Swinburne's submission on the Higher Education and Research Reform Amendment Bill 2014

September 2014

Introduction

Swinburne University of Technology is pleased to make this submission to the Committee's inquiry into the Higher Education and Research Reform Amendment Bill 2014.

Australia is fortunate to have an internationally-competitive higher education system which supports excellence in higher education, protects equity of access and provides assurances of quality educational outcomes for students. Swinburne wishes to see these important features protected in the design of the changes to higher education funding and regulation. There are a number of features of the current higher education package which are cause for concern. Highest among these are the unintended inflationary impacts of the proposed changes. These would best be addressed now, at the design stage, rather than requiring correction later.

Under the proposed reform package, the Commonwealth will make changes to at least 13 major policy settings, the most significant of which will simultaneously take effect from 1 January 2016.[1] The risks of changing so many policy settings simultaneously are significantly greater than the risks of staging policy change more gradually to achieve the government's intended outcomes with greater certainty.

Swinburne has direct experience with the consequences of the introduction of market-based deregulation through our delivery of vocational education and training in Victoria. Here, a rapid move to full fee deregulation under successive governments has created significant pressures for existing public vocational education providers as well as the State of Victoria itself. Since deregulation, there has been rapid entry by private vocational providers into the newly created contestable market, leading to significant unbudgeted expenditures for the Victorian Government which precipitated a series of further cuts to government training subsidies.[2] The Victorian Government has been required to financially bail out one public provider[3] and provide significant structural adjustment funding to support rationalisation of a number of regional providers.[4] Five of the State's fourteen standalone TAFEs were recently assessed by the Victorian Auditor-General as having high financial risk.[5]

In short, the lesson from Victoria is that the Commonwealth risks a hard landing for its program of higher education reform unless elements of its program are carefully staged.

For these reasons, it would be prudent for the Government to reconsider the pace and scale of its program of reform by rolling out elements of its reforms in a staged fashion. This will allow universities and private higher education providers time to adjust to the new market for higher education and create a glide path to sustainable reform.

In this submission, we outline a number of practical amendments to the Bill that will ensure the government can progress its deregulation agenda, while also ensuring fairness for students and sustainability in the higher education sector over the long term.

Swinburne also commends to the Committee the submission of Universities Australia, particularly those elements which propose:

- reconsideration of the 20% cut to Commonwealth Grant Scheme funding;
- reconsideration of the change to indexation of HELP debt, which among other things will disproportionately affect women graduates who enter and leave the workforce over their careers and generally take longer to repay their debts; and
- reconsideration of the 10% cut to the Research Training Scheme and the introduction of HECS-style fees for higher degrees by research.

1. Moderating the unintended inflationary effects of the Bill

The success of the Bill rests on the creation of a thriving competitive market in higher education in which participants actively compete on the basis of price. It is on this basis that the Government has stated that it expects "some prices to go up, and some prices to do down".

At its broadest level, this is certainly true. However, as respected economists have pointed out, the higher education market has unique characteristics which make it very different to classical markets, and which increase the risk of a breakout of inflation in higher education pricing.

As economist Ross Gittins has explained:

> "The simple model of how markets work taught in introductory economics courses leaves may people with excessive faith in the ability of market competition to foster increased efficiency, constrain price increases and ensure customers get high quality.
>
> Its promises are based on a host of limiting assumptions, which usually don't apply. It assumes a very large number of small firms selling a homogeneous product to buyers with 'perfect knowledge' of the quality and other characteristics of what they're buying...
>
> The simple model assumes consumers ensure prices reflect differences in quality. But where it's hard to judge the quality of a product before you try it, many people reverse the causation and assume the higher the price, the higher the quality. This gives lower-quality producers an incentive to charge high prices."[6]

The former Vice-Chancellor of University of New South Wales, Professor John Niland, has also predicted that:

> "We will see something like the 'Veblen effect' – the idea that the price of a product itself is so galvanising and attractive that it creates its own demand.
>
> As prices for university admission get higher, so too does the presumption on the part of students that it must reflect quality."[7]

The architect of the HECS, Professor Bruce Chapman, as well as a number of university leaders, have also expressed concern about the likelihood of excessive fee rises under the Bill.[8]

As these people and many others have highlighted, there are a number of features of the market for higher education that indicate that the state of perfect competition which is required to ensure 'efficient pricing' will not exist in the higher education sector from 2016.

Potential fee increases in 2016 will be exacerbated by the design of the Higher Education Loan Program, which ensures that students incur no costs for their tuition at the point of purchase. The fact that students can defer their payments for many years means that students can be less sensitive to price at the time they commence their studies.

In a system of regulated pricing, this has been beneficial for students and has contributed to strong system-wide outcomes by reducing or eliminating financial barriers that may otherwise deter people from pursuing higher education. However, in a deregulated environment in which providers determine their own fees, the design of HELP creates additional risks that students will incur larger debts than they reasonably should because payment can be deferred and there is no 'price pain' at the time of purchase.

Currently, there is no limit on the amount that a student can borrow under HECS-HELP, however in practice the total loan incurred by students through HECS-HELP is constrained by the fact that maximum student contributions for Commonwealth supported places are regulated. The maximum lifetime limit for FEE-HELP is $96,000 for most courses and $120,000 for medicine, dentistry and veterinary science courses.[9]

The simple model assumes consumers ensure prices reflect differences in quality. But where it's hard to judge the quality of a product before you try it, many people reverse the causation and assume the higher the price, the higher the quality. This gives lower-quality producers an incentive to charge high prices. *Ross Gittins*

The current FEE-HELP borrowing limit appears to function well as a 'soft cap' on postgraduate fees for courses offered by public universities and courses offered by private providers eligible for FEE-HELP, as there are relatively few examples of courses which are priced above the maximum FEE-HELP limit. These include most courses offered by Bond University[10] and a small number of courses such as the *Juris Doctor* offered by a handful of Australian universities.[11] The cap is a 'soft' one as it does not preclude providers from offering degrees priced above the maximum HELP loan limit, but it effectively makes providers more accountable to their students because they must explain why the cost of the degree they are offering exceeds the maximum amount a student can borrow from the Commonwealth to pursue it.

The government's decision to remove all maximum HELP borrowing limits removes one of the few levers that the Commonwealth has to exert downward pressure on price, both for Commonwealth supported places and full fee places. Its impact will be inflationary. This deserves thoughtful reconsideration.

For these reasons, Swinburne recommends the introduction of a maximum annual limit (a 'soft' cap) for the amount that a student can borrow through HECS-HELP to meet student contribution amounts for all Commonwealth supported places, and the retention of existing maximum limits for FEE-HELP.

The absence of maximum HELP borrowing limits has risks for both students and taxpayers. It would not seem prudent that the Commonwealth should make available to any Australian an unlimited loan to meet tuition expenses, irrespective of considerations of cost or value, and with the only substantive condition being that the person is enrolled in a course offered by a registered higher education provider.

Given the Commonwealth clearly has an interest both in ensuring that the cost of higher education is not excessive for students and that growth in borrowings under the HELP scheme is sustainable, it would be wise to consider the establishment of maximum student loan limits to achieve these objectives.

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A soft cap would be consistent with the Government's wish to deregulate the price that students pay. It would:

- achieve the objective of deregulating price as well as volume;
- provide universities with the freedom and autonomy to set prices at any level for which there is market demand;
- benefit consumers by exerting downward pressure on prices; and
- provide more certainty for taxpayers (as well as Treasury and Finance) about the growth of outlays under the HELP scheme by ensuring that the 'fair value' of HELP is not diminished over time through a significant increase in the proportion of HELP that will never be repaid.

Recommendation 1:
Provide for a maximum annual limit (a 'soft' cap) for the amount that a student can borrow through HECS-HELP to meet student contribution amounts for all Commonwealth supported places.

Recommendation 2:
Retain the existing maximum limits for the amount that a student can borrow through FEE-HELP towards fees for courses which are not Commonwealth supported.

2. Staging the entry of private providers into the publicly funded system

The Bill allows non-university higher education providers (NUHEPs) to access Commonwealth supported places with effect from 1 January 2016 for higher education diplomas, sub-bachelor degrees as well as access to funding for bachelor degrees. This is consistent with the long-term trend towards deregulation and competitive neutrality between public and private providers.

This shift represents a fundamental change in the way that the higher education market will operate. As experience both in Victoria and the United Kingdom demonstrates, rapid change in tertiary education markets has created risks both with respect to quality of education for students as well as unanticipated (and therefore unbudgeted) student demand which has led to problems for governments and funding authorities.

The United Kingdom has experienced a series of issues relating to poor quality provision and, in some cases, fraudulent behaviour by newer providers which could have been averted by a more careful implementation and staging of its policy of market access. In Victoria, costs to government under the deregulated market for vocational education and training have considerably exceeded initial Treasury estimates, causing the Victorian Government to make many subsequent policy adjustments to reduce training subsidies and restrict student eligibility.

Adverse impacts of this kind would be best addressed by creating a sustainable glide path for non-university providers to enter the publicly-funded market. In the first instance, Swinburne recommends that access be provided for non-university providers to CSP funding in 2016 for sub-bachelor qualifications (diplomas, advanced diplomas and associate degrees). These qualifications represent a substantial proportion of the work of non-university providers, accounting for about one third of all delivery.[12] Access to bachelor-level qualifications should then follow in 2018.

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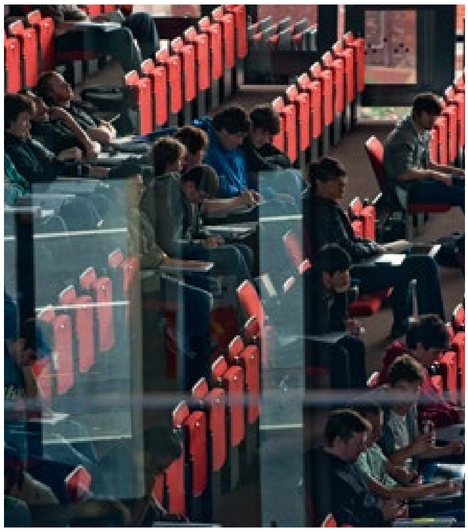
Staging of access to publicly funded places along these lines will allow time for the Tertiary Education Quality and Standards Agency to gear up for the additional regulatory challenges it will face in regulating a growing number of new providers. It will also allow time for existing market participants to adjust delivery models and minimise the risk of adverse market shocks. Staging entry would also provide some savings to government through the re-phasing to later years of CSP expenditure budgeted in the period 2015-16 to 2017-18.

Recommendation 3:
Protect quality and reduce funding risk by staging the entry of non-university higher education providers into the CSP market, with funding for sub-bachelor qualifications only in 2016, followed by bachelor-level qualifications in 2018.

3. Ensure regulation is appropriate to assure educational quality

The proposal to rapidly expand Australia's higher education system through the entry of non-university higher education providers means that there will be greater demands on the Tertiary Education Quality and Standards Agency (TEQSA) to provide appropriate regulation of quality.

There are lessons to be drawn from the experience of regulation in Victoria during the rapid expansion of Victoria's training market when it experienced strong growth in international students in the period 2007-2010. During this time, Victoria's tertiary education regulator, the Victorian Registration and Qualifications Authority, was unable to cope with growth, failing to stop new entrants offering substandard training which left many students either out-of-pocket or with poor quality qualifications. The Victorian Auditor-General concluded in an audit report in October 2010 that the VRQA could not reliably assure that it had effectively regulated VET providers.[13]



It is concerning that the budget for TEQSA is being cut by $31 million at a time that a major expansion in higher education provision is being proposed.

Getting the regulation right is an essential precondition to successfully managing any program of market-based reform. Success of the government's program of reform depends on national higher education regulatory arrangements that are mature, stable and effective.

Recommendation 4:
Provide additional funding support to the Tertiary Education Quality and Standards Agency to ensure that it is equipped to effectively regulate the competitive higher education market which the Bill establishes.

4. A Commonwealth Scholarship Scheme which supports national objectives to support low-SES students

The government's proposed Commonwealth Scholarship Scheme will derive its funding from revenue raised by higher education providers' fee increases. The scheme is intended to support students from low socioeconomic (low-SES) backgrounds gain access to university or access additional support to achieve progress in their studies.

It is concerning that the budget for TEQSA is being cut by $31 million at a time that a major expansion in higher education provision is being proposed.

Evidence suggests many students from low-SES backgrounds entering university benefit from specialised support to transition into university life. Swinburne is well placed to provide that support for students in this category. We have put in place transitional schemes, pathway courses and support programs targeted to students in need of support. This includes our mathematics and statistics help (MASH) program and specialised transition and advancement support staff for students.

The current design of the Commonwealth Scholarship Scheme, however, risks skewing scholarship support to those institutions with who charge the highest fees and who are less well-placed to support low-SES cohorts.

Swinburne recommends that amounts which each provider is required to withhold for scholarships form part of a national pool of scholarship funding, which is redistributed to eligible providers based on the number of low-SES students enrolled at each provider.

The Regulatory Impact Statement for the Bill makes much of the supposed administrative burden both on universities and the Commonwealth to implement such a national pooled scholarship scheme. In our view, the burden is considerably overstated.

Properly designed, such a nationally-pooled scheme would require a minimum of administration by the Commonwealth. Each higher education provider would retain full autonomy and responsibility to decide how to allocate scholarship funds. Allocations by the Commonwealth to each provider would be formula-driven and predictable, based on the number of low-SES students enrolled at the institution in each calendar year. As the overwhelming proportion of most student contributions are deferred through HELP, it would not require the transfer of any revenue from universities to the Commonwealth. Amounts would simply be reconciled against CGS advances which are made to each higher education provider.

As the Innovative Research Universities have pointed out, the Commonwealth's proposal is predicated on the idea that funds raised from students within one institution can only be used to support other students in the same institution.[14] The proposal to create a nationally pooled scholarship scheme would extend the use of those funds to support students with greater needs across all eligible higher education providers. It would support and strengthen national objectives to ensure equity in higher education, recognising that many low-SES students are more likely to achieve if they are accessing higher education closer to where they live, and not necessarily from universities with the highest fees.

Properly designed, such a nationally-pooled scheme would require a minimum of administration by the Commonwealth. Each higher education provider would retain full autonomy and responsibility to decide how to allocate scholarship funds.

Recommendation 5:
Design the new Commonwealth Scholarship Scheme to allow national pooling of funds and a simple model of distribution to eligible providers based on the number of low-SES students enrolled at each.

6. Protecting consumers from provider failure

The competitive higher education market created by the Bill brings with it consequences for consumers from decisions that educational providers will make with respect to market entry and exit. Providers will come and go with greater frequency and courses that do not achieve critical mass will be discontinued. Providers will regularly test new markets. Some will succeed and some will fail.

Recognising this is already an issue in the international education sphere, the Government protects foreign students in instances of provider failure through a tuition assurance scheme. This guarantees that students can complete their studies and are not left out-of-pocket when international colleges fail.

Until now, there has been no need for such a broad government-backed scheme for domestic students as the risks of university failure have been negligible and only a relatively small number of students are educated by non-university providers. However, this will need fresh consideration as provider failure is much more likely to be a feature of the new market-based arrangements for higher education from 2016 onwards.

Recommendation 6:
Consider the introduction of a national tuition assurance scheme for domestic students, modelled on the scheme already in place to protect international students in instances of provider failure, and funded by market participants proportionate to the risk of provider failure.

[1] Policy settings that are simultaneously being changed include reduction to CSP funding by an average of 20%; introduction of fee deregulation; merger of the FEE-HELP and HECS-HELP schemes and removal of the maximum loan amount and removal loan fees; changes to HELP repayment threshold; increase in HELP loan indexation arrangements, from CPI to the long term bond rate with a maximum rate of 6%; extending Commonwealth financial support to all students studying higher education diplomas, advanced diplomas and associate degrees; Establishment of a Commonwealth Scholarship Scheme; reduction in previous indexation arrangements to CPI for all grants and student contribution amounts under HESA; extending eligibility for CSP funding to non-university higher education providers; reduction of 10% to the Research Training Scheme and introduction of HECS-style fees for higher degrees by research; abolition of Reward Funding for universities; changes to Higher Education Participation and Partnership Program; $31.1 reduction in funding to the Tertiary Education Quality and Standards Agency.

[2] *Refocusing Vocational Education in Victoria*, Victorian Government, May 2012. http://www.education.vic.gov.au/Documents/about/department/refocusingvetstatement.pdf (accessed 19 September 2014). *Early impacts of the Victorian Training Guarantee on VET enrolments and graduate outcomes*, National Centre for Vocational Education and Research (NCVER), Melbourne Institute of Applied Economic and Social Research, http://www.ncver.edu.au (accessed 19 September 2014)

[3] *Technical and Further Education Institutes: Results of the 2013 Audits*, Victorian Auditor-General, http://www.audit.vic.gov.au/publications/20140806-TAFE-Audits/20140806-TAFE-Audits.html (accessed 19 September 2014)

[4] *Supporting the transformation of Victoria's TAFE institutes*, Victorian Government. http://www.premier.vic.gov.au/media-centre/media-releases/6700-supporting-the-transformation-of-victoria-s-tafe-institutes.html (accessed 19 September 2014)

[5] *Technical and Further Education Institutes: Results of the 2013 Audits*, Victorian Auditor-General, http://www.audit.vic.gov.au/publications/20140806-TAFE-Audits/20140806-TAFE-Audits.html (accessed 19 September 2014)

[6] *Why 'competition' means university fees will rise, Sydney Morning Herald*, 31 May 2014: http://www.smh.com.au/business/why-competition-means-university-fees-will-rise-20140530-399pd.html (accessed 19 September 2014)

[7] *Price and quality 'will be confused' by deregulation of university fees, The Australian*, 17 September 2014: http://theaustralian.com.au/higher-education/price-and-quality-will-be-confused-by-deregulation-of-university-fees/story-e6frgcjx-1227060653835 (accessed 19 September 2014)

[8] *HECS designer Bruce Chapman calls for action to limit excessive fee rises, The Australian*, 3 September 2014: http://www.theaustralian.com.au/higher-education/hecs-designer-bruce-chapman-calls-for-action-to-limit-fee-rises/story-e6frgcjx-1227045452598 (accessed 19 September 2014)

[9] *Information for students about government assistance for financing tertiary study*, Australian Government: http://studyassist.gov.au/sites/studyassist/helppayingmyfees/fee-help/pages/fee-help-#HowMuchCanIBorrow (accessed 19 September 2014)

[10] *Undergraduate Schedule of Fees* 2014, Bond University. http://bond.edu.au/prod_ext/groups/public/@pub-sa-gen/documents/genericwebdocument/bd3_027432.pdf; (accessed 19 September 2014)

[11] *Graduate course fees for Australian fee-paying students*, University of Melbourne. http://futurestudents.unimelb.edu.au/admissions/fees/grad-dom/aust-fee-place-fees/australian_graduate_fees_table (accessed 19 September 2014);
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http://www.monash.edu.au/study/coursefinder/course/L6005/?courseview=domestic (accessed 19 September 2014);

[12] *Statistics Report on Registered Higher Education Providers*, Tertiary Education Quality and Standards Agency, September 2014, Table 9: http://www.teqsa.gov.au/sites/default/files/publication-documents/StatsReportOnTEQSAregHEPs.pdf (accessed 19 September 2014)

[13] *Audit summary of Victorian Registration and Qualifications Authority*, Victorian Auditor-General, October 2010: http://www.audit.vic.gov.au/publications/2010-11/20100710-VRQA-summary.pdf (accessed 19 September 2014)

[14] *Using eligible students to drive the scholarship fund*, Innovative Research Universities, 20 June 2014. http://iru.edu.au/media/50482/the%20higher%20education%20reforms%20-%20issues%20and%20areas%20for%20change.pdf (accessed 19 September 2014)