

A new system for financing Australian tertiary education

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About the author

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About the Mitchell Institute

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Introduction

The importance of tertiary education

Tertiary education provides the deep knowledge and the specialised skills critical to Australia’s future as a cohesive, productive, healthy and globally engaged society. Tertiary education provides much of the new knowledge and many of the enabling capabilities required to address the major social and environmental challenges facing Australia, and to harness the transformative power of new technologies.

People without a tertiary education will be increasingly less able to participate in the future labour market.

Over the five years to November 2015, the majority of Australia’s employment growth was in occupations that require post-school qualifications gained through either the university or the vocational education and training (VET) sectors¹. This is no longer a trend – it is an established labour market reality.

The Department of Employment projects that of the almost 1 million jobs expected to be created in Australia from 2015-2020, 920,000 will require a post school education, with most of the growth at Certificate III and above. Only 69,000 jobs – just 3.4 per cent of the total – will be available for people who do not progress beyond Year 12 or equivalent.

Table 1: Projected Employment Growth, 2015-2020

Australian Qualification Framework level	Skill Level ²	Employment level – November 2015 ('000)	Department of Employment Projections		
			Projected employment level – November 2020 ('000)	Projected employment growth – November 2015 to November 2020	
				('000)	(%)
Degree or higher	Skill Level 1	3723.0	4205.9	482.9	13.0
Diploma\Advanced Diploma	Skill Level 2	1363.8	1514.4	150.5	11.0
Certificate III-IV	Skill Level 3	1733.2	1805.7	72.6	4.2
Certificate II-III	Skill Level 4	3043.1	3257.8	214.7	7.1
Year 12 or equivalent	Skill Level 5	2037.4	2106.4	69.0	3.4
	Total	11,900.5	12,890.2	989.7	8.3

Source: Department of Employment³

¹ Department of Employment. (2016). *Australian jobs 2016*. Australian Government, Canberra. Available from: https://docs.employment.gov.au/system/files/doc/other/australianjobs2016_0.pdf

² Skill Level 1 is commensurate with a Bachelor degree or higher qualification; Skill Level 2 is commensurate with an Advanced Diploma or Diploma; Skill Level 3 is commensurate with a Certificate IV or III (including at least two years on-the-job training); Skill Level 4 is commensurate with a Certificate II or III; Skill Level 5 is commensurate with a Certificate I or secondary education.

³ Department of Employment. (2016). *Employment projections*. Australian Government, Canberra. Available from: <http://lmip.gov.au/default.aspx?LMIP/EmploymentProjections>

Of course, not all new jobs require high skill levels. Substantial growth is projected in jobs requiring lower level VET qualifications. Many people also work in jobs below their qualification level, or only work part time at or below their qualification level. Graduates are also taking longer to find their first substantial job as the labour market has slowed.

Experience in the workforce, along with personal qualities and attributes, are critical in gaining employment and progressing in the labour market. But it is an almost universal threshold expectation that job seekers will hold a tertiary qualification.

New workforce entrants, and existing workers seeking new or more rewarding employment, are already seriously disadvantaged in the labour market if they don't have a tertiary qualification or cannot renew their skills through tertiary education. Those holding only lower level VET qualifications will not do well particularly if they have not completed school.

The OECD in its report Investing in Youth: Australia⁴ found that 37 percent of people aged 15-29 with only basic secondary education were not engaged in education, training and employment in 2014 compared to 11 percent of the same age cohort with tertiary level qualifications⁵.

There are broader economic and productivity factors to consider as well.

Australia must increase its workforce participation rate. The Australian population is aging but it is also growing both through births and net migration. This means that dependency ratios – the proportion of the people in the workforce relative to people not in the workforce – will increase as a consequence of people leaving the workforce and growth in the number of children and young people not yet in the workforce⁶.

People with a tertiary education are more likely to participate in the workforce, for longer and in more rewarding jobs, than those without a tertiary education. They are also more likely to be able to adapt to changing labour market circumstances. These benefits of tertiary education increase as levels of educational attainment increase, highlighting the important role of tertiary education in career progression and mobility within the workforce.

The Australian Priority Investment Approach to welfare in Australia is also relevant as it will enable the long term costs of non-intervention or ineffective intervention to be assessed against the benefits of investment in early intervention. The Baseline Valuation Report recently released by the Minister for Social Security suggests that young people entering the social security system at age 18 or under are:

---- predicted to have a higher probability of remaining in the system and moving through different classes without exiting the system than people who enter a year or two later - and are more likely to have risk characteristics, such as a lower educational attainment, that predict higher lifetime costs⁷.

The Baseline Valuation Report however also highlights the fact that higher levels of educational attainment in themselves are not a panacea as a 'significant subset' of students in receipt of income support go onto other income support payments with a high lifetime cost (although the number of students relative to the total student population is very small). The quality of outcomes from tertiary education and access to support services such as career advice, counselling and other assistance and interventions are essential to enabling students to successfully transition into the labour market.

⁴ OECD (2016) *Investing in Youth Australia 2016* OECD Publishing Paris p.56

Available at: http://www.keepeek.com/Digital-Asset-Management/oe.cd/social-issues-migration-health/investing-in-youth-australia_9789264257498-en#_V-HoafB96M8#page4

⁵ Tertiary education in the OECD definition equates to AQF 5 and above however this definition excludes Certificate III and IV qualifications that are used as post school entry level qualifications in Australia (such as apprenticeships).

⁶ Australian Institute of Health and Welfare (2015). *Australia's Welfare 2015*. AIHW, Canberra. Available from: <http://www.aihw.gov.au/australias-welfare/2015/working-age/>

⁷ Department of Social Services (2016) Baseline Valuation Final Report p. XV
Available at <https://www.dss.gov.au/baseline-valuation-report-0>

Nonetheless the Report highlights the case for greater investment in tertiary education particularly in the VET sector to levels of tertiary education attainment.

Moving to universal participation in tertiary education

Australian governments have long recognised the importance of improving levels of educational attainment in Australia. The Australian community has responded strongly to the opportunities opened up through widening access to secondary and tertiary education.

In 1982, Australian governments, through their education ministers and portfolios, decided to significantly improve school retention rates. Their decision was a determined response to growing and alarming levels of youth unemployment. Their decision was supported by clear evidence that young people who left school without a senior secondary qualification were significantly disadvantaged in the labour market. Lamb et al note that:

Major changes were made in several states to the provision of the senior secondary school curriculum to accommodate a broader range of students. Together these changes supported a decade of great expansion in senior schooling, a decade in which Australian States moved rapidly and impressively towards developing mass or universal systems of secondary education⁸.

In a decade, retention rates from Year 7 to Year 12 more than doubled, rising from 36 per cent in 1982 to over 77 per cent in 1992⁹. Although subsequent measures to achieve near universal school completion have been less successful we must acknowledge the remarkable progress, underpinned by substantial government and community investment.

But we stand to lose the benefits of the substantial additional investment in Australian schooling if we assume that Year 12 is the end game. It isn't. We need to continue improving participation and outcomes from schooling and capitalise on those improvements by translating them into wider participation in, and solid outcomes from, tertiary education.

Professor Peter Dawkins has argued that universal participation in tertiary education in the 21st century is now required as school completion is no longer sufficient for effective economic and social participation. Moreover, the tertiary education system must also have the capacity and flexibility to support ongoing participation by adults in tertiary education over the course of their working lives¹⁰.

From 2005 to 2015 the proportion of the workforce holding a bachelor degree or higher qualification rose from 23 percent in 2005 to 31 percent, and VET qualifications from 26 percent to 32 percent. In the same ten-year period to 2015, the proportion of the workforce without post-school qualifications fell from 42% to 32%¹¹.

This momentum must be maintained, not just to fill future job vacancies and to meet future workforce skills needs, but to ensure that younger and older Australians are well-placed to effectively participate in a rapidly evolving labour market and to effectively participate in an increasingly well-educated society.

Much of the recent debate about higher education financing and growth in higher education participation has been driven by short term concerns about diminishing graduate outcomes (mainly a function of the slowing of the economy), and graduate oversupply in specific professions and occupations.

⁸ S Lamb, A Walstab, R Teese, M Vickers and R Rumberger. (2004). *Staying on at School: Improving student retention in Australia – Report for the Queensland Department of Education and the Arts*, p.3. Queensland Government, Brisbane. Available from: http://www.curriculum.edu.au/verve/resources/studentretention_main_file.pdf

⁹ S Lamb et al, *ibid*, p. 3.

¹⁰ P Dawkins. (2014). *Reconceptualising Tertiary Education*. Mitchell Institute at Victoria University, Melbourne. Available from:

http://www.mitchellinstitute.org.au/wp-content/uploads/2014/05/Inaugural_policy_lecture_Reconceptualising_tertiary_education.pdf

¹¹ Department of Employment, *ibid*, p. 30.

In a recent article, Alan Finkel, Australia's Chief Scientist, pointed out that in an era of mass tertiary education there will always be more graduates than available specialist jobs. However, he argued that we need to broaden our scope of inquiry. He suggests we 'start by acknowledging how much of our thinking is still limited by the old instincts'. Finkel goes on to say:

It is time to recognise that it is not a failure to progress to a job that has no obvious link to one's degree. In the mass education era, the capacity to pivot is probably the most reliable predictor of success.

Why do so many more jobs require tertiary credentials today than in the past? A modern economy, increasingly centred on services, demands workers with excellent analytical and communications skills. Skills acquired through a science, technology, engineering and mathematics (STEM) degree happen to be extremely useful for complex problem-solving in a technology-rich world¹².

Moving to universal participation in tertiary education is an acute challenge for Australia. It must be achieved in the context of a tightening fiscal outlook for all Australian governments and competing pressures from other areas of service delivery. The challenge is amplified by slow wages growth which limits the capacity of individuals and families to invest in education.

However, it is a challenge Australia must understand, confront and meet.

The challenge of increasing participation

The magnitude of this challenge is shown by the following figures which outline recent, current and projected annual tertiary education participation rates for cohorts of those aged 15-24.

The scenarios in figures 1 and 2 illustrate the effect of growth in enrolments in tertiary education in Australia in the period 2008-2012, and the effect of future enrolment and participation scenarios for tertiary education. The scenarios are illustrative in nature; they are not predictive nor do they represent specific policy options. Actual participation rates will be influenced by:

- system capacity;
- student demand;
- school retention rates (fewer or more 16-18 year olds in school rather than tertiary education);
- course completion, recommencement and progression rates;
- course duration;
- participation by young people in the labour market rather than tertiary education; and
- actual rather than projected population levels.

Figure 1 shows the substantial increase in levels of tertiary participation from 2008-2012. However, if enrolments remain at current levels¹³ participation by 15-24 year olds in tertiary education will fall from a peak of 34 percent in 2012 to 32 percent in 2030 the same as it was in 2008. Enrolments will need to increase by almost 166,000 just to maintain current participation rates and by 424,000 if to achieve a participation rate of 39 percent by 2030 when most children starting pre-school in 2017 will be leaving secondary school.

In considering these scenarios is relevant to note that:

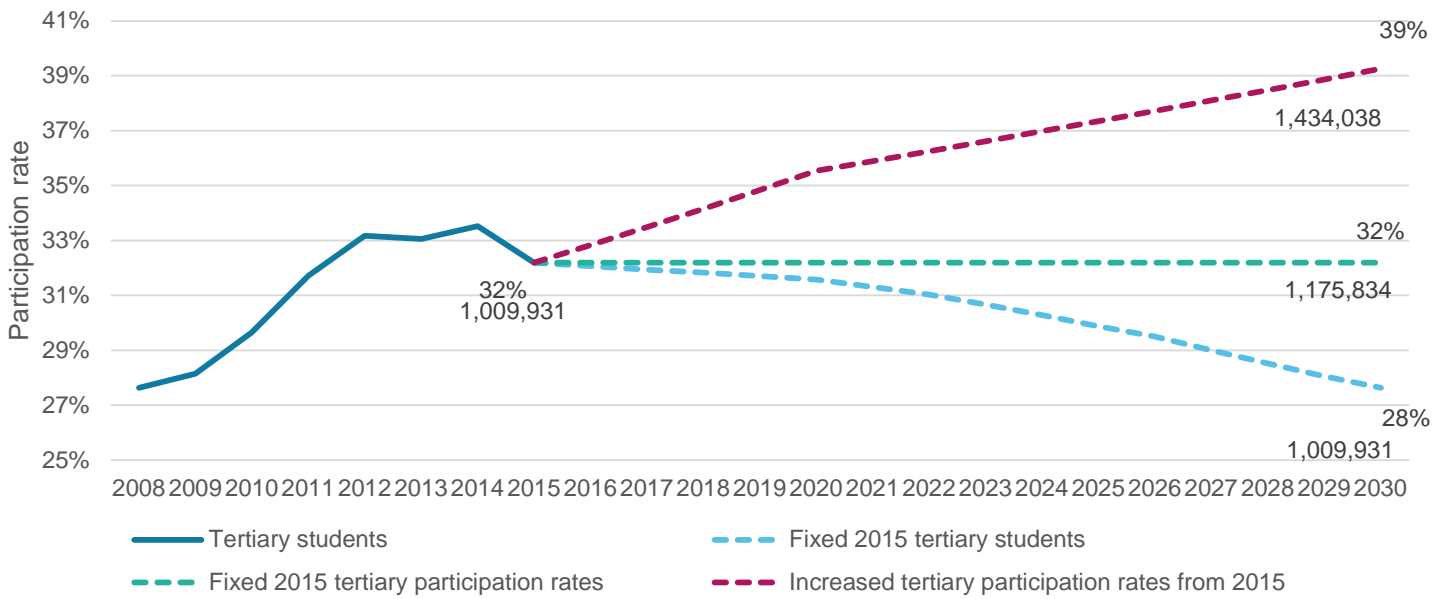
- Overall participation rates for 15-24 year olds in tertiary education are in decline right now:

¹² A Finkel. (2016). 'Time to change our university graduate expectations by degrees', *The Australian*, 29 August 2016. Available from: <http://www.theaustralian.com.au/opinion/time-to-change-our-university-graduate-expectations-by-degrees/news-story/8438b778cad5f7ab593697f3712acabf>

¹³ It is recognised that combining VET and higher education enrolments has limitations as many VET students are enrolled in relatively short courses, may participate in more than one course in a year, and may be enrolled in both sectors during the year.

- This is because publicly funded VET enrolments and participation rates have fallen each year since 2012¹⁴;
- While participation in higher education continues to grow higher education participation rates fell in the decade between 1996-2006¹⁵ after a sustained increase from 1989 to 1996, and enrolment growth in higher education is now slowing.

Figure 1: Effect of scenarios on tertiary participation levels



¹⁴ NCVER (2015) *Government funded students and courses* Table one Available from:

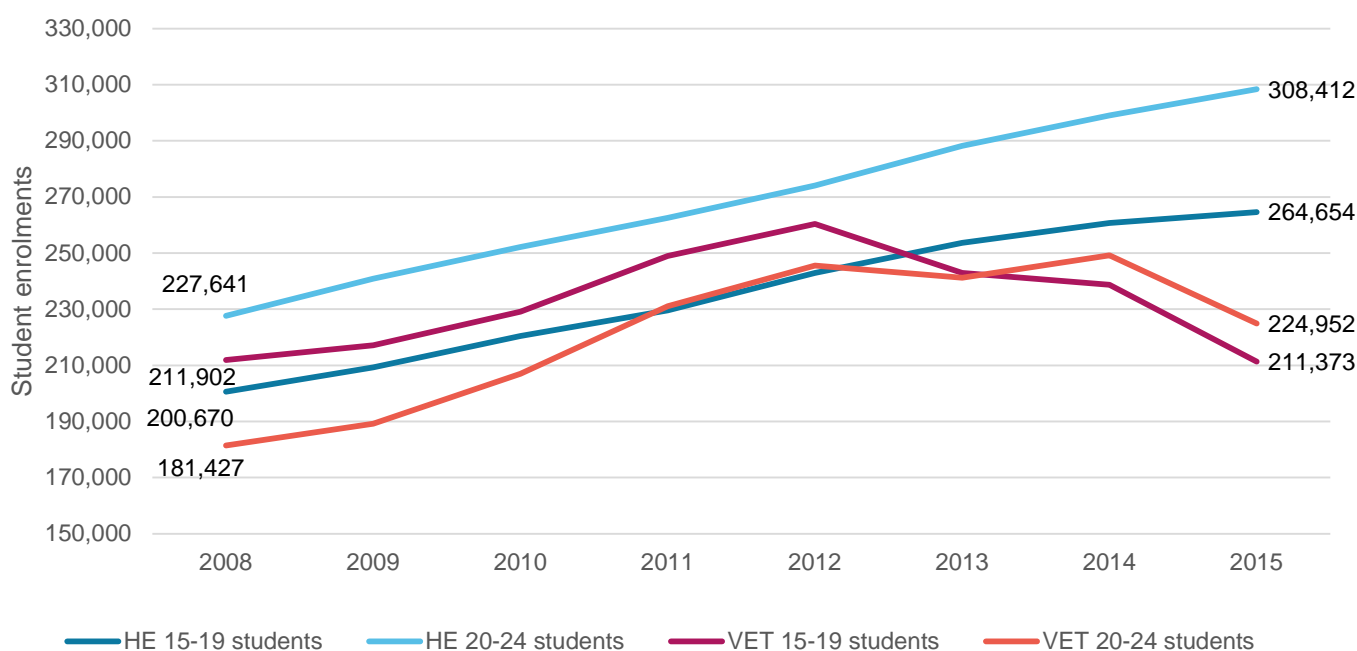
https://www.ncver.edu.au/_data/assets/pdf_file/0028/58555/Government_funded_students_and_courses_2015.pdf

¹⁵ Access Economics. (2008). *Future Demand for Higher Education*, p.5. Available from: <http://www.voced.edu.au/content/ngv%3A16767>

Imbalance between higher education and VET

This analysis of the tertiary sector as a whole also masks diverging trends in enrolment between the higher education and VET sectors. Figure 2 illustrates declining VET enrolments relative to higher education enrolments for students in the 15-19 and 20-24 age cohorts. (Note that many VET enrolments are of short duration and may include students also enrolled in schools and higher education.)

Figure 2 HE and VET student enrolments 2008-2015



Moreover, the national trend in VET enrolments masks significant variations between jurisdictions. Most of the growth in enrolments between 2010 -2012 was contributed by Victoria, and to a lesser extent South Australia, but publicly funded enrolments and public investment in VET are now in decline in all jurisdictions and nationally.

It is important to note that the Review of Australian Higher Education (Bradley Review), in recommending the introduction of demand driven funding in higher education, foresaw the risks associated if demand driven funding was introduced in the higher education sector alone. The Review argued that:

... moving to a demand-based approach to funding higher education cannot be done in isolation from VET. Changing higher education funding but leaving VET funding untouched would compound existing distortions¹⁶.

Indeed, the Review warned that:

It appears too, that some states and territories faced major fiscal constraints, which may lead them to reduce their investment in VET in the near future, leading to skewed and uneven investment between sectors over time if demand base funding model is adopted for higher education¹⁷.

¹⁶ D Bradley, P Noonan, H Nugent, and B Scales. (2008). *Transforming Australia's Higher Education System* (Final Report of the Review of Australian Higher Education), p. 185. Australian Government, Canberra.

¹⁷ D Bradley et al, *ibid*, p. 183.

For this reason, the Bradley Review argued that the Commonwealth should take primary responsibility for the broad tertiary education and training system in Australia, including regulation, funding, governance, and research into and analysis of the sector (to support strategic decision-making).

Regrettably, in relation to the broad tertiary sector, only the Review's recommendations for national regulation of higher education and VET were adopted and implemented. The ongoing deterioration in VET funding and VET enrolments has underlined the penalty we now pay for the absence of a nationally consistent policy and funding approach to tertiary education.

Since 2008 the differences in funding arrangements and funding levels for higher education in VET have widened. Today we confront increasing differences between the states and territories in their levels of VET investment, what they fund and how they fund VET.¹⁸ Due to the downturn in investment in VET and the overall downturn in VET enrolments since 2012, demand driven higher education is now the only source of funded growth for tertiary education in Australia.

As a consequence, there is continuing and increasing debate about the future of the demand driven higher education system (in terms of cost and entry requirements) and about higher education outcomes (in terms of attrition rates and graduate employment).

However, calls to recap higher education enrolments are ill informed and contrary to the long term national interest. Such calls fail to account for population trends and the constraining effects recapping would have on participation rates. Challenging the recapping proposition must not be taken as an argument for the current higher education demand based funding system to continue in perpetuity. Rather it is making the case that decisions be taken with longer term policy goals clearly in the frame, and that the scope of such decisions must include complementary decisions on VET sector funding.

In a 2015 Issues Paper¹⁹ the Mitchell Institute identified anomalies in the financing higher education including:

- differential treatment of students;
- inconsistency in eligibility, subsidies and fees;
- inconsistent access to income contingent loans;
- inconsistent access to student income support;
- widening investment gap between higher education and VET;
- a growing gap in per student funding levels; and
- potential distortion of student choice.

The Issues Paper argued that:

Separately and together, these factors have perverse effects. They constrain the tertiary education system's efficiency. They restrict its capacity to meet the challenge of balanced growth that accounts for rising demand associated with population growth, and changing demands associated with workforce needs.

The major challenge is to increase participation in, and outcomes, from VET.

Australia is not the only country to experience a decline in the role and value of its technical and vocational training sector.

The United Kingdom has experienced similar problems. As a result the UK Government recently announced a Post-16 Skills Plan to build the capacity and standing of the technical and further education sector. Under the Plan all 16 year olds in the UK will have the option of pursuing academic or technical pathways.

¹⁸ P Noonan. (2016). *VET Funding in Australia: Background trends and future directions*. Mitchell Institute at Victoria University, Melbourne. Available from: www.mitchellinstitute.org.au

¹⁹ P Noonan and S Pilcher. (2015). *Financing Tertiary Education in Australia: The reform imperative and rethinking student entitlements – Issues Paper*. Mitchell Institute at Victoria University, Melbourne. Available from: www.mitchellinstitute.org.au

The Post-16 Skills Plan released by the Minister for Skills, Nick Bowles, indicates that the technical stream:

... must be a distinctive, prestigious, high-quality offer in its own right; a positive, informed choice. If we don't provide an excellent technical education option, we will be failing a very significant number of young people. We cannot continue to let so many work their way through a succession of often low-level, low-value qualifications that lead at best to low-skilled, low-paid employment. Securing a step-change in technical education is vital for the productivity of this country; employers have specific training needs which the education system needs to serve²⁰.

The relevance of the distinction between academic and technical education reflected in the Post 16-Skills Plan can be debated on several fronts. For example, there can be little doubt that labour market participation now requires all young people to acquire a broad range of skills, attributes and capabilities. The higher education sector offers professional and vocational qualifications and not just academic qualifications. Given that many people move between the VET and higher education sectors it seems there is both industry and learner demand for flexible inter-sectoral connections.

However, these points do not detract from the well-grounded policy direction set by the Post-16 Skills Plan; that is to better balance participation in higher education and VET, and the necessity of building the status and recognition of its VET sector. It is a direction that is arguably even more relevant in Australia given the declining investment and participation levels in VET, and the fact that most improvements in tertiary education participation will come from population groups primarily served by VET (for example, younger people with lower levels of educational attainment and students in rural and regional areas).

Sector specific issues

Higher education

There is also a range of unresolved issues from previous reviews and reform proposals in higher education, including:

- the future of the demand driven system;
- course funding levels and how courses are priced;
- the potential for fee flexibility for 'Flagship courses';
- HELP system settings, including the income level at which repayments should commence and repayment rates;
- potential extension of the demand driven system to higher education sub-degree programs;
- availability of demand driven funding for post-graduate programs; and
- opening up public funding to non-university private higher education providers.

These issues are the subject of an ongoing consultation process, principally through submissions to a Commonwealth Government Discussion Paper²¹. The transparency of entry requirements to institutions and courses is also under consideration.

²⁰ N Bowles (2016). *Post-16 Skills Plan*, UK Department of Education London, p.17. Available from: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/536043/Post-16_Skills_Plan.pdf

²¹ Department of Education and Training. (2016.) *Driving Innovation, Fairness and Excellence in Australian Higher Education*. Australian Government, Canberra. Available from: https://docs.education.gov.au/system/files/doc/other/he_reform_paper_driving_innovation_fairness_and_excellence_3_may_2016.pdf

VET

Separately, the Commonwealth has undertaken a consultation process, also underpinned by a Discussion Paper²², on future VET FEE-HELP arrangements. The policy objective of this work is to redress widespread misuse of the scheme, notably fee overpricing and inappropriate enrolments.

In 2015, the Commonwealth also initiated through the Council of Australian Governments (COAG), a review of its broader partnership agreements with states and territories for funding the VET sector, including options to realign Commonwealth and state/territory VET funding responsibilities. The Commonwealth floated the option of assuming from the states and territories full responsibility for VET funding. It has not pursued this proposal following strong opposition from some states.

The future outlook for VET funding is poor – even Commonwealth funding for VET will fall by \$450 million in 2017 when the current National Partnership Agreements for Skills Reform ceases. Based on recent trends, continuing reductions in funding are likely in most states and territories.

The Mitchell Institute has argued for a new VET funding model under which the Commonwealth would establish bilateral agreements with the states for co-investment in a defined set of courses of national or state priority. Course pricing would be based on the principle of an efficient price. Under this approach, each government would contribute to the cost through subsidies, and through income contingent loans administered by the Commonwealth under a revised VET FEE-HELP scheme²³.

Fees for VET students in all jurisdictions are increasing. Unlike higher education students and students in VET diplomas and advanced diplomas, VET students enrolled in certificate courses cannot access income contingent loans.

However, the problems related to declining enrolments in the VET sector cannot be attributed purely to funding.

A range of factors have collectively dampened demand for VET, particularly for students who can readily access a university place. The factors include: reputational damage to the sector resulting from widespread adverse publicity as a consequence of VET FEE-HELP abuses; fee increases in certificate courses for students who cannot access income contingent loans; inappropriate provider behaviour in some states as a consequence of poorly designed training markets; negative publicity associated with the loss of market share by TAFE and cuts to TAFE; declines in apprenticeship and traineeship enrolments; and deteriorating employment outcomes.

These problems are overlaid with other impediments to VET participation – notably social and parental attitudes, the role and structure of senior secondary certificates, and dominant values in schools which value higher education over VET.

Issues under current consideration by the Commonwealth, while critical, are largely concerned with how tertiary (particularly higher) education is financed. There is as yet no apparent focus on the broader purposes of financing tertiary education, nor on the respective roles and contributions of the VET and higher education sectors.

Costing and financing HELP

Issues relating to the cost of the HELP system have also recently emerged.

The costs of underwriting HELP are not sufficiently transparent on an annual basis as the costs (debt not repaid and the costs of interest subsidies) form part of the Government's net debt. Annual costs calculated on the basis of the costs of

²² Department of Education and Training. (2016.) *Redesigning VET FEE-HELP: Discussion Paper*. Australian Government, Canberra. Available from: https://docs.education.gov.au/system/files/doc/other/redesigning_vet_fee-help_-_discussion_paper_0_0.pdf

²³ The basis of this model is set out in Noonan Op.Cit p. 24

concessional interest payments, and interest on the costs of debt not repaid, are estimated by the Parliamentary Budget Office (PBO) as rising from \$1.7 billion in 2015-16 to \$11.1 billion in 2025-26²⁴.

However, this analysis was based on assumptions derived from the 2014 Commonwealth Budget that subsidy levels would reduce by 20 per cent and HECS contributions would rise by an average of 40 per cent. Professor Bruce Chapman, the architect of HECS, has argued that budget savings from a reduction in subsidies should be offset against resultant increases in the costs of HELP, and that the PBO analysis is based on assumptions (deregulation of university fees) that are no longer relevant²⁵.

The projected costs also reflect the costs of the blowout in VET FEE-HELP loans from 2012-2015. It is expected that these costs will be substantially reined in. Changes to HELP income repayment thresholds will also reduce the costs of HELP as debt will be repaid earlier and by more people with a HELP debt.

Nonetheless, the analysis undertaken by the PBO, and earlier analysis by the Grattan Institute of the annual costs of HELP debt²⁶, needs to be undertaken on a more regular and transparent basis to inform future policy decisions on HELP including the appropriate balance between subsidies and HELP contributions and the potential for fee flexibility.

Consideration could therefore be given to:

- making more explicit provision for the costs of HELP through the Commonwealth setting parameters in the budget process on total loan amounts and the annual costs of interest subsidies and debt not repaid.
- mechanisms to ensure that providers share in the costs of interest subsidies and doubtful debt in the HELP scheme, particularly where fees exceed course price benchmarks and private returns to students are not sufficient to meet the long term costs of HELP.

Need for a coherent financing system

In the past few decades, policy development and decision making about higher education and VET in Australia has been sector specific. There has been little regard to the interrelationship between the sectors and their combined contributions to broad and long term policy goals.

The traditional configuration of the Commonwealth education and training portfolio at ministerial and department levels separates higher education and VET, which does not assist in maintaining integrated oversight of tertiary education policy, funding and programs. That responsibility for VET is shared between the Commonwealth and the states exacerbates this problem.

The Bradley Review recommendations in relation to a broader tertiary education and training system were all but ignored by the previous Labor Government in 2009. The demand driven higher education system was introduced without sufficient regard for its impact on VET. At the same time accountability of states and territories for VET expenditure was weakened, opening up incentives for them to cost shift to the Commonwealth. Separate, inconsistent and incoherent targets for attainment were set for the higher education and VET sectors. The VET targets were then ignored by most states and territories who reduced VET funding while the Commonwealth increased its contribution²⁷.

The initial portfolio arrangements of the Abbott Government separated VET and higher education into different departments. Although they have since been re-integrated, since 2013 five different Ministers have held responsibility for VET. The 2014 higher education policy proposals were developed and considered without sufficient consideration

²⁴ Parliamentary Budget Office. (2016). *Higher Education Loan Program: Impact on the Budget – Report no. 02/2016*. PBO, Canberra. Available from: http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Research_reports/Higher_Education_Loan_Program

²⁵ B Chapman. (2016) *Rubbery figures no basis to abandon HELP* The Australian April 13
Available at: <http://www.theaustralian.com.au/higher-education/opinion/rubbery-figures-no-basis-to-abandon-help/news-story/b994c7517f543fc85c829cc0e424668f>

²⁶ A. Norton and I Cherastidtham, (2016) *HELP for the future: fairer repayment of student debt*, Grattan Institute Melbourne

²⁷ Noonan Op. Cit p. 15

of their impact on VET. This was particularly evident in the proposal to extend demand driven funding to higher education sub-degree programs which overlap with state/territory funded courses and VET FEE-HELP funded courses.

In the last two years the Commonwealth has had an understandable focus on fixing VET FEE-HELP. It is encouraging that the Minister for Education and Training, Simon Birmingham, has indicated that he will have oversight of reforms to the HELP schemes across the VET and HE sectors.

However, the COAG process for reconsidering the role of VET and funding responsibility for the sector has at best stalled, and at worst collapsed.

Decisions on future arrangements for higher education and VET funding in Australia will follow several years of policy success in some areas and policy stasis and failure in others. The mixed outcome is reflected in recent changes which have, in the main, achieved their policy objectives (such as demand driven higher education funding) but also resulted in significant policy failures (such as VET FEE-HELP).

Decisions on future arrangements can build on the foundations of relatively mature systems that have adapted and evolved over several decades, but most commentators and stakeholders now also recognise that some elements of those systems are now dated.

To paraphrase Tom Holland's description of the Roman Republic, tertiary education funding in Australia is currently both a 'building site and a junk yard'. Although Holland also points to the virtues of the Romans in governing their society:

*... preserving what worked, adapting what had failed and preserving as ancient lumber what had become redundant*²⁸.

In a similar vein the former Secretary of the Department of Foreign Affairs and Trade, Peter Varghese, has urged an approach to policy formation of 'radical incrementalism', arguing that:

*Small steps only work as a strategy however if the ultimate objective is clear and genuinely transformational. This is the essence of radical incrementalism. And it is not to be confused with its evil twin, ad hoc incrementalism, which are small steps taken in the absence of a broader change agenda. The latter is taking up too much space in our political and bureaucratic cultures*²⁹.

There is a real risk in Australia at present of ad hoc incrementalism in relation to pending decisions on tertiary education funding in Australia. The prospect is that it will continue to look more like a junk yard than a new building!

The roles and scope of each sector vary and it is important that tertiary education in Australia maintains distinctive and diverse offerings across the VET and higher education sectors³⁰. In higher education the interface with research funding for universities adds additional complexity.

This suggests that in the main, decisions about higher education and VET funding, and the design of the funding systems, need to be determined separately. But separating the decisions does not mean the decisions can be disconnected. They must be taken in the context of overall long term objectives for tertiary education in Australia. They must reflect an understanding of the relationships between the sectors, particularly at the sub-degree level. And they must strike a balance of provision between the sectors that serves the nation's future labour market and social needs.

Most importantly, the Commonwealth needs to take a broad view of its role in setting national tertiary education policy by more effectively integrating its funding mechanisms.

²⁸ Holland T. (2011). *Rubicon: The Triumph and Tragedy of the Roman Republic*, Hachette, UK, p. 70.

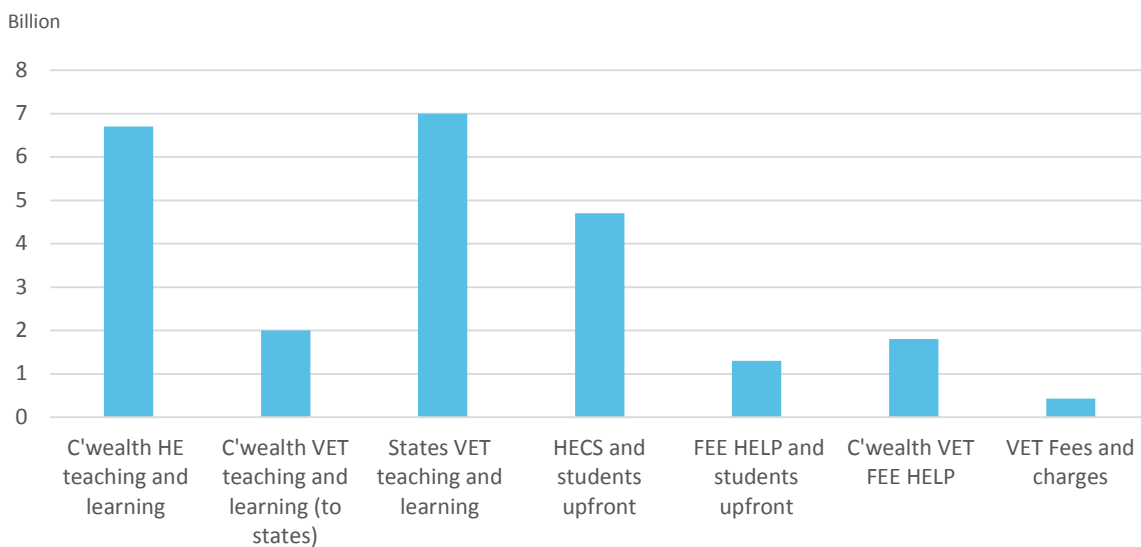
²⁹ Varghese P. (2016). 'Reflections on a Most Fortunate Public Life', *The Mandarin*, 9 June 2016. Available from: <http://www.themandarin.com.au/66318-peter-varghese-dfat-parting-reflections/>

³⁰ The need for diversity in tertiary education provision was central to the Bradley Review recommendations. See Bradley et al, *ibid*, p.180.

Key elements of a national tertiary education financing system

In 2014, total funding available for teaching and learning in tertiary education in Australia was approximately \$24 billion. Funding categories are summarised in Figure 4. Data excludes research funding, Commonwealth non-teaching and learning VET program expenditure, VET fees, revenue from non-public providers, and portfolio expenses. In 2015 it is likely Commonwealth expenditure in all categories will have increased, particularly on VET FEE-HELP, while state VET expenditure will reduce.

Figure 3: Outlays³¹ on tertiary education by category, 2014



Source: Commonwealth budget papers 2015-16, NCVER VET Finance 2014, Department of Education and Training VET FEE HELP statistics 2015 and higher education statistics 2015 student liability status

The Commonwealth is by far the dominant funder of tertiary education, directly in terms of subsidies and indirectly by administering and underwriting the costs of the HELP scheme. However, whatever its merits (so that tertiary education is funded by a single level of government) it is now unlikely that the Commonwealth will assume full responsibility for funding VET.

A national tertiary financing system, therefore, has to incorporate the states and territories through a more effective shared funding model than the current national partnership agreements. This is essential if increasing tertiary education participation rates is to be a common policy objective in which all governments play a part.

Taken together and adapting the existing funding pools, the four main elements of a tertiary financing system in Australia could comprise:

1. A Commonwealth funded higher education subsidy system spanning higher education diplomas, advanced diplomas, associate degrees, degrees and post-graduate qualifications, based on higher education course resources benchmarks:
 - a. VET diplomas and advanced diplomas could also be included in this system so that all qualifications at this level are funded by a single level of government;
2. A jointly funded system of national VET qualifications through bilateral investment plans between the Commonwealth and the states/territories, but with the states/territories retaining responsibility for VET provider funding and oversight in each jurisdiction:

³¹ HELP outlays are included as they represent direct payments to providers in a year noting that a high proportion of these outlays will be recouped.

- a. In each jurisdiction funding would be based on an agreed set of qualifications and agreed pricing;
- 3. HECS-HELP for all subsidised courses with student contributions based on maximum fee levels, or flexible fees based on pricing guidelines and oversight:
 - a. The states/territories would continue to contribute to the costs of administration, interest subsidies and debt not repaid for state subsidised courses.
 - b. The Commonwealth could consider mechanisms to ensure that higher education providers also contributed to these costs where course fees exceed the higher education course resources benchmark.
- 4. FEE-HELP for full fee higher education courses and VET (based on the outcomes of the review of VET FEE HELP) with mechanisms that ensure providers contribute to the costs of FEE HELP.

Central to this approach is rethinking the purpose of HELP as a more universal system. Seen in that light, HELP becomes a vehicle which individuals can access to support their initial and ongoing access to tertiary education, subject to lifetime loan limits, and to effective setting and oversight of course fee levels.

System governance

A tertiary education finance system must be effectively governed. The required governance functions are set out below. Some relate to the tertiary sector as whole and should be undertaken by an overarching body. Other functions are sector specific and should be developed and administered by specialist bodies for each sector.

Whole of sector functions include:

- assessment of need and demand, particularly in relation to population growth, including the balance of growth between higher education and VET;
- advice to government on future resourcing needs based on an assessment of need and demand (as above);
- monitoring of and advice on fiscal sustainability of direct outlays and the long-term costs of income contingent loans;
- pricing principles and pricing methodology; and
- administration of HELP (including interface with the ATO and the Department of Finance), and oversight and monitoring of both the costs of HELP and the provision for the written down value of the HELP 'loan book'.

Higher education financing functions include:

- price setting covering public and private contributions for different tertiary qualifications, and including the relative contribution to teaching and learning and research;
- establishing settings for flexibility in private contributions based on fair pricing and benefits to students;
- co-investment with institutions in physical infrastructure required to increase participation in areas of population growth, renew existing infrastructure and invest in new equipment and technology;
- administration of sector specific programs and funding schemes;
- operation of administrative and data systems; and
- payments to institutions, accountability and reporting.

VET financing functions include:

- establishing, monitoring and adjusting a co-investment model agreed between the Commonwealth and each state and territory (which replaces the current National Partnership Agreement), including:
 - courses to be funded; and
 - prices and contributions for the Commonwealth, states/territories and students; and
- administration of Commonwealth VET programs outside the inter-governmental agreement.

The diagram at appendix one sets out a possible model in which these roles could be fulfilled by the Commonwealth for higher education, and in relation to VET, could be filled by the Commonwealth in partnership with the states and territories. The model includes the critical functions, relationships, and information and funding flows for an integrated tertiary education financing system. Some functions are represented as important across the higher education and VET sectors.

However, specific funding arrangements for the sectors are seen as distinctive, reflecting the Commonwealth's direct responsibility for higher education funding, its shared responsibility with the states and territories for VET funding and the distinctive roles of the sectors. Central to the model are more explicit functions for HELP system oversight, settings and provision of costs.

A tertiary education financing authority

There is a strong case for an independent authority to fulfil the central functions set out in the system outlined in appendix one. Independent status means the authority would operate at arm's length from government. It would have a clear charter to oversee and administer the Commonwealth's investment in tertiary education to achieve policy objectives established by the Government, and in the case of VET by agreement with the states and territories.

At a minimum, pricing decisions should be made, or advice provided on pricing (encompassing subsidies, student contributions and HELP settings), by reference to a transparent, evidence based process. Such an approach is already in place for pricing hospital and disability services.

More generally, the Commonwealth Government now seeks research and advice from Infrastructure Australia before finalising decisions on investment in physical capital. Incorporating an independent perspective into its deliberative decision making process ensures that Government decisions are based on thorough assessments of long term needs and cost/benefit analysis. Similarly, recommendations on competitive research funding are taken through the Australian Research Council (ARC) and the Government's own direct investment in scientific research and development is undertaken through the CSIRO.

There is a case to apply a similar principle to the Government's ongoing investment in human capital through the tertiary education system.

The design of an independent tertiary education financing authority must carefully weigh the extent to which its powers are advisory or determinative, and the allocation of functions and powers between an independent authority, the department of state and central agencies. Any model for an independent authority must have a governance and operating framework that recognises that Minister(s) and Cabinet are accountable for policy decisions, setting financing parameters and entering agreements with state governments.

However, the legislative basis of the tertiary education financing system is less important. Our major priority must be developing and adopting a coherent and integrated approach to financing, and taking long term investment decisions to achieve near universal participation rates in tertiary education in Australia. This is a complex, demanding national-building task. It is a national project similar, but no less complex, to that which Australia commenced over 30 year ago when we set ourselves the objective of achieving universal participation to the end of senior secondary schooling. This was a significant achievement in its time, but one which is no longer sufficient to underpin Australia's ongoing transition to a leading, knowledge intensive economy and to an even more inclusive society.

Appendix One

Tertiary education financing model

