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

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This submission to the Senate Education and Employment Legislation Committee's inquiry into the Higher Education and Research Reform Amendment Bill 2014 ("the Bill") covers the following aspects:

- providing demand-driven funding to diploma, advanced diploma and associate degree courses
- extending government subsidies to bachelor and sub-bachelor courses at private universities and non-university higher education providers; and
- establishing a Commonwealth Scholarship Scheme to support disadvantaged students;

Background

In the past four years I have had the opportunity to work closely with more than 80% of the 127 private universities and higher education providers (HEPs) currently operating in Australia. I have also been in a position to see firsthand the rollout of contestable funding arrangements in the state vocational education and training systems.

Given my background in the private tertiary sector this submission does not consider the impact of the Bill on public higher education institutions (universities and TAFE institutes). Other organisations and individuals are better placed to discuss the impact of the Bill on these institutions and their students.

Regrettably much of the public discourse on the Bill has naively assumed that the impact on private higher education providers and their students is uniformly positive. This is not the case and further consideration of how the Bill will impact on these providers and their students is warranted.

The recently released *Statistics Report on TEQSA Registered Higher Education Providers*[1] and the 2013 *Higher Education Enrolment Growth, Change and the Role of Private HEPs*[2] provide much needed insights into the size and operation of the private higher education sector. The private higher education sector grew by more than 22% in the period 2009 – 2012 despite the uncapping of Commonwealth Supported Places in the public university system. This is a result of the quality and diversity of its offerings, as well as its support for students through a range of measures (including very small class sizes) and the strength of its graduate outcomes.

[1] TEQSA, 2014, *Statistics Report on TEQSA Registered Higher Education Providers* (http://www.teqsa.gov.au/news-publications/news/statistics-report-teqsa-registered-higher-education-providers)
[2] ACER, 2013, *Background Paper: Higher Education enrolment growth, change and the role of Private HEPs* http://www.acpet.edu.au/uploads/files/ACER%20Background%20Paper%20for%20ACPET%20-%20Growth%20in%20HE%20FINAL.pdf

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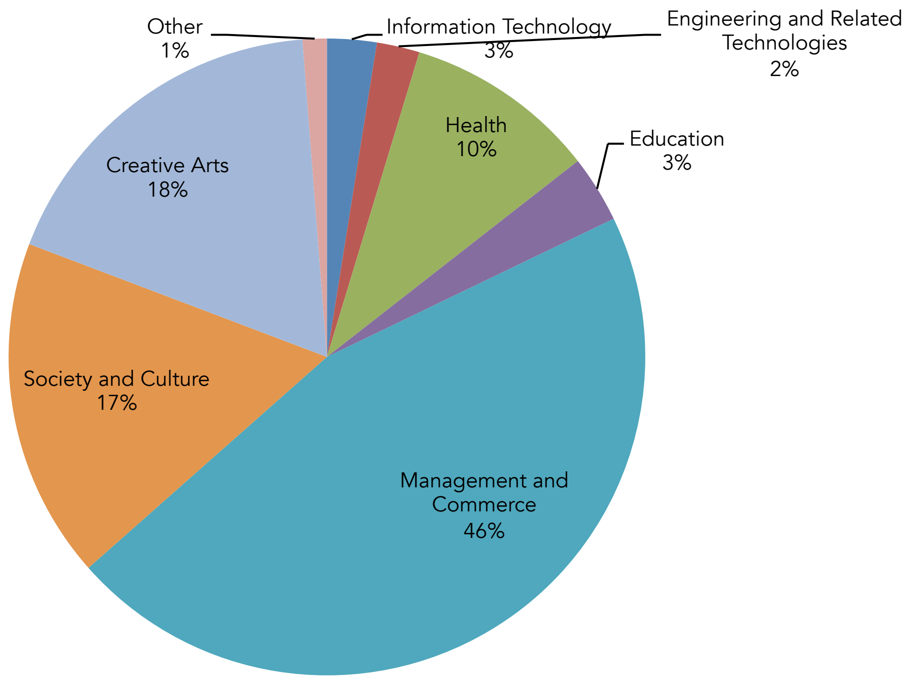
In 2013 the non-university higher education sector (including higher education students at TAFE but excluding students at private universities) educated 7% of all higher education students, equivalent to two mid-size universities. Just under half (49%) were enrolled at AQF level 7 (Bachelor Degree) compared to 54% of students in the university sector. International students made up more than one-third (37%) of private higher education students, compared with 25% in the university system.

Most students at non-university providers are enrolled in Management and Commerce courses (45% of all non-university EFTSL), which is also the most popular broad field of education for public university students (24%). The next most popular courses for non-university students were Creative Arts (18%) and Society and Culture (17%). Society and Culture is also a popular choice for university students (19%) but the Creative Arts comprise only 6% of EFTSL in the university sector.

Enrolments in non-university higher education (2012)



The lessons from four years of fully contestable funding in the Victorian vocational education system are that the private higher education sector can be predicted to grow significantly as a result of funding arrangements that support student choice. In Victoria in 2008 (prior to the introduction of fully contestable funding) private providers comprised 14% of all government funded student enrolments. At the end of 2013 private VET providers had a 48% share of government funded enrolments.

For a range of reasons growth in the private higher education sector will be slower than in the Victorian VET context. It is clear though that growth will occur. The national higher education regulator (TEQSA) has proven itself effective in its first years of operation; so it can reasonably be anticipated that the claims of poor quality which have dogged the Victorian VET reforms will be avoided in reforms of the higher education sector.

Ultimately though the success of the reforms will be judged on how well they meet their intent. The Minister's second reading speech highlights a number of aims of the Bill. The reforms aim to "spread opportunities to students" by providing Commonwealth support to students choosing a private university or HEP, and increasing Commonwealth support for students in sub-degree courses. The Bill also aims to improve access and equity through both the introduction of a Commonwealth Scholarship Scheme and the removal of administration fees on the current FEE-HELP and VET FEE-HELP loans. Finally, the Minister's speech states an intention that higher education students should make an increased contribution to the cost of their studies (up from the current 60:40 funding split between the Commonwealth and public university students, to a 50:50 split).

The reforms proposed in the Bill are significant and will make a profound difference to the higher education sector. In their current form they will bring greater equity to non-university higher education students. With minor modifications the reforms will provide greater student benefit, strengthen the higher education system by encouraging institutions to deliver a wider range of specialist, high quality programs, and ensure a maximum return on public investment in the sector.

Bringing sub-degree courses into the demand driven system

Reforms to bring sub-degree programs into the demand driven system are long overdue.

Current enrolment patterns show non-university higher education providers currently enrol 52% of all sub-bachelor higher education students (ie those enrolled in AQF level 5 and 6 courses). While a number of these students are international students, the domestic students studying sub-degree courses at private providers do not receive Commonwealth support, unlike their counterparts enrolled in the university system. It is crucial in terms of equity that the extension of demand driven funding to sub-bachelor courses also includes the non-university sector.

Regrettably the documentation provided to support the Bill introduces some confusion as to whether or not the reforms mean that students studying in a sub-degree course at a non-university provider will be eligible for Commonwealth support.

The explanatory memorandum for the Bill states that "Schedule 1 of the Bill provides demand-driven funding for sub-bachelor degrees, such as diplomas, advanced diplomas and associate degrees, and extends Government subsidies to bachelor and sub-bachelor courses at private universities and non-university higher education providers" (page 1).

The government's Regulatory Impact Statement (RIS) though has forecast expected student demand as follows: "the Government estimates that the expansion of CSPs to all TEQSA-accredited institutions, *in addition to demand driven funding of sub bachelor places at universities*, will increase the number of Commonwealth supported students by more than 80 000 by 2018 (page 66, italics added).

Table 6.1 of the RIS (reproduced below) would appear to confirm that the statement above, limiting the extension of demand driven CSP funding for sub-bachelor places only to universities, is not simply a typographical error. It appears that the government's estimates of the extra places to be created through the reforms will only extend funding for sub-degree places to the university sector.

Table 6.1: Additional Commonwealth supported students based on Budget estimates

Year	Students new to higher education (sub bachelor)	Total sub-bachelor students	Bachelor students at private universities and NUHEPS	Total
2012		7,300	22,300	29,700
2016	11,500	23,600	33,500	57,100
2017	23,000	35,800	34,500	70,200
2018	34,600	48,100	35,500	83,600

Source: Department of Education

If the assumptions in the RIS are incorrect and the intent of the legislation is, as per the explanatory memorandum, to extend CSP funding to *all* bachelor and sub-bachelor degree students including those at non-universities – a number of questions arise:

1. Will the government revise their modeling of the likely increase in student numbers as a result of the reforms?
2. What analysis has been done on the impact of these reforms on enrolments in VET diplomas and advanced diplomas (funded largely by State and Territory governments)?
3. If the reforms result in students shifting from higher level VET courses to sub-degree courses in the higher education sector this represents a significant cost-shift from States to the Commonwealth – will VET funding by the Commonwealth be reduced as a result?

Extending Commonwealth support to students at private universities and non-university HEPs

Key to improving the equity and effectiveness of the higher education system, is the extension of Commonwealth support to students choosing to study at private higher education providers. Regrettably the recommended funding rate in the Bill of 70% for these students is too low.

It is notable that the detailed analysis of teaching and learning costs undertaken in the year long Lomax Smith *Base Funding Review*[3] recommended private providers should receive 90% of the Commonwealth funds provided to the university sector. Lomax Smith identified a 10% funding differential between the two sectors was an appropriate reflection of the non-research profile of the non-university sector.

While a limited number of case studies were undertaken to assist the *Legislation and Finance Working Group* in providing recommendations to the government on an appropriate funding rate for non-university providers, the timeline for the work was necessarily constrained and it is unclear whether or not the Working Group also drew on more extensive, independent studies such as the *Base Funding Review*.

Aside from providing fairer funding support to non-university students as a matter of equity, the other aim sought from the extension of Commonwealth funding to the non-university sector is to enhance competition. While the Kemp Norton Review[4] was clear that extending Commonwealth Support to the non-university sector would enhance competition, they envisaged in their review that at least in the initial years, regulated fees would still be in place.

[3] Lomax Smith, J, 2011, *Higher Education Base Funding Review: Final Report* http://www.industry.gov.au/highereducation/Policy/BaseFundingReview/Pages/default.aspx

[4] Kemp, D & Norton, A, 2014, *Review of the Demand Driven Funding System* https://education.gov.au/report-review-demand-driven-funding-system

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The government's decision to deregulate fees and open up competition from the private sector is welcomed. There is no reason, other than the history of the sector, for the anomalies and inequities in the current funding arrangements.

However, despite the assertions in the government's Regulatory Impact Statement, that increased competition from the non-university sector is likely to put downward pressure on fees, the way the reforms are drafted means there are factors which will act against this outcome, at least in the short-term.

There are a number of reasons why in the early years of these reforms, price competition is less rather than more likely. These include:

1. There is a limited number of providers accredited by TEQSA currently operating in Australia (and given the rigour involved in establishing a new higher education provider and TEQSA's effectiveness as a regulator, it can reasonably be assumed that there will be only a small number of new entrants in the first few years of the reforms. In fact, early indications are that the sector will shrink initially through consolidation as large VET providers purchase smaller higher education institutions to gain a footing in the sector).
2. The design of the Commonwealth Scholarship Scheme acts against downward price pressure on the fees set by many private providers in 2016 (for details see next page).
3. The current delivery profile of private providers shows that almost half of the student load is in management and commerce courses, which attract very low levels of government support ($1,263 per annum based on the legislative proposals) meaning that the impact on many providers' bottom-lines will not be significant.
4. There is a lack of information available to students to support effective decision making. As the Kemp Norton Review noted "we need a higher education information website that more fully covers Australia's higher education providers, allows easier comparisons between courses of interest, and is easily discoverable by people thinking about taking a higher education course" (page 60). While the government is to be commended for its decision to replace the current *My University* website and aims to have a replacement website in place by August 2015, the experience of the VET sector is that it is likely to take some time for the website to gain traction. This means that in the early years of these reforms "prospective students may choose based on historical reputations rather than recent performance" (ibid, p. 59).

Taken together it is clear that the extension of CSP funding to non-university providers will not necessarily act as 'brake' on fee increases as envisaged, particularly in the early years. Combined with the removal of limits on HELP loans and no incentives for providers to focus on the labour market outcomes of their graduates – it is unclear how and if the market will set 'appropriate' fees.

It is notable that in debates about the reforms, one of the key concerns across many commentators and peak bodies is the fees students will be charged, and as a consequence, the debts students will graduate with and their ability to repay them (as a result of the proposed increased interest to be charged on HELP loans).[5]

[5] The proposal in the Bill to set the interest rate for HELP loans at the government bond rate is particularly contentious, because of its disproportionate impact on students entering lower paid occupations, as well as on those who spend less time in employment over the course of their career. This submission considers that either of the alternatives proposed by Chapman and Higgins are preferable to the interest rate proposal in the Bill and should be pursued. Chapman, B & Higgins, T, 2014, *HELP Interest Rate Options: Equity and Costs*: http://images.theage.com.au/file/2014/07/31/5639573/Help_interest_rate_options_report.pdf

To address the concerns about the amount of debt students take on, there are calls for limits on the amount a student can borrow through the HELP loan scheme[6] while others are calling for the government regulator to review the appropriateness of a provider's fees[7].

Both options also bring potential problems. The evidence from the introduction of limited fee deregulation in Australian universities in 2005 and the introduction of higher fee caps in the United Kingdom, show that in almost all instances institutions raised their fees to the top of the fee threshold. These practices suggest that price caps have a limited impact (if any) on price competition. It is reasonable therefore to expect the same practices would occur with a cap on HELP loans – with institutions setting fees close to the top of the cap. The alternative suggestion, that TEQSA is best placed to determine an appropriate price for a provider's course, when taken to its logical extension would see a government entity dictating the profits and surpluses that private and not-for-profit institutions should be making. This is clearly unworkable and contrary to regulatory good practice in other sectors.

What is clear however is that until the new market arrangements are settled, there are likely to be insufficient mechanisms in the reforms to guard against excessive fee increases.

There are very few proposals currently being discussed which require providers to have some 'skin in the game'. This problem is exacerbated when combined with the fact that most students will defer paying fees through the HELP loan scheme, meaning there is less downward pressure on prices than in a normal market.

One of the few proposals that recognises the need for providers to be more closely impacted by the fees they choose to set, is Henry Ergas' proposal that providers should receive an 'average' amount of funding from the Commonwealth, with those choosing to charge higher fees receiving "part of that amount upfront, with the rest being given to it on repayment. Of course, (providers) could borrow commercially against that future income stream. But the higher their fees, the greater would be the repayment risk, and the more those borrowings would cost". 8 While this proposal would create the need for some new administrative arrangements, it is worthy of further consideration because of the direct link it makes between the fees providers set and their students' ability to repay the loans they incur.

Commonwealth Scholarship Scheme

One of the important equity mechanisms within the Bill is the introduction of the Commonwealth Scholarship Scheme. The scheme aims to provide funding for students from disadvantaged backgrounds to access a higher education place and will be implemented by all providers with more than 500 domestic higher education students. The Bill requires providers to set aside $1 in every 5 of additional revenue earned through fee deregulation, for scholarships.

[6] http://www.afr.com/p/national/education/swinburne_urges_cap_on_student_loan_XBhavnI0pKogmQNhegAa8N
[7] http://www.theaustralian.com.au/news/four-good-reasons-why-universities-must-set-their-own-fees/story-e6frg6n6-1227045541019
[8] http://www.theaustralian.com.au/opinion/columnists/creating-mayhem-more-fun-but-revolting-radicals-miss-serious-issue/story-fn7078da-1226921940480

The scheme is a welcome initiative and it is appropriate that both university and larger non-university providers should be included. However the design of the scheme will require many private providers to increase their fees in the first year of the reforms merely to avoid making a loss.

The reason why many private providers will need to increase their fees, despite receiving Commonwealth funding for the first time, is because the scheme has been designed to ensure competitive neutrality. This means that in calculating how much private providers need to set aside in the first year, the government will assess their additional revenues as being the difference between what a university receives for a place in a comparable course (under the current capped fee arrangements) and the 2016 fees of the private provider.

Given the high proportion of delivery in management and commerce courses in the private sector, the following example highlights the problem for a private provider offering a Bachelor of Business.

Currently a university receives $12,075pa for a Commonwealth Supported Place for a Bachelor of Business (with the student paying $10,085 and the Commonwealth providing $1,990).

A typical price for a Bachelor of Business at a private provider is between $18,000 and $25,000pa9.

Assuming a private provider is offering a Bachelor of Business for $22,000, the Commonwealth will require the provider to set aside $1,985 for each student enrolled in a Bachelor of Business in 2016, as the provider's contribution to the Scholarship Scheme. This figure is calculated on the $9,915 gap between the annual revenues currently available to a university for a Bachelor of Business student and the private provider's annual fee for the same course.

The provider's contribution to the Scholarship Scheme is higher than the $1,263pa that the provider will receive in 2016 for each student enrolled in a Management and Commerce degree (70% of the annual figure of $1,805 payable to universities).

On this example and with the minimum 500 students enrolled in 2016, the provider would need to set aside almost $1 million into the Scholarship Scheme, and would in turn receive $631,500 from the Commonwealth. Irrespective of any cost increases the provider will need to account for in their 2016 fees, the provider will be $350,000 worse off unless they increase their fees. A higher number of students would exacerbate the gap between the funding the provider needs to contribute to the Scheme and the funding it receives from the Commonwealth.

Providers with smaller numbers of students often run more unique courses (including many in the Creative Arts). They will not be impacted by the Scholarship Scheme requirements and where they receive more generous subsidies, than those for Management and Commerce courses, will be able to lower their fees. However these niche providers typically do not compete directly with university offerings, meaning that if they lower their fees it will not create a market incentive for a university to follow suit because the university is unlikely to offer a similar course.

[9] Some may question the high fees charged by private providers for what is, at least in its title, the same offering as a university Bachelor of Business. The reason for the growth in the sector despite the lack of Commonwealth Support for its students is because of the small class sizes and very close links to industry of private providers. The majority of Business degrees currently offered by private providers include significant time in structured workplace learning with industry partners as part of the degree. This delivers stronger job outcomes than for many university undergraduate courses and combined with greater flexibility (including the common two year, three semester model) makes private study attractive even at a higher price.

Crucially though, from the student's perspective, even if private providers do increase their fees for some courses to fund their contribution to the Scholarship Scheme, students at private providers can still be expected to benefit from lower fees overall. This is because most are currently paying an additional 25% administration fee to the government on top of the amount they borrow on their FEE-HELP loan. The removal of the significant administration fees for FEE HELP and VET FEE HELP courses is a particularly welcome aspect of the Bill and a long overdue equity measure.

Conclusion

The government is to be commended for its aim to stimulate greater innovation, competition and equity in the higher education sector. Students, providers and the broader community will be well served by some minor amendments to the Bill currently before the Parliament.