of potential dollar points. There may be a minimum but even that assumes a way of delivery. Attempting to then define a ratio of public to private benefit would create a myriad further points for argument and complication.

Cost is a doubtfully useful concept to determine Government funding amounts in designing an effective financing system (contrary to p63)

Costing studies struggle. They either:

- reflect what is currently done, which is often substantively driven by what funds are available, so confirming that those rough amounts can work or could with a small increase. The outcome is essentially circular; or

- define what is ‘necessary’ and cost that, where the debate then switches to what is necessary. It is possible to provide an engineering degree for \$28,000 a year, it is possible to do so for \$80,000 a year. The latter involves much the former does not, but is unlikely to produce three times the outcome – which is necessary or better? As a society we aim to avoid under take up of education – is there a risk of over consumption?

The pragmatic approach is to work with the amounts that providers are used to and provide incentives to do better with that money. Ultimately, it is providers which know how to deliver well not Governments. Government role is to create the scope for providers to do so, and pressure those who do not.

An approach built around price reflects better the need to encourage providers:

- to develop better approaches to delivery to improve outcomes and maintain relevance; and
- to find efficiencies, that can be used to improve outcomes or support other developments.

7. The roles of regulator and funder

The Paper makes a useful argument that the regulators, TEQSA and ASQA, should focus at assessing attainment of standards and not become involved in enforcing funding requirements. The extent of funding requirements needed is an area for discussion, and potentially one where neutrality of providers does not work.

The more intense the funding rules and the required level of scrutiny the less providers are free to develop delivery – it prevents the bad but constrains the good. We need to remember that today’s standard practice was yesterday’s radical change. Universities have prospered, leading development of higher education, without high levels of external determination of how education is delivered. A focus on outcomes is valuable, holding universities and other providers to account, and encouraging improvement.

8. Market information

Despite the claim that information about providers, students and their systems is in the “too hard basket” the amount of such information is much greater than previously. The main area where information is less than it was a decade ago is public, consistent, data about Government funding for higher education by program and provider.

As shown through the universities engagement with better information about student admission decisions there are two overlapping but different needs for information.

- Specific tailored information about a given person’s interests, that filters out non-essential information until or unless the person asks for it.
- Cross system comparative data, desired by media, commentators and Government, about the full set of delivery.

Conclusion

The IRU agrees that we need action to ensure all Australians gain a useful level of knowledge about society and the world and the essential capabilities for employment. *Future-Proof* contributes to the debate, setting out well the value from post school education.

The challenge now is to agree the way ahead, focused at what is needed for the 2020s, not what was considered theoretically correct in 2000.