

# Submission: Senate Inquiry into Higher Education and Research Reform Amendment Bill 2014 from Victoria University.

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## 1. Introduction

Victoria University welcomes the opportunity to make a submission to the Senate Enquiry into the Higher Education and Research Reform Amendment Bill 2014.

The University believes that a long term and sustainable funding framework for tertiary education in Australia is required. To this end we support the submission of *Universities Australia* to the Senate Inquiry (Universities Australia, 2014). As a dual sector institution Victoria University also believes that that framework should support growth and informed choice across the whole tertiary education system.

We believe, however, that the Senate Committee would benefit from an elaboration from the perspective of a University that has some very important and distinctive characteristics. Victoria University is a university with a high incidence of students from low socio-economic backgrounds, and from culturally and linguistically diverse backgrounds, and is based in the fastest growing region of Australia, the West of Melbourne. It is also a relatively new university, established in 1991, and a dual-sector university providing vocational education and training as well as higher education. The combination of these factors present particular challenges for the University, in the context of an increasingly deregulated tertiary education environment.

In section 2 we provide an overview of the potential benefits and risks associated with the proposed reforms and of the potential amendments that could ameliorate these risks. In section 3 we pay special attention to those issues that are particularly relevant to Victoria University as a relatively new university with high incidence of low SES background and CALD students, in a fast growing metropolitan region. As a dual sector university, we have some experience of the effects of deregulation, as a result of what occurred in the VET sector in Victoria. This gives us added insights into tertiary education reform.

We conclude with some recommendations about concrete actions that could be taken to considerably ameliorate the risks that the reform agenda poses to the important role that a university like Victoria University plays.

## 2. Potential Benefits and Risks and Potential Amendments : An Overview

### 2.1. The rationale and potential benefits from further deregulation.

#### 2.1.1. Sustaining the Demand-Driven System and Growing the Proportion of the Population with Tertiary Qualifications

Increasing the skills and capabilities of the population through tertiary education is a major national priority, to promote labour force participation, productivity, economic growth and social inclusion. We need a high quality mass tertiary education system that most people in the twenty-first century can benefit from. This was the primary reason for the introduction of the demand driven system following the Bradley Review (2008), and why the Kemp-Norton Review (2014) supported the continuation of the demand driven system.

Victoria University wishes to especially commend the Government for including the uncapping of sub-degree higher education programs and bringing them into the demand-driven system. Victoria University has some strong higher education diplomas which we believe are ideal entry-level programs to bring many students into higher education and transition into Bachelor degrees. These are very popular with international students with such needs, but due to the capping of sub-degree programs we have been constrained in our provision of such programs to domestic students. The removal of this constraint will be a very positive development.

Given the scale of this agenda to expand tertiary education, it seems almost certain that the Government's per-student share of the cost of delivery will lower in the future than it has been in the past, even if the total amount of government spending on tertiary education increases. For this reason, increasing student reliance on a higher education contribution scheme (which should perhaps be renamed TECS, the tertiary education contribution scheme, as it includes the upper levels of vocational education as well) seems unfortunately, to be a necessity.

One way of doing this is to allow providers of tertiary education to set their own fees in the market for tertiary education, and for students to receive a government subsidy towards the cost. This is essentially the aim of the proposed reforms, at least for sub-degree and bachelor's degree higher education programs, with the level of the subsidy dependent on the discipline that the student chooses, and whether the student chooses to study at a university or a non-university higher education provider.

### **2.1.2. Potential benefits from greater competition**

The other rationale for the proposed reforms is that greater competition in the market will drive more customer focus and greater innovation and specialisation, to the benefit of students and their current or prospective employers.

Whether these benefits will flow depends critically, however, on the market design and implementation. We will argue below that without significant amendment there are serious risks that these benefits will not accrue.

## **2.2. The Risks Associated with the Current Design of the Reforms**

### **2.2.1. HECS may be incompatible with fully deregulated fees**

First, there is the risk that uncapped income-contingent loans may not be able to effectively support a fully deregulated fee system. Income-contingent loans will mute price signals and potentially encourage price gouging at the top end of the market, especially by long-established universities with a high level of market power. The system may also result in excessive levels of debt and a significant increase in bad and doubtful debts, and burden on particular cohorts of students.

### **2.2.2. There may be a bifurcation of the university system**

Second, there is a serious risk that the new system will provide more opportunities for already high-achieving students, and fewer opportunities to those who arguably need more support to be successful in their tertiary studies. This is because there will be increased importance on the willingness to pay as a determinant of where the money goes. A further risk is that those institutions whose central mission is to provide outstanding opportunities for students from disadvantaged backgrounds may be compromised in securing the funds to successfully achieve that mission in this more deregulated environment.

Continuing with this logic, there is therefore a serious risk that there will be a bifurcation of the university system. Older, more established universities, which have enjoyed many decades of public investment in their infrastructure and have built up significant market power through strong brands, may be able to exploit that market power (especially noting 2.2.1. above) to charge very high prices.

In contrast, newer and less-established universities that have grown up to support the expansion of tertiary education to broader demographic groups, and which have had substantially less investment in their infrastructure and have not had the same opportunity to develop strong brands or market power, will ironically be in a weaker position to charge high prices; and yet, in many ways, they have the bigger need to invest in new infrastructure and the mechanisms to deliver quality education to students who have had less preparation for tertiary study. Several of these universities, including Victoria University, are also expected to serve growing communities in areas of strong population growth such as the west of Melbourne.

Since the core rationale for further deregulation is to promote an expanded tertiary system, to raise participation in tertiary education, and promote skills, productivity, labour force participation and social inclusion, especially for those parts of the population which in previous eras have not participated in tertiary education, such bifurcation would be seriously counter-productive.

### **2.2.3. There may other unplanned negative impacts on the public interest if insufficient attention is paid to the role of public funding**

Third, uncapped fees may result in long-run reduction in government funding in ways that work against the public interest. Safeguards need to be in place to ensure that fee flexibility does not provide an excuse for ongoing reduction in public support for tertiary education. Over-reliance on private contributions can result in under-investment in the public interest, such as widening participation in under-represented groups.

Another important issue to take into account is that there are some labour markets, particularly where public sector employment dominates, such as teachers and nurses, where there will be constraints on how much the student fees can be increased, because it is not possible for the labour markets to respond to increased costs of training in ways that other markets might. This then needs to be taken into account in the way that subsidy levels for the preparation of teachers and nurses are organised. It is important that universities continue to have appropriate incentives to supply high-quality education to such professional labour markets.

### **2.2.4. Additional revenue to universities from undergraduate fees may go disproportionately into research**

A fourth risk is that the additional funds generated from higher student contributions will go disproportionately into university research, rather than improving the student experience and student outcomes. This is because the rankings of universities, a major driver of university brands, are determined largely by research performance measured by indicators like citations in internationally peer-reviewed articles. While there are strong arguments for greater investments in research that can also enhance productivity and improve social outcomes, this is not the right way to achieve that.

### **2.2.5. Implications for Vocational Education and Training (VET)**

A fifth risk is that the Vocational Education and training system will be negatively affected. While the extension of funding to sub-degree programs is welcomed, state government funding for many equivalent courses in the VET sector has been reduced or in some cases cut all together. This raises the prospect of a growing imbalance in provision between VET and higher education at sub degree levels, driven more by funding levels and availability than future labour market requirements.

A consistent approach to funding sub-degree qualifications across the VET and HE sectors is required through agreement between the Commonwealth and the States.

### **2.2.6. Transitional Issues**

A sixth risk is that the transition to the new highly deregulated environment will involve a lot of "fall-out" because insufficient attention has been given to transitional issues. These include nurturing and transitioning to the new market carefully; and enabling the kind of institutional changes, and removing the kind of regulatory constraints, that will enable universities to operate effectively and with the necessary agility in the new environment.

For example, there are some significant risks of what economists call 'dead weight loss' and the creation of moral hazards from the changes in the market. Unless great care is taken in the design of, and transition to, the market, unintended consequences may arise. For example, Government subsidies may distort existing and successful fee-for-service markets (especially in the short run) before new entrants arrive. Government subsidies may simply represent windfall gains to private investors if students in current full-fee courses are charged the same, regardless of the payment of the subsidy.

As another example of a transitional issue, Victoria University has inherited a range of different campuses in different locations due to its history. The campus footprint needs to be reorganised substantially to successfully meet the needs of the market. This need will become increasingly urgent, but there are substantial costs associated with such changes. There are also challenges in achieving campus rationalisation quickly due to the need to deal sensitively with State governments on such issues.

### 2.2.7. Information

A seventh risk is that students will have insufficient information to make rational choices about where to put their money in the new system. What they need to know is which providers will add the greatest value to their futures. Market forces do not operate effectively when there is insufficient information for the marketplace to operate rationally.

For example, students from low socio-economic backgrounds (who on average are less well prepared for tertiary study) cannot be expected to achieve graduation rates or employment outcomes that match high-socioeconomic background students, who on average are better prepared. Value-added data can be produced that correct for these effects and give a more accurate picture of the contribution of universities to these students.

## 2.3. Potential Amendments to ameliorate these risks

A range of possible measures have been put forward for ameliorating the risks, including in a paper by the Vice-Chancellor of Victoria University (Dawkins 2014), which formed the basis of a lecture for the Mitchell Institute, presented in the week after the budget.

Amendments that need serious consideration include the following:

- i. putting a cap on income contingent loans (or CPI-indexed loans up to a certain level, and a real interest rate above that);
- ii. having a more gradual transition process to the new system;
- iii. having an independent body to oversight the market to monitor and review the effect of the market design;
- iv. having a structural adjustment fund to support adjustment of institutions to the new environment;
- v. increasing funding for the Higher Education Participation and Partnerships Program;
- vi. developing value-added measures of the contribution of universities to students and their communities.

There is also a strong case for conducting a further review in the course of implementing the reforms (possibly by or on behalf of the overseeing body mentioned above), to examine the impact on the VET system and the case for further reforms to ensure a more integrated tertiary education system. Alongside that review should be an assessment of the use of public funds in the tertiary system. It would assess the best way to leverage the public contribution to tertiary education to achieve the highest possible public benefit.

## 2. Issues of particular relevance to Victoria University

### 3.1. Opportunities and Risks

In this section we pay special attention to those issues that are particularly relevant to Victoria University as a relatively new university with high incidence of low SES background and CALD students, in a fast-growing metropolitan region.

Victoria University aims to provide outstanding educational opportunities for students from diverse countries, cultures, socioeconomic and educational backgrounds. It sees itself at the forefront of the agenda to broaden participation in tertiary education. As such, a good test of the reforms would therefore be to see whether they provide enhanced opportunities for Victoria University to achieve that agenda.

In section 2.1.1., we particularly complimented the Government on its plan to uncap sub-degree programs. This is a positive development that increases the opportunity for Victoria University to achieve its important mission. However, all the risks identified in section 2.2 represent serious potential threats to a university like Victoria University achieving this important mission.

Victoria University is a relatively new metropolitan university. Under its Act, Victoria University is required amongst other things to "*foster participation in post-secondary education for persons living or working in the Western Metropolitan region of Melbourne*". (VU Act, 2010)

In fulfilling its mission under that Act, Victoria University aims to increase participation through growth in provision and in its range of offerings. If enacted, the proposed reforms will see a growing proportion of the revenue to support growth coming from students themselves, underpinned by the HELP scheme.

The University will also face increasing levels of competition from existing public universities as well as from new entrants to the market. Victoria University recognises the benefits of student choice and provider diversity flowing from the proposed reforms, but strongly believes that a more carefully designed package is required to:

- I. recognise the significant community service obligations required by Government of the University under its Act; and
- II. ensure a much high level of competitive neutrality between existing public universities in terms of their positional advantage flowing from previous decades of public investment and support by government.

These principles are well established norms as governments have opened up markets in other areas of service delivery.

To analyse the application of these principles the following points are relevant.

- i. The Western Metropolitan region of Melbourne has much higher levels of low SES families and households with much lower-than-average levels of tertiary education attainment, and in culturally and linguistically diverse (CALD) communities. The costs of provision and support to students from these backgrounds is higher than for students from families where students enter with higher levels of preparation, and where participation and success in higher education is the norm.
- ii. The Western Metropolitan region of Melbourne includes some of the highest areas of population growth in Australia. While it is recognised that students travel outside their areas of residence to study, a high proportion of Victoria University students are drawn from the Western Metropolitan region and provision will need to grow and diversify to further increase participation rates. Unlike other existing public universities and new market entrants, Victoria University has a fundamental obligation to service these areas of population growth.
- iii. These areas of population growth with a high incidence of low SES households also face significant challenges in terms of economic development, with tertiary education a critical direct and indirect contributor to economic growth and industry development, particularly for new knowledge-intensive and high value-adding industries. In areas such as the west of Melbourne, not only does a local university play a role in educating a large proportion of local students who proceed to tertiary education, it is also a direct contributor to the economic development of the region.
- iv. Victoria University was formed through a series of mergers of existing institutions a little more than two decades ago. Over that period, it has had to establish itself as a university in an increasingly

competitive higher education system, but without the benefit of the decades of planned investment in infrastructure, staffing and research afforded to the older established universities by both the State and Commonwealth Governments, and the brand and positional value that investment and support has created for those universities.

- v. The proposed reductions in existing public subsidy levels impose uniform reductions in revenue, and public subsidy levels are uniform regardless of the mission of different institutions, the cost differentials associated with those missions and the costs of increasing capacity for growth. This problem is compounded by the fact that, relative to other universities, VU is a relatively new institution with major legacy issues in terms of campuses and infrastructure. It is not able to extract the same value from its existing capital and brand, since US research (Brewer, Gates & Goldman, 2004) demonstrates that institutional brands and prestige take significant time to build. The communities served by Victoria University are also more likely to be resistant to price increases than higher SES communities.

Victoria University argues that these factors must be taken into account in the design and implementation of a new, fully competitive higher education market where pricing related to brand and positional advantage will be the major source of new revenue, but in which institutions are positioned in that market in widely differentiated ways.

In summary, Victoria University is a relatively new metropolitan university in a region characterised by a high incidence of low SES students and high growth.

- I. Low SES students tend to be relatively less well prepared so need more intensive support – **and are therefore more costly to teach**
- II. Low SES students are likely to be more risk averse and tend to have lower expectation of their earnings capacity – **and therefore less likely to pay high fees**
- III. As a new university supporting a major growth area, we are:
  - o still building our brand;
  - o still getting our infrastructure to be fit-for-purpose and have less accumulated public investment than our older competitors;
  - o expected to support major growth areas and areas where there has been under-representation of tertiary education, as one of our objects of establishment
  - **and are therefore less likely to be able to charge high fees but need to make major investments in the future.**

## 3.2. Ameliorating the Risks

### 3.2.1. Overview

In section 2.3, we outlined a range of possible measures that could ameliorate the list of seven risks that have been identified and that could result in unintended consequences from the reforms that could be seriously counter-productive to the Government's aims. Victoria University believes that consideration of those measures could benefit the whole system, but could also ameliorate the risks identified above in relation to the potential achievement of Victoria University's important mission.

In this section, we further develop some recommendations about how the Commonwealth Government could introduce measures that recognise the significant risk outlined above to the aspiration of providing outstanding opportunities to students from diverse backgrounds, and to support the critical role that relatively new universities play, especially those with high proportions of students from low-SES backgrounds, and those who operate in strong areas of population growth in metropolitan regions.

### **3.2.2. Recommendation 1: Structural Adjustment / Transition Support Funding**

Victoria University endorses the recommendation of Universities Australia that transition support or structural adjustment funding should be made available for institutions facing the greatest challenges in responding to a deregulated environment. As outlined above, Victoria University argues that this should apply especially to relatively new universities in metropolitan areas with high proportions of students from low-SES backgrounds, and serving rapidly growing populations.

### **3.2.3. Recommendation 2: Low-interest loans**

Such universities will need to make major investments in reforming their campus footprints and in enhancing the capability to achieve their important missions in a deregulated environment. If structural adjustment funding is insufficient, we argue that government should explore whether they can provide low interest loans to facilitate such investments.

### **3.2.4. Recommendation 3: Increase HEPP funding especially for Universities with a high proportion of low SES students**

As outlined in section 2.2, there is a serious risk that the proposed reforms will result in students from lower socio-economic backgrounds receiving an inferior service compared with students from higher socio-economic backgrounds. In this environment the case for increasing rather than cutting HEPP (Higher Education Participation Program) funding is strong, especially for those universities with high proportions of low-SES background students.

### **3.2.5 Recommendation 4: Implement a second round of the Collaborative Research Network (CRN) Program**

Between 2011 and 2014, the Commonwealth Government invested \$81m to increase the research capacity of smaller, newer and less research-intensive universities. Under the scheme these universities collaborated with older and more established, research intensive universities. The effect of the scheme is under review, but Victoria University believes that this will reveal a good return on investment and important capacity building effects. It is our contention that a second round of this scheme would make a significant contribution to avoiding the risk identified above of a bifurcation in the university sector.

### **3.2.6. Recommendation 5: Establish an overseeing body to monitor and review effects of reforms**

In section 2.2 and 2.3 we outlined a number of risks associated with the proposed reforms and associated market design, and some ameliorating strategies. Whatever ameliorating strategies are or are not adopted it is very unlikely that the government will get the design right first time, given the scale of the changes and the number of parameters that are being fundamentally changed. In the circumstances we think that it will be very important to have an independent overseeing body to monitor and review the effect to the market design and to undertake ongoing assessment provide advice on key topics.

### 3.2.7. Recommendation 6: Undertake two specific reviews

As an extension of Recommendation 4, we suggest that two particular Reviews be undertaken over the next year.

The first would be to review the best way to use public funding in tertiary education to achieve the kind of efficiency and equity outcomes that will be good for the economy and for the society, for business and for the workforce. At one time most of the funding for university students came from government. In that environment, the funding for different types of students depended on the costs associated with their education. We are moving away from this situation and many students will be paying for much of the cost of their own education. In this environment, it is important to ask what is the best use of the public contribution to tertiary education. It should be driven by the concept of where the most benefit can be obtained from public spending.

The second Review would assess the implications of these reforms for the VET sector and the measures that are needed to achieve a more integrated tertiary sector in which VET and higher education operate in synergistic way. For a more detailed discussion of this issue see Dawkins (2014).

## REFERENCES

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