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

SEPTEMBER 2014

Business Council of Australia

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The Business Council of Australia (BCA) is a forum for the chief executives of Australia’s largest companies to promote economic and social progress in the national interest.

1. EXECUTIVE SUMMARY

Overview

The Business Council of Australia believes the package of reforms detailed in the Higher Education and Research Reform Amendment Bill 2014 (the Bill) is a positive and much needed reform agenda and we support the intent of the Bill.

The changes detailed in the Bill represent a coherent strategy that focuses on increasing access and creating a more innovative and responsive higher education system through the introduction of competition and regulation. These reforms are interrelated and need to be implemented in lock-step to achieve the desired outcomes. It is important that the parliament uses the opportunity in considering the Bill to undertake much-needed reform of the sector, and that if changes are negotiated, the integrity and intent of the reform package is not lost.

Why the Business Council is interested in higher education

Globalisation and technology are changing Australia’s competitive environment and the landscape for work. There are no business models that will not be impacted by technological change. Over time there will be a transformation of the labour market where existing job structures will be replaced by new jobs requiring vastly different skills and capabilities. Competition for skilled labour will be a comparative advantage in a global economy. Businesses will look to source the highest-skilled labour from wherever they can get it.

The Business Council believes the comparative advantage for Australia must be to train, attract and retain the most agile, innovative and adaptive people in the world. That means Australia needs a higher education sector that is dynamic, diverse, and capable of delivering:

1. graduates who have the skills needed to be productive and work effectively in the new economy
2. world-class research that leads to innovation and economic growth
3. quality educational delivery and products that both attract people from around the world and result in demand for our education products in other countries, thereby strengthening education as an export industry.

The Business Council therefore has a strong stake in the robustness and long-term sustainability of Australia’s higher education sector.

Positive elements of the reform package

The Business Council believes that, on balance, the reform package creates the right platform to build the higher education sector we need for the future by:

- Introducing market mechanisms of competition, choice and deregulated fees, which should lead to innovation, differentiation and specialisation.
- Extending uncapped funding to private providers, which will allow them to offer more customised education products, such as work-based learning or direct pathways into employment, in the government-subsidised market. This will benefit students, employers and the sector more broadly.
- Extending uncapped funding to diplomas, advanced diplomas and associate degrees. This demonstrates the value of these qualifications in their own right. It brings them to an equal footing with undergraduate qualifications in terms of their importance to the labour market.
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- Maintaining HECS for all students.
- Maintaining a strong focus on access, fairness and equity by expanding uncapped funding to diplomas, advanced diplomas and associate degrees, and introducing the new Commonwealth Scholarship Scheme.
- Establishing transition arrangements for students and providers.

Taken together, these changes will mean institutions focus on their strengths, which will lead to more responsive and flexible providers. It should also result in a sector that is more dynamic and offers greater differentiation and specialisation.

The extension of uncapped funding to private higher education providers, and to diplomas, advanced diplomas and associate degrees is a fundamental component of the package. The addition of new providers and courses to the uncapped funding market creates the environment for competition where fees can be deregulated. These two changes will work together and therefore need to be implemented at the same time.

Section 2 of this submission provides additional detail on the Business Council’s comments on the positive elements of the reform package.

Concerns and recommendations

The Business Council supports the need for reform and for the vast majority of the Bill; however, there are elements that will require some modification to deliver the reform intent and reduce unintended consequences.

While we support the overall intent of the package, there are three areas that require additional work:

- market design, including the transition arrangements for small and medium providers
- the need for more effective market information
- the appropriateness of the indexation rate.

Market design and transition

The Business Council has concerns about how effectively the market will initially operate in ‘thin markets’. Thin markets are geographical areas or courses where there are insufficient providers to have genuine competition or insufficient demand for providers to be profitable. This can have a number of negative effects if not appropriately managed.

The reforms have an ambitious implementation timeline. Universities are not starting from a level playing field. Some universities have strong market power because of their brand and tradition, and the significant government funding they have received over many decades. There are risks that universities with lesser market power will struggle with the transition. Universities will need to have the autonomy to manage this.

Recommendation 1

The Business Council recommends the government establish an oversight role to monitor the market to minimise the potential for long-term costs to government, overpricing and poor value for money and recommends it intervene, if necessary, in thin markets.

This role could be given to an already established body with knowledge of market design, or the government may wish to establish an independent body. If an independent body is established, it could be for an initial three-year period and the need for it reviewed depending on the maturity of the market.

The oversight body could commence its role immediately to assess the degree of change required to have an efficient and effective market and the preparedness of different universities for the
changes. The body could also provide advice to government on whether additional changes are needed to help manage the transition for the universities managing a greater impact.

**Market information**

The information available on the MyUni and TEQSA (the university regulator) websites is difficult to navigate and is insufficient for students to make informed choices.

For students to make informed choices, they need to have access to a tool that allows them to compare institutions based on price, course content, course quality, employment outcomes and graduate salaries.

**Recommendation 2**

The Business Council recommends the government identify and implement a way to significantly improve market information in the transition to the introduction of the new model in 2016.

**Indexation and equity**

The Business Council is concerned about the possible regressive and disproportionate impact of indexing student debts to the Treasury 10-year bond rate.

**Recommendation 3**

The Business Council recommends the government adopt an indexation approach that removes the inequities associated with the bond rate while limiting the potential long-term costs to government.

Section 3 of this submission details the elements that are of concern to the Business Council, and its recommendations for amendments.

**Consequential implications and need for further work**

These reforms will place additional pressure on universities to be efficient, flexible and adaptive. If universities are to succeed, all governments (state and federal) will need to give universities the authority, responsibility, and governance arrangements to make changes to infrastructure and staffing so they can make the savings they need to be competitive.

Section 4 of this submission details the consequential implications for the vocational education and training (VET) sector, and the management and governance of universities.

**Comment on each Schedule of the Bill**

Section 5 of this submission summarises the Business Council's comments on each schedule of the Bill.
2. POSITIVE ELEMENTS OF THE REFORM PACKAGE

The Business Council believes the package of reforms detailed in the Bill is a positive and much-needed reform agenda, and we fully support the intent of the Bill.

The reform package creates the right foundation from which to build the higher education sector we need for the future by:

1. Introducing market mechanisms of competition, choice, and deregulated fees, which should lead to innovation, differentiation and specialisation.
2. Maintaining a strong focus on access and equity by expanding uncapped funding to sub-degree courses, offering HECS to all students and introducing the new Commonwealth Scholarship Scheme.
3. Establishing strong and fair transition arrangements for students.

Introduction of market mechanisms

Through extending uncapped funding for undergraduate degrees to all registered higher education providers and allowing providers to set their own fees for the individual student contribution, the reform package introduces market mechanisms into the higher education market.

Competition and choice provide the consumer with greater power, and require institutions to be more responsive and flexible. To be successful, institutions will need to focus on their strengths, which should lead to greater differentiation and specialisation.

The introduction of greater competition and student choice requires providers to have a stronger focus on what the end-users of education – students and businesses – want. In markets like higher education, with significant public subsidy and limited competition, providers are less constrained by consumer preferences than in markets where the consumer pays the full cost.

Private higher education providers have built strong businesses in the domestic full-fee paying market because they have developed products that consumers think are worthy of significant investment. Some examples include products that focus on delivering the highest-quality student experience, products that deliver good work-based learning experiences, or products that have direct pathways into employment. Private providers will now be able to offer these types of products in the government-subsidised market to the benefit of students, employers and the sector more broadly.

The reform package also deregulates fees, which gives providers the freedom to compete on price. This should encourage competition and innovation in the sector.

Equity and access

The Business Council believes post-school education, whether it be at a TAFE, private college, university or other higher education provider, is the key to opportunity for individuals and should be accessible to all Australians.

Equity and access are maintained in this package through three key elements:

- The extension of uncapped funding to all diplomas, advanced diplomas and associate degrees.
- Maintaining HECS so students are not deterred by having to pay any up-front costs, as they will be able to use the loan facility of HECS to pay for their contribution when they are able to, as well as continuing to make a government contribution for all qualifications.
- The creation of the new Commonwealth Scholarship Scheme.
Extending uncapped funding

Extending uncapped funding to all diplomas, advanced diplomas and associate degrees at all accredited higher education providers builds on our history over the last 40 years of opening up post-compulsory education to more and more Australians.

This demonstrates the value of these qualifications in their own right. It brings them to an equal footing with undergraduate qualifications in terms of their importance to the labour market. These qualifications are excellent pathways into work, and providing a government subsidy for these qualifications gives greater access for people who do not want to study at university but want to get a qualification that leads to a new career. They are also an excellent pathway for students who are not adequately prepared for an academic environment but wish to transition into higher education.

This extension should also stimulate enrolments as new providers enter the publicly subsidised market and actively seek out students to gain the government subsidy. It is also likely that uncapped places in higher education diplomas, advanced diplomas and associate degrees will initially be offered by providers who have a stronger focus on student engagement and adult learning. This should lead to more enrolments by students from disadvantaged backgrounds and adult workers.

The Business Council believes the inclusion of diplomas, advanced diplomas and associate degrees creates a genuine higher education system, rather than a university system. This provides greater opportunity for individuals and offers greater support for a dynamic economy and changing workforce.

The extension of uncapped funding to private higher education providers, and to diplomas, advanced diplomas and associate degrees is a fundamental component of the package. The addition of new providers and courses to the uncapped funding market creates the environment for competition where fees can be deregulated. These two changes go hand-in-hand and need to be implemented at the same time.

HECS and maintaining a government subsidy

While the Business Council fully supports the continued expansion of access to post-compulsory education, it acknowledges that the cost of this expansion needs to be shared.

Since the Dawkins reforms and the introduction of HECS in 1989, students have been asked to make a contribution to their post-compulsory education. This is because post-compulsory education delivers high levels of private benefit through higher incomes and employment rates. The reform package detailed in the Bill continues this principle of sharing the costs and benefits of post-compulsory education, and this principle is strongly endorsed by the Business Council.

Under the reform package the total cost of education will continue to be shared between the government and the individual. The government will continue to pay providers a set fee for each student who studies under the uncapped system, and students will pay the tuition fee determined by their provider. All students studying under the uncapped system will have access to HECS, which means they will not have to pay any up-front fees for their education, thereby removing financial barriers to participation.

The reforms also harmonise the various loan schemes into one scheme. Previously, students who studied at a private higher education provider, or undertook a VET qualification, were charged a 25 and 20 per cent loan fee respectively. This loan fee disadvantaged students who were not at university, and the reform package removes this inequity.

New Commonwealth Scholarship Scheme

As part of the reform package, providers who have 500 or more students enrolled under the uncapped model must allocate 20 per cent of their eligible revenue for:

- increasing access to and participation in higher education by students and prospective students from disadvantaged backgrounds
• improving course completion by disadvantaged students.

Given the number of uncapped government places, this scholarship scheme will be significant and will provide supported pathways into higher education for students from disadvantaged backgrounds. It will also require the more prestigious universities to maintain a strong focus on disadvantaged learners.

Transition for students

The reform package was announced as part of the 2014–15 Commonwealth Budget. The reform package includes a concept of a 'preserved funding student'. This effectively allows students to remain under the current system (i.e. capped fees) if at the time of the announcement they:

• were studying in a government-subsidised place

• were on approved leave from a government-subsidised place

• had accepted an offer for a government-subsidised place but are on an approved deferral of the place.

These transition arrangements for students are valid up until 1 January 2021, therefore providing enough time for students to complete their undergraduate studies under the current system.
3. OUR RECOMMENDED AMENDMENTS TO THE REFORM PACKAGE

Market design

The Business Council supports the use of market mechanisms to deliver better outcomes, particularly in areas that have not traditionally been exposed to competition. Market mechanisms can encourage a more dynamic, innovative and effective system. The Business Council congratulates the government on increasing market mechanisms in higher education.

Contestability, however, is not a policy purpose in and of itself. All markets exist within regulatory and policy parameters. In the case of the higher education sector, the government invests over $15 billion each year. The sector is also fundamental to Australia’s growth and prosperity. The government therefore has a significant and legitimate interest in assuring that the sector is efficient, delivers quality products, and effectively contributes to the labour market.

Market design is the key to this assurance. The government has a role to play in designing a market that makes the best use of this investment and meets national policy objectives, while allowing providers to manage their operations without undue interference.

Given higher education is an immature market, the initial policy and regulatory arrangements are important in ensuring the desired outcomes are achieved.

Table 1 details the key market design features (beyond regulation) of the proposed reform package.

**Table 1: Levers in the higher education market**

<table>
<thead>
<tr>
<th>Lever</th>
<th>Purpose</th>
<th>Current approach</th>
<th>Proposed approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligibility criteria for a CSP</td>
<td>A mechanism that controls demand and consequently, budget. The broader the criteria, the greater potential number of students.</td>
<td>Broad criteria focused around citizenship.</td>
<td>Slight expansion for some New Zealand citizens but relatively minor impact.</td>
</tr>
<tr>
<td>Total number of CSPs available</td>
<td>A mechanism that controls demand and consequently, budget. If more CSPs are offered, it is likely more CSPs will be taken up.</td>
<td>Uncapped at public universities and a small number of private higher education providers in nursing and education.</td>
<td>Expanded to be uncapped at all registered higher education providers.</td>
</tr>
<tr>
<td>Level of qualification CSPs can be used for</td>
<td>A mechanism that controls demand and consequently, budget. Limiting access to particular qualification levels helps shape the future workforce profile.</td>
<td>Uncapped for undergraduate degrees.</td>
<td>Uncapping expanded to cover diplomas, advanced diplomas, associate degrees and undergraduate degrees.</td>
</tr>
<tr>
<td>Providers eligible to offer CSPs</td>
<td>A mechanism that controls demand and consequently, budget. Limiting provider eligibility can also be a quality assurance mechanism – government funding is only made available to providers who have passed particular quality assurance requirements.</td>
<td>Uncapped CSPs primarily limited to public universities.</td>
<td>Uncapped CSPs expanded to all registered higher education providers.</td>
</tr>
<tr>
<td>Commonwealth contribution to a CSP place</td>
<td>The government can be a price-setter or a price-taker. Setting the price can limit the government’s budget exposure and</td>
<td>The government is the price-setter.</td>
<td>The government is the price-setter but has reduced the government</td>
</tr>
<tr>
<td>Lever</td>
<td>Purpose</td>
<td>Current approach</td>
<td>Proposed approach</td>
</tr>
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<td></td>
<td>send a signal about a range of government views including cost of delivery, the areas it wishes to prioritise, and the long-term earning capacity of graduates. Being a price-taker allows the market to dictate the price.</td>
<td>contribution to public universities by approximately 20 per cent.</td>
<td></td>
</tr>
<tr>
<td>Individual contribution to a CSP</td>
<td>The government can place control mechanisms on this or allow providers to set their own fees.</td>
<td>The government caps the individual contribution.</td>
<td>Providers will determine the individual contribution a student will need to make.</td>
</tr>
<tr>
<td>Loan conditions</td>
<td>Income-contingent loans (HECS) were introduced so students could make a contribution to their education, but not pay up-front costs. As the loans are income contingent, students only make repayments when they meet a minimum income level.</td>
<td>A discount for paying HECS-HELP up-front. A 25 and 20 per cent loan fee respectively for FEE-HELP and VET FEE-HELP. A lifetime loan limit.</td>
<td>Consolidation of all loan schemes into one scheme with no up-front discount, loan fee or lifetime limit.</td>
</tr>
</tbody>
</table>

**Policy intent and desired outcomes**

A well-designed higher education market should deliver on the policy aims of the reforms, which, as stated by the Minister for Education, the Honourable Christopher Pyne, in the Bill’s Second Reading Speech, are to:

... spread opportunity to more students, including disadvantaged and rural and regional students, equip Australian universities to face the challenges of the 21st century and ensure Australia is not left behind by intensifying global competition and new technologies.1

From a learner point of view, an effectively designed higher education market will result in greater access and more choice; better educational delivery; student-centred learning; improved flexibility; better employment prospects; and value for money.

From a taxpayer point of view, an effectively designed higher education market will provide greater educational opportunities for taxpayers and their families; result in value for money; and limit potential long-term costs to government.

From an industry and employer point of view, an effectively designed higher education market will deliver skilled and work-ready graduates; prevent overpricing leading to upward pressure on graduate wages; and limit potential long-term costs to government.

**Does the proposed market design deliver the desired outcomes?**

The following section details how the market delivers against each of the desired outcomes listed above.

In summary, the proposed market design delivers on key desired outcomes such as increased opportunity and expanded choice. However, the current design could be improved to ensure appropriate prices, value for money and good market information.

Given the size of government investment, the Business Council would argue government has a role, at least until the market reaches maturity, to monitor the market to ensure it does not become overpriced. An overpriced higher education market will place additional costs on the economy more broadly and would not be an efficient use of the significant subsidy it receives from government.

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In its 2011 review of the VET market, the Essential Services Commission (ESC) proposed a solution that could be applied to this market:

The Commission is advocating roles for an independent body to oversee the VET market and advise on pricing and competition issues. It would monitor the market and ‘declare’ where conditions are competitive enough to support free market pricing. In the absence of sufficient competition, the independent body would determine ‘benchmark prices’ for VET courses.2

The Business Council believes such a body, or an equivalent mechanism, in the higher education market, could help to ensure the market develops appropriately to deliver the desired outcomes. As the market matures and new providers gain market share, the need for such a mechanism may reduce.

**Expanding opportunity and choice**

The review of the uncapped model in public universities concluded that uncapped funding for undergraduate degrees led to greater enrolments across all socio-economic backgrounds.3

The extension of uncapped funding from public universities to all registered higher education providers should mimic this effect. It should also stimulate enrolments as new providers enter the publicly subsidised market and actively seek out students to gain the government subsidy.

A diploma, advanced diploma, and associate degree are qualifications that will lead to employment in medium to high-skilled jobs, and providing a government subsidy should lead to greater enrolments and improved employment outcomes.

These courses also operate as effective pathway programs for students who want to attend university but are less prepared for an academic environment.

It is likely these courses will initially be offered by providers who have a stronger focus on student engagement and adult learning. The expansion of uncapped funding to these courses should therefore lead to more enrolments by students from disadvantaged backgrounds and adult workers.

Consequently, the government’s policy intent of spreading opportunity and choice, and the desired outcomes from the learner’s and taxpayer’s point of view of access, are met. The government estimates an additional 80,000 enrolments are expected to result from these changes.

**Potential long-term costs to government**

Long-term costs to government can be incurred on three fronts:

1. the number of students who enrol in a CSP
2. the amount of the Commonwealth contribution to a CSP place
3. the amount of debt accumulated by students enrolled in a CSP.

The government’s reforms are designed to increase participation through removing limits on the number of students who can access a CSP position. The Business Council supports this position and believes this is a worthy investment to develop human capital.

By establishing itself as the price-setter, the government will be able to control the amount of the Commonwealth contribution to a CSP place. While the uncapped nature of CSPs means the government cannot precisely budget the cost, it should be able to make relatively accurate projections.

The amount of debt CSP students accumulate through their individual contribution costs could present implications for the government. While the student is ultimately responsible for the debt,
the government covers the initial cost, and bears the long-term implication if the student does not earn a sufficient income to pay back the loan.

On balance, the majority of risk for potential long-term costs to government is effectively managed in the package. The potential risk associated with accumulation of debt could be managed through the establishment of an independent body to monitor the market, particularly in relation to fee setting.

Value for money

Value for money is linked to long-term costs to government as both are concerned with the fees providers will set for an individual’s contribution.

Public universities will have an approximately 20 per cent funding cut. Private higher education providers will receive 70 per cent of the new funding rate public universities receive.

The providers set the individual contribution fee and have no institutional risk associated with increasing an individual’s contribution beyond the 20 per cent funding gap. In a well-functioning market, competition should overcome this and create downward pressure on prices. The expansion of new providers into the publicly subsidised market should increase competition and therefore provide an incentive to minimise fee increases and deliver value for money.

However, the higher education market is not a single market. It differs by region and by course, and the market outcomes will therefore be different.

For courses in metropolitan areas and those that are low-cost to deliver, there is likely to be sufficient competition to restrain prices, and in some instances prices are likely to decrease. However, for courses in regional areas, and high-prestige, high-value courses such as medicine, dentistry and veterinary science, where there is limited competition, it is likely that prices will increase.

In its 2011 VET Fee and Funding Review examining the market reforms introduced in Victoria’s training market, the ESC concluded that:

There will inevitably be significant areas of the VET system where there will never be sufficient competition to support competitive market prices. These are sometimes referred to as ‘thin markets’, and might exist by geographic area or by type of course.4

Given the significant number of providers in the VET market compared to the higher education market, the lower barriers to entry in VET, and the greater prestige differential across providers in higher education, it is likely the higher education market will face similar challenges.

Prestige universities will have market power across the sector, and there will be thin markets in regions and high-prestige courses. Over time other providers should develop greater market power, but as the ESC concluded in VET, it is also likely there will never be sufficient competition in some areas of the higher education market to support competitive market prices.

Consequently, in some areas providers will have sufficient market power to set prices at a level that does not provide value for money and could be seen as overpricing. While the behaviour of public universities and private higher education providers cannot be predicted, a well-designed market should not rely on institutions to act in the broader public interest at the expense of institutional interest.

Improved delivery

The increase in the number of providers and the different levels of courses available will result in increased competition. This should lead to better educational delivery, student-centred learning and improved flexibility.

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However, market information is extremely important to drive that kind of competition by allowing potential students to compare providers. The information available on the MyUni and TEQSA (the university regulator) websites is difficult to navigate and insufficient for students to make informed choices.

As an example, if a student wishes to study medicine but is not sure where they can do it, they may search the national register of courses on the TEQSA website. However, the 11 providers listed are not universities nor do they qualify the student to be a doctor. This would then leave them to use the MyUni website, which provides more information, but not information that is easy to navigate or compare. For students to make informed choices they need to have access to a tool that allows them to compare institutions based on price, course content, course quality, employment outcomes, and graduate salaries.

**Skilled and work-ready graduates**

The changes to the market are primarily focused on access, fees, and funding, rather than the quality of graduates.

New entrants and a bigger marketplace can raise questions around quality standards. TEQSA will need to closely monitor the market to ensure quality standards are maintained.

**Transition arrangements for providers**

The reform package was announced in May 2014, but the new funding and fee arrangements do not apply until 2016. Although the reforms are still being negotiated through the parliament, it will give providers 18 months in which to adjust their business models to the system.

This is an ambitious timeline, and more ambitious for some universities than others. Universities are not starting from a level playing field. Some universities have strong market power because of their brand and tradition, and the significant government funding they have received over many decades. Other universities have only been established in the last 20 to 30 years and do not have these same advantages. Some universities have greater pressure placed on them to deliver a social obligation because of their geographical location or the community which they serve.

Transition arrangements will impact unevenly depending on the nature of the universities and the level of change they will need to undertake to be competitive. The government may wish to consider if additional changes are needed in the reform package to help with the transition for universities managing a greater impact.

There are risks that universities with lesser market power will struggle with the transition. It will be important for universities to assess the degree of change needed and their preparedness for the change. Some providers are going to struggle to recoup the 20 per cent funding cut. In these circumstances, providers will need to look at the structural problem and identify alternative ways to operate.

These reforms are significant and will cause disruption for universities and in the market more broadly. Universities will need to have the autonomy to manage this.

The oversight body proposed above could commence its role immediately to assess the degree of change required to have an efficient and effective market and the preparedness of different universities for the changes.

**Recommendations**

**Recommendation 1 – Market design and transition**

The Business Council recommends the government establish an oversight role to monitor the market to minimise potential long-term costs to government, overpricing and poor value for money and recommends it intervene, if necessary, in thin markets.

This role could be given to an already established body with knowledge of market design, or the government may wish to establish an independent body. If an independent body is established, it
could be for an initial three-year period and the need for it reviewed depending on the maturity of the market.

The oversight body could commence its role immediately to assess the degree of change required to have an efficient and effective market and the preparedness of different universities for the changes. The body could also provide advice to government on whether additional changes are needed to help manage the transition for the universities managing a greater impact.

**Recommendation 2 – Market information**

The Business Council recommends the government identify and implement ways to significantly improve market information in the transition to the introduction of the new model in 2016.

**Indexation of HELP debts**

The HELP indexation rate is currently the Consumer Price Index. The reforms propose to move to the Treasury 10-year bond rate, to a maximum of 6 per cent.

The Business Council supports the intent of this reform to limit potential long-term costs to government and recoup the costs of the loan scheme. However, there are a number of unintended consequences resulting from this change.5

Modelling undertaken by Bruce Chapman of the Crawford School of Public Policy at the Australian National University has found that using the bond rate would be regressive. It suggests that:

... low income graduates pay considerably more in real terms over their lifetimes than high income graduates, of the order of 30 per cent greater’ ... ‘when HELP is indexed to the bond rate, spending 10 years out of the labour force adds about $8,000–15,000 to the real lifetime debt repayments, and the percentage increase is around 7–20.6

The loan scheme provides access to education regardless of an individual’s financial circumstances. It is important the repayment of the loan scheme does not result in greater repayments for those in lower-paying roles, or those who take time out of the workforce for family commitments.

**Recommendation 3 – Indexation and equity**

The Business Council recommends the government adopt an indexation approach that removes the inequities associated with the bond rate while limiting the potential long-term costs to government.

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4. CONSEQUENTIAL IMPLICATIONS AND NEED FOR FURTHER WORK

Implications for the VET Sector

The Business Council has as strong an interest in VET as it does in higher education, and places equal value on both sectors.

The expansion of uncapped places for higher education diplomas, advanced diplomas and associate degrees is supported by the Business Council, but it has implications for the VET sector.

Higher education diplomas, advanced diplomas and associate degrees are different qualifications to VET qualifications. The government subsidy for higher education qualifications will be set by the Commonwealth, and government subsidies for VET qualifications are set by state and territory governments.

This could create significant confusion in the market. If the higher education subsidy is greater, it could drive perverse behaviour by providers to seek the highest available subsidy. This could then lead to a diminished role for VET and entrench it as the residual sector in education.

As detailed earlier in this submission, getting the market design right is fundamental to achieve the desired outcomes. This also applies to the VET sector and the intersection between VET and higher education.

While this Bill and reform package cannot bear the burden of looking at the intersection of the sectors and how to align the markets, the Business Council believes it is time to look towards the future of how these two sectors can best work together.

The Business Council believes a discussion should commence about a broader tertiary model, where the provider and qualification are based around a fit-for-purpose model. This would require market design across the two sectors that aligns funding and incentives, changes to governance arrangements and a clear role for the different levels of government. The government’s White Paper on Reform of the Federation may be an appropriate opportunity to begin to shape this future reform.

Operational management and governance of universities

These reforms will place additional pressure on universities to be efficient, flexible and adaptive. They will be competing with a greater number of providers, most of which will have more efficient cost structures, less complex industrial relations, and no oversight from government.

If the universities are to succeed and deliver the three things we need – skilled graduates, world-class research that leads to innovation, and a sustainable export industry – they will need to be given greater freedoms. State and territory governments will need to look at the governance of universities and empower them to undertake reform.

Universities will need to move to a more corporate style of governance, with vice-chancellors being commercially focused and accountable to a board that operates like a forward-thinking business. They will need to have greater control of their assets and support to look at the inefficiencies in the sector that stem from workplace practices that are outdated. In short, all governments need to give universities the freedom and responsibility to reform themselves to deliver the outcomes our economy and future workforce need.
5. COMMENT ON EACH SCHEDULE OF THE BILL

The Business Council supports the majority of the proposed amendments in the Bill. The table below lists each schedule in the Bill, the significant items in each schedule and the Business Council’s comment on each.

**Table 2: Comments on each schedule of the Bill**

<table>
<thead>
<tr>
<th>Schedule</th>
<th>Significant items</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schedule 1: Deregulation, expansion of demand-driven system and other measures</td>
<td>Allow higher education providers to determine the tuition fee they charge a student to be enrolled in a Commonwealth Supported Place.</td>
<td>Support</td>
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<td></td>
<td></td>
<td>Propose a mechanism for market oversight and better information.</td>
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<td></td>
<td></td>
<td><strong>Recommendation</strong></td>
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<td></td>
<td></td>
<td>The Business Council recommends the government establish an oversight role to monitor the market to minimise potential long-term cost to government, overpricing and poor value for money and recommends it intervene, if necessary, in thin markets. This role could be given to an already established body with knowledge of market design, or the government may wish to establish an independent body. If an independent body is established, it could be for an initial three-year period and the need for it reviewed depending on the maturity of the market. The oversight body could commence its role immediately to assess the degree of change required to have an efficient and effective market and the preparedness of different universities for the changes. The body could also provide advice to government on whether additional reforms are needed in the reform package to create a more level playing field. The Business Council recommends that the government identify and implement a way to significantly improve market information in the transition to the introduction of the new model in 2016.</td>
</tr>
<tr>
<td>The expansion of demand-driven funding to private higher education providers.</td>
<td>Support</td>
<td>This should lead to greater access to post-compulsory education and increased participation. The expansion should encourage competition within the sector and place pressure on providers to focus on the quality of undergraduate education provision. It should also provide greater choice to potential students.</td>
</tr>
<tr>
<td>The reduction of government subsidies to higher education providers for newly enrolling students in a Commonwealth Supported Place.</td>
<td>Support</td>
<td>The Business Council recognises the need for budget trade-offs, and believes the reduction in subsidy is the trade-off required to expand provision and remove the inequitable loan fees currently applied on loans for students at private providers and</td>
</tr>
</tbody>
</table>

Higher Education and Research Reform Amendment Bill 2014
Submission 99
<table>
<thead>
<tr>
<th>Schedule</th>
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<tbody>
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<td></td>
<td>TAFE.</td>
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<td></td>
<td>The ‘grandfathering’ clauses for current students.</td>
<td><strong>Support</strong></td>
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<tr>
<td></td>
<td>While the Business Council recognises the need for budget trade-offs, it also believes it is important that students who are currently studying can continue under their current circumstances.</td>
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<tr>
<td></td>
<td>The expansion of demand-driven funding to higher education diplomas, advanced diplomas and associate degrees.</td>
<td><strong>Support</strong></td>
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<tr>
<td></td>
<td>Higher education diplomas, advanced diplomas and associate degrees are valid qualifications that will lead to employment in medium and high-skilled roles. As such, students should be able to access Commonwealth support in a similar manner as students enrolled in undergraduate degrees. These courses can also function as a pathway for students into higher education. This is particularly relevant to students from disadvantaged backgrounds and people in the workforce who have not previously completed higher education or wish to transition into a new industry.</td>
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<td></td>
<td>Changes to the loan scheme including removal of:</td>
<td><strong>Support</strong></td>
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<tr>
<td></td>
<td>• the up-front payment discount for HECS-HELP loans</td>
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<tr>
<td></td>
<td>• the voluntary repayment bonus for HELP loans</td>
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<td></td>
<td>• the FEE-HELP lifetime limit</td>
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<td></td>
<td>• the FEE-HELP loan fee.</td>
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<tr>
<td></td>
<td>These changes make the loan scheme more equitable by removing the loan fee for students studying at private providers. The removal of the up-front payment discount and the voluntary repayment bonus contribute to the sustainability of the loan scheme.</td>
<td></td>
</tr>
<tr>
<td>Schedule 2: New Commonwealth Scholarship Scheme</td>
<td>Creation of the New Commonwealth Scholarship Scheme to increase access to and participation in higher education by people from disadvantaged backgrounds and improving completion of courses by disadvantaged students.</td>
<td><strong>Support</strong></td>
</tr>
<tr>
<td></td>
<td>The Business Council strongly believes that people from disadvantaged backgrounds should be encouraged and supported into higher education. A focus on completion of courses is also welcome.</td>
<td></td>
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<tr>
<td>Schedule 3: Indexation of HELP debts</td>
<td>Alter the HELP indexation rate from the consumer price index to the Treasury 10-year bond rate (to a maximum of 6 per cent per annum).</td>
<td><strong>Propose alternative approach</strong></td>
</tr>
<tr>
<td></td>
<td>Modelling undertaken by Bruce Chapman of the Crawford School of Public Policy at the Australian National University suggests this change is regressive. While the Business Council accepts the need for students to share the cost of their education, a regressive repayment model that could disproportionately impact on low-income graduates or people who take time out of the labour force to look after children is not supported.</td>
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<tr>
<td></td>
<td><strong>Recommendation</strong></td>
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<td></td>
<td>The government adopts an indexation</td>
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<tr>
<td>Schedule</td>
<td>Significant items</td>
<td>Comment</td>
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<tr>
<td>Schedule 4: Minimum repayment income for HELP debts</td>
<td>Minimum repayment income for HELP debts.</td>
<td>Support This change makes the loan scheme more sustainable.</td>
</tr>
<tr>
<td>Schedule 5: Research funding and research students</td>
<td>Increased funding to support research. Introduction of ability for higher education providers to charge a research student a capped tuition fee.</td>
<td>Support The introduction of a capped fee for research students is consistent with the principle of sharing the costs and benefits of post-compulsory education.</td>
</tr>
<tr>
<td>Schedule 6: VET FEE-HELP loan fees and limits</td>
<td>Changes to the loan scheme including removal of: • the VET FEE-HELP loan fee • the VET FEE-HELP lifetime limit.</td>
<td>Support These changes make the loan scheme more equitable by standardising the loan scheme across higher education and vocational education and training.</td>
</tr>
<tr>
<td>Schedule 7: HECS-HELP benefit</td>
<td>Discontinue the HECS-HELP Benefit.</td>
<td>Support This change makes the loan scheme more sustainable.</td>
</tr>
<tr>
<td>Schedule 8: Indexation of amounts</td>
<td>The Higher Education Grants Index (HEGI) will be replaced by CPI to index all grants and regulated student contribution amounts for current students including research grants and Australian Postgraduate Awards.</td>
<td>Support</td>
</tr>
<tr>
<td>Schedule 9: University name change</td>
<td>Updates the name of the University of Ballarat to Federation University of Australia.</td>
<td>N/A</td>
</tr>
<tr>
<td>Schedule 10: New Zealand citizens</td>
<td>Expand HELP assistance to certain New Zealand citizens who are Special Category Visa holders.</td>
<td>Support This change targets New Zealand citizens who are likely to live and work in Australia and consequently make an economic contribution.</td>
</tr>
</tbody>
</table>