A. The Higher Education reforms: issues and areas for change

Timeframe

Universities have a strong interest in having the future arrangements decided to allow as much clarity as possible for students considering enrolling in 2015 and to allow universities to plan well for the changes due in 2016.

The Government plans to introduce legislation for the higher education package to the House of Representatives in September 2014 to have it passed for the Senate to consider in October or November 2014, allowing passage by the end of 2014. The assumption has been that the Senate will refer the legislation to a Committee to permit a detailed analysis and more political plays, which could delay a final vote until early 2015. In recent discussion the Opposition has raised the option of putting the legislation to an immediate vote – which it would do if it thought the numbers would be against it.

The Government timeline is ambitious, in part due to the range of other major announcements requiring legislation which are due to start before 2016. If any of those soaks up significant parliamentary time other legislation will be delayed.

It is also ambitious because its package requires significant amendments to the current Higher Education Support Act which need to be well drafted before tabling. The Government may release an exposure draft for interested parties to comment. This would delay tabling but would likely mean a strong bill is tabled with fewer amendments for technical rather than policy or political reasons.

The following considers the major elements for issues emerging and points of detail to be resolved.

I. The big bang

The introduction of major significant changes at one point creates considerable risk of problems which emerge upsetting the whole package. Where changes can be introduced in steps with the end point clear there is more potential to adapt where needed and to reduce surprise from the changes. The introduction of demand driven funding over three years is one example. However, the major elements of the 2014 HE package are inter-linked, making it difficult to introduce in stages.

II. Who is eligible?

The 14 May 2014 cut-in ensures a quick transition from the current system to the new.

There are technical questions about who sits on which side. The Department's questions and answers take an inclusive line that preserves pre 15 May 2014 students under current arrangements through most permutations of future study, including transfer to another institution.

The policy issue is that post 14 May 2014 students who enrol up until the point the legislation is passed do so not knowing the detail of the future arrangements generally and with some uncertainty about each university's plans. Several universities including Griffith, Murdoch, CDU and Flinders have guaranteed no increase for students enrolling in 2014.

The Government is strongly resisting any push back of the cut-off point due to the loss of savings scheduled for 2015-16 and 2016-17.

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III. Sub-bachelor

The extension of demand driven funding to sub-bachelor qualifications is the least controversial of the major changes. The risk is that the sub-bachelor qualifications are those most at risk of provider abuse through creation of quick, cheaply delivered qualifications notionally meeting the Diploma and other qualification requirements.

TEQSA capability is essential along with maintenance of the time based expectations of the AQF.

The likely take up of such qualifications is moot. The UK put a lot of effort into promoting Foundation Degrees during the 2000s to little effect due to little employer and potential employee interest. The potential is strongest as as a pathway to a full degree, particularly if it is seen as a way to avoid high fees at the bachelor level for the first half or so of a degree.

IV. Inclusion of all providers

The Governments package would align the HE regulation and funding systems by including almost all providers within Government funding arrangements.

The incentive for entry is the opportunity to receive Government funding on top of current charges. Any moderation of the fee arrangements (section 6 below) would reduce interest from currently unfunded providers.

TEQSA capability is essential but reflecting a new TEQSA that applies the Bradley intended judgement. Use of the timeframes in the Act to keep approvals to a stately pace is appropriate to ensure provider commitment and reduce quick approvals of doubtful qualifications.

The lower funding rate for non-university providers is to be determined.

V. The revised funding system

The proposed clusters and funding rates from 2016 simplify the clusters into five groups but also achieve a 20% reduction overall in funding. This would finally remove the remnants of the 1990s relative funding model. The proposed clusters are based on a 0.6:2:3:4:6 relative distributions.

The major concern with the proposed clusters is the grouping of science and engineering into cluster three at a particularly low funding rate compared with current funding. The retention of the cluster one grouping at a very low funding rate is driven by the financial impact of combining it with the cluster two disciplines which have a similar demand for teaching resources. The Table at **6G** shows the current and proposed cluster rates, along with options to simplify the current clusters to achieve the Government's fiscal outcome.

Variations to the cluster rates and composition would lead to variations in how much each university receives within the same total envelope of Government expenditure. One approach is to reduce the current clusters by 20% achieving the required savings without altering discipline relativities.

The IRU comment **(Section 6C)** sets out different approaches to setting charges which would ensure revenue equal to the current revenue as the starting point for planning ahead. These are suggestive, not intended as a required starting point.

Taking the Government argument for support of diversity in provision to its conclusion, there is no necessity to retain discipline based clusters for funding. Discipline clusters matter for universities wishing to work at or not far in advance of current revenue. As charges rise above that discipline variables become less relevant.

VI. Open ended fees

Public attention is centred on the removal of fee limits with emphasis on the level of debt students may face through higher fee levels and the impact of changing the annual index of outstanding loans from CPI to the ten year bond rate. The removal of restrictions on the fee a student may pay, associated with a level of Government subsidy and full access to income contingent loans, will create a system that is far from a standard market since the Government payments and loans reduce the pressure on the student to consider value for money.

- The lack of any limits of fee or borrowings creates a moral hazard issue for both providers and students, with the public and Government bearing the outcome.
- The requirement to keep international fees at or above the domestic student fee provides a minor constraint, in that international students may be deterred if their charge rises. However that may be a minor worry if domestic enrolments are sustained.
- A limit to loans currently exists for FEE-HELP but is to be removed.

A major unknown is the response of students to the changes which focuses on how much:

- the repute of the older universities remains crucial to selection, leading people to pay what is charged; and
- the level of analysis applied to the value of the higher fee. If some sets of students avoid the high cost universities is that a problem? Are they being deterred or just sensible?

There are many detail questions should the fee changes proceed. The budget papers assume continuation of HECS-HELP, FEE-HELP, OS-HELP, SA-HELP, VET FEE-HELP. The Government proposals collapse all loans into a common set of rules. OS-HELP and VET-FEE HELP may need to remain distinct but the others would be the one dominant type.

The Department has been clear that there will be few controls over how universities and other providers set and present the fees they charge within the broad presumptions of consumer laws and protections. The current uniquely Australian approach of charging by the unit of study will not remain a necessary element. Hence options include:

- whether to charge for the qualification rather than the make-up of units within; and
- whether to charge differentially within qualification according to mode, location, background or willingness to pay.

VII. Scholarships

The scholarships are a political defence against claims the fees will drive away potential students from poorer backgrounds. They are one of the issues gaining some traction for a revision of the Government's plan with the RUN publically, and IRU in lobbying, arguing to pool the fee revenue for the scholarships for redistribution to universities and providers driven by the distribution of target group students.

A summary of the IRU proposal is at **Section 6E.**

VIII. HELP repayments

The prime focus of public discontent is the proposed change of the indexation of outstanding loans from CPI to the ten year bond rate (capped at 6%). Many more people than before realize that the HELP terms are in the hands of the Government to set and change.

The change in indexation is a critical amendment to HELP. Within Government it was perhaps given up in return for having open ended loans. It risks the creation of a substantial set of people with loan balances rising constantly, even though there would be no likelihood of repayment. This is a key point where negotiations may see a change.

The other changes have received less attention. The new first threshold for repayment is a fairly minor change, which sits well above the Howard era first threshold. The removal of the FEE-HELP loan fees and loan cap help integrate the loans of students in Government funded places and those in fee paying (essentially postgraduate) places.

IX. Quality and regulation

The funding cuts to TEQSA are a concern, since they follow on from a previous reduction. It will have considerable responsibility to act well as the non-funded providers make the transition into being funded, with incentives to rework the courses they offer.

The rework of the TEQSA legislation is to give effect to the change of approach the Lee Dow Braithwaite report argued for. How well that works will be in the hands of the new and re-appointed commissioners. IRU comments on the Bill to the Senate Committee are at **Section 6F.**

Across the package there will be great tension between setting useful frameworks for operation of the new system and the potential for detailed requirements that undermine university and provider freedom of operation. Any significant reduction in reporting burden requires close attention to the arrangements of each element of the package. The proposals for three year plans with strategic actions listed and reported on for the revamped Higher Education Participation Program is the first example (see **Section 6D).**

X. Research

Research has taken second place with conflicting messages from the Government about it. The NCRIS renewal is a stop gap to maintain the current support program, with a real infrastructure program deferred for another year. The imbedding of the Future Fellows as an ongoing program is a positive measure.

The ARC has to work through the redirection of $103 million to specific research fields, absorb the ongoing reduction in its funding and keep its main programs responsive to the wealth of good research proposals it receives.

The reduction of the RTS by 10% and permission to charge research students is not standing up well to scrutiny. The approach assumes research students are funded per head internally with no interaction to other research funding streams and no contribution to research output. The outcome is likely to be for universities to consider more carefully which students are enrolled, weighting to those associated with other external funding.

The Medical Research Fund is to be funded from the array of health portfolio savings. About 40% (based on the savings to the end of the budget forward years which produce about $12 billion of the target) is from the co-payment so that the Fund could still exist if that measure fails. There are concerns about the impact on the research eco-system if medical and health research nearly doubles while all other government funded research remains flat.

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