Ms Julia Agostino  
Secretary  
Senate Education and Employment Legislation Committee  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

Dear Ms Agostino

Submission to the Senate Education and Employment Legislation Committee inquiry into the Higher Education and Research Reform Amendment Bill 2014

Thank you for your letter of 9 September 2014 inviting a submission from the Department of Education to the Higher Education and Research Reform Amendment Bill 2014 (the Bill) inquiry. I welcome the opportunity to make a written submission to the Senate Education and Employment Legislation Committee (the Committee) inquiry into the Bill.

The purpose of the Bill is 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. The Bill introduces the following reforms:

- deregulation of higher education student fees and extension of Commonwealth subsidies to sub-bachelor higher education qualifications and non-university higher education providers
- a Commonwealth Scholarship Scheme to assist disadvantaged higher education students
- changes to ensure the sustainability of the Higher Education Loan Programme

The Department of Education’s role in the development of the Bill has included:

- extensive consultation with higher education stakeholders
- drafting a Regulation Impact Statement
- supporting two expert working groups established to advise the Minister on implementation issues.

The Department’s submission is attached. I hope this information is of assistance to the Committee.
I would welcome the opportunity to answer any questions the Committee may have on the content of the attached documents, or the proposed reforms more generally.

Yours sincerely

Jessie Borthwick

24 September 2014
Submission to the Senate Education and Employment Legislation Committee
Inquiry into the Higher Education and Research Reform Amendment Bill 2014
## Contents

1. Introduction ............................................................................................................................ 2

2. The challenges facing higher education in Australia ................................................................. 3

3. How the proposed reforms respond to these challenges ....................................................... 5
   Access and affordability in higher education ........................................................................ 5
   A sustainable and world class higher education system ..................................................... 9
1. Introduction

This submission from the Department of Education to the Senate Education and Employment Legislation Committee’s inquiry into the provisions of the Higher Education and Research Reform Amendment Bill 2014 (the Reform Bill) aims to:

- highlight the current policy challenges for the higher education sector
- describe how the proposed reforms respond to these challenges.

The package of reforms announced by the Government in the 2014-15 Budget, most of which are enabled by the Reform Bill, aims to spread opportunity to more students, including disadvantaged and rural and regional students, equip Australian universities to face the challenges of the twenty first century and ensure Australia is not left behind by intensifying global competition and new technology.

The Reform Bill aims to create opportunities and choice for students through expansion of the demand driven funding system to sub-bachelor places at all institutions and bachelor level places at private universities and non-university higher education providers registered by the Tertiary Education Quality and Standards Agency (TEQSA). It will also create a new Commonwealth Scholarship Scheme to assist disadvantaged higher education students with the cost of their study. Higher education institutions will be required to allocate one in every five dollars of additional revenue raised from student contributions to this new scheme.

The proposed reforms aim to provide the opportunity for more students to access the right type of higher education for their personal circumstances, with a greater number and a wider diversity of study options for students, including at the sub-bachelor level.

The Reform Bill will give higher education providers more freedom to work to their strengths and respond to the changing economic and social environments in which they operate. Institutions will be able to make independent choices about the courses they offer, the fees they charge, the teaching methods they use, the scholarships they provide and the other support services they provide. This will enable institutions to access the resources they need to deliver world class education, ensuring Australia is not left behind at a time of rising performance by universities around the world.

The Higher Education Loan Programme (HELP) will be maintained, meaning that eligible students still need not pay a cent up front for the cost of their tuition, and the loan need not be repaid until the student earns over an estimated $50,638 in 2016-17. Students will benefit from the removal of the HELP student loan fee of 25 per cent for FEE-HELP and 20 per cent for VET FEE-HELP, and removal of the FEE-HELP lifetime limit. To maintain the sustainability of HELP, the indexation rate for HELP debts will be changed to reflect the cost of Government borrowings (10 year bond rate), to a maximum annual rate of six per cent.

Accountability for quality will be enhanced through more transparent information to inform choice of study options for students and their families. New information provided through the Quality Indicators for Learning and Teaching (QILT) will compare how successful previous graduates have been at finding jobs and what other students and employers think of a course.
The reform package also allows for significant investment in research excellence through continuation of the National Collaborative Research Infrastructure Strategy (NCRIS) and the Future Fellowships scheme for mid-career researchers.

To maintain the status quo would leave the sector partially reformed, but not more fully opened to competition on the supply of places as envisaged by the 2008 Bradley Review of Australian Higher Education. It would also see universities continuing in a system where diversity and innovation are effectively discouraged through over-regulation. As participation increases, the sector would remain vulnerable to future cuts, due to continuing funding pressures, with limited chance to address either costs or revenue.

2. The challenges facing higher education in Australia

Australia enjoyed a period of strong productivity growth, especially in the 1990s. However, there has been noticeable decline in the growth of productivity over the past decade. The effect of this productivity slowdown on per capita real income growth has been offset by the boost to incomes from the rise in the terms of trade over the past decade. With declining commodity prices and an ageing population, however, we face the prospect of considerably slower growth in our living standards should sluggish productivity growth continue.

A well educated workforce is the key to enhanced productivity performance, particularly in today’s knowledge-driven economy. Research excellence and innovation plays an increasingly important role in the advancement of knowledge and technology, enhancing prosperity through the development, adoption and diffusion of more productive technologies and processes.

There are numerous other benefits of education, not only to the participant, but also to society at large. In addition to improving their employment opportunities, the amount of education a person has received correlates with their propensity to be civically engaged and to have better health outcomes.¹

Over the same period, following the 1988 Dawkins white paper reforms, participation in universities has increased significantly. Bachelor degree or higher attainment for 25-34 year olds has nearly tripled from 12.5 per cent in 1991 to 36.8 per cent in 2012.² The number of higher education students in Australia (including international students) has also tripled from around 400,000 in 1989 to over 1.3 million in 2013.³ This is a substantial achievement for a modernising economy. In Australia, as elsewhere, this raises challenges, such as how to accommodate growing numbers of students without compromising the quality of education and without increasing funding pressures.

Australia ranks highly in terms of the Organisation for Economic Co-operation and Development (OECD) measure of research quality and output.⁴ According to the 2013 Australian Innovation

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² ABS ‘Education and Work, Australia’ 2001 and 2013, cat. no. 6227.0
System Report, Australia’s share of world publications has increased from 2.6 per cent in 2008 to 3.4 per cent in 2012 and ranks 8th in the OECD on this indicator, despite only having 0.3 per cent of the world’s population. Australia’s research effort has a strong academic impact. However, Australia ranks last of OECD countries in terms of collaboration between businesses and the research community (higher education or public research institutions).

International rankings of our most prestigious institutions have been static or falling relative to our international competitors in two world university ranking systems. The 2013-14 Times Higher Education World University Rankings reputation rankings includes only five Australian universities in the top 100 – down from six in 2012-13. The two universities in the top 50 both fell several places over this period. The 2014 Academic Ranking of World Universities includes only four Australian universities in the top 100, down from five in 2013. The number of Australian universities in the top 500 of the Academic Ranking of World Universities has remained at 19 for the past four years.

While access to higher education has been improved for many students through the introduction of demand driven funding for bachelor courses, constraints remain on the further development of a high-performing higher education sector.

The Government continues to set maximum prices for all courses offered to Commonwealth supported students – the majority of activity in the sector. This limits the capacity of institutions to resource world class teaching and research to compete with the best internationally and constrains competition.

By continuing to limit which providers can deliver subsidised higher education and excluding sub-bachelor places from the demand-driven subsidised system, student choice is predominately constrained to bachelor degrees from one set of institutions. While that pathway suits many students, it is not right for a large number, who would be better served going first through a diploma or associate degree programme, or pursuing their education at one of the many colleges, institutes or private universities who may offer a product more tailored to their needs.

Addressing these constraints will give universities and non-university higher education providers alike greater freedom to offer students tailored education products and pathways that best enable them to take advantage of the skilled employment opportunities available or emerging in our economy. It should also enable a better match between student needs and the supply of courses across higher education bachelor and sub-bachelor courses, further strengthening completion rates.

With increasing participation in higher education over recent times, the cost to the Australian taxpayer of direct grants to universities is rising. The uncapping of student places is estimated to have increased the projected cost of Commonwealth Grant Scheme (CGS) funding by $7.6 billion over the five years from 2013-14. A more even share of the cost burden between students, who gain significant personal benefit from their subsidised education, and taxpayers, will help to control costs and enable the benefits of subsidised higher education to be spread more widely.

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The availability of HELP student loans is a major benefit for Australian higher education students, removing the need to pay any course fees up front and a requirement to repay only once they are earning over $50,000 a year. However, running such a high level of support comes at a cost. In 2014:

- the cost of subsidising degrees is more than $6 billion
- the value of HELP loans is more than $5 billion
- student income support for higher education is more than $2 billion.

The amount of funding the Government provides through HELP loans is also going to double over the next few years. In 2017 it will be lending students $10 billion.

Further, the different treatment of students accessing HELP loans for subsidised and full fee courses means that most undergraduate students attending private colleges and universities, as well those at some TAFE institutions, are charged a loan fee of up to 25 per cent where students attending public university are not. Removing these loan fees will provide better access for students at private universities and those in vocational education and training (VET). Charging students the real cost to Government of funding HELP loans will also help bring costs under control as access to the loans continues to increase.

A number of ‘funding cliffs’- programmes that do not have provision for funding into the future - have also been left within the forward estimates. If these are not addressed, important programmes such as NCRIS funding will terminate on 30 June 2015 and no further Future Fellowships will be awarded in 2015 or beyond.

### 3. How the proposed reforms respond to these challenges

The Government’s proposed reform package addresses these challenges and aims to drive improvements in quality, choice, innovation, diversity and the overall sustainability of the higher education sector. Fee deregulation and extension of demand driven bachelor places to private university and non-university higher education providers and sub-bachelor places to all approved institutions provide the means to achieve these objectives.

**Access and affordability in higher education**

The current arrangements have effectively resulted in all universities charging similar fees at or near the price cap. Deregulation of student contributions coupled with opening up the system to private universities and non-university higher education providers is expected to see improvements on a range of fronts including access to the new Commonwealth scholarships, new courses and teaching methods, variation in pricing between providers and enhanced student experience.

The expansion of sub-bachelor subsidies will be of particular benefit to less academically prepared students, as it will increase access to pathway courses that prepare students for bachelor level study. As noted in the Kemp/Norton *Review of the Demand Driven Funding System*, this should reduce dropout rates, provide a lower-risk entry point to higher education for less well prepared students, including many from low SES backgrounds, and increase efficiency by better matching students to appropriate courses.

Many disadvantaged students will receive additional support through the proposed new Commonwealth Scholarship Scheme. Through this scheme, some institutions will be able to provide tailored, individualised support to help disadvantaged students, including help with living costs while
they study. The scholarships will also be able to cover fee exemptions and mentoring, tutorial support and even relocation expenses.

The reforms are designed to provide the opportunity for more students to access the right type of higher education for their personal circumstances. A wider diversity of study options will be available for students, including at the sub-bachelor level, with courses underpinned by minimum quality standards enforced by TEQSA.

The expansion of Commonwealth supported bachelor and sub-bachelor places to all TEQSA-accredited institutions is expected to see the number of Commonwealth supported students increase by more than 80 000 a year by 2018 (35 000 at bachelor level, 48 000 at diploma, advanced diploma and associate degree level), an increase of around 9 per cent.

Students will be able to make more informed choices through the availability of better information on provider quality and performance from the QILT, a coherent suite of Government endorsed surveys for higher education that cover the student life cycle from commencement to employment.

**Subsidy levels and fee deregulation**

It is not possible to say precisely how subsidy changes and fee deregulation will affect the cost to students of particular courses, or what the impact will be for specific universities. In a deregulated sector, it would be inappropriate for Government to signal acceptable prices to providers, a problem experienced in the past in Australia and other countries, where fee ‘limits’ have become de facto uniform fees.

This effect was demonstrated recently in the United Kingdom where, in 2012, an increased cap on student fees saw a large and uniform increase in student fees at most institutions. After the cap was raised and fees increased, there was an initial fall in overall enrolments (around 8.7 per cent). However, demand from school leavers remained strong, including those from non-affluent backgrounds. University applications rose again by two per cent for admission in 2013-14.

Academic and political commentators have advanced a range of estimates of fee levels. Many factors will influence the tuition fees institutions will charge. These include the actual cost of delivery and subsidy levels, consumer demand, institutional ambitions regarding teaching quality and course content, the prestige of the institution and reputation of the course, price competition, institutional and faculty marketing strategies and cross-subsidisation between disciplines or courses.

Evidence of the higher education market moving towards a more competitive basis is already being seen. On 12 September La Trobe University offered about 1000 places in 2015 under its Aspire programme for high achieving year 12 students, in which it guarantees an increase of no more than 10 per cent in 2016 should fees be deregulated. On 22 September, The University of Western Australia (UWA) announced it would set an annual fee of $16 000 for domestic full-time students enrolled in its five undergraduate degree courses from 2016. Deputy Vice-Chancellor

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Professor Alec Cameron noted in media that UWA had released pricing information to provide certainty to students.

Additional increases are likely in some cases, though, where an institution considers it is able to deliver a higher quality or more prestigious product, or aims to provide specialist, intensive teaching delivery for students in niche areas or specific professions. The Government expects that increased competition, including on price, and the transparency of information on provider quality and performance available to consumers through QILT, should moderate fee increases. While fees for some courses may rise, those for other courses will likely decrease as CGS funding is extended to Australian undergraduate students enrolling at registered private universities and non-university higher education providers.

Deregulation of fees has strong support in the sector. Universities Australia Chief Executive Officer Belinda Robinson stated in a media release on 28 August 2014 that, "either the status quo of ongoing inadequate investment, or further cuts without deregulation will condemn Australia’s great university system to inevitable decline, threaten our international reputation and make it increasingly difficult for universities to meet the quality expectations of our students". While some increases may be justified in order to fund world best teaching and learning, university representatives have been consistent, repeating that an extreme hike in fees will not occur.

We expect the reforms to deliver a more dynamic and efficient higher education sector over time.

HELP student loans
Under these reforms, Australian students will still not have to pay any fees up front, through access to world leading HELP student loans and they will not have to repay these loans until they are earning over $50 000 a year. Around 50 000 higher education students and 80 000 VET students will also benefit from removal of the inequitable HELP student loan fees (25 per cent for FEE-HELP and 20 per cent for VET FEE-HELP loans).

The Reform Bill also includes a number of changes to HELP student loans, including new indexation arrangements for HELP debts (see below), a new minimum repayment threshold, cessation of the HECS-HELP benefit and the removal of lifetime fee limits.

Through attendance at recent tertiary skills exhibitions and university open days, the department has found that many students are under the misconception that the reforms would result in HELP being abolished from 2016. Students and their families have been relieved to find that this was not the case. The feedback does, however, reinforce the importance of responsible commentary on what changes are proposed.

Other stakeholders have raised concerns about the potential for large HELP debts to influence student participation, both due to potential fee increases and the Government’s proposal to index HELP debts at the 10 year Government Bond rate.

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Under the Government’s proposed reforms, students will be responsible for an increased share of the costs associated with their higher education. However, it is not expected that increased financial costs to students will affect aggregate participation in the higher education system. This is because:

1) students can make enrolment decisions, determining value for money, in a sector that will be characterised by greater information availability (facilitated by the establishment of QILT), greater choice and competition between providers and a broader distribution of price
2) Australian students will still be able to defer their higher education costs through an income contingent loan scheme, which has historically acted to cushion price sensitivity effects - mitigating any negative impacts increased tuition fees might otherwise have had on participation in higher education
3) available evidence (from Australia and overseas) suggests that an increase in tuition fees will not reduce aggregate student demand over the longer term.¹⁰

Some stakeholders have recommended capping of course fees or applying a lifetime HELP loan limit. As is the case in relation to capping course fees, the department’s experience of placing a lifetime FEE-HELP loan limit was that some institutions’ fee levels for higher cost courses are set at a rate that falls slightly below the cap, possibly indicating that these institutions use the lifetime limit as a guide to pricing. If a cap on loans was placed low enough to affect fees for average cost courses, many students would be forced to pay substantial “gap” fees. If the loan limit were set high enough to cover all but the highest cost courses, it would have minimal impact on course affordability. Neither option works for students.

The Government recognises the need for a well-resourced, flexible and adaptive capacity to monitor the impacts of the reforms, particularly fees. The TEQSA Advisory Council has been tasked with providing advice to the Minister on arrangements necessary to monitor the sector, especially in the transition phase while the reforms are introduced and for the long term.

Disadvantaged students
Introduction of demand driven funding led to a significant expansion in enrolments of domestic students in public universities and has improved access to higher education by students from disadvantaged backgrounds. Between 2012 and 2013, domestic undergraduate low socio-economic status (SES) student enrolments increased by 7.2 per cent to 124,193, with an improvement in the participation rate of low SES domestic undergraduate students from 17.1 per cent in 2012 to 17.3 per cent in 2013.

The Review of the Demand Driven Funding System argued that expansion of subsidised places to sub-bachelor courses and non-university higher education providers would improve the efficiency of the higher education system by better matching students with appropriate courses. This is particularly the case for regional and low SES students, who are less likely to go onto higher education study.

The Commonwealth Scholarship Scheme will provide new opportunities for disadvantaged students, including many from regional areas. The volume of regional students likely to accept scholarships at metropolitan universities – a concern expressed by some regional stakeholders – is unclear.

**A sustainable and world class higher education system**

In a constrained budgetary environment, the Government must ensure its funding of higher education is sustainable. The Government’s investment of public funds must be efficient and deliver value for money. These objectives are the foundation of the proposed reforms and are consistent with reforms being enacted across higher education systems in many advanced economies.11

An unintended outcome of ‘price-capping’ by Government is that universities have been driven towards volume of students and cheap teaching models.12 The reforms would allow this to change. Through these reforms, it will be universities and other higher education institutions that are responsible for setting their own fee levels, freeing them from bureaucratic restrictions.

The Government is proposing to streamline the current eight funding clusters into five funding clusters. These new clusters are designed to incorporate a more rational reflection of factors relevant to the cost of delivery, such as the standard teaching method, the infrastructure required to deliver the course and the potential value to prospective students.

The subsidy levels associated with the existing funding clusters are primarily based on historical decisions from the 1980s and do not reflect the relative costs of course delivery today. As a consequence, if eight funding clusters are retained and fees are deregulated, there is a potential for fee setting to be more complex and less transparent to students.

The Government’s proposal has been criticised for its impact on science and engineering. However, the alternative proposal of retaining the eight funding clusters with a consistent reduction in subsidy funding across the clusters would adversely affect teaching, nursing, IT, architecture and welfare courses. Such an arrangement would favour around one-third of universities compared to the proposed five clusters (for most the gain would be marginal), while two-thirds of universities would be worse off, a number of them significantly, due to their high proportion of teaching and nursing students. The alternative eight cluster proposal would have the greatest negative financial impact on universities that have less capacity to increase revenue from students, in particular regional universities.

The reforms reduce regulatory burden on the sector by $9.8 million per annum, freeing institutions from Government ‘red tape’ and providing them the means to resource and pursue their missions.

**Regional universities’ ability to raise revenues**

Regional universities have always shown strong capacity to innovate and take advantage of new policy settings. The introduction of demand driven funding for bachelor degrees in 2012 has seen domestic enrolments at regionally headquartered universities grow at a higher rate than the average for all public universities. (14.8 per cent growth from 2009 to 2012 compared to 14.6 per cent for

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Table A providers). In a deregulated fee environment, regional universities will have scope to set tuition fees at levels that will both cover their cost of delivery and make their offerings competitive with other providers in the market.

Regional universities are well placed to capitalise on the unlimited availability of sub-bachelor places, both by enrolling more students in their own right and forming partnerships with other local providers such as TAFE institutes. A number of universities have already forged partnerships with regional TAFEs to develop new courses or expand operations into previously underserviced locations where there are poor higher education attainment rates, but good VET preparation to diploma level. Regional TAFEs that are approved to operate as higher education providers will also be able to provide additional opportunities for regional students and support the economic development of their communities.

On 8 September 2014, Regional Universities Network (RUN) issued a joint media statement with the Group of Eight (Go8) which reiterated support for fee deregulation but advocated changes to the reform package ‘to recognise the particular circumstances of different universities’. RUN and Go8 proposed a regional adjustment assistance package including:

- a regional scholarships programme
- an eligibility threshold for the Higher Education Participation Programme to ensure funding goes to universities with high proportions of disadvantaged students.

The Chair of RUN, Professor Peter Lee, said “that the deregulation of student fees was the only way that the sector could maintain quality and access and remain internationally competitive, as significant, additional funding is unlikely, irrespective of political party composition”. RUN has also said that the expansion of the demand driven system to sub-bachelor courses will assist in providing pathways and lifting participation in regional Australia for less well prepared students.

RUN has suggested regional universities will have limited scope to increase fees, given the economic circumstances of their students. In fact the reforms may see more students from metropolitan areas seeking to enrol in high quality, moderately priced courses at regional campuses, which would be good for those regional economies.

In 2014 the Government is providing over $66 million in regional loading to regional universities. This loading is intended to help overcome higher costs associated with providing education in regional areas. This funding will continue under the Government’s proposed reforms.

As discussed above, the proposed Commonwealth Scholarship Scheme will provide new opportunities for disadvantaged students, including many from regional areas.

Research funding
Through the reforms, targeted research investment will help maintain and build world class research capacity in Australia. Funding for university research from within the Education portfolio increases as a result of the Government’s budget package.

Researchers will be supported through these reforms by a continuation of the NCRIS. Through NCRIS, partnerships between the research sector, business, industry and governments have been

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established to ensure that Australian research continues to be competitive and rank highly on international scales. NCRIS enables over an estimated 30 000 researchers to access world leading equipment and facilities. It consists of 12 capabilities made up of 27 projects and facilities that employ more than 1500 highly skilled scientific and technical experts in 222 institutions.

Researchers are also supported by the continuation of the Future Fellowships scheme which will award 100 four-year fellowships to mid-career researchers each year from 2015 through the Australian Research Council on an ongoing basis.

Changes to the Research Training Scheme (RTS) would see a decrease in RTS funding of 10 per cent from the Commonwealth as part of contributing to Budget repair. The Reform Bill enables higher education providers to introduce student contributions for students undertaking higher degrees by research (HDR). Higher education providers would be able to charge a student contribution up to a maximum of $3900 per equivalent full-time student load (EFTSL) for high cost courses and $1700 per EFTSL for low cost courses. It will be up to the discretion of individual institutions as to whether they charge this contribution to HDR students or absorb the reduced funding in some other way.

HELP loans will be available so that eligible RTS students do not have to meet these costs up front. Universities may choose to offer scholarships to cover these costs. The availability of HELP loans for RTS fees will minimise any impact on the demand for higher degree by research.

Recent data indicates that higher degree research graduates will enjoy a lifetime earnings advantage over bachelor degree holders, despite starting out later in their employment. In 2013 the median salary for new postgraduates in full-time employment was around $79 000, whereas, the median salary for bachelor degree graduates was around $55 000.14

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