

Building a sustainable funding model for higher education in Australia – a way forward

Mitchell Institute discussion paper

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About the author

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The views represented in this paper however are my own, as are any errors of fact, interpretation or emphasis. The issues involved are complex and the associated background material voluminous and I am happy to consider any factual refinements to the paper.

About the Mitchell Institute

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Summary

The defeat of the Federal Government's higher education reform legislation in the Senate in December 2014 reflects the most serious differences on higher education financing policy between the major Australian political parties since the Commonwealth assumed full responsibility for university funding in 1973.

Ongoing instability in higher education funding would represent a poor public policy outcome, given the recognition by all political parties of the importance of a strong, vibrant and growing higher education system in Australia.

The current political impasse does not stem from a lack of analysis and evidence. In the past fifteen years, there have been five major national reviews of higher education with a primary focus on financing and several in the decades before that.

The proposed changes to higher education funding are not scheduled to commence until 2016. The Government still has a small window of opportunity to reconsider its current approach and develop an alternative package that might in the first instance gain Senate support but, equally importantly, provide a stable basis for higher education funding into the future.

In undertaking that process, this paper argues that the Government needs to consider four main sets of issues:

- the **objectives of fee deregulation** and how these objectives will drive reform;
- the **design of the scheme** and the risks and issues arising from fee deregulation, including the relationship between deregulated fees and the current system of public subsidies;
- the **likely effect of the reforms on the broader economy**; and
- the **growing gap in investment** between higher education and vocational education and training (VET).

However, the Government needs to be far clearer about its objectives in allowing universities to increase revenue through higher student fees, gather concrete evidence about specific benefits, and address well evidenced risks associated with full fee deregulation under an income contingent loan scheme.

It is clear that public funding alone will not be sufficient to continue expanding participation and widening access, let alone address the now well established concerns about the decline in per student funding.

In the context of other areas of human service provision and other sophisticated organisations delivering highly tailored products and services to differentiated markets, it seems logical that universities and other higher education institutions should be able to differentially price their core and major offerings.

There is, therefore, a strong case to allow institutions to variably price their courses in terms of their relative costs and to improve teaching and learning.

The key issue is that pricing is efficient and effective, and relates directly to tangible benefits and outcomes for students and the community more generally.

What is not sustainable is a scenario where students pay far more than their predecessors for the same or diminished experiences and outcomes, and universities engage in a largely circular and closed process of competition.

Risks associated with fee deregulation must be addressed. These risks include that:

- The availability of income contingent loans and the lack of effective and efficient competition within many areas of the higher education system will limit price competition and lead to over pricing of courses, particularly in the early phase of the new system.
- Levels of doubtful student debt will increase but with students and government rather than institutions bearing the risk.
- There will be little incentive for established universities to pursue efficiencies and productivity improvements when they can readily raise revenue through annual fee increases.
- The purpose and level of public course subsidies will become even less coherent and less clear than under current arrangements and if private revenue increases, public subsidy levels will be further reduced.
- There may be inappropriate behaviour by institutions entering the market or seeking to increase market share.

The scholarship scheme as proposed may see many students incurring higher levels of Higher Education Loan Program (HELP) debt and, in effect, subsidising the costs of other students (many of whom probably would have attended higher education anyway, without the benefits of the scholarship). However, final guidelines for the scholarship program may lead to better targeting of the program to students for whom cost is a deterrent to participation.

The relationship between VET and higher education funding must also be considered in the context of the broader tertiary education system in Australia.

However, the risks identified above, and the issues discussed in this paper do not in themselves invalidate the case for fee deregulation. Rather, the risks must be acknowledged and addressed together with more concrete evidence about the specific benefits of fee deregulation for students and the community generally.

To address these risks and other issues and concerns, an expert body, at arm's length from Government, should be established under legislation to advise the Government on its final design and to oversee the operation of the new higher education financing system once in operation.

This could be achieved by the Government legislating for its establishment as a central element of a revised reform package, with its functions cross referenced to the relevant sections of the legislation concerned with the setting of fee and subsidy levels.

A long term and sustainable model for higher education funding in Australia is required.

For this to be realised, the major political parties also need to move away from their legacy values driven positions. For the Coalition, that fee deregulation will, of itself, automatically create a market that will induce diversity and price competition, and for Labor, that fee deregulation will yield a frenzy of price gouging at the expense of students and poorer sections of the community.

Neither claim stands up to close scrutiny, nor are they supported by the available evidence.

Labor should come to the table to help negotiate a fair and sustainable higher education financing package, with proper design and oversight through the process proposed above.

Ultimately, the future of higher education financing reform is in the hands of the higher education sector itself, through its leaders and its peak bodies engaging in a direct and open conversation with the community about what the sector can and should offer students in terms of world class higher education; the challenges the sector faces in adequately resourcing that offering; and how it might be paid for in terms of real and tangible benefits to students and the community more generally.

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Introduction

The defeat of the Federal Government's higher education reform legislation in the Senate in December 2014 reflects the most serious differences on higher education financing policy between the major Australian political parties since the Commonwealth assumed full responsibility for university funding in 1973.

A vote to allow debate to proceed on the legislation was defeated in the Senate, with the Labor and Green parties and independent and Palmer United parties voting to oppose, and the Coalition and other independent Senators voting to allow the legislation to proceed to debate.

However, some of the independent Senators, who voted in favour of debate, have signalled they would not necessarily support the measures without amendment, and some Senators who opposed the debate have signalled they also recognise the need for reform.

We are at a critical impasse. The Government has repeatedly stated its determination to proceed with the reforms as a key part of its legislative program for 2015, and the Minister for Education, Christopher Pyne, has already introduced amended legislation into the House of Representatives, with further debate scheduled when the Parliament next sits in February 2015.

The Government's amendments to the legislation may still not be sufficient to ensure its passage through the Senate. Other amendments may also come from the cross benchers, which the Government may be forced to accept if it wants the reforms to pass in some form. Last minute compromises and trade offs in the Senate are likely to distort rather than improve the reform package.

These political challenges and the potential for ongoing and drawn out debate do not bode well for *'long term, sustainable and predictable funding for higher education'*, as Universities Australia argued for in its submission to the Senate Inquiry into the Higher Education and Research Reform Bill.¹

Ongoing instability in higher education funding would represent a poor public policy outcome, given the recognition by all political parties of the importance of a strong, vibrant and growing higher education system in Australia.

It would also reflect poorly on our capacity to adapt the key elements of the Australian higher education financing system, which is recognised as one of the best in the world, to contemporary circumstances and needs.

¹ Universities Australia submission to Senate Committee Inquiry into Higher Education and Research Reform Amendment Bill 2014, September 2014, 14.

Against this background, this paper seeks to contribute to the development of a long term, sustainable and predictable funding model for higher education by:

- assessing the benefits and risks of the proposed changes, drawing on previous higher education reform processes and proposals;
- examining the process undertaken by the Government to date in the development of its reforms; and
- proposing the establishment of a new independent higher education funding oversight body to finalise the development of and oversee a sustainable higher education funding system, incorporating variable student fees and public subsidies.

The current reforms in context

The proposed reforms and savings

The Government's reform proposals were developed and first announced in the 2014-15 Commonwealth Budget, together with significant overall savings to higher education funding.

The objectives of the legislation are:²

to enable reforms to expand opportunity and choice in higher education in Australia, and ensure that Australia is not left behind at a time of rising performance by universities around the world (Pyne 2014).

To achieve these reforms, the Government proposed:³

- The extension of the demand driven funding system to sub degree higher education courses.
- The rationalisation of the different income contingent loans schemes into a single scheme, and the removal of loan charges applying to full fee courses.
- The opening up of public funding to all accredited higher education providers, including those currently offering full fee higher education courses.
- Deregulation of student fees for Commonwealth supported higher education courses, as long as fees do not exceed fees for international students.
- The removal of caps on maximum course loan amounts.
- The introduction of an Australian higher education scholarship program, by requiring institutions to invest 20 per cent of additional revenue in scholarships.

However, the Budget also contained significant savings measures in higher education, including:⁴

- Reductions in the level of public subsidies operating under the demand driven funding system by an average of 20 per cent. Subsequent adjustments would also be made to the relative funding levels for some courses.

² Education Minister Christopher Pyne *Higher Education and Research Reform Bill Explanatory Memorandum 2014*, Parliament of Australia.

³ Some measures also applied to postgraduate courses and research funding. However, these are not within the scope of this paper, which focuses on degree and sub degree level programs and funding.

⁴ For a detailed summary of the original budget measures, see C. Dow, 'Reform of the Higher Education Demand Driven System' in Parliamentary Library Research Paper *Budget Review 2014-15*.

- A change in the indexation level for debt under the Higher Education Loan Program (HELP) from the Consumer Price Index (CPI) to the Commonwealth Government's long term borrowing rate, but capped at six per cent.
- A reduction in the threshold income at which repayment of HELP debt commences, from \$53,345 to \$50,638.
- A reduction in the level of indexation applying to public funding for higher education from the Higher Education Grants Index (HEGI) to the CPI.
- Savings from the consolidation of the separate elements of the Higher Education Participation and Equity Program into a single program.

The reductions in per student funding announced in the 2014-15 Budget have to be seen in the context of earlier (although not legislated) scheduled annual funding reductions of 2 per cent and 1.25 per cent in Commonwealth Grant Scheme (CGS) funding, announced by the former Labor Government in April 2013.

The Government's subsequent amendments to the legislation involve:

- Retaining the CPI as the basis of the indexation of the Higher Education Contribution Scheme (HECS) debt.
- Introducing indexation relief for primary carers of children up to the age of five.
- Providing \$100 million over three years in transitional assistance for universities, particularly in regional areas.
- The introduction of a dedicated scholarship fund for low socioeconomic status (SES) students within the Higher Education Participation and Equity Program.

Press reports also suggest that the Government is likely to reconsider the level of the proposed reductions in CGS subsidies.

Behind the impasse

To a large extent, a political impasse was inevitable, once the Coalition Government committed itself to full fee deregulation as part of the reform package.

In recent decades, the Coalition has had an intermittent policy attraction to full or partial fee deregulation and, associated with this approach, to vouchers or student entitlement. In 1991, its *Fightback* policy manifesto proposed a capped higher education voucher system, the

capacity for universities to offer full fee courses outside of the voucher system and, over time, the potential for universities to introduce varying charges and to retain the additional revenue.⁵

Echoes of this policy were found in the 1996 Budget under the Howard Government, which varied HECS contribution levels to better reflect cost and public and private benefits, and allowed universities to charge full fees for up to 25 per cent of student load once they had filled their HECS places.

A portable student entitlement model with fee variability was also proposed in the West Review in 1998,⁶ and was the subject of a draft Cabinet proposal in 1999. However, following the leaking of the submission to the opposition, these proposals were ruled out - although as the proposal got to Cabinet submission stage, its fate related more to political rather than ideological considerations.

A limited student entitlement, partial fee deregulation and an increase in the cap on full fee places was announced under Minister Nelson in 2005, following his own extensive policy review process (the Crossroads Report and associated discussion papers).⁷ However, full fee deregulation was explicitly ruled out after it was canvassed in the consultation process.

At each stage, these proposals were strongly resisted by the Australian Labor Party, as an article of faith linked to the affordability of access to higher education.

This is a legacy of both the Whitlam Government's abolition of university fees in 1973, and the difficult internal settlement within the Labor caucus in 1988 to allow for the introduction of the HECS under a uniform, capped and income contingent student contribution regime.

When back in office in 2008, the Labor Government removed the capacity of universities to offer full fee courses, and also subsequently rejected a recommendation from the Bradley Review⁸ to allow universities to provide full fee courses in areas where they did not receive public subsidies.

However, the Labor Government did agree to, and fund, the Review's major recommendation relating to the introduction of student demand driven funding based on a student entitlement (similar to the West Review Committee proposal). Labor also maintained the variable subsidy and student contributions flowing from the partial deregulation of undergraduate fees under the Howard Government, rather than returning to its initial uniform HECS design.

⁵ A. Norton in G. Croucher, S. Marginson, A. Norton and J. Wells (eds.) (2013) *The Dawkins Revolution: 25 Years On*, Melbourne University Press: Melbourne.

⁶ R. West, *Learning for Life* (1999) (West Review).

⁷ B. Nelson, *Higher Education at the Crossroads* (2002).

⁸ D. Bradley, P. Noonan, H. Nugent and B. Scales, *Review of Australian Higher Education Final Report* (2008).

The Labor Government also allowed for the continued deregulation of postgraduate coursework fees, supported by FEE-HELP, and the mixed offering of subsidised and full fee postgraduate places in some disciplines in some universities. It also allowed for fee deregulation to flourish outside of the publicly funded system.

Notwithstanding this mixed position on Coalition Government changes to the initial Dawkins regulated funding model, Labor has been steadfast in its opposition to open ended full fee deregulation for subsidised undergraduate courses in higher education.

The political impasse does not stem from a lack of analysis and evidence. In the past fifteen years, there have been five major national reviews of higher education with a primary focus on financing and several in the decades before that.

Each review has been supported by research (some specifically commissioned), extensive consultation and detailed submissions. The Commonwealth Commission of Audit (2014) also made specific findings and recommendations about higher education funding.

The recent Senate Inquiry into the Higher Education and Research Reform Bill was also informed by 160 submissions and testimony from over 50 groups and individuals.

Higher education peak bodies have produced well-researched and evidence-based issues and discussion papers, and higher education research centres and individual researchers have published extensively on issues relating to higher education financing and higher education policy more generally.

There is also extensive international research and experience to draw on for comparative purposes, including outcomes from reforms in England and New Zealand.

The Bradley Review: outcomes and ongoing issues

The current higher education reform proposals have to be set against the former Labor Government's singular reforms to higher education following the 2008 Bradley Review, particularly in expanding participation, supporting equity and improving student financing.

As a result of those reforms, many more students, including a higher proportion from lower SES backgrounds, have graduated from, or are participating in, higher education.

Commonwealth Supported Places increased from 440,000 to 601,000 between 2009 and 2014, including sub-degree and postgraduate students, together with a significant increase in CGS expenditure from \$4.6 billion in 2009–10 to an estimated \$7.2 billion in 2016–17.⁹

⁹ Commonwealth Department of Education (2014).

Per student funding rates also began to improve as the result of improved indexation levels. In addition, there was substantial capital funding under the Education Investment Fund as part of the stimulus package following the global financial crisis.

However, there were some important recommendations from the Bradley Review that the Labor Government did not, or only partially, act on.

The first of these relates to per student funding levels.

The Bradley Review recommended that per student funding under the CGS be increased by 10 per cent and then subject to an independent triennial review. It also recommended an increase in the level of indexation of per student funding.

In response, the Labor Government increased indexation levels, left CGS funding levels at their current rates but commissioned a Base Funding Review in 2011.¹⁰ This Review found that per student funding had deteriorated since 1994 and recommended an unspecified increase in per student funding levels, the adoption of a series of funding principles to underpin both government and student contributions, and a regulated ratio of 40/60 in student and public contributions.

However, the Labor Government rejected these recommendations in January 2013 and in April 2013 imposed the higher education efficiency dividend referred to above. The effect of the efficiency dividend was estimated by Universities Australia to result in *'per student funding being reduced to 2007 levels and 15 per cent below the levels recommended by the Bradley Review in 2015'*.¹¹

The Labor Government also announced that tax deductibility for individuals' educational expenses would be capped at \$2,000.

The effect of the efficiency dividend was twofold: it raised serious questions about the extent to which higher education could continue to expand under the demand driven system at sub optimum funding levels but, more broadly, to many in the higher education sector it signalled the end of any prospect of sustained increases in investment in higher education.

The Vice Chancellor of the University of Melbourne reflected on this period in a recent article in *The Conversation* when he said:¹²

Even as Universities Australia ran advertisements and promoted public meetings, the then-tertiary education minister, Craig Emerson, announced reductions to university funding so the government could finance the schools package recommended by David

¹⁰ J. Lomax-Smith (Chair) *Higher Education Base Funding Review* (2011).

¹¹ Universities Australia Submission to the Senate Inquiry Into the Higher Education and Research Reform Amendment Bill 2014, 7.

¹² G. Davis, 'Why I support the deregulation of higher education', *The Conversation*, January 28 2015.

Gonski. Emerson's decision made clear that schools have political salience but universities do not.

In the introduction to a Review of Tertiary Education Policy in Australia in 2013, Professor Simon Marginson concluded, in relation to the demand driven system, that:¹³

in the context of deficit reduction strategies this policy is looking increasingly vulnerable. It may not reach 2015. And the demand-driven system has increased the tensions between quality and quantity. In the context of declining government funding as a share of national wealth, enrolment growth tends to reduce funding per student as long as student contributions remain constant. All this suggests that if quality is to be protected and improved then the demand-driven system must go and/or student contributions must rise.

The Bradley Review also made important recommendations for the development of a better integrated tertiary education sector in Australia under a Commonwealth funded tertiary education entitlement.

However, the Labor Government did not sufficiently consider these recommendations after its initial response to the Review. Rather, it extended HELP to state funded VET diplomas and advanced diplomas, but left them funded by the states. It then capped funding for higher education diplomas and advanced diplomas in an effort to ensure that cost shifting from the states to the Commonwealth for these qualifications did not take place.

The Bradley Review also recommended the extension of CGS funding to non-university providers, including TAFE institutions offering higher education courses (once quality assurance arrangements were in place). This recommendation was also rejected by the Labor Government.

In assessing the balance between student and public contributions, the Bradley Review noted that Australian higher education students were paying amongst the highest tuition fees in the world. In that context, it did not recommend the immediate removal of the price caps on fees for students in Commonwealth funded places, as some submissions had proposed.

However, the Review also noted that the removal of price caps would be consistent with the financing framework it proposed, but expressed caution about such a course of action, at least in the near term. These cautions included that:¹⁴

¹³ S. Marginson in *Tertiary Education Policy in Australia*, Centre for the Study of Higher Education, The University of Melbourne (2013) 7.

¹⁴ *Review of Australian Higher Education Final Report* (2008) (Bradley Review) 162.

- Prices would rise perhaps quite significantly, particularly at more established institutions and that '*whether or not sufficient competitive pressures would emerge to constrain such price increases was a matter of conjecture*'.
- Prices would also be higher where the income contingent loans are available and that the effect of market forces on pricing behaviour is likely to be muted.
- If prices rise considerably there would be some level of HELP debts which would remain uncollected.

The Review then concluded that:¹⁵

The above arguments are not enough on their own to make the case that tuition fees should remain capped forever. In the future, there could be eventually competitive advantages from full price discretion and so further deregulation or total removal of the price caps should be considered subject to the effective implementation of the other aspects of new financing framework and the development of a more competitive and dynamic Australian higher education sector.

The Review recommended specifically that universities be allowed to provide full fee undergraduate courses outside of areas that were funded under the CGS, in effect establishing two parallel higher education markets. However, consistent with its opposition to full fees and fee deregulation, the Labor Government rejected this recommendation and did not revisit the issue in the remainder of its term of office.

Decisions for the current Government

There were therefore five major issues relating to higher education funding left in the aftermath of the implementation of the Bradley Review by the previous Labor Government, with some issues, such as those related to CGS funding levels, of even longer standing.

These issues were:

- the extent to which the demand driven funding system was fiscally sustainable;
- the position of sub degree programs within the demand driven funding system and the potential for skewing of demand and provision from VET to higher education;
- the purpose of CGS funding in terms of teaching and research, the relativities between different discipline funding levels and the use of CGS funding for postgraduate courses;

¹⁵ Ibid. 163.

- the appropriate level of base funding to ensure that quality outcomes and student experiences could be improved and, related to that, the balance between public and student contributions and how student contributions should be set; and
- the treatment of higher education students in different HELP schemes in different provider types.

Beyond, although closely related to these issues, sat other debates including the extent to which higher education in Australia was too homogenous, the case for greater institutional differentiation and diversity, as well as the standing of Australian universities in various global rankings.

The relationship between higher education and VET, and the increasing gap in investment between the sectors was also emerging as a major and unresolved policy issue.

Recent sources of advice

In considering its policy responses to these issues, the current Government had available two recent sources of its own commissioned advice, the Review of Demand driven Funding System (Kemp-Norton Review)¹⁶ and the Report of the Commission of Audit,¹⁷ as well as the cumulative evidence from previous reviews.

The Abbott Government commissioned the Kemp-Norton Review late in 2013, with the Review reporting in 2014 under a very tight timeline.

The Review strongly affirmed the benefits of the demand driven funding system, and recommended not only the continuation of the system but its extension to higher education sub degree programs and to non-university providers.

These latter recommendations were consistent with the recommendations of the Bradley Review.

It also recommended the rationalisation of the different income contingent loans systems into a single scheme, with consistent user charges applying to students. The Kemp-Norton Review also considered the fiscal sustainability of the demand driven funding system but, within the timeline constraints, did not undertake medium and long term modelling of future demand and its fiscal implications.

Rather, it noted that CGS funding was forecast to rise from \$6.2 billion in 2013-14 to \$7.2 billion in 2016-17 and that *'fiscal sustainability of the system could only be determined in the context of the Commonwealth's overall fiscal position'*.¹⁸

¹⁶ D. Kemp and A. Norton, *Review of the Demand Driven Funding System* (2014).

¹⁷ *Towards Responsible Government: National Commission of Audit* (2014).

¹⁸ D. Kemp and A. Norton, 93.

The Review then recommended that sustainability could be most equitably secured by adjusting student contributions to balance any reduction in total income per student place.

The Review noted that giving institutions greater control over their capacity to raise revenue could be of benefit to institutions, and that diversity and innovation was limited by caps on student contributions, but indicated that more detailed recommendations on the treatment of student contributions were beyond the scope of the Review.¹⁹

The Review also recommended consideration of a HELP loan fee to further ensure the fiscal sustainability of the demand driven system, but did not recommend changing the indexation level of HECS debt.

The reform proposals in the Budget followed the release of the Report of the Commonwealth Commission of Audit. The Commission assessed future projected outlays for higher education in the context of its overall findings and concern about the ongoing structural deficit in the Commonwealth Budget, but largely referred to the Kemp-Norton Review on the issue of fiscal sustainability.

To help address the sustainability of future higher education funding levels and to better recognise public and private benefits, the Commission recommended adjusting student and public contributions to an average of 55 and 45 per cent respectively. It also recommended the adoption of the 10-year government-borrowing rate for future indexation of HELP debt and the consolidation of the various HELP schemes into a single scheme.

In addition, the Commission recommended that the merits of fee deregulation be considered. However, importantly, the Commission also noted a range of issues and risks associated with this course of action, as outlined above.

Having regard to the complex issues involved, the Commission of Audit recommended:²⁰

tasking the Minister for Education with developing options to increase competition in Australia's education system through a partial or full deregulation of fees for bachelor degrees, taking into account any relevant recommendations of the Review of the Demand Driven Funding System. The Minister should report to the Prime Minister in 12 months' time on progress and a preferred way forward.

The Government did not formally respond to the Kemp-Norton Review prior to the Budget. However, in a major speech at the Policy Exchange in the United Kingdom on April 28 2014, Minister Pyne clearly signalled that the Review recommendations 'have much to commend them'. In that speech, Minister Pyne also reinforced the point that the Abbott Government was

¹⁹ Ibid. xii.

²⁰ *Towards Responsible Government: National Commission of Audit* (2014) Phase 1, February 2014, '7.13 - Higher Education Arrangements', 157.

deregulatory in nature, and that the Government would be considering both the Kemp-Norton Review and the Commission of Audit Report in the context of the 2014-15 Commonwealth Budget.²¹

The Commission of Audit Report was not released until May 1 2014, just before the Budget.

The pre-budget context is also important. The funding reductions announced by the previous Labor government had not been passed by the Senate. The new Coalition government was committed to rejecting Labor's \$2,000 cap on income tax deductions for educational expenses and additional funding for the extension of the demand driven funding system, lapsing research programs, and other initiatives, was also required. This added to the magnitude of the overall savings the Coalition government needed to identify.

The full range of savings, new initiatives and the proposed reform measures were then announced in May in the 2014-15 Budget. This is unsurprising as Commonwealth budgets and associated Ministerial portfolio policy statements have often been used in the past to formalise and give financial effect to higher education reforms.

These include the 1988 Budget, which gave effect to the Dawkins reforms, the 2003 Budget in relation to Minister Nelson's reforms, and the 2009 Budget in relation to the Bradley reforms.²²

These budgets were the final step in extensive policy development and consultation processes with key stakeholders in the higher education sector and externally. Each of these, to varying extents, provided the basis for increased expenditure linked to growth in provision and participation, and systemic and institutional reform.

Commonwealth budgets have also been used in the past to affect savings or to constrain expenditure growth in higher education outlays. For example, there have been many changes to HECS in previous budgets, changes to course related subsidies and to CGS indexation levels. The most significant of these changes through the budget process occurred in 1996, when the basic flat HECS charge was varied significantly across discipline areas with concurrent adjustments to subsidy levels.

The measures contained in these budgets however were essentially aimed at reducing or constraining growth in outlays, and not primarily designed to achieve broader policy objectives.

The 2014-15 Budget is therefore the first to seek to increase participation in higher education and to drive systemic and institutional reform, while also significantly reducing higher education outlays.

²¹ C. Pyne (2013) *Freeing Universities to compete in a global education market*, Speech to the Policy Exchange, United Kingdom, 28 April 2014, accessed at <https://ministers.education.gov.au/speech>.

²² Each of these budgets also contained significant funding for research and innovation initiatives.

In the 2014-15 Budget, the Government could have recapped or even reduced enrolments while preserving per student funding levels to meet savings requirements. However, the unambiguous findings and recommendations of the Kemp-Norton Review, the Minister's public support for those recommendations and inevitable reductions in university intake levels made this option politically unviable.

Rather, the Minister and the Government opted for the more difficult and politically courageous course of supporting the recommendations of the Demand Driven Funding Review to maintain and extend the demand driven funding system, while also achieving major budget savings.

The Government could still have achieved its objective of extending the demand driven funding system through the safer and more predictable path of the 1996 and 2005 reforms, by regulating for an increase in HECS contributions to offset reductions in per student subsidy levels as recommended by the Kemp-Norton Review and the Commission of Audit.

Rather than again following this path, the Government accepted the strong arguments made by some peak higher education bodies and individual higher education leaders and commentators over many years that:

- it was essential that universities and other higher education institutions be free to set their own fee levels so that they could pursue their own distinctive roles and missions; and
- a system where government had deregulated supply on an open ended basis was not fiscally sustainable through public funding alone, and that there was a major policy contradiction between moving to a demand driven system and deregulating supply but continuing to regulate price.

The Government also accepted the view of both the Bradley and Kemp-Norton Reviews that current arrangements that limited public funding to institutions and their students on the basis of institution type were highly inequitable. As a consequence, it proposed to open up CGS funding to non-university higher education providers.

Fee deregulation and opening up of the publicly funded higher education system therefore became the lynchpin for:

- ensuring that the budget savings did not decrease provision;
- extension of the demand driven funding system;
- the introduction of an institution based scholarship system;
- improved per student funding; and
- systemic and provider reform, including greater provider diversity.

The change in the indexation of HECS debt to a long term government borrowing rate was intended to both contribute to budget savings and, it is assumed, to act as a constraint of excessive pricing by higher education institutions (as students would be far more sensitive to higher levels of debt).

The budget process and policy reform

In addressing long standing and complex public policy challenges, Professor Ian Marsh has argued that:²³

Change in the role of the major parties leaves a worrying gap in policy-making capacities, a gap arising from the inability of our political system to explore contested issues in a strategic phase. A strategic phase in opinion formation is critical. It allows longer-term shared interests among citizens and interest groups to be recognised. The political system needs a capacity to routinely engage interest group and broader opinion in a strategic, 'framing' phase.

Such a phase in opinion formation can lay the groundwork for subsequent action in an 'operational' phase.

However, it is very difficult to undertake this strategic framing phase in a budget process governed by strict conventions of confidentiality, pressing timelines and overriding budgetary considerations.

In general, the Government undertook a transparent and evidence based approach to its decisions on the demand driven funding system, and laid the political groundwork for its subsequent decisions. However, the decisions on fee deregulation – or at least the scale and nature of fee deregulation – were not foreshadowed by the Government and sat in contrast to views expressed by it when in opposition (and in the early days of the Government as the minority report from the Labor members of the Senate enquiry highlighted).

Indeed, based on the statements by Minister Pyne early in his term of office, it is reasonable to assume that the decision to commit to a major reform package through fee deregulation may have been undertaken quite late in the budget process. This added to the problem of developing and testing controversial and complex reforms in a constrained process and within tight deadlines.

As both major political parties have found, governments are being marked very hard for broken promises or for proposing major reforms where the strategic phase in opinion formation has not been undertaken.

²³ I. Marsh, 'Opening Up the Policy Process' in M. Sawyer and S. Miskin (eds.) Papers on Parliament 34 - Representation and Institutional Change: 50 Years of Proportional Representation in the Senate, December 1999.

Fee deregulation has also inevitably been caught up in the more general political reaction to the budget in terms of issues related to fairness and broken promises, even though its stated policy intent was to broaden participation in higher education and improve the quality of Australian higher education.

In a budget process, there is also little opportunity to test options and model their effects and to anticipate and address unintended consequences.

For example, the measure to raise HELP debt indexation levels was recommended by the Commission of Audit but was not properly modelled. Subsequent modelling by Chapman and Higgins in the lead up to the budget demonstrated the consequences of this measure on graduates from different disciplines and also on women (as a result of their lower average lifetime earning relative to males). This, together with a general realisation of its impact on existing graduates with HELP debts as well as future students, led to early signals that this measure was likely to be discarded.²⁴

The underlying issue of the fiscal sustainability of the demand driven funding system, and whether future investment levels needed to maintain or raise participation levels in higher education, has also not been modelled. This creates difficulties in making informed judgements about future resourcing requirements, the balance between public and private investment, and competing claims about the overall future financial position of the higher education sector in Australia.

To date, the post budget consultation processes and input into the final design of the legislation have not been adequate or sufficient to redress the problem created by the announcement of a detailed reform package in a budget context.

While there have been working parties convened on aspects of the system subsequent to the Budget, these working parties were not able to consult publicly, and their advice to the Government was only made available in the Government's Regulatory Impact Statement (RIS) when the legislation was introduced.²⁵

There have also been extensive discussions on the reform package with peak higher education bodies, other organisations and key individuals, as well as detailed negotiations with the Senate cross benchers, however the scope for amendment to the package has not been clear.

The Senate Inquiry into the legislation was comprehensive and extensive, but apart from the majority report recommending against the change in the HELP debt interest rate and for an adjustment package, its findings and recommendations largely and inevitably reflected the prior

²⁴ B. Chapman and T. Higgins (2014) *HELP Interest Rate Options: Equity and Costs*, July 2014, accessed at http://images.theage.com.au/file/2014/07/31/5639573/Help_interest_rate_options_report.pdf

²⁵ Commonwealth Department of Education, *Regulatory Impact Statement on 2014-15 Higher Education Reforms*.

positions adopted by the political parties. This reflected an unfortunate practice by Senate Committees under all governments in recent decades.

The Department of Education has prepared a RIS on the legislation, which was found by the Office of Best Practice Regulation to be compliant but not best practice.

The principal shortcoming with the RIS is that while it places great weight on the potential benefits of deregulation, it does not identify, let alone address, the risks of deregulation. These include risks raised by the Commission of Audit, in subsequent commentary and analysis, and by earlier studies, including the risks of increasing levels of doubtful debt. It has not served to ameliorate the specific concerns of the cross benchers who remain uneasy about the potential for significant fee increases and other unintended consequences.

In hindsight, the Government may have been far better served had it made a comprehensive and evidence based case for deregulation of fees (beyond levels required to maintain or increase per student funding levels) and outlined the broad framework for its intended approach. It could then have followed the Commission of Audit's recommendation for the Minister to bring back options for the detailed design of the scheme, following an intensive consultation and evidence based review process.

This was the process followed by Minister Dawkins in the Hawke Government in establishing the Wran Committee in 1988 to develop and test options for the introduction of HECS.

In that process, the general intent to look to a fair form of securing student contribution was announced (in somewhat prosaic terms) in the Minister's White Paper on higher education reform. The Wran Committee process was undertaken as a separate but related process to the broader reforms, bought together through the legislation that gave effect to the total reform package through funding in the 1988 Budget.

The current Minister and the Department no doubt carefully considered the options involved in developing and gaining agreement to the current set of reforms. They may have been mindful of the experience of former Minister Kemp, whose proposals in 1999 for full fee deregulation and the introduction of a higher education entitlement was prepared for, but was not considered by Cabinet following the leaking of the proposals to the opposition.

They may have been concerned that without securing broader government agreement to fee deregulation, the higher education sector would have been left with the budget cuts but without a mechanism to secure alternative funding sources into the future. However, the option of adjusting the CGS and student contributions, as recommended by the Commission of Audit and the Kemp-Norton Review was always available as a fall back.

In that process, the Government itself could have recognised the identified risks in fee deregulation and, in bringing together two different higher education markets, identified options to mitigate those risks.

The political debate was always going to be had in full at some stage, and better politically and in terms of policy outcomes that the specifics of the debate be conducted somewhat at arm's length from the Minister and the Government. This would leave them with more room to make final judgments about the details of the package, rather than having to consult on and defend a detailed package for which the political ground has not been laid and which has not been adequately road tested. This process would also have provided a more objective and informed evidence base against which the inevitable amendments in the Senate could be developed and tested.

Where to now?

The proposed changes to higher education funding are not scheduled to commence until 2016. The Government still has a small window of opportunity to reconsider its current approach and to develop an alternative package that might in the first instance gain Senate support but, equally importantly, provide a stable basis for higher education funding into the future with the support of the major political parties.

In undertaking that process, the Government needs to consider four main sets of issues:

- the **objectives of fee deregulation** and how these objectives will drive reform;
- the **design of the scheme** and the risks and issues arising from fee deregulation, including the relationship between deregulated fees and the current system of public subsidies;
- the **likely effect on the broader economy** of the reforms; and
- the **growing gap in investment** between higher education and VET.

It also needs to develop a process through which a revised package, including the concerns of the other political parties and the independent Senators, could be bought back to the Parliament for consideration.

In effect, the Government needs to now complete the strategic phase of the reform process by building on all of the existing evidence and stakeholder views emerging from the past few months of debate and policy input, and all of the existing substantial research and thinking about fee deregulation in higher education and market design in other settings. This does not need to be a long and protracted process.

There are several key areas where the Government needs to clarify its objectives and recognise and address the risks and weaknesses in its current model. The issues are:

- Reform objectives and the case for deregulation
- Pricing, competition and risk transfer
- Efficiency and productivity
- The interaction between public subsidies and fees
- Creating new markets
- Participation, pathways and scholarships
- The broader tertiary education system

Reform objectives and the case for deregulation

As a first step, the Government needs to be far clearer about its objectives in fee deregulation, gather concrete evidence about specific benefits and address the now well evidenced risks associated with full fee deregulation under an income contingent loan scheme.

These objectives must meet both public interest and technical efficiency tests. The Government is proposing to allow providers to potentially raise their prices and increase their costs, beyond current levels, in the ongoing development of the nation's human capital, an area of critical importance to national productivity and social equity.

If this important function becomes overpriced relative to its purpose and outcomes, it will have potentially adverse economic and social effects. For example:

- Rates of return to individuals may diminish if costs go up significantly but are not reflected in increased graduate earnings and improved employment outcomes.
- Wage pressures in a range of critical occupations could also increase as graduates seek higher remuneration to offset higher levels of debt.
- Graduates will have less disposable income to purchase other goods and services if they are repaying high levels of debt.
- Spending on other services will be reduced if the provision for doubtful debt increases.

These adverse outcomes will be even worse if non-completion rates increase as institutions pursue revenue and admit increasing numbers of students who are not well equipped for higher education or make poor provider and course choices.

If, on the other hand, participation levels continue to increase and the quality of outcomes, learner engagement, completion rates and graduate employment levels are improved, then the resultant benefits would justify an increase in costs or potentially greater innovation and efficiency through enhanced competition.

The purpose of fee deregulation has to be considered in terms of the three separate but related issues facing higher education in Australia today:

- the ongoing resourcing requirements of the higher education system to maintain higher education participation and attainment levels;
- the level of per student funding required to deliver high quality teaching and learning, student experiences and outcomes, and the extent to which institutions can flexibly price their offerings; and
- the relationship between teaching and research and research funding.

Growth and future resourcing requirements

As a result of population growth, continued increases in higher education enrolments are required just to maintain participation levels,²⁶ although attainment levels could be improved through higher completion rates.

However, the extent to which future generations of students should bear most of the costs of ongoing expansion of higher education is a significant policy question, particularly given that Australian students already make amongst the highest contributions to the cost of higher education in the world.

The issue of the balance between participation in VET and higher education, in the context of a demand driven system, has been largely unaddressed and unresolved. However this has now been identified as a key issue in the Commonwealth Government's recently released Issues Paper on Roles and Responsibilities in VET and Higher Education.²⁷ An imbalance in enrolments between higher education and VET may not only lead to distortions in the supply of skills but higher costs if students who might otherwise enrol in VET enrol in higher education.

Quality and fee flexibility

Under current funding arrangements, institutions (mainly public universities) receiving public subsidies are not able to variably price their core undergraduate offerings where courses are subsidised, and other institutions who do not receive public subsidies have effectively full price flexibility subject to very high course loan caps.

The implicit principle under these arrangements is that a regulated subsidy must also involve a regulated fee or price to the user.

However, across many other areas of human service provision – child care and early childhood education, non-government schooling, aged care and in VET in some jurisdictions – providers receive subsidies but variably charge their offerings.

A further implicit principle may be that public institution fees and charges should be regulated in public universities. However, the current regulated fee arrangements are a legacy of the settlement underpinning the introduction of HECS in 1988, not a longstanding principle of university funding in Australia. Public universities have set their own fees for a much longer period in the history of Australian higher education than fees have been regulated; it was the upfront nature of those fees that was the principle barrier to participation in higher education.

²⁶ See modelling projections undertaken by the Group of Eight, *Future Demand for Higher Education in Australia* (2014) and by ACIL Allen Consulting for the Mitchell Institute.

²⁷ Commonwealth Government, White Paper on the Federation, *Issues Paper Four - Roles and Responsibilities in Education* (2015).

In the context of other areas of human service provision and sophisticated organisations delivering highly tailored products and services to differentiated markets, it seems logical that universities and other higher education institutions should be able to differentially price their core and major offerings.

There is therefore a strong case to allow institutions to variably price their courses in terms of their relative costs, and to improve teaching and learning. Areas where improvements could be made include expanded subject choices, more flexible course delivery options, improved staffing, increased learner support, reduced tutorial sizes, improved student services, enhanced facilities, improved opportunities for international exchange, more collaborative programs with other institutions and expanded internships and professional placement opportunities.

The key issue is that pricing is efficient and effective and relates directly to tangible benefits and outcomes for students and for the community more generally.

In his second reading speech, Minister Pyne recognised that benefits for students, asserting that:²⁸

Students will benefit most. They will enjoy improved teaching and learning in innovative and creative courses that compete for their interests. They will be able to choose from a wider range of options and will have better information to help them make decisions about where, how and what to study.

However, the problem with this statement in isolation is that most students will have to pay more in the first instance just to ensure that the same level of funding is available to support current provision. Others should pay less if new providers accessing subsidies reduce their fees at least by the level of the subsidy. Although some providers have signalled that this is their intention, there is currently no requirement for them to do so.

While the draft legislation makes it clear that tuition fees are to relate to provision of a unit of study, the Government has provided no guidance, even of a general kind, about its expectations relating to the purposes to which revenue should be applied.

Unsurprisingly, given at best diminishing per student funding levels and access to public funding, the various higher education peak provider bodies have, to varying degrees, all formally supported the Government's policy intent, although not all details of the reform package, particularly the reductions in CGS funding levels.

Peak bodies and leaders in the sector have also generally argued the case for deregulation in abstract and generalised terms, which have little meaning or relevance to current, let alone prospective, students.

²⁸ C. Pyne, Second Reading Speech, Higher Education and Research Reform Bill 2014.

Improvements in teaching, learning, student experiences and student outcomes must be tangible at the institutional, as well as the system, level.

What is not sustainable – in either policy or political terms – is a scenario where students pay far more than their predecessors for the same or diminished experiences and outcomes, and for universities to engage in a largely circular and closed process of competition for status, particularly through research rankings of little relevance or benefit to undergraduates.

As Andrew Norton has said:²⁹

To me the policy question is whether supporting the very high fee courses with HELP is sensible investment in human capital, or whether it is just supporting largely wasteful status competition between universities.

International competition

In this context, generalised statements about Australian higher education remaining competitive with international systems and institutions are not sufficient; they need to be connected to a fuller explanation of the critical role of higher education in the international economy and international labour markets.

Australian universities and other higher education providers do not face international competition for domestic students (except at the margin for the highest achieving students who win scholarships to leading international universities). Indeed, there is very little competition across state borders in domestic undergraduate markets.

However, many graduates will want to work in international labour markets and will require a world class education. The overall standing of the Australian higher education system will affect perceptions of its graduates and our capacity to recruit and retain the best academics. International students, particularly from status conscious countries, will only be attracted to countries offering high standards and will have increasing options to choose from.

Teaching and research and research funding

Global rankings of universities are primarily determined or strongly influenced by research outputs and, therefore, by inputs to research.

However, increasing undergraduate fee levels to invest in improved university research rankings, particularly in areas unrelated to the courses for which students are being asked to pay higher fees, adds to the existing problem of cross subsidies from teaching to research. It compounds rather than addresses the fundamental question of how research, and particularly research excellence, should be funded in Australia.

²⁹A. Norton, 'Does HELP kill price Competition?' andrewnorton.net.au, 6 November 2013.
<http://andrewnorton.net.au/2013/11/06/does-help-kill-price-competition>

However, undergraduate students do benefit directly and indirectly from access to world class researchers and world class research and from the reputational advantage associated with research influenced international rankings.

Aspirations and opportunities for undergraduates to transition into postgraduate studies are enhanced by exposure to a strong research environment and access to research facilities and opportunities that incorporate research into undergraduate programs, including through applied research in internships, work placements and industry linkage programs.

For these benefits to be realised however, the relationship between teaching and research needs to be strengthened rather than weakened by the growing preoccupation with research derived rankings, and the isolation of top researchers from teaching and exposure to undergraduates.

Pricing, price competition and risk transfer

Fee deregulation in higher education is not just a simple matter of allowing universities and other higher education providers to set their own fees in response to demand.

At its most simple, open ended fee deregulation for subsidised courses in higher education could mean that government authorised providers:

- effectively have total discretion as to the fee levels they wish to set;
- are able to retain the full value of public subsidies regardless of fee levels and the revenue they generate; and
- will automatically receive payments from the government to the full value of the subsidies and fees regardless of the risk of the student not being able to repay the debt.

In addition, students who opt for HECS HELP will incur a debt to the value of the fee set by the provider with that debt also effectively subsidised over time.

The Government has set an implicit cap on prices at the level of fees for international students less the level of the public subsidy for an equivalent course. While this has political attraction, using prices in one market as a cap for prices in another market is not a sound basis for assessing and setting price caps - if caps must be set. The policy will be unenforceable as courses and course titles change, and course flexibility can lead to complexity in calculating fees for courses involving units across different disciplines.

In its design, the Government is highly reliant on price competition and the entry of new providers to act as a constraint on excessive fee levels.

The Coalition Senators said in their majority report that:³⁰

There is strong evidence supporting the view that fee deregulation will boost equity and innovation. For one, while it is true that deregulation would allow providers to determine—in the context of their particular circumstances—the price they charge for courses, it will at the same time require providers to compete on price in order to attract students.

However this assertion is not supported by the available evidence or expert opinion, particularly as it relates to existing public universities.

Choice across the existing university system is primarily driven by prestige and through the process where student choice becomes increasingly limited as their ATAR score diminishes. Students with the highest ATAR scores have full choice across courses and providers; those with the lowest ATAR scores have fewer choices.

In this sense there is a two way process for competition: students are competing for places in institutions and institutions are competing for students, but some far more than others. Few students are likely to forego their place in this hierarchy of choice based on price alone, particularly where they face no upfront costs.

As Professor Bruce Chapman has pointed out, higher prices in effect mean slightly longer repayment periods for HELP debt years into the future. There would need to be significant price variation for this effect to make any difference to choice, particularly as students assess whether their career prospects will be enhanced through a qualification from a more prestigious institution.

Further, in its phase one Report, the Commission of Audit advised that:³¹

Allowing universities to determine their own prices should improve efficiency through the operation of competitive forces. A range of prices should arise based on the quality of service offered by each university in each field of study.

Increased competition within the university sector should drive innovation and quality improvements for Australian students.

However, there is a clear assumption under a deregulation model that market forces within the higher education sector would prevent prices rising to excessive levels.

Both domestic and international experience suggests that uncapping university fees could lead to very large fee increases.

³⁰ Senate Education and Employment Legislation Committee, Report on the Inquiry into the Higher Education and Research Reform and Amendment Bill 2014, 24.

³¹ *Towards Responsible Government: National Commission of Audit, Appendix, Volume 1, section 9.3.*

- *While universities are currently able to set student contributions below the maximum level, almost no universities have taken up that opportunity.*
- *Undergraduate students appear fairly insensitive to price rises, particularly in the presence of a student loan scheme such as HELP, so there is little incentive for universities to keep fees low to attract students. There was minimal change in student demand in 1997 when the student payment for some disciplines more than doubled.*
- *In New Zealand, where a HELP-type scheme was instituted in 1992, the universities were allowed to set their own prices, but after experiencing ongoing real rises in fees the government in 2003 instituted price caps, which were justified with reference to both affordability and future price certainty.*
- *In the United Kingdom, when the maximum price for tuition was lifted by 300 per cent, all institutions chose the highest possible level.*

The Commission also referenced the Bradley Review in relation to the potential positional advantages enjoyed by the older more established universities.

After the Budget, similar concerns were identified by the market-oriented economists and commentators, Henry Ergas and Judith Sloan. Ergas also stated that:³²

The scheme's subsidised, deferred and conditional repayment terms blunt the extent to which student demand responds to price; so with increased quality differentiation raising the rewards from attending the top-ranked institutions, those institutions will have far more scope to boost fees than they would under a less generous scheme.

Other labour market economists, Professor Bruce Chapman and Professor Peter Dawkins, with substantial expertise in higher education financing and with significant experience in public policy development in the financing of education and training, have made similar points.

A further consideration is the pricing practices likely to be adopted by existing universities. There is a high likelihood that universities will not price their offerings - at least initially - much below their immediate competitors as students are likely to perceive a hierarchy of quality associated with fee levels (the Veblen effect).

With reasonably consistent underlying current cost structures in terms of academic workload and delivery models, there is likely scope for downwards price variation in universities without fundamental changes to existing university models.

³² H. Ergas, 'Creating mayhem more fun but revolting radicals miss serious Issue', *The Australian*, 19 May 2014.

Put simply, the risk is that universities with the strongest market may raise prices significantly, with income contingent loans masking price signals. Other universities may price at only slightly lower levels as they will not want to be seen to be offering a cheaper and lower quality product.

If this happens, the whole system may quickly become over priced relative to benefits and outcomes and, once established, it will be impossible to wind these price levels back.

The Senate majority report – drawing on evidence from submissions and hearings - highlighted the level of fee variability for postgraduate courses as evidence that significant price competition would emerge under deregulation.

This is a valid observation, but postgraduate fee levels also closely reflect institutional prestige and hierarchies and the postgraduate market is quite different in nature to the undergraduate market. Decisions to enrol in postgraduate courses and the choice of institution are not the result of the same competitive and selective process facing school leavers in making decisions that will shape their future lives. These decisions also largely conform with parental and societal perceptions of prestige in higher education.

Price variation in postgraduate courses may also be influenced by the fact that incomes in excess of the HELP repayment threshold will also face immediate increases in their effective marginal tax rate, thus increasing the level of price elasticity.

The risk of potential over pricing is exacerbated by the transfer of risk from institutions to students and ultimately to the government as taxpayers. As Ergas observed:³³

To make matters worse, higher fees will shift even greater risk on to taxpayers as repayment rates fall. For sure, the government's decision to reduce the threshold at which repayment begins, and to increase (to still heavily subsidised levels) the interest rate on loans, should help manage that risk; so will the fact that the reforms smooth the effective marginal tax rates former students face as their incomes rise to the repayment threshold.

But the reforms do not address the fundamental problem, which is that universities have no stake in whether loans are ever repaid, making the disciplines on price increases far too weak.

The risk identified by Ergas has now been exacerbated by the Government's decision to abandon its higher loan indexation level.

Sloan, while supporting fee deregulation, also argues that:³⁴

³³ Ibid.

³⁴ J. Sloan, 'Retain University Fee Deregulation but Defer Changes to Loans' *The Australian*, 19 July 2014.

One new measure the government should consider is to transfer some of the risk of non-repayment (under the current or revised HELP) to the universities charging the higher fees. Without this, there are inadequate checks on universities raising fees in the knowledge that the government, rather than the universities, will carry the can when graduating students fail to repay the full amount owed.

Price competition also works most effectively where dynamic markets exist, where consumer preferences shift quickly, where consumers can choose between diverse and differentiated products and services, where existing providers rapidly transform their products and services, and where new providers can quickly enter the market.

Markets where consumers are easily able to switch providers and where, through repeated use, consumers develop a strong understanding of value based on ongoing use of services and products, are also most amenable to price competition.

However, these are not features of the higher education market. Most undergraduate students are not repeat customers and have little or no direct or previous experience to guide their decisions.

Current regulatory standards and associated expectations and understanding arguably drive homogeneity rather than diversity, at least in the university sector.

Professor Glyn Davis made this point cogently in a Griffith University Professorial Lecture in 2002, in analysing Minister Nelson's proposals for increased diversity in Australian higher education. In response to arguments at that time that the market should shape institutions, Professor Davis said that:³⁵

This may mean little more than allowing universities to charge students what the market will bear in the absence of further government largesse. Yet whatever the public finance merits of such an approach, deregulation of fees will not necessarily create diversity. Instead, deregulation will advantage the already advantaged but not change incentive to be research intensive. The ability to charge fees may produce a hierarchy of universities, all doing the same things more or less well, competing on price rather than difference.

The relative standing of universities – and hence their competitive position – has also been very slow to change, not only in Australia but in other countries. Using QS University rankings, Quiggin concludes that:³⁶

³⁵G. Davis (2002) 'A little learning? Public policy and Australian Universities', Griffith University Professorial Lecture, 26 September 2002.

³⁶ See J. Quiggin, *Submission to: Senate Education and Employment Legislation Committee inquiry into the Higher Education and Research Reform Amendment Bill 2014*.

More strikingly, even the relative rankings of institutions are almost entirely unrelated to the quality of their management over any period of time that is amenable to policy. Rather, the rankings of universities can be predicted, with a high degree of accuracy, by the date and conditions under which they were founded.

Goldman, in summarising research from a Rand Corporation study into prestige seeking in American higher education, drew attention to the difficulty of changing prestige in the system, concluding that:³⁷

Prestige-seeking is a risky enterprise. It is largely a zero-sum game: when one institution gains, another loses. We found only a few successful prestige seekers among our 26 case studies but many more that sacrificed resources and failed to achieve prestige. There will never be enough prestige to satisfy the desires of all institutions.

Whether this situation will hold true in a fully deregulated environment is difficult to assess. A number of newer Australian universities have improved their standing and competitive position, and private higher education provision has grown strongly outside the system of university prestige. There is also potentially more scope for price competition at the course rather than institutional level, particularly in areas where courses lead to professional certification and where salaries are uniform and compressed, such as teaching and nursing. In these courses, over pricing relative to occupational outcomes could see student preferences change quickly.

The introduction of lower cost non-research intensive providers into the publicly funded higher education system will increase diversity and may also provide price competition. However, these providers currently operate in specific areas and have almost no presence in major areas of undergraduate provision, including the humanities, science, teaching and nursing.

Most of the likely new providers in the publicly funded system already form part of the Australian higher education system. What effect access to public funding will have on the level and breadth of provision is difficult to forecast, as is the extent of their likely market share once the system is opened up.

In regulated professions and occupations, these providers and potential new entrants face major regulatory hurdles beyond Tertiary Education Quality and Standards Agency (TEQSA) requirements from state and national occupational regulators and professional standards bodies and it will take some time before competitive pressures on the dominant university providers emerge in these areas.

In the VET sector the market share of private providers has grown rapidly but in VET, all providers are generally offering a standardised product. The public TAFE system is less well

³⁷ C. Goldman, *Shifting Boundaries and the Pursuit of Prestige*, TAFE Directors Australia Annual Meeting, September 2014.

established and does not enjoy the same levels of institutional prestige as many universities. Barriers to market entry are also much lower than they are in higher education.

It is unrealistic therefore to expect that in the short to medium term new providers will present significant price competition for the existing universities, at least in most disciplines. By the time they are more competitive, fee levels will have been established for some time, potentially creating an expectation of quality associated with institutional prestige.

Measures that could mitigate the risk of excessive pricing and risk transfer include tapering of subsidies when fees exceed certain levels, caps on fees either for courses or for overall debt, making institutions contribute to the Government's provisions for doubtful debt in proportion to their contribution to doubtful debt, and the development and publication of efficient pricing levels.

However, to date the Government has not sufficiently recognised the risks outlined above and does not have in place a process or an institutional structure to assess risks, to influence provider behaviour in terms of potential risks or to mitigate risks if and as they emerge.

Efficiency and productivity

As a key part of the Australian economy the level of efficiency and productivity of the higher education sector is important to overall productivity levels in Australia. The Government has recently framed its higher education reforms in terms of microeconomics but, as highlighted above, microeconomic reform would only hold true if increases in future costs and prices result in improved outcomes, or if competition improves efficiency and innovation.

In this regard, the former Vice Chancellor of the University of New England, Jim Barber, has stated that:³⁸

However they go about it, universities must find more creative ways of managing their affairs than by simply jacking up fees. New, low-cost business models for delivering higher education are being trialed all over the world and it is only a matter of time before we are in head-to-head competition with them.

Perhaps more importantly in the current context, it is this combination of university inefficiency and low-cost international competition rather than the entreaties of vice-chancellors that should persuade crossbenchers that they really have nothing to fear from the deregulation of university fees.

Steven Schwartz, the former Vice Chancellor of Macquarie University and Murdoch University, has in a number of forums strongly articulated his concerns about universities using fee deregulation to increase revenue rather than to address productivity and efficiency.³⁹

³⁸ J. Barber, 'Funding can be cost-efficient' *The Australian*, 28 January 2015.

In relation to support from university leaders for fee deregulation, he said:

Raising prices helps universities in the short-term (which is why they support the government), but only targets the symptom, leaving the cost disease untreated. Without productivity improvements, their expenditures continue to increase faster than inflation and they have to keep raising fees. Because the new money props up the old system, students derive little benefit from the extra money they spend. A recent report published by the peak body for UK universities found that tripling tuition fees in UK universities did not lead to any changes in teaching. We can expect the same in Australia.

Modelling undertaken for the LH Martin Institute has shown, at least in theoretical terms, that adjustments to standard academic workload structures in existing universities can have substantial effects on fee levels.

In an article on the outcome of the modelling, Professor Leo Goedegebuure, Director, LH Martin Institute and Lea Patterson, President and CEO of the Pilbara Group, conclude that:⁴⁰

However, a rise in tuition fees appears not necessary at all if we start playing around with the current business model. Were one to concentrate research activity, i.e. provide research time to those academics that actually produce something in that time – ‘research active’ in current parlance and if one was able to redirect the additional academic time/effort to education, the results to the bottom line are quite spectacular. The modelling shows changes to the order of tens of millions.

To date there has been surprisingly little emphasis in the Government’s statements about the purpose for, and expectations from, fee deregulation in terms of efficiency and productivity in higher education.

Reductions in subsidy levels were referred to as an ‘efficiency dividend’ by Labor in terms of its 2013 CGS reductions, but the general narrative from both the Government and from within the higher education sector has been concerned with the connection between future resourcing levels and improvements in quality.

While this is a legitimate focus given the long term decline in per student funding levels (save for the relative improvement under Labor), the issues identified above may not be addressed if institutions are able to opt for the easier path of progressively increasing fees rather than addressing internal costs and efficiencies.

In this regard, the process for and rationale behind annual fee adjustments by institutions are becoming major considerations.

³⁹ S. Schwartz, ‘Stop the uni cost disease’, *The Australian*, 20 January 2015.

⁴⁰ L. Goedegebuure and L. Patterson ‘Why High Fees are Not Necessarily the Answer’, L. H. Martin Institute Insights Blog, 14 August 2014.

In the school sector generally, costs (and in the non-government sector, fee levels) have been higher than CPI over a number of years, despite increased levels of public funding. The same trend can be anticipated in higher education, particularly from the cumulative effect of the reduced CGS indexation level, so that over time, fee levels may be much higher than their starting point in 2016 relative to CPI and movements in wages.

This will inevitably become an issue for the Government as it has in other areas of service provision such as health insurance, electricity supply and local government, particularly if there are large variations in indexation levels between institutions and continuing increases in costs across the sector.

The interaction between public subsidies and fees

Fee deregulation, together with the opening up of the publicly subsidised market also brings into sharp focus the purpose and structure of the current CGS system and its interaction with student fees.

The interaction between fee and subsidy levels is an additional complexity in fee deregulation. In effect, the Government is bringing together two markets - the regulated subsidy and fee market, and the deregulated fee and non-subsidy market.⁴¹

The current public subsidy system (base funding), under which subsidies vary significantly between different fields of study, were found by the Bradley Review to ‘bear little relationship to the actual cost of teaching or to any notional benefits’.⁴²

Norton also concludes that:⁴³

The total funding rates paid to public universities for each student are based on a 25-year-old university expenditure study, with a few ad hoc changes since. While another funding study was conducted in 2011, the then government ignored it. The “student contributions” paid by students are largely based on a 1996 assessment of the relative earning capacities of different graduates, plus 25% added in 2005.

Based on assessments by the Department of Education, some significant changes to the relative CGS funding levels were made subsequent to the Budget to address identified anomalies, increase subsidies in important disciplines where salary outcomes are lower than for other disciplines, and to simplify the system by reducing the number of levels from eight to five.

⁴¹ P. Dawkins ‘Reconceptualising Tertiary Education and the Case for re-crafting aspects of the Abbott Government’s proposed higher education reforms, Mitchell Institute Policy Lecture, 22 May 2014.

⁴² Bradley et al. 161.

⁴³ A. Norton, ‘Enough muddling through: higher education needs a shake-up’, *The Conversation*, April 23 2014.

Current student contributions complement these subsidies. But once deregulated, the relationship between the student contribution and the public subsidy becomes even less clear, particularly where universities adopt uniform fee policies across different subsidy levels.

Under fee deregulation there will be no set relationship between fee levels and subsidy levels.

This means that existing funded providers can in theory retain the public subsidy and charge up to the international student fee ceiling, less the subsidy level, and providers newly accessing public funding could continue to charge current fee levels as well as claim the public subsidy.

In practice, subsidies are likely to influence price levels as the proposed fee schedule issued by the Queensland University of Technology (QUT) illustrates⁴⁴ and as some individual non-university providers have indicated. But over time this cannot be assured.

Further, as fees rise and the public subsidy level declines in absolute or relative terms, their effect on student and provider behaviours and their contribution to broader policy objectives becomes weaker leaving them highly susceptible to further reduction.

For example, if a university charges \$50,000 over three years for law and commerce degrees, the purpose of a \$6,000 subsidy (2014 subsidy level) representing less than 10 per cent of the revenue for the course is questionable. On the other hand, if a university charges over \$100,000 for a five year medical degree the purpose of the equivalent public subsidy of over \$100,000 (2014 subsidy level) to the institution over the same period is also questionable, albeit for different reasons.

As Professor Peter Dawkins has argued:⁴⁵

This is a serious problem because large amounts of public money are being distributed in ways and for purposes that are unclear. In the past, tertiary education places were largely funded by government, with a modest contribution from the student. In that circumstance the cost of the education was the major determinant of the subsidy.

We are now moving into a world in which (at least in higher education) increasing numbers of students will be paying for most of the cost of their education, and receiving a top up from the government. In this circumstance it is less clear that the cost of the education should be the main determinant.

Dawkins has also argued that the public policy purpose of per student funding and the ways in which funding levels are set should be reconsidered and informed by developments in other

⁴⁴J. Hare, 'New fees still cut it, says Queensland University of Technology', *The Australian*, 5 December 2014 and A. Cameron, University of Western Australia explains its proposed student fees story', *The Australian*, 1 October 2014.

⁴⁵P. Dawkins (2014).

sectors, such as the development of the schooling resources standard with its capacity for loadings to achieve equity objectives.

Creating new markets

The entry of potentially many new accredited providers into the publicly subsidised higher education market, and possible responses by existing universities, adds further risks as well as benefits to those identified above.

Based on experience in the VET sector, inappropriate behaviour by profit driven commercial providers and third party brokers, and even by some public institutions seeking to maintain or grow market share, have led to serious concerns about quality and over provision, and concerns in financial markets about the operations of some providers. The Government has already introduced new standards to address allegations and examples of inappropriate use of VET FEE HELP.

State funding bodies have introduced belated catch up changes to subsidies and contractual requirements to try to manage the VET market. However, these changes also penalise high quality and ethical providers and add significantly to complexity and risk as market conditions can change with little notice.

Issues associated with market failure have also arisen in the VET sector and in international education. These issues are difficult for governments to manage in full fee commercial markets, but will be even more challenging when providers are in receipt of government funding with the associated higher levels of accountability to government and community expectations about provider quality and sustainability.

The position of some universities may come under threat and the response and responsibility of government in those circumstances should be thought through in advance rather than being reactive. In that regard, the ongoing responsibility of state governments for the governance framework within which public universities operate is a major consideration.

Issues relating to the general operation of the market are also critical. These include ensuring competitive neutrality between public and private providers, third party access to public infrastructure, dealing with areas of near monopoly supply such as medicine, dentistry and veterinary science, and potential under provision in thin markets in areas of critical economic and social importance and in rural and regional areas.

All of these issues require careful consideration in terms of the ongoing role of government, circumstances where government should intervene and how it should intervene, and how the overall effectiveness of the market – which is almost entirely a construct of government – should be assessed and monitored.

Participation pathways and scholarships

The Government's decisions to extend the demand driven funding system to sub degree programs has been broadly welcomed as a measure to help widen participation and to address the problem of universities and other institutions facing disincentives to enrol students in these programs when they may be a more appropriate initial option for some students.

However, consideration will also need to be given to the effect of this measure on VET diplomas and advanced diplomas, including the possibility of the Commonwealth assuming full responsibility for funding these programs in either sector as part of a tertiary education entitlement as recommended by the Bradley Review.⁴⁶

On the other hand, although its objective is laudable, the proposed higher education scholarship scheme currently lacks clear objectives and a proper base in terms of its purpose and outcomes, although it is understood that guidelines to ensure that the scheme will be targeted to those in financial need will be developed.

Evidence from Australia and overseas supports the Government's arguments that fee increases are not likely to deter participation given the availability of income contingent loans. Equity in access to higher education is driven primarily by outcomes from schooling, prior levels of educational attainment, as well as family background and aspiration.⁴⁷

There is a contradiction between the Government's argument that fee deregulation will not have a deterrent effect on participation, and its requirement that institutions allocate a percentage of revenue towards a major scholarship scheme. Sloan⁴⁸ and other commentators have also pointed out that the institutions with the highest proportion of disadvantaged students will have the least capacity to raise additional revenue towards scholarships.

The scheme as proposed, in effect, could see many students subsidising the costs of other students through institution based scholarships. In other words, many students incurring higher levels of HELP debt to cover the living expenses and improving rates for other students who probably would have attended higher education anyway. Institutions will always be tempted to use a scholarship scheme for their competitive advantage rather than addressing the more complex challenge of significantly raising and widening participation levels and improving completion rates and outcomes.

⁴⁶ See P. Dawkins (2014) and P. Noonan 'Renewing federalism: our tertiary education system needs a rethink', *The Conversation*, 18 September 2014. The feasibility and design of a tertiary education entitlement is the subject of a major project at the Mitchell Institute, the findings of which will be published in a forthcoming issues paper.

⁴⁷ An exception to this may be the effect on fee increases on mature age students, particularly those over HELP income repayment thresholds whose effective tax rates may rise as fees rise but some of whom can also claim these costs as a tax deduction.

⁴⁸ J. Sloan 'Retain University Fee Deregulation but Defer Changes to Loans', *The Australian*, 19 July 2014.

Living and associated study and transport costs are also major factors affecting initial and ongoing participation for many students, including those from lower income backgrounds, those without parental or family support, and students from rural areas and others studying away from home.

The scholarship scheme would be of greatest support to these students if it provided them with direct financial assistance. However, the extent to which that would change the socioeconomic composition of the universities with the most significant scholarship programs is questionable, particularly as the Government has removed the equity targets introduced by the previous Government on the recommendations of the Bradley Review.

Targeted assistance to these students through existing student and youth income support schemes, including the potential extension of the purpose of HELP toward covering these costs, would be a better approach than an institution based scheme, unless the scheme has very specific, clear purposes and measurable outcomes defined on a consistent basis across institutions.

The broader tertiary education system

Major reforms to higher education funding need to be considered in the context of the broader tertiary sector, particularly in relation to the funding of diplomas, advanced diplomas and associate degrees in VET and higher education, and the potential expansion of tertiary preparation programs in the VET sector.

Australia's failure to think globally about the education and training continuum has already been identified by the Mitchell Institute in an earlier paper, *Expenditure on Education and Training in Australia*.⁴⁹ As Mitchell's research found, Australia's investment in tertiary education, both public and private, is increasingly uneven and not reflective of an overall strategic approach. Analysis shows that expenditure in the VET sector has largely stalled, while it has grown strongly in higher education. On current trends, this gap will widen.⁵⁰

This is a reflection of the complex and disjointed policy and funding framework that has evolved across Australia's tertiary education system. While the entitlement to a public subsidy for a bachelor degree is universal, the entitlement to a subsidised place in a VET qualification is far less straightforward. The implementation of the COAG commitment to a VET entitlement has been different in every state and territory, resulting in eight different systems. As a result,

⁴⁹ P. Noonan, G. Burke, A. Wade and S. Pilcher (2014) *Expenditure on Education and Training in Australia*, Mitchell Institute Background and Analysis Paper.

⁵⁰ Ibid.

students' choices will inevitably be driven, not only by study and career aspirations, but by the availability of funding (in the form of subsidies or loans).

The Government's proposal to extend Commonwealth subsidies to sub degree programs is one step towards addressing this distortion. However, there is more work to do to create a simple and equitable funding model across the tertiary sector. One proposed solution - a single tertiary entitlement as suggested by the Bradley Review - will be canvassed in a forthcoming Mitchell issues paper and feasibility study.

A way forward

The risks identified above and the issues discussed do not in themselves invalidate the case for fee deregulation, or the other measures contained in the higher education reform package.

However what is now required is much greater clarity of purpose about the objectives of fee deregulation, acceptance and identification of the risks and more purposeful design of what is in effect a major new market entirely established by government and requiring appropriate oversight and monitoring of outcomes.

The use of the term deregulation itself is highly problematic as the overall regulatory framework for the new system is not clear. In fact, providers entering the publicly subsidised market will face more not less regulation through scholarship requirements and compacts with the Government.

The Government is establishing a market in which provider entry and ongoing provision are regulated through a defined standards and policy framework, but without an equivalent architecture to ensure that its proposed new funding market operates efficiently and effectively.

The Government will continue to regulate the price of subsidies on one hand and, on the other, extend to a defined set of institutions a very powerful instrument in the form of income contingent loans. The Government fully operates and underwrites this scheme and ultimately bears the full fiscal responsibility for it.

The Government is proposing to allow institutions receiving subsidies to price their courses flexibly, but its policy settings underpinning the subsidy system and the income contingent loans scheme, in effect, continue to constitute a form of regulation. The Government will therefore continue to exercise substantial influence through the role of TEQSA, in setting subsidy levels, in determining access to subsidies, and in setting the parameters for the operation of the income contingent loan scheme. The Government will maintain the process of compacts with universities and extend compacts to new providers (with more than 500 students). However, the extent to which the Government might use its compact process to address concerns about either systemic and institution specific problems in the new system is not clear.

Governments must have the capacity to intervene in a market such as this where there is clear evidence of market failure, to adjust settings if and as risks are identified and emerge, and to ensure that their broad policy objectives are being achieved.

It is also critical for both public and private institutions to operate, plan and invest on the basis of a stable, predictable and transparent framework. Similarly, students and their families should

be able to plan well in advance in terms of likely fee levels and graduates should not be faced with retrospective changes to the terms they entered into when enrolling.

Governments must monitor and report on the effectiveness and quality of the system, including the effect of the funding system on provider quality and provider sustainability.

The functions and roles described above, in effect, constitute the overall regulatory framework, of which fee deregulation forms one part. The Government should bring together the different elements into one coherent institutional framework which better describes and underpins its role in a more deregulated system.

The case for an independent oversight body

In other areas of critical importance to the economy, the state and Commonwealth Governments have established market oversight bodies, some with the direct power to approve or regulate prices and others with different powers to either intervene in, or report to, government on the effectiveness of markets and service delivery systems.

A number of leaders in the higher education sector, the Business Council of Australia⁵¹ and other commentators have argued for the establishment of an oversight body in relation to the operation of the new higher education financing system, although the roles and functions of such a body have not been clear. Indeed, a proposal for an expert body to advise on funding and price setting was contained in the submission from the University of Melbourne to the Bradley Review and then set out in more detail in the University's submission to the Base Funding Review.⁵²

Some have suggested that the Australian Consumer and Competition Commission (ACCC) could even take on this role. However, such a role would seem to be outside of the Commission's responsibilities and areas of expertise.

Nonetheless, there is a strong case for the establishment of such a body, in the first instance to advise the Government on the final design of the new system and to then oversee the operation of the new higher education financing system once established.

It is important, as far as possible, to get the design of the system right in the first instance and then adjust settings based on experience, rather than retrospectively dealing with emerging risks and unintended consequences.

⁵¹ Business Council of Australia, Submission to the Senate Inquiry into the Higher Education and Research Reform Amendment Bill 2014, September 2014.

⁵² University of Melbourne, Submission to the Review of Higher Education (Bradley Review) July 2008, 14 and University of Melbourne, Submission to the Higher Education Base Funding Review (Lomax-Smith Review) March 2011, 25.

As stated above, governments must reserve the right to intervene in the market where the public interest requires it to do so, but it must only do so where warranted and through an evidence based process of transparent advice and public determination by government of its decisions on that advice.

This could be achieved by the Government legislating for the establishment of an oversight body as a central element of a revised reform package, with its functions cross referenced to the relevant sections of the legislation concerned with the setting of fee and subsidy levels.

The body could be quickly established on an interim basis to undertake the design process and transition into its full statutory functions under legislation as part of agreement in the Senate.

This would allow the Minister to set the parameters for subsidies and for flexible fees on the advice of the independent body through guidelines, subject to possible disallowance by the Parliament.

The first role of the body would be to develop the final elements of the scheme and to consider options to address and mitigate the risks summarised in this paper and articulated elsewhere.

This process could be undertaken early in 2015, and while this would create difficulties for universities and other institutions in finalising fee levels for 2016, it would be preferable to deferring the whole process until 2017.

An essential part of this process would be to develop clear guidelines or advice to institutions in relation to the purposes to which additional revenue flowing from the deregulation could be applied. This does not suggest that the fee levels and regimes of individual institutions would be subject to approval, but that, at a minimum, institutions would be required to undertake a comprehensive and transparent process in setting fees and set out the purposes to which revenue would be applied.

The outcomes of this process would enable the body to advise the Government about proposed fee levels and associated benefits across the higher education sector, providing a more concrete and transparent basis upon which decisions could then be made about the final design of the system. This would include options to mitigate risks, particularly of over pricing in the early phases of the system.

These options could include:

- The tapering of subsidies and loan limits beyond specific thresholds such that the payment of fees beyond these thresholds become essentially a private transaction between student and institution.
- In some courses, providers being able to opt out of the publicly subsidised market in exchange for higher loan thresholds.

- A cap on the overall loan limit for individual students across all courses.
- The treatment of courses in areas subject to government control in terms of provider entry and student numbers, such as medicine and dentistry
- Research into efficient pricing and options for improvements in efficiency and productivity in higher education.
- Options to ensure that providers bear some risk arising from increases in the levels of doubtful debt.
- In the future, further consideration of the level of the indexation of HELP debt.

The body could also advise the government on issues related to the role of the government in the operation of a more market and demand driven higher education system, including:

- The case for a level of transitional assistance for existing providers.
- The needs of growing population centres and regions, and areas where population decline threatens existing provision in a demand driven system.
- Advice on the future purpose of public subsidies and options for the setting of public subsidies, having regard to public and private benefits and the important community and public roles played by public universities.
- The timing and conditions of entry for new providers to the market including the finalisation of subsidy levels for non-university higher education providers.
- Areas of skills shortages and potential over provision and the relationship between output from the higher education system and the skilled migration program.
- Participation and attainment levels, including by groups underrepresented in higher education.
- Overall monitoring of the operational effectiveness of the system, including identification of areas of market failure and measures that government and providers could take to address these failures, as well as the balance between public and private investment.

Based on VET sector experience in some jurisdictions, without such a body, there is a high risk that future governments will end up reacting to changes in market outcomes in an ad hoc and non-transparent manner. For example, this might be through frequent changes in subsidy levels, capping of courses in areas of perceived over provision, and changes in regulatory requirements or conditions for access to CGS funding for non-university providers.

Over time, the body could take on responsibility for advising on and overseeing the funding of tertiary education in Australia more generally, depending on the outcomes of reforms to the Federation in relation to VET funding.

A prima facie case to allow for fee flexibility or fee variability for subsidised higher education courses within a well designed institutional framework has been made in this paper.

What is now required is the detailed design of that framework, setting out its key elements, their interactions, options available to government to mitigate risks and a clear signal by the Government and the Parliament that it has available the power and the mechanisms to intervene if and when required.

Conclusion

In arguing for a strategic phase in policy formation in Australia and with reference to the 25 years leading up to the introduction of the GST, Marsh argues:⁵³

But must we always wait decades to settle major issues? Must we accept the political hypocrisy that adversarial politics imposes on the major parties? Must we accept this as inevitable, part of the nature of things, and of no consequence from the perspective of public confidence in the political system? Is there no better way of introducing major strategic issues to the Australian people? Is there no better way of testing the scope for even partial bipartisanship, engaging interest groups and beginning the process of seeding public opinion?

The debate around fee deregulation in higher education in Australia illustrates this point. Fee deregulation has been the subject of public debate to varying levels of intensity for even longer than debates about the GST.

Former Labor Government Minister for Higher Education, Craig Emerson, has recently argued for an independent review into fee deregulation.⁵⁴ This proposition has also been suggested as a possible compromise in the Senate, in effect undertaking the strategic phase in informing and influencing public opinion on fee deregulation.

However, as Massaro has pointed out, the history of independent higher education reviews achieving concrete policy outcomes is not strong,⁵⁵ and in any event there is now too much water under the bridge and insufficient time for this process to be undertaken. The outcomes of such a review are not likely to change the position of the Labor or Greens parties, as former Minister Emerson could no doubt attest.

The views of all major stakeholders are well known and evidence about benefits and risks well documented. The issue is now in Parliament for decision.

The process proposed in this paper allows for an in principle agreement to be made in Parliament, but with the testing of design options undertaken before the new system is finalised.

A long term and sustainable model for higher education funding in Australia is required.

For this to be achieved, the major political parties therefore need to move away from their legacy values driven positions in order for a settlement to be reached. For the Coalition, that fee

⁵³ I. Marsh (1999).

⁵⁴ C. Emerson 'Another, more rigorous path to uni reform', *The Australian Financial Review*, 5 January 2015.

⁵⁵ V. Massaro, 'Revolution could take some time', *The Australian*, 9 July 2008 and V. Massaro 'Failure to deliver a road map', *The Australian*, 17 December 2008.

deregulation will of itself, automatically create a market that will induce diversity and price competition on one hand, and for Labor, that fee deregulation will yield a frenzy of price gouging at the expense of students and poorer sections of the community.

Neither claim stands up to close scrutiny, nor are they supported by the available evidence.

The Government needs to take into account issues related to the perceived or real fairness for future generations of higher education students facing declining graduate outcomes, static wages and housing affordability pressures. Labor needs to recommit to the demand driven funding system and recognise that properly funded growth in higher education, and tertiary education generally, is required just for participation rates to remain constant as the population grows.

If the Government adopts the model proposed in this paper, Labor should come to the table to help negotiate a fair and sustainable higher education financing package with proper design and oversight.

If the package currently before Parliament is adopted, Labor will inherit its legacy with little or no capacity to substitute public for private funding.

Fee deregulation rollback will not be an option without the loss of substantial revenue to the sector - just as rollback was not an option for the tax system once the GST was in place. Nor can, or should, Labor - as the principal architects of the current higher education system - afford to take a vague and ill formed higher education policy to the next election.

Ultimately, the future of higher education financing reform is in the hands of the higher education sector itself. Its leaders and its peak bodies must engage in a direct and open conversation with the community about what they can and should offer students in terms of world class higher education, challenges the sector faces in adequately resourcing that offering and how it might be paid for in terms of real and tangible benefits to students and the community more generally.

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