Review of the demand driven funding system for universities

ACPET Response

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About the Australian Council for Private Education and Training

The Australian Council for Private Education and Training (ACPET) welcomes the opportunity to provide input to the Review of the Demand Driven Funding System being conducted by Hon Dr David Kemp and Mr Andrew Norton.

ACPET is the peak body representing private education and training providers in Australia, with over 1,000 members in all States and Territories. ACPET has approximately 100 members delivering higher education programs. Research undertaken by the Grattan Institute reveals that private higher education institutions now enrol approximately 59,000 equivalent full time students.

Non university higher education providers are now recognised as a significant part of the Australian higher education sector and form a very diverse group of specialised institutions. They offer innovation, flexibility, and diversity in the high education sector, pathways across sectors, (often within one institution) student mobility and choice. More than half of Australia’s non self accrediting institutions are approved under the Higher Education Support Act 2003 as FEE HELP providers.

ACPET’s higher education members deliver qualifications in a broad range of fields, such as business, multimedia, music, information technology, sound engineering, natural therapies, photography, management, accounting, teaching, health, law, design, theology and public safety.

ACPET notes that the review will examine the following aspects of the demand driven system:

1. the effectiveness of its implementation, including policies regarding the allocation of sub-bachelor and postgraduate places;
2. early evidence on the extent to which it is:
   a. increasing participation;
   b. improving access for students from low socio-economic status backgrounds and rural and regional communities;
   c. meeting the skill needs in the economy;
3. extent to which the reforms have encouraged innovation, competition, diversity and greater responsiveness to student demand including development of new modes of delivery such as online learning;
4. whether there is evidence of any potential adverse impacts on the quality of teaching and of future graduates;
5. measures being taken by universities to ensure quality teaching is maintained and enhanced in the demand-driven system; and
6. whether less academically prepared students are receiving the support they need to complete the course of study to which they have been admitted.

This submission outlines ACPET’s principles for higher education funding arrangements and provides an overview of research that underpins these principles. The full research papers are available at Attachment 1 and Attachment 2.
1. **ACPET’s principles that should underpin higher education funding**

ACPET advocates that three key principles should underpin higher education funding to promote a well functioning and diverse higher education system, they are:

- Student choice should drive funding.
- Public policy should support diversity of programs and strong institutions to provide them.
- Funding for higher education should match the cost of delivery.

**Student choice should drive funding**

Student-centred funding provides genuine choice for students, which today is not available to them.

Presently, students that want to study with non-university higher education providers face distorted choices: either accept a cheaper Commonwealth Supported Place at a public university or pay for a full fee place at a provider that might better meet their needs. Students are effectively being penalised because their preferred choice of course or institution happens to be a non-university higher education institution.

Students should be able to use federally-funded Student Learning Entitlements, including credits for special needs, and HECS-HELP access, with any registered higher education provider. Allocation of funding should reward educational quality and outcomes without distinctions between public and private institutions.

Higher education policy must look beyond historic reputation, size and history. It must look forward in order to set a more flexible and innovative framework that ensures Australia can compete globally as a highly skilled, diverse and productive economy.

Higher education policy needs to place students and the quality of the education they receive – not the type of educational institution they attend – firmly at the centre of the system.

**Public policy should support diversity of programs and strong institutions to provide them**

Higher education providers should compete for students based on the offerings they provide. Demand and funding levers that influence access to higher education providers should focus on the broad skills that the economy needs, not on institutions that provide the qualifications.

Streamlining regulatory and funding arrangements will create greater incentives for integrated tertiary provision by all training and higher education providers, allowing them to focus on meeting the needs of students and employers rather than simply responding to the restrictions and limitations of government policy.

**Funding for higher education should match the cost of delivery**

The higher education funding framework should promote efficiency and innovation for today’s needs and for the long term. Funding should match the true cost of delivery, and ensure that all students be supported in accessing the institutions that best meet their needs.
ACPET’s believes that funding should be divided into teaching, research and community service components. This would mean that all higher education institutions would be paid for what they deliver, and any expansion of higher education access would be done in a more efficient and transparent manner. This would also drive excellence in achievement while staying true to equity principles around funding access.

Funding for Australia’s higher education sector should be based on clearly indentified underpinning principles including community and industry engagement, research excellence, and access by learners from lower socio-economic backgrounds. Funding should include income-contingent loans and tuition subsidy systems applied equally across both the public and private higher education sector and not distorted by outdated and historical principles.

2. Supporting efficiency, fiscally sustainability, innovation and competition

Higher Education enrolment growth, change and the role of Private HEPs

Attachment 1 is the Research Report titled Higher Education enrolment growth, change and the role of Private HEPs.

This research paper, commissioned by ACPET provides background and policy contexts, highlighting Government targets and policies relating to enrolments in higher education. It also explores in detail the overall enrolment changes in the sector, with some emphasis on presenting data by provider type.

The paper also explores the future for higher education in Australia by examining the current situation relating to the key targets for expansion and widening of access and looking at how these might be achieved, again with emphasis on the roles of different providers in the sector.

The research paper notes that in the past few years in higher education enrolments in Australia have been dominated by change: changes in funding allocation, changes in enrolment numbers, changes in Higher Education Minister (too many to count), and changes in regulation and accreditation. However, during this time of change, providers of higher education have continued to enrol, teach and graduate students. It is the numbers of these students, their characteristics and the extent to which they will continue to enrol in the sector.

The recent changes in higher education most relevant to this paper are encapsulated in an “expansion agenda”, in which two key targets recommended by the Bradley Review are paramount:

- that 40 per cent of 25-34 year olds will have a bachelor degree or above by 2025; and
- 20 per cent of undergraduate enrolments will be from low socioeconomic backgrounds by 2020.

While legitimate questions may be asked about the merit of setting targets, particularly given the attention and focus that it has generated around the future of higher education in Australia, Bradley’s message about these targets appears to ring true: ‘Setting targets for the achievement of any goal does not of itself ensure that the goal is achieved. However, it can help. Setting targets that are clear and transparent can focus the mind of policy makers on what needs to be done to achieve the target and can help the community to hold policymakers accountable’

Facilitating this expansion in enrolments and access were a number of policies, the most influential of which was the introduction of a student demand-driven funding system, whereby funding for university

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followed student demand rather than universities having a specific allocation of funded places. The policy, as articulated by the Government at its introduction was:

From 2012, Australian public universities ... will be funded for student places on the basis of student demand. The government will fund a Commonwealth supported place for all undergraduate domestic students accepted into an eligible, accredited higher education course at a recognised public higher education provider.

As noted in the quote, this policy related only to public providers of higher education. While the Bradley panel recommended expanding the demand-driven system to all accredited higher education providers once regulatory measures were in place, to date there has been little commitment publicly towards this happening. This particular point is of key interest to Private higher education providers, TAFEs and to the peak bodies which represent these providers.

The role of this policy in the expansion of university enrolments is detailed in the following section. The parallel growth in other providers (Private, TAFE) is also tracked in these analyses. The influence of this change on the achievement of the two targets is then explored at the end of the section.

**Designing a student focussed a demand driven system**

**Attachment 2** is the Research Report titled *Fairness, Diversity and Choice, A higher education funding system based on consistent*

This research paper examines Australia’s higher education funding system and notes that it discriminates against some higher education institutions and their students, denying them tuition subsidies and providing them with a less favourable income-contingent loan system. This discrimination is based on the history of institutions, and not on any clear policy rationale.

A funding system based on fair and consistent principles would treat all students in the same way, whether they enrol in public universities, private higher education institutions or TAFEs offering degrees. For the future, it would create more choice for all students by reducing course costs and helping more diverse institutions enter the market.

Student-driven funding should be broken up into teaching, research and community service components. This would ensure that higher education institutions are only paid for what they deliver, and reduce the total cost of expanding higher education access.

All higher education institutions should be given control over what fees they charge their students. If this is not done, they should be able to opt in or out of the federal funding system on a course-by-course basis. A single student income-contingent loan scheme should apply to all higher education students.

**Further input**

ACPET would be pleased to meet with Dr Kemp and Mr Norton to further discuss this submission.
Higher Education enrolment growth, change and the role of Private HEPs

Report by Daniel Edwards and Ali Radloff
Australian Council for Educational Research (ACER)

for

Australian Council for Private Education and Training

November 2013
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Introduction
The Bradley Review of Australian Higher Education, carried out in 2008 presented an opportunity to the Commonwealth Government to refocus higher education on the national agenda (Bradley, Noonan, Nugent, & Scales, 2008). To a certain extent, Bradley and the policies that it influenced have achieved this. However, more than four years after the Review was completed, we still have very few ideas about what shape our higher education system will assume once these policies are fully implemented. Political uncertainty related to the very recent change in Government further confuses the situation at present. This paper offers a mapping of change in higher education enrolments through the 2009 to 2012 period. It examines the massive growth in the system during this time and the extent to which this growth was distributed — by student enrolment characteristics, demographics and importantly by type of higher education provider (HEP).

The intention of this research is to provide a snapshot of the higher education sector captured using the most recently available data, and to contextualise the potential role that could be played by non-university higher education providers in future expansion of the system. The work draws on data from the Commonwealth Government’s Higher Education Statistics Collection. Detailed data was specified for this project and a number of unique outputs were provided for the purpose of the analyses in this project.

This paper begins by outlining some background and policy contexts, highlighting Government targets and policies relating to enrolments in higher education. It then explores in detail the overall enrolment changes in the sector, with some emphasis on presenting data by provider type. It finishes by exploring the future for higher education in Australia by examining the current situation relating to the key targets for expansion and widening of access and looking at how these might be achieved, again with emphasis on the roles of different providers in the sector.

Background
The past few years in higher education enrolments in Australia have been dominated by change: changes in funding allocation, changes in enrolment numbers, changes in Higher Education Minister (too many to count), and changes in regulation and accreditation. However, during this time of change, providers of higher education have continued to enrol, teach and graduate students. It is the numbers of these students, their characteristics and the extent to which they will continue to enrol in the sector (and who with) that is of interest to this paper.

The recent changes in higher education most relevant to this paper are encapsulated in an “expansion agenda”, in which two key targets recommended by the Bradley Review are paramount:
- that 40 per cent of 25-34 year olds will have a bachelor degree or above by 2025; and
• 20 per cent of undergraduate enrolments will be from low socioeconomic backgrounds by 2020.

While legitimate questions may be asked about the merit of setting targets, particularly given the attention and focus that it has generated around the future of higher education in Australia, Bradley’s message about these targets appears to ring true: ‘Setting targets for the achievement of any goal does not of itself ensure that the goal is achieved. However, it can help. Setting targets that are clear and transparent can focus the mind of policy makers on what needs to be done to achieve the target and can help the community to hold policymakers accountable’ (2008, p. 19).

Facilitating this expansion in enrolments and access were a number of policies, the most influential of which was the introduction of a student demand-driven funding system, whereby funding for university followed student demand rather than universities having a specific allocation of funded places. The policy, as articulated by the Government at its introduction was:

From 2012, Australian public universities … will be funded for student places on the basis of student demand. The government will fund a Commonwealth supported place for all undergraduate domestic students accepted into an eligible, accredited higher education course at a recognised public higher education provider (Australian Government, 2009, p. 17).

As noted in the quote, this policy related only to public providers of higher education. While the Bradley panel recommended expanding the demand-driven system to all accredited higher education providers once regulatory measures were in place, to date there has been little commitment publicly towards this happening. This particular point is of key interest to Private higher education providers, TAFEs and to the peak bodies which represent these providers.

The role of this policy in the expansion of university enrolments is detailed in the following section. The parallel growth in other providers (Private, TAFE) is also tracked in these analyses. The influence of this change on the achievement of the two targets is then explored at the end of the section.

**Quantifying growth**

Undergraduate enrolments for domestic students in Australia have grown at a remarkable pace over the past few years. Figure 1 which charts the commencement numbers from the beginning of this century, to 2012, shows a sharp rise in the trajectory of enrolments in the last four years of this time series. To further show the relative scale of the recent growth, Figure 2 highlights the difference in enrolment change in the 2009 to 2012 period compared with changes in the two four year periods prior to this. The 2009 to 2012 period has seen an increase in commencers of 43,600, or 21.3 per cent. By contrast the 2001 to 2004 period experienced a decline in commencers (by 6.7 per cent) and the 2005 to 2008 period saw more modest growth of 7.8 per cent in commencements.
Figure 1: Domestic undergraduate commencements, Australia, 2001 to 2012

Figure 2: Change in domestic undergraduate commencement numbers between selected years (n. and % change)
The year 2009 is an important reference point in tracking enrolment change because this is the year in which the policy of demand driven funding was announced. As such, the time series comparisons which follow are based on quantifying change as of 2009. This year marked the last year in which the previous ‘status quo’ in enrolments among public universities (Table A providers) was in place. In the years following 2009, universities were given the opportunity to begin to prepare for the uncapped student demand-driven funding system which began in full in 2012. The ‘preparation’ for the full funding in 2012 was characterised by the softening of government caps or quotas on the number of students that each university could enrol, so in 2010 and 2011 universities received funding for each student enrolled up to 10 per cent above the cap applied by Government at the time. As documented elsewhere (Edwards, 2011c), many universities enrolled well above this limit, absorbing the costs of having non-funded places but establishing a new student base in preparation for the introduction of full demand-drive funding in 2012.

Table 1 documents the numbers of domestic undergraduate commencers and the total number of enrolments for each year from 2009 to 2012 by provider type. For the purpose of this paper, provider types displayed here are ‘Table A’ – public universities; ‘Table B’ – private universities; ‘Private’ – private, non-university higher education providers; ‘TAFE’ – TAFE institutes providing undergraduate courses. Detail relating to provider categories in higher education is detailed in the Higher Education Standards Framework legislation (“Higher Education Standards Framework (Threshold Standards),” 2011) and some further information about Australian higher education providers is included in Appendix A.

Based on the data provided by the Commonwealth Government for this research, there were 37 Table A, 3 Table B, 66 Private and 8 TAFE providers with domestic student enrolments in undergraduate higher education qualifications in 2012 (as Appendix A shows, in total there are more providers than this, but only those with undergraduate enrolments in 2012 that are recorded in the official statistics are included in this paper). In absolute numbers, it is possible to see that Table A providers accounted for nearly 41,000 of the 43,600 growth in commencers and 81,500 of the total enrolment change in undergraduate enrolment of 91,000. In terms of relative growth by provider type, the TAFE enrolments saw a large percentage increase in enrolments and commencements during this time. However, this growth was coming from a very low base.

Importantly, the figures show that while Table A providers absorbed the majority of the growth in this period, the other types of providers also grew. Figure 3 shows the non-Table A provider groups change in commencers over this period, also highlighting the relative size of the Private providers among the non-Table A providers. From 2009 to 2012, Private providers experienced a growth of 11.4 per cent in commencements and 22.5 per cent growth overall. Further exploration of the share of enrolments and commencements across the sectors is detailed later in the paper.
Table 1: Domestic undergraduate numbers 2009 to 2012 by provider type – commencements and all enrolments

<table>
<thead>
<tr>
<th>Provider type</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Change 09 to 12</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Commencers (n.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Table A</td>
<td>187,921</td>
<td>201,540</td>
<td>207,480</td>
<td>228,747</td>
<td>40,826 21.7</td>
</tr>
<tr>
<td>Table B</td>
<td>3,480</td>
<td>3,567</td>
<td>3,631</td>
<td>3,614</td>
<td>134 3.9</td>
</tr>
<tr>
<td>Private</td>
<td>12,860</td>
<td>13,750</td>
<td>14,622</td>
<td>14,324</td>
<td>1,464 11.4</td>
</tr>
<tr>
<td>TAFE</td>
<td>616</td>
<td>1,248</td>
<td>1,101</td>
<td>1,824</td>
<td>1,208 196.1</td>
</tr>
<tr>
<td>Total</td>
<td>204,877</td>
<td>220,105</td>
<td>226,834</td>
<td>248,509</td>
<td>43,632 21.3</td>
</tr>
<tr>
<td></td>
<td>All enrolments (n.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Table A</td>
<td>558,364</td>
<td>585,175</td>
<td>605,413</td>
<td>639,876</td>
<td>81,512 14.6</td>
</tr>
<tr>
<td>Table B</td>
<td>9,419</td>
<td>10,292</td>
<td>11,226</td>
<td>11,536</td>
<td>2,117 22.5</td>
</tr>
<tr>
<td>Private</td>
<td>25,434</td>
<td>27,446</td>
<td>29,626</td>
<td>31,096</td>
<td>5,662 22.3</td>
</tr>
<tr>
<td>TAFE</td>
<td>1,186</td>
<td>1,929</td>
<td>2,219</td>
<td>2,946</td>
<td>1,760 148.4</td>
</tr>
<tr>
<td>Total</td>
<td>594,403</td>
<td>624,842</td>
<td>648,484</td>
<td>685,454</td>
<td>91,051 15.3</td>
</tr>
</tbody>
</table>

Figure 3: Domestic undergraduate commencement numbers in non-Table A providers, 2009 to 2012
Growth and ‘quality’
In the context of the growth in the system and the expansion in line with policy targets, there have been concerns raised relating to the extent to which quality is compromised through growth. While there is an absence of strong data to support or dismiss these questions categorically, this section of the paper utilises a couple of measures available to explore whether growth in enrolments has had an impact. Information about ATAR, attrition, and student-staff ratios were considered for exploration in this section. Due to lack of concrete data on the last of these elements, only the first two are analysed here. What follows is essentially an indicative analysis, but nonetheless it offers some insight into whether there has been change in these variables at the same time as there has been growth in the system.

For the purpose of this analysis, only data relating to the Table A institutions is included. In addition, data from the six fastest growing universities between 2009 and 2012 has been extracted and displayed separately to offer additional insight into the role of growth here. Each of these six universities had growth in excess of 40 per cent between 2009 and 2012 - more than twice the national average.

Figure 4 shows different groupings of ATAR for commencers in all Table A universities from 2009 to 2012. It is important to note here that only about half of the commencers in each of the years here actually have an ATAR recorded in the data. Among the Table A commencers with an ATAR, overall commencement numbers increased by 16.7 per cent between 2009 and 2012.

The data shows a very small rise in the share of ATARs under 50 (from 3.1 per cent to 4.2 per cent), among all those with an ATAR under 60 (from 9.7 per cent to 12.3 per cent) and for all commencers with an ATAR under 70 (24.6 per cent to 27.4 per cent). As a result, a slight decrease in the proportion of all commencers who had an ATAR above 80 was recorded (53.8 per cent in 2009 to 51.7 per cent in 2012).

Given the nature of the ATAR – it is essentially a percentile rank of a given age cohort – it is inevitable that if more applicants enter the system the overall spread of the ATAR will trend downwards. What this overall data shows is that even in a period where enrolment growth has been substantial, the impact on ATAR scores across the Table A institutions as a whole is relatively small.

Among the six high growth universities, the percentage point change in ATAR distribution was slightly larger than that for the sector as a whole. However, the differences were not found among the lowest ATAR grouping shown in Figure 4; the proportion of commencers with an ATAR under 50 increased by only one percentage point in this time. Where the change in these institutions is different to the national trend is in the students with moderate ATARs. For example, the proportion of commencers in these six universities with an ATAR of 60 or below increased from 11.9 in 2009 to 14.3 per cent in 2012 (a 4.4 percentage point change). Most telling is the difference in the share of those with an ATAR under 70, which rose from 31.6 to 38.9 per cent (a 7.3
percentage point increase). This suggests notable increases in the 60 to 69.95 ATAR band for this group of institutions during this time.

![Figure 4: ATAR distributions for domestic undergraduate commencers 2009 and 2012, in the six fastest growing Table A universities](image)

While there is no doubt a relationship between ATAR and the ‘quality’ of students, the extent to which it is possible to identify a point at which ‘quality’ diminishes by ATAR has not been empirically determined. Indicative figures show that the higher an ATAR the more likely a student is to complete their course (Norton, 2013), but the cohort on which this work is based (commencers in 2005) began their studies in a very different higher education sector, in a relatively different economic and social climate to what students have today.

The conclusion from the work for this paper is that while there is some evidence to show a change in ATAR scores in the cohorts entering the fastest growing institutions, this change is not occurring rapidly among the very low ATAR students and it is difficult to determine the extent to which this change suggests any noticeable diminishing of quality across the system or in the high growth universities.

Another proxy to explore the impact of growth on quality of provision in Australian Table A universities is through attrition rates. The time series shown in Figure 5 shows that between 2008 and 2012 there has been only small movement in attrition rates among all Table A universities. In addition, among the high growth institutions, the average rate while slightly higher than the national average, declined from 2008 to 2009, and remained relatively stable during the large period of growth from 2009 onwards.

These indicative findings suggest that the impact of growth in higher education institutions has not had any significant influence on quality in terms of achievement prior to entry or on the likelihood of completing first year.
Figure 5: Attrition rates of commencing student in first year of university, all Table A and six high growth universities, 2008 to 2012
Characteristics of students by provider type

The growth in commencements to 2012 has led to some changes in the overall characteristics and types of students enrolled in undergraduate courses in Australia. In this section a range of student characteristics are examined. The focus here is generally on the 2012 commencement cohort and differences between providers.

Based on the data provided by the Commonwealth Government for this research, in 2012 non-Table A providers accounted for 8 per cent of commencing domestic undergraduate students. Of all commencers 5.8 per cent were at a Private provider and these providers enrolled 4.5 per cent of all enrolled domestic undergraduate students in Australia (Figure 6). As the pie charts show, the vast majority of enrolments are in the Table A, public university part of the sector.

An important element apparent in the higher education data for contextualising the differences in the sector is course-level emphasis by provider type. Figure 7 shows a substantial difference in the distribution of commencements by course type between Private providers and other HEPs. Essentially, Private providers have a smaller share of bachelor enrolments and more ‘other undergraduates’ among their undergraduate commencers. Other undergraduate courses aggregated in the higher education statistics include higher education accredited Associate Degree, Advanced Diploma, Diploma and ‘other’ qualifications. These figures do not include VET-linked qualifications of the same name (Diploma and Advanced Diploma) and do not include enabling courses or non-award, bridging courses provided by HEPs. In total, 35.8 per cent of all the recorded undergraduate commencers in Private providers in 2012 were enrolled in non-Bachelor undergraduate qualifications. In Table A providers, the relative figure was very small at 3.9 per cent while nearly one in five undergraduate commencers at a TAFE were in one of the ‘other’ qualifications.
Another important difference between the provider types is the distribution by the educational pathways students have taken prior to enrolment. The distribution of commencers by basis of admission shows that while secondary school is the most common pathway for Table A, Table B and Private providers, those entering a higher education qualification at TAFE are more likely to have been admitted on an ‘other’ basis. Private provider commencers are also more likely to have come through an ‘other’ pathway. These providers also have a relatively large proportion of students gaining entry through mature age special entry provisions. These outcomes link in with the fact that overall, university commencers tend to be younger than those in Private providers and TAFEs, with 58 percent of Table A commencers, 43 per cent of Private provider commencers and 32 per cent of TAFE commencers aged under 20 years old.

1 ‘Other’ modes of admission include assessment of folio, entry-based interview, aptitude test or other special admissions scheme.
There are noticeable differences between the provider types when enrolments are examined by discipline. In Figure 9, the distribution of commencers in 2012 is displayed by broad field of education. The data show that the most heavily enrolled fields for Private providers are Creative Arts (33 per cent of domestic undergraduate commencers), Society and Culture (25 per cent), and Management and Commerce (23 per cent). Fewer than one per cent of commencements in Private providers were in the field of Science. TAFEs also have strong enrolments in Management (21 per cent) and in Creative Arts (19 per cent), but differ from Private providers in their relative size in Engineering (16 per cent), IT (10 per cent) and Architecture fields (9 per cent). Interestingly, TAFEs had no commencers recorded in the Society and Culture broad field in 2012. In Table A universities the most common field is Society and Culture (26 per cent), followed by Management and Commerce (17 per cent) and Health (16 per cent). Eleven per cent of Table A enrolments are in the Sciences – a field where the other types of providers have very few students.
Figure 9: Distribution of domestic undergraduate commencers by broad field of education and provider type, 2012
Examining the differences between providers in terms of the ATAR of students commencing is also interesting, especially in the context of discussion around quality and potential issues with quality in an expanding system. The quality questions are addressed later in this paper, while here the state-of-play in 2012 is examined. As a caveat, it is important to note that fewer than half of all commencing students in 2012 have an ATAR recorded in the higher education data. As shown in Figure 10, the proportion of students outside of the Table A universities is very small, meaning that comparisons across provider types are not particularly useful on the whole. With this large caveat in mind, the data in Figure 11 shows the distribution of ATARs by selected bands across provider types for the commencing students who did have an ATAR recorded.
The final figure in this section explores the SES background of the commencing undergraduate cohorts by provider type. The distribution of students by SES quartile is shown in Figure 12. The data show that Table A universities have the highest representation of enrolments by students from the lowest SES quartile (18.2 per cent of commencers in this data), followed by Private providers (16.5 per cent). At the other end of the spectrum, 41 per cent of Table B commencers were from the highest SES quartile in 2012, followed by 36.9 per cent of undergraduate commencers at TAFEs. In all provider types, this high SES quartile was over-represented in enrolments (full representation would be 25 per cent).

![Figure 12: Domestic undergraduate commencing students by SES background and provider type, 2012](image)

**Private providers contributing to growth**

The data presented above has helped to highlight the similarities and differences between universities and other higher education providers. It is clear that the university part of the sector does and will continue to dominate the overall share of enrolments in higher education. However, it is notable that in the context of the past few years, when all the policy incentives were in place for promoting growth in public universities, the other providers of higher education in Australia continued to grow. As shown above, Private providers experienced a 22.3 per cent overall growth in enrolments between 2009 and 2012. This highlights the fact that Private providers are serving a key constituency of students who clearly value the courses they are offering (otherwise one would expect that a Government subsidised university course would be preferable to a fee-based course).
A key question posed in the development of this paper is whether there is a greater scope for Private providers and TAFEs in the provision of undergraduate education in Australia, and linked to this, whether the introduction of Commonwealth Supported Places in these providers would stimulate a further expansion of the system and facilitate the achievement of both the attainment and the low SES access targets. This section of the paper explores these issues. It looks at the extent to which the targets are being met, the existence of unmet demand in the system and at potential areas in which Private providers might facilitate enrolments where universities cannot or do not.

**Meeting the attainment target**

Figure 13 charts the attainment rates of the 25 to 34 year-old population in Australia over the past 12 years. The attainment rate is calculated based on all those within the age range who have completed a bachelor degree or above. Those qualifications could have been gained from any type of higher education provider. The figure details a remarkable rise of more than 12 percentage points, from 24.0 per cent in 2001 to 36.8 per cent in 2012. In all but one point in the series from the ABS Survey of Education and Work there has been an increase in attainment. A trend line has been included in this figure to provide an indication of the average trajectory during this time.

Presented in terms of percentage point gain and over a 12-year period, the achievement of the 40 per cent attainment target appears to be relatively straightforward. When the recent trajectory of growth in the attainment rate is considered, it is possible to conclude that these targets will be easily reached, if not outstripped by 2025. A conclusion along these lines was made in a paper by the Group of Eight that states ‘a continuation of the recent...
trend growth in degree attainment would see the Government’s 40 per cent target for the 25-34 year group exceeded by 2015’ (2010, p. 2). While this conclusion is appealing, an examination of national attainment level trends over recent years does not provide the full picture of likely future attainment rates.

Figure 14 provides a reality check and a context for understanding the drivers of attainment in Australia over the past decade. The figure tracks both the 25 to 34 year-old attainment rate from 2001 to 2012 alongside the participation rate of 20 to 24 year-olds in courses for a bachelor degree or above (these include those at all higher education providers). While the attainment rate has experienced steady growth over the past decade, the same cannot be said for levels of participation in bachelor degrees by the next group of people entering the 25 to 34 year age bracket. Between 2004 and 2009, attainment rates grew steadily in Australia, while the participation rates of persons aged 20 to 24 remained relatively steady. The final three years in this time series show some uniformity in direction, with participation rates finally rising in 2011 and 2012.

While the late rise is a positive sign of the potential role of domestic students in boosting attainment rates, overall the majority of the years in this time series indicate that the growing attainment rates in Australia over the past decade have not necessarily been achieved through output from domestic higher education. So what is contributing to this noticeable and well-publicised growth in attainment?
The most plausible explanation is that the change in higher education attainment levels has been the result of a strong skilled migration program, focused on young migrants in professional occupations, alongside large increases in the number of international students studying in Australia. Between 2001 and 2009, skilled migration numbers increased 87 per cent, with more than 35,000 settler arrivals of 25 to 34 year old professionals in 2009 (Edwards, 2011b, p. 7). In parallel, international student completions in Australian universities more than doubled over the decade, with nearly 43,000 completions in 2009. Data compiled by the ABS suggest at least one-third of international students are successful in applying for a permanent residency visa and remaining in Australia on completion (ABS, 2007), although their ability to do so is contingent upon fluctuating visa regimes.

So, while Australia appears to be on track to achieve the attainment figures, the reality of the situation appears to be less certain and heavily reliant on continued growth in migration and international student numbers. Given the volatility of these sources of growth, illustrated recently through changes to the skilled migration program and nervousness surrounding the sustainability of the international student market, the role of domestic student expansion in Australia in achieving and sustaining the government’s target of 40 per cent attainment over the long term is of paramount importance.

In this context of overall growth, it is appropriate to consider whether it is likely that Australia will meet the attainment target by 2025. As suggested through previous analyses (Birrell, Rapson, & Smith, 2010; Edwards, 2011a), achieving this target will require consistent increases in student enrolments over a number of years. So while current figures suggest that Australia is on track to achieve these targets, the likelihood of achieving the attainment target depends on its ability to continue to expand for a number of years to come.

A model developed by the Centre for Population and Urban Research (Birrell, et al., 2010) provides an opportunity to track the ‘required’ trajectory for expansion alongside the actual expansion in higher education that has been experienced over the past few years. In Figure 15 the ‘required’ trajectory of bachelor-level completions is shown in the dotted line, while the actual numbers and the numbers officially forecast in the national budget papers are plotted in the solid line. This figure shows that for the period of the estimates (2010 to 2015), domestic enrolment numbers appear to be on track to reach the attainment target. However, the numbers in the estimates flatten out by 2015. This is problematic because, according to the ‘required growth’ scenario, consistent increases of about 5 per cent growth maintained for a seven year period would be needed to reach the 40 per cent attainment goal. So, while initial growth may be on track, the challenge for the sector is sustaining these increases until the beginning of the next decade.
Changes in demand
In this context, it is important to evaluate the extent to which student demand is changing in the strong-growth environment of recent years. The most reliable measure for exploring change in demand is through the Commonwealth Government’s university applications and offers annual publication. The data in Figure 16 highlight the growth in applicant numbers for university each year from 2007. As is apparent from this data, the increase in provision of university places was met initially with an increase in applicant numbers, with applicants in 2009 (for a place in 2010) and in 2010 (for 2011) relatively high. However, following this initial spike in demand, the rate of growth in applications for university has slowed in recent years, with the very latest data from 2013 (for 2014) showing demand has almost slowed to a halt. If this demand continues to slow, the likelihood of meeting the attainment target through expansion of domestic higher education enrolments is small.
Increasing attainment through expanded provision

In the situation described above, it is possible that an expansion of provision by Private providers (perhaps through the introduction of CSP places) may be a way of re-stimulating demand for higher education in order to keep growth on track to meet attainment targets.

The idea of expanding demand driven funding to non-university providers was suggested by the Bradley panel in their mapping out of a change in funding. Recommendation 29 of the Review stated that the demand-driven funding system should “apply initially only to public universities, but would be extended to other approved providers when new regulatory arrangements are in place” (Bradley, Noonan, Nugent, & Scales, 2008). With the establishment of the Tertiary Education Quality Standards Agency (TEQSA) through an Act of Parliament in 2011, the foundation for these regulatory arrangements is well in place.

In the context of a dwindling of demand for university, and if the Bradley recommendation is to be taken up, the timing is perhaps appropriate now to expand the demand-driven funding system into the Private and TAFE higher education providers.

An example of the potential additional growth that Private providers may be able to foster in an open demand system is highlighted by Edwards (2013) using the example of the VET system in Victoria. Data provided by the Victorian Government following the introduction of demand driven funding in VET showed a 75 per cent growth in enrolments, facilitated almost entirely by Private providers. While there are also lessons to be learnt from the application of such a system, the response of Private providers to the market is shown here to be significant, and in the context of higher education it is possible that these providers respond by increasing awareness, demand and enrolments in higher education.
Exploration as to particular course types, disciplines and or geographic areas in which the expansion of CSPs could be facilitated through Private providers would be necessary to ensure that the choices in the sector remained balanced and that opportunities for study for all those interested in higher education could be facilitated. The different distributions between provider type by field of education and level of course described earlier (see Figure 9 and Figure 7) help to show there are areas where the smaller providers do not overlap with universities and it is in these niche areas and in facilitating regional and remote participation that some of the thinking in this regard might be useful.

Meeting the Low SES target

The growth of higher education enrolments in the past few years has been greater among those from low SES areas than it has been for other students. The data used in this paper show that low SES commencer grew by 29 per cent in the 2009 to 2012 period, twice the rate at which commencements from the highest SES quartile grew and at a faster rate than the national average of 21.3 per cent.

This increase is helpful in pushing towards achieving the low SES target of 20 per cent of undergraduate enrolments by 2020. However, despite the relatively large gains for this group, their overall representation in higher education commencers and among all enrolments has only marginally increased. The proportion of all commencers who are from low SES backgrounds increased from 16.9 per cent in 2009 to 18.0 per cent in 2012, a small gain of 1.1 percentage points. On the measure that is specifically linked to the SES targets – all enrolments, the gain over this period of massive growth was more marginal, from 16.1 per cent in 2009 to 16.9 per cent in 2012.

The reality for the low SES targets is that even in a period of unprecedented growth in the past 20 years, the overall representation of low SES students in higher education in Australia increased by less than one percentage point in four years. Gaining the remaining 3.1 percentage points (as suggested in this data) to make the 20 per cent target in the space of seven years seems to be unrealistic if the status quo is maintained.

A potential way in which the status quo could be changed to increase the chances of expanding low SES participation is through the extension of CSP places to Private providers and TAFEs. While these providers currently enrol a lower proportion of low SES students than do public universities, there is perhaps a possibility that the financial costs of upfront fees are responsible for this difference. Certainly the modes of provision supported by many Private providers are more conducive to benefitting under-represented groups due to relatively small class sizes and often a more pastoral approach to teaching and learning (Edwards, Coates, & Radloff, 2009).

Again, the Victorian VET example (while not completely translatable to higher education) suggests that the expansion of government funded education places in Private providers can be positive on participation of under-represented groups. The Victorian expansion, explained further elsewhere (Edwards, 2013) increased the participation of indigenous and the participation of students with a disability substantially in the VET sector.
Conclusion

This work is being compiled at an interesting time. Only a month or so after a change in Federal Government, the sector is yet to have clarity on many of these big picture issues. What role do these policies and targets have under a Coalition Government? Big question that could again result in yet more reshaping.

Overall, this work has shown that the massive growth in enrolments over the past few years has been primarily driven by universities – because it is universities which were the specific aim and beneficiaries of substantial change in policy and funding provision. What is remarkable is that at the same time as this massive growth funded by the Commonwealth Government, other providers such as Private HEps and TAFEs have managed to continue to find a market in domestic undergraduate enrolments and have continued to grow their small but notable share of these students in Australia.

The data presented here has established a number of differences in the student characteristics of enrollees across the different types of HEps, showing that the role in which each type of provider plays in the sector is relatively unique.

The concluding sections of the paper explored the role in which Private providers might play in increasing participation overall and participation specifically of low SES students. The implication from the finding here are that as universities begin to slow down their recent growth, Australia remains some way off achieving either of the targets set at the end of last decade. The role that Privates and TAFEs could play in maintaining growth and expanding access should not be underestimated. However, the application of any CSP-related places into these providers should probably commence in a targeted way, with a focus on expansion of under-represented groups of students.
References
Appendix A: Further information about providers of Higher Education in Australia

According to the TEQSA National Register of Higher Education (TEQSA, 2014), Australia’s higher education sector currently includes 172 higher education providers and 1,050 listed accredited courses. The information noted below details the provider types and distribution of all registered higher education providers. Please note that in the data presented in the main part of this paper, the actual number of providers represented by enrolment data is slightly smaller due to the fact that only those with undergraduate enrolments in 2012 that were recorded in the Commonwealth Department of Education Data were included.

Of the 172 higher education providers in 2013, there are 43 universities:
- 40 are **Australian universities**, of which:
  - 37 are Table A self-accrediting public universities; and
  - 3 are self-accrediting private universities (Bond University, the University of Notre Dame, Australia and Torrens University Australia).
- two are **overseas universities** (Carnegie Mellon University Australia and University College London, Australia) and are not self-accrediting;
- one is a **specialised university** (MCD University of Divinity) that is self-accrediting.

There are 129 other higher education providers. These providers comprise both Private providers and TAFEs and are all non-self-accrediting. Of these other higher education providers:
- eight are TAFEs;
- 23 are religious and/or theology based higher education providers; and
- 73 are dual sector providers offering both higher education and VET courses.

Most, 121, of the other higher education providers are Private higher education providers. Some providers are hard to classify on a public-private spectrum, as they are considered private, for-profit institutions but are owned by public universities, for example Monash College, Swinburne College and InSearch: UTS.

43 per cent of Private higher education providers offer courses at postgraduate level and eight per cent offer Higher Degrees by Research. 37 per cent of Private higher education providers are approved to deliver courses to overseas students and 36 per cent offer FEE-HELP support to their students.
Fairness, Diversity and Choice

A higher education funding system based on consistent principles

Andrew Norton
November 2010
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Executive summary

Australia’s higher education funding system discriminates against some higher education institutions and their students, denying them tuition subsidies and providing them with a less favourable income-contingent loan system. This discrimination is based on the history of institutions, and not on any clear policy rationale.

A funding system based on fair and consistent principles would treat all students in the same way, whether they enrol in public universities, private higher education institutions or TAFEs offering degrees. For the future, it would create more choice for all students by reducing course costs and helping more diverse institutions enter the market.

Student-driven funding should be broken up into teaching, research and community service components. This would ensure that higher education institutions are only paid for what they deliver, and reduce the total cost of expanding higher education access.

All higher education institutions should be given control over what fees they charge their students. If this is not done, they should be able to opt in or out of the federal funding system on a course-by-course basis. A single student income-contingent loan scheme should apply to all higher education students.

About the author

Andrew Norton is a higher education policy analyst and commentator with government, think-tank and university experience.
Key recommendations

- All students should be treated fairly, with benefits based on their personal circumstances or choice of course, not institution

- There should be one income-contingent loan scheme for all students

- The proposed My University website should cover all higher education institutions, to help inform student choices

- All higher education institutions should be treated according to announced principles and rules, and not on the basis of history or lobbying

- There should be closer links between higher education institution accreditation and funding eligibility

- Student-driven funding should be based on a mix of affordability and market failure grounds

- A permanent body should advise government on subsidy levels

- Teaching, research and community engagement components of student funding rates should be identified separately, and paid according to the activities of the higher education institution

- Higher education institutions should set student fees and charges
Introduction

Australia’s higher education system has not been designed from first principles. Instead, it has evolved over many years in response to particular problems or government initiatives. Accreditation and funding policy have developed largely in isolation from each other, partly reflecting responsibilities divided between the States and the Commonwealth. Institutions that received public funding in the 1970s and 1980s have preserved funding entitlements generally denied to other higher education institutions.

This evolved rather than designed system contains significant inconsistencies that policymakers have not adequately justified. No clear policy rationale explains why higher education institutions are treated in very different ways. No clear policy rationale explains why students receive very different funding support depending on which institution they choose. Almost by accident, we have ended up with a system that lacks competitive neutrality, limits diversity, and constrains student choices. These are the consequences, though not necessarily the intended outcomes, of the policies now in place.

Higher education legislation planned for 2011 offers an opportunity to create a more coherent policy framework. The promised Tertiary Education Quality and Standards Agency (TEQSA) will build on existing accreditation and quality systems that have already moved towards applying consistent rules for all institutions. TEQSA assessments rather than institutional histories should provide entry to the funding system. The base funding review scheduled to report in 2011 should recommend funding rates reflecting the different activities of higher education institutions. Some would be funded for teaching only, while others would receive funding for research and community service. Without the current distinctions between students, a single income-contingent loan scheme could be used for all higher education students.

A reformed system would significantly increase fairness for the students who currently, by their choice of institutions other than those which historically receive public funding, pay a significant premium for their education. At the same time, it would create a more modern and efficient system of industry regulation based on clear public policy goals, rather than the industry’s historical structure.
Section One: The Current System

Accreditation

A criteria-based accreditation system now exists for admitting new higher education institutions to the Australian market. It is based on the National Protocols for Higher Education Approval Processes and related legislation and guidelines. Figure 1 is a simplified flowchart showing the minimum requirements for operating a higher education institution in Australia, plus the additional requirements for advancing to the next category of institution. At least in principle, any higher education institution, regardless of its history, can move through the different categories. Institutions with good track records in being re-accredited by state and territory accreditation authorities can become self-accrediting. Institutions which build research activity can become specialist universities or full universities.

In practice, however, institutional history still affects how higher education institutions are described. The National Protocols, which were first agreed to by the Commonwealth and the States in 2000, have not been applied retrospectively to universities existing at that time. This means prospective universities face much greater scrutiny than pre-2000 universities. The position of pre-2000 universities in the funding system gives them access to the financial support needed to meet the research infrastructure and output requirements necessary to become a ‘university’. Achieving research output which is ‘at least comparable with similar Australian universities’ requires significant expenditure. Without generous philanthropy or high profits from other activities achieving this output requires government research funding.

Figure 1: Simplified National Protocols flowchart
Note: A ‘university college’ status is available as an intermediate step before full university status.

Funding

Unlike the system established by the National Protocols, the higher education and research funding systems are not generally based on criteria and processes announced in advance and open to any institution. Instead eligibility for various institutional categories—Tables A to C and Open Universities Australia (see table 1)—is based on specific mention in legislation or delegated legislation. Though the Tables are occasionally altered after lobbying of the federal government, generally they reflect historical factors. Most of the 37 Table A universities or their predecessor institutions have been listed in successive federal higher education funding acts going back decades. Table B contains three private higher education institutions that have been granted access to federal research funding. Table C, the most recent of the categories, is for foreign institutions. Open Universities Australia is an online higher education institution owned by seven Table A universities. It is the successor to a federal government sponsored organisation established in the early 1990s to widen access to higher education. It has since become a for-profit company, making it unique among higher education institutions specifically mentioned in federal education legislation.

Of the five categories listed in table 1, only one—approved higher education provider—has a clear funding application process based on announced rules. It is the result of reforms that took effect in 2005. The broad requirements for this category are that the institution is registered as an approved higher education institution, has at least one course accredited (the first stage in figure 1), has its central management and control in Australia, has as its principal purpose providing education and/or conducting research, has tuition assurance in place in case courses cannot be delivered, and meets the quality and accountability requirements set out in the Higher Education Support Act 2003. The advantage of becoming an approved higher education provider is that eligible domestic students can access FEE-HELP assistance, enabling them to borrow money to pay their tuition fees on an income-contingent basis. As of November 2010, there were 79 approved higher education providers. Their enrolments stood at approximately 76,500 in 2009, or just under 7% of all students in institutions listed in table 1. Since FEE-HELP was introduced approved higher education provider enrolments have been growing quickly.

Table 1: Higher education institutions in federal legislation

<table>
<thead>
<tr>
<th>Category</th>
<th>Institutions</th>
<th>Legal basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table A</td>
<td>Public universities plus Batchelor Institute of Indigenous Education</td>
<td>Higher Education Support Act 2003</td>
</tr>
<tr>
<td>Table B</td>
<td>Bond University, University of Notre Dame, Melbourne College of Divinity</td>
<td>Higher Education Support Act 2003</td>
</tr>
<tr>
<td>Table C</td>
<td>Carnegie Mellon University, University College London</td>
<td>Higher Education Support Act 2003</td>
</tr>
<tr>
<td>Open Universities</td>
<td>Open Universities</td>
<td>Higher Education Support Act 2003</td>
</tr>
</tbody>
</table>
Table 2 shows that most teaching and research funding opportunities are limited to institutions in Tables A and B. FEE-HELP loans are the only form of federal financial assistance that applies across all institutional types. Commonwealth-supported places are currently overwhelmingly in Table A institutions, which from 2012 will be able to enrol as many undergraduate students as demand will permit. However just under 5,000 Commonwealth-supported places have been allocated in 2010 outside Table A institutions. Nearly three-quarters of these are at the University of Notre Dame, with the rest supporting teaching or nursing students at five approved higher education providers. These places are allocated to areas described as ‘national priority’. At four of the five providers ‘national priority’ means teaching and nursing. However many courses at Notre Dame are deemed eligible for ‘national priority’ places. While there is no reason to exclude Notre Dame students from these benefits, this is an example of privileges being handed out according to lobbying skill rather than principles applying to all institutions.

Table 2: Federal funding eligibility, higher education institutions

<table>
<thead>
<tr>
<th>Funding type</th>
<th>Table A</th>
<th>Table B</th>
<th>Table C</th>
<th>Open Universities Australia</th>
<th>Approved higher education provider</th>
</tr>
</thead>
<tbody>
<tr>
<td>FEE-HELP loans</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Commonwealth-supported places</td>
<td>Yes</td>
<td>Yes if in 'national priority' category. Based on ministerial discretion.</td>
<td>Yes if in 'national priority' category. Based on ministerial discretion.</td>
<td>No</td>
<td>Yes if in 'national priority' category. Based on ministerial discretion.</td>
</tr>
<tr>
<td>Equity funding</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Research block grants</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Research training places</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>ARC competitive research grants</td>
<td>Yes, through Appendix C</td>
<td>Yes, through Appendix C</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>
Implications for students

These categories matter a lot for undergraduate students.¹ If they attend a Table A institution, or have a national priority place, their place receives a subsidy from the federal government. In 2010, as seen in figure 2, these range from $1,765 a year in law and business courses to $19,235 a year in agriculture, dentistry, veterinary science and medical courses. Students in these places also have the amount they pay for their courses capped by the federal government. Students whose institutional choices preclude them from Commonwealth subsidies on average pay considerably more for their education than students at Table A institutions or in national priority places.

Figure 2: Government subsidies for Commonwealth-supported students, 2010

For undergraduates, student loan schemes also differ significantly depending on whether or not they are in a Commonwealth-supported place. Students in Commonwealth-supported places receive an interest subsidy on their HECS-HELP loan, as it is indexed only at the rate of inflation. Undergraduates taking out a FEE-HELP for a full-fee place incur a loan fee of 20% of the value of their debt, plus inflation indexation. The loan fee will increase to 25% in 2011.²

How much a student can borrow under the HELP scheme also depends on whether he or she has, or has had, a Commonwealth-supported place. Students who only ever enrol in full-fee places have a lifetime FEE-HELP borrowing limit of just over $85,000, or just over $106,000 if they are enrolled in a medical, veterinary science or dentistry degree. Under the current system, Commonwealth-supported students can borrow under the HECS-HELP scheme for at least seven full-time equivalent years (equivalent to up to $62,000, depending on course), and still have their entire FEE-HELP borrowing limit in reserve for postgraduate or other further study.

¹ Commonwealth subsidies are increasingly being made available for postgraduate coursework, but most postgraduate students are still full-fee paying.
² It has been argued that the increased loan fee aligns FEE-HELP with HECS-HELP. This is because students in Commonwealth-supported places can receive a 20% discount for paying their student contribution amount up-front. This is another way of saying that they pay a 25% loan fee if they do not pay upfront. However the difference is that for Commonwealth-supported students the value of the up-front discount is paid to their university. It therefore functions as a further benefit to students. The FEE-HELP loan fee goes to the government and is a cost to students. All HELP debtors are eligible for a 10% bonus on amounts they repay in excess of their compulsory payments through the tax system.
Commonwealth-supported students are also exclusively eligible for OS-HELP loans, which help finance overseas study. The lifetime borrowing limit of students who access Commonwealth-supported places is more than $70,000 higher than those who only access full-fee places.

### Table 3: Summary of loan scheme effects on students

<table>
<thead>
<tr>
<th></th>
<th>HECS-HELP</th>
<th>HECS-HELP debt charge</th>
<th>FEE-HELP</th>
<th>FEE-HELP debt charges</th>
<th>OS-HELP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Table A students</strong></td>
<td>Current maximum loan per student $62,000.</td>
<td>20% discount for students paying up-front. Paid by government to Table A institutions.</td>
<td>Current lifetime maximum loan $85,000 or $106,000 for medicine, dentistry, veterinary science.</td>
<td>20% (25% from 2011) loan fee applied to borrowed money for undergraduates. Paid to government.</td>
<td>$11,000 lifetime maximum loan for undergraduate Commonwealth-supported students to study overseas. No debt charge.</td>
</tr>
<tr>
<td><strong>Non-Table A students</strong></td>
<td>Ineligible except for 'national priority' places.</td>
<td>As above for 'national priority' places.</td>
<td>Current maximum loan $85,000 or $106,000 for medicine, dentistry, veterinary science.</td>
<td>20% (25% from 2011) loan fee applied to borrowed money for undergraduates, except at Open Universities Australia. Paid to government.</td>
<td>Ineligible except for 'national priority' places.</td>
</tr>
</tbody>
</table>

Note: Since 2009 Table A institutions have not been able to offer domestic full-fee undergraduate courses to commencing students. However, they still have students enrolled from prior to 2009 and can offer full-fee undergraduate subjects as part of summer or winter schools.

### Implications for higher education providers

A higher education funding system based on privileging Table A institutions necessarily has significant consequences for other higher education institutions.

The most significant consequence is that higher education providers with Commonwealth-supported places enjoy price advantages over those that do not. As a result providers with and without public subsidy rarely compete directly with each other. Instead non-Table A institutions typically operate in niche markets that Table A institutions cannot or do not want to enter. Though some Table A institutions offer theology courses, others are legally prohibited from doing so or prefer to remain entirely secular. By contrast, more than 25 non-Table A institutions have a religious affiliation. Few Table A providers want to enter the complementary or alternative health field, and the major providers in this field of study are non-Table A. Many non-
Table A institutions offer smaller classes and overall institutional size, which they believe creates a more personal environment and helps students at risk of falling behind.\(^3\) Table A institutions are invariably large and—due to the caps on student contributions that are the price of accepting Commonwealth money—do not offer small classes to undergraduate students.

However many non-Table A and Table A providers offer courses with overlapping content and leading to similar employment opportunities. For example, Bachelor of Business courses are available at a number of non-Table A institutions. Some non-Table A institutions work closely with Table A providers, providing higher education diploma courses that articulate directly into bachelor-degree courses at Table A universities. These non-Table A institutions are vulnerable to regulatory changes that allow Table A universities to expand their operations. From 2012 all restrictions on Australian Commonwealth-supported undergraduate student numbers will be lifted from Table A universities. A transitional increasing of enrolment caps on Table A universities has already seen them enter an expansionary phase. If caps on student contribution amounts are also lifted, Table A universities will be able to offer near-identical courses at a discounted fee due to Commonwealth subsidies. This is a significant business risk for non-Table A higher education institutions.

A combination of the National Protocols requirement that universities conduct research and limitations on research funding (as seen in figure 1 and table 2) means that it is now almost impossible for non-Table A or B institutions to acquire university status. They cannot get public funding for their research, but without public funding are unlikely to be able to sustain significant research output. This exclusion from research funding disadvantages non-Table A or B institutions in the academic employment market. The absence of officially teaching-only universities in Australia has conditioned aspiring academics to expecting a research as well as a teaching role. The latest survey of the academic profession found that just 7% indicated a clear preference for teaching.\(^4\) Institutions which cannot offer research opportunities are therefore less able to offer attractive employment packages. The institutional titling differences that flow from the research requirement may also deter some prospective students, who would rather attend a ‘university’ than an ‘institute’ or ‘college’.

**Systemic consequences**

Though the current system’s costs are most obvious for the non-Table A institutions and their students, it also generates less obvious costs for other students and Australian higher education more generally.

**Student choice**

Historically, policymakers have been largely indifferent to student preferences for particular courses or institutions. The total number of university places was held below demand, and universities were allocated places based mainly on past enrolment. Universities therefore had weak financial incentives and only modest

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\(^3\) This was emphasised in consultations carried out for: Daniel Edwards, Hamish Coates and Ali Radloff, *Delivering Quality Higher Education: Understanding the standards processes and practices used by private providers*, report for the Australian Council for Private Education and Training, March 2010, p.11.

\(^4\) Hamish Coates et al., *The Attractiveness of the Australian Academic Profession: A comparative analysis*, (Melbourne: ACER/LH Martin Institute, 2009), p.21
capacity to respond to student demand. In some years in the 2000s the proportion of students receiving an offer for their first-preference course fell below 50%. Even this low number overstates the true figure, as some students do not apply for courses that interest them but they see as ‘unrealistic,’ for reasons of entry requirements or costs.

The introduction of FEE-HELP, which extended income-contingent loans to full-fee undergraduates, revealed more demand for non-Table A institutions than was previously apparent. While we are now observing strong year-to-year enrolment growth among non-Table A institutions, in most cases we do not have before and after FEE-HELP enrolment figures. Bond University is one institution for which these figures are publicly available. Compared to 2004, the year prior to FEE-HELP’s introduction, Bond’s domestic commencing enrolments nearly doubled by 2006 and had nearly tripled by 2009 (delays in higher education provider approvals and low initial student awareness of FEE-HELP make 2006 the best first comparison date). The extension of Commonwealth-supported places to some non-Table A institutions also appears to have increased student interest. As well as FEE-HELP, Avondale College and the University of Notre Dame have received substantially increased numbers of Commonwealth-supported places in the 2004-2009 period. Their commencing enrolments increased by about half by 2006, and by about 125% by 2009. These figures strongly suggest that demand for the type of education offered by these institutions existed before FEE-HELP, but that costs and up-front fees were barriers.

Table 4: Commencing domestic undergraduate students before and after increased Commonwealth support

<table>
<thead>
<tr>
<th>Institution</th>
<th>2004</th>
<th>2006</th>
<th>2009</th>
<th>Increase 2004-06</th>
<th>Increase 2004-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avondale College</td>
<td>194</td>
<td>281</td>
<td>434</td>
<td>45%</td>
<td>124%</td>
</tr>
<tr>
<td>Bond University</td>
<td>319</td>
<td>636</td>
<td>940</td>
<td>99%</td>
<td>195%</td>
</tr>
<tr>
<td>Uni of Notre Dame</td>
<td>1,048</td>
<td>1,625</td>
<td>2,362</td>
<td>55%</td>
<td>125%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,561</strong></td>
<td><strong>2,542</strong></td>
<td><strong>3,736</strong></td>
<td><strong>62%</strong></td>
<td><strong>139%</strong></td>
</tr>
</tbody>
</table>

Source: DEEWR: Students: Selected Higher Education Statistics

Though non-Table A provider enrolments have grown rapidly since FEE-HELP was introduced, they are typically more expensive than Table A institutions. The absence of tuition subsidies at most non-Table A institutions is a significant reason why costs to students vary between the higher education institution categories. A likely consequence of these cost differentials is that some students choose cheaper Table A institution courses over higher-preference courses at non-Table A institutions.

This mismatch between students and courses or institutions is a cost in the higher education system—across all categories of higher education institution. For some students, there may be life-changing career consequences. For students who ‘correct’ their initial enrolment by changing courses it remains expensive for them and for taxpayers. Students incur higher direct study expenses and forgone wages in being out of the full-time workforce longer than necessary. Taxpayers fund more tuition subsidies (where available), income support and student loans than would otherwise be necessary. Of the around one-fifth of first-year students who say they have considered deferring, 40% want to change courses. In 2009, 12% of bachelor-

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degree admissions to university were on the basis of previous higher education study. Though no system would or should accept all students into their first-preference course, and some students will always change their minds about courses, it is in the interests of students and taxpayers to minimise mismatch as far as possible.

The demand-driven system due to start in 2012 for Table A institutions should go some way towards creating a better match between students and courses. However, the same policy goal of reducing mismatch rates should apply to all approved higher education providers. A genuinely demand-driven system does not distinguish on arbitrary grounds between types of student demand.

The government has proposed a My University website, a companion to the popular My School website. The My University site would include information about student satisfaction, graduate outcomes, student to staff ratios, and other institutional performance measures and characteristics. The site would help ensure that student choice is well-informed. However as announced in March 2010 My University was to include information about universities only. This would leave students under-informed about their options, disadvantaging them and non-university higher education providers. My University should include all higher education providers in receipt of Commonwealth funds, and any other institution able to comply with its data requirements.

**Institutional diversity**

There is little diversity of institutional type among Table A institutions. All except one are teaching and research institutions covering many disciplines and degrees from undergraduate to PhD. The American Carnegie Classification of Institutions of Higher Education has six broad categories of institution and more than 30 sub-categories. Thirty-five of the thirty-seven Table A universities, enrolling nearly 99% of Table A students, fall into just one of the broad Carnegie categories of doctorate-granting universities (the other two award too few doctorates, and would be classified in the Carnegie system with master’s colleges and universities).

Australian higher education largely relies on non-Table A institutions to provide diversity within the system. Approximating the Carnegie categories to the Australian system, non-Table A institutions can be classified into four categories—master’s colleges and universities, baccalaureate colleges, associates colleges, and special focus institutions. The other Carnegie classification is tribal colleges; the most analogous Australian institution is the Table A Batchelor Institute of Indigenous Education. Because Table A institutions have such strong historical advantages, 92% of Australian students in 2009 were enrolled in a category of institution that enrolls just over a quarter of American students.

Enrolment patterns in the United States, along with growth in non-Table A institutions in Australia, strongly suggest that there is a potential market for a much wider range of institutions than favoured by Australian policymakers in recent decades. The

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7 DEEWR, *Undergraduate Applications, Offers and Acceptances 2009*, (Canberra: DEEWR, 2009), table A12.1. This is likely to understate the true figure as it omits direct applications to universities.

benefits of more institutional diversity are impossible to quantify, but some might include permitting more small institutions, which tend to have higher levels of student satisfaction; fostering specialisation in teaching or in particular disciplines, with gains in skill and innovation; minimising conflicting institutional objectives (especially between teaching and research); generating more domestic competition for students, with possible service level gains for students; and spreading risk in international markets by offering a wider range of educational opportunities and experiences.

While we see some curriculum innovation in Table A institutions, such as the ‘Melbourne Model’ or Macquarie University’s planned compulsory community participation, more fundamental changes seem unlikely. The most promising way of creating institutional diversity in the system, and diversity accessible to a large number of prospective students, is to open up the funding system. This would enable the existing non-Table A institutions to expand, and let new institutions establish themselves in the Australian market. The current discrimination against foreign higher education institutions—which means that they need either to have their ‘central management and control’ in Australia or lobby the government for inclusion on Table C—should be abolished. If there are reasons why Australian students should not be supported in the courses these institutions offer, this should relate to the content of those courses and not the nationality of their providers. The National Protocols place few obstacles to foreign-owned providers with well-established track records establishing themselves in Australia, so it is not clear why the funding system should make a sharp distinction between foreign and domestic operators.
Section Two: Public and Private: A Relevant Distinction?

It is common to call Table A institutions ‘public’, and all other institutions ‘private’—private universities in the case of Bond, Notre Dame, and Carnegie Mellon, and private providers in other cases. Though ‘public’ and ‘private’ are used as terms of convenience, the distinctions between them are fuzzy. While ‘public’ providers typically have access to the widest range of government funding opportunities, there is no single feature of institutional ownership, control, funding or activities that clearly differentiates the two groups of institutions.

On the basic question of ownership, not all ‘public’ providers are government owned, and not all ‘private’ providers are privately owned. The DEEWR list of ‘private providers’ includes TAFEs owned by state governments and subsidiaries of public universities. The Table A Australian Catholic University is a private company. Indeed, apart from the TAFEs offering degrees no higher education institution is ‘public’ in the way that term is used in other contexts. Unlike schools and TAFEs, the other elements of the ‘public’ education system, public universities have always been self-governing, with only minorities on their governing bodies appointed by government. This feature makes them ‘private institutions’ on the OECD definition.

In certain respects public universities are more ‘private’ than the private providers. Because they are self-accrediting, public universities do not need to have their courses approved by the government, as private providers must under state and territory law. Public universities are the main players in the commercial education market, enrolling most full-fee international students and full-fee postgraduate coursework students. In 2008, the last year for which data has been reported by DEEWR, public universities reported revenue exceeding $4 billion from fee-paying students. While the profits from these students are re-invested in the public universities, the basic character of their international fee-paying student business is to generate a financial surplus rather than to provide a public service. While public universities receive all but a small proportion of total public funding for higher education, in 2008 five public universities reported more revenue from fees and charges than they did from direct government grants.

One common rationale for public provision of services is to make them available to low socioeconomic status groups. The National Protocols state that higher education institutions receiving significant public funds are expected to ‘provide for equitable access to, and opportunities to successfully participate in, higher education’. It is true that all Table A institutions have equity programs and receive special equity funding (table 2). But students from low socioeconomic backgrounds do attend private higher education institutions. In 2008, 12.5% of students at private institutions were from low SES backgrounds, compared to 15.1% of students at public institutions. Given that public universities receive billions of dollars in government subsidies, and charge domestic undergraduates lower fees, these proportions are remarkably similar.

The National Protocols also state that institutions receiving significant public funds are expected to ‘engage with the community to enhance material, human, social

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12 DEEWR, Students: Selection Higher Education Statistics, (Canberra: DEEWR, 2009), calculation from appendix 2. 2009 data was unavailable at the time of writing.
and/or environmental wellbeing of the community’. University legislation typically includes functions such as these among the university’s objects, and Table A shows universities and their staff do involve themselves in these activities. However, they are not specifically funded for it and there is no detailed reporting to government of their spending, actions, and achievements. We have no way of knowing whether, taking into account their greater resources, they invest unusually large amounts of time or money in community engagement compared to non-profit ‘private’ higher education institutions.

Table 5: Public/private criteria

<table>
<thead>
<tr>
<th>Public/private criteria</th>
<th>Exception(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public universities created by government</td>
<td>Australian Catholic University is a private company.</td>
</tr>
<tr>
<td>Private institutions not created by government</td>
<td>All Table B private institutions have their own state legislation. Several state-government created and owned TAFE institutes now offer full-fee higher education courses.</td>
</tr>
<tr>
<td>Private institutions lack government-appointed members of their governing body</td>
<td>TAFEs offering higher education have more government appointments to their boards or councils than university councils or senates.</td>
</tr>
<tr>
<td>Public universities get most of their revenue from government</td>
<td>Macquarie University, University of Ballarat, Central Queensland University.</td>
</tr>
<tr>
<td>Private universities get most of their revenue from private sources</td>
<td>University of Notre Dame</td>
</tr>
<tr>
<td>Only public universities offer Commonwealth-supported places</td>
<td>University of Notre Dame, Avondale College, Christian Heritage College, Holmesglen TAFE, Tabor Adelaide, Tabor College Victoria</td>
</tr>
<tr>
<td>Public universities serve equity students</td>
<td>In 2008, 24 private providers and 1 TAFE offering higher education had a higher % of low SES students than the public university average.</td>
</tr>
</tbody>
</table>

No clear principles justify the regulatory and funding distinctions that exist in Australia’s higher education system. An alternative system should be based on clear principles, with its distinctions reflecting policy-relevant aspects of institutions or their students rather than institutional history.
Section Three: Funding

Higher education funding should further particular public policy purposes relating to teaching, research or community service. How funding is allocated or rationed between institutions should reflect principles relating to these goals, qualified by other general public policy principles such as competitive neutrality and fairness.

Funding rationales

What public funding of higher education—especially the $5 billion allocated through the Commonwealth Grant Scheme—is intended to achieve is not always clear. It is driven by student numbers and discipline groups, but the actual dollar amounts per student have never been properly justified or evaluated. As with the anomaly-prone way in which that funding is distributed between students and institutions, this reflects a system that has evolved over time rather than been designed from first principles. It is the result of policy responses to problems and priorities that have emerged over a long period of time. From this perspective, the funding discrimination against certain institutions and their students is a symptom of broader policy issues. The review of base funding announced in October 2010 is an opportunity to examine how public funding can achieve higher education public purposes more fairly and efficiently than is currently the case.

Though we cannot justify the precise amounts of Commonwealth subsidy for any discipline, we can infer broad public policy purposes from the system's overall design. There appear to be two main inter-related purposes, improving affordability andremedying market failure. Affordability for students is reflected in tuition subsidies as well as price-capped student contribution amounts, the HELP loan scheme and student income support. A ‘market failure’ rationale reflects the idea that if left entirely to market forces higher education institutions may under-produce particular types of graduates, or do less research or community service, activities often currently co-produced with teaching.

The affordability rationale is primarily concerned with the student’s financial situation, while the ‘market failure’ rationale is primarily concerned with the wider contribution graduates and higher education institutions make to society. Based on principles of treating all students consistently, or assisting needy or meritorious students particularly, affordability considerations may justify public spending even when commensurate broader social benefits cannot be demonstrated. It would be ‘unfair’ for a student to miss out on a benefit that an otherwise similar person received. Conversely, a market failure argument may justify spending even when the beneficiaries of that spending are not in financial need. For example, the goals of a policy providing financial incentives to study for entry to an occupation with skills shortages will be achieved whether students from rich or poor families respond. Though affordability and market failure issues can be separated conceptually, in practice the same payment may deal with both.

Affordability

As a matter of logic, affordability can only be measured from the student’s perspective. If their finances are limited, that will be true regardless of which higher
education provider they choose. This obvious point is reflected in two aspects of the overall higher education funding system. The student income support system, through Youth Allowance, Austudy, and Abstudy, treats students consistently based on announced needs-based principles. Eligibility is not affected by which educational institution the student attends. The HELP loan scheme as noted above does place greater burdens on students who do not have Commonwealth-supported places. However, income-contingent loans are available to students at all approved higher education providers. Enrolment growth in those institutions suggests that HELP has significantly reduced affordability barriers.

Tuition subsidies are now the exception to consistent application of affordability policies. There is no income test applied to tuition subsidy eligibility, only an institutional test. From an affordability perspective, there is no evidence that Table A institutions are particularly successful at serving the interests of low socioeconomic status students. As noted above, the enrolment proportion of low socioeconomic status students in ‘private’ higher education providers is only slightly lower than in Table A institutions. Research consistently demonstrates that students who attended private schools are ‘over-represented’ relative to their population share in Table A institutions. Affordability principles would suggest that tuition subsidies, like student income support and to a large extent HELP, be institution independent.

When the demand-driven higher education funding system is introduced from 2012, subject to meeting admission criteria there will be a universal tuition subsidy entitlement for Australian or New Zealand citizens and Australian permanent visa holders (currently anyone in these categories is potentially eligible, but due to federal government limits on the number of places not all eligible persons can exercise their entitlement). The government rejected without explanation the Bradley report recommendation that this entitlement be available to students at all higher education institutions. It is ironic that the Rudd-Gillard government has forbidden full-fee domestic undergraduate places at Table A institutions but mandated them at non-Table A institutions. This rejection puts students at ‘private’ higher education providers at a greater disadvantage than people who choose non-government providers in other sectors. By forfeiting their entitlement to a Table A place, students forgo the tuition subsidy they could have received by choosing a Table A provider. In some cases, this will lead to tens of thousands of dollars in additional expenses. By comparison, subsidies are paid for students attending non-government schools, many students in private vocational education, and also for people using private practice doctors and taking out private health insurance.

**Market failure**

The theory behind market failure in education is that because prospective students can only be assumed to assess private risks and rewards before investing in higher education, their total higher education spending may be less than is optimal from a whole-of-society perspective. Subsidies paid by government can induce more higher education participation from people who would not otherwise attend university,

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14 The government said that it would consult with private providers about their future role in the demand-driven system: see Australian Government, *Transforming Australia’s Higher Education System*, (Canberra: Australian Government, 2009), p. 64.
influence the courses students take, increase the total investment per student, and encourage higher education providers to perform other activities alongside teaching.

The way Australia’s tuition-subsidy system distinguishes between fields of study (see figure 2) suggests that it is trying to influence the courses students take. The subsidies paid narrow the differences in rates of return to higher education investment. This makes courses leading to modest incomes for graduates, such as teaching or nursing, more financially attractive than they would otherwise be compared to courses leading to high incomes for graduates, such as law or engineering. Though the Australian funding system does not match it exactly, table 6 sets out roughly how such a system works (though what fees attract students is an empirical question—with course costs only one factor in student choice). A tuition subsidy system aimed at compensating students for the general benefits of higher education—such as greater participation in civic affairs, greater capacity for critical assessment of public and private decisions, or higher levels of tolerance—would have less varied rates, as these are less discipline-dependent.

**Table 6: Market failure subsidy framework**

<table>
<thead>
<tr>
<th></th>
<th>High income</th>
<th>Moderate income</th>
<th>Low income</th>
</tr>
</thead>
<tbody>
<tr>
<td>High cost</td>
<td>Moderate subsidy</td>
<td>High subsidy</td>
<td>High subsidy</td>
</tr>
<tr>
<td>Moderate cost</td>
<td>Low subsidy</td>
<td>Moderate subsidy</td>
<td>High subsidy</td>
</tr>
<tr>
<td>Low cost</td>
<td>Low subsidy</td>
<td>Low subsidy</td>
<td>Moderate subsidy</td>
</tr>
</tbody>
</table>

*Definitions:*
- **Income:** Typical earnings of graduate with qualification
- **Cost:** Total expenditure to complete qualification
- **Subsidy:** Payment by government to reduce cost

The patterns of enrolment between fields of study by fee-paying status (figure 3) are consistent with a view that tuition subsidies may encourage students to take courses they would not otherwise (though these enrolment patterns are also influenced by the particular interests of full-fee international students). For example, health and education courses attract a much larger share of Commonwealth-supported than full-fee paying students. However there are full-fee paying students in every field of study; they are a majority in information technology and business courses. While tuition subsidies can affect where students study, who studies and what they study, the full-fee market shows that there would be a higher education industry without government contributing to tuition costs.
A market-failure argument provides no clear rationale for favouring Table A institutions. That most non-Table A institutions which receive Commonwealth-supported places do so for their teaching and nursing places is an implicit admission that there was no strong case for institutional bias in their allocation—what was taught mattered, where it was taught did not. There were genuine ‘national priorities’ in increasing the numbers of nurses and teachers, and the public interest was served by increasing the capacity of non-Table A institutions to teach these courses.

The move to a demand-driven system from 2012 further undermines any argument that Table A institutions should be preferred for solving market failure problems. The new system will abolish the current mechanism for ensuring that Table A providers deliver places required by the government. This mechanism is the funding agreement each Table A and ‘national priority’ provider signs with the government, specifying what Commonwealth-supported places will be supplied, sometimes down to specific courses and campuses. Under the demand-driven system, the government will need to use financial incentives to steer the system towards its course priorities. There is no reason to believe that non-Table A institutions would be less interested in responding to these incentives than Table A universities. Recent experience in the vocational sector with the Productivity Places program suggests the private sector may sometimes be more responsive to government financial incentives than public sector organisations. At least in the for-profit element of the private sector, at the right price their institutional mission aligns directly with the government’s policy lever.

Higher education institutions do not just produce graduates, and a purely market-based higher education system—one reliant on voluntarily provided income from fees and donations—is likely to produce less research and community engagement than currently found in Table A universities. This is because neither research nor community engagement typically produce economic returns to universities that cover their production costs. In 2008 the Table A institutions collectively reported only $85 million in royalty, trademark and licensing income against spending on research and...
experiment development of $6.7 billion. Nearly half of that spending was classified as basic research, which is primarily aimed at advancing knowledge rather than solving practical problems or producing new products. Though higher education providers can and do fund research from non-government sources, it is unlikely to continue on anywhere near its current scale without government assistance. Most research funding should continue to come through competitive and formula-based mechanisms. However the new funding system section below proposes incorporating some research income in student funding for institutions with university, and therefore research, status within the accreditation system.

Though community engagement is typically much less costly than research, its scale would also decline in a purely market-based system. For-profit higher education providers may support community service activities for corporate social responsibility or public relations purposes, but they cannot permit these activities to undermine their commercial goals. Not-for-profit higher education providers may have missions consistent with community engagement and so devote resources to it, but the funds to do so are limited by what philanthropy and surpluses from their other activities can provide. These limitations on privately-funded higher education suggest a role for government, to the extent that the public values the community service of higher education providers. A mechanism for funding community service is set out below.

A new funding system

The government’s review of base funding for higher education teaching and learning is due to report by October 2011. There are complex issues surrounding the precise levels of funding, which this submission will not cover. It concentrates on the broader policy framework.

In future, a higher education provider’s eligibility for public subsidy should reflect its activities rather than its history. All higher education providers and their students would be eligible for teaching funding. The current mix of affordability and market failure considerations are the right basis for the teaching subsidy system. This means that government funding should continue to differentiate between disciplines, as opposed to systems based on a flat amount per student or a fixed percentage of nominal cost per place. A permanent body is needed, perhaps to be incorporated within the planned Tertiary Education Quality and Standards Agency, to monitor relevant indicators such as the costs of higher education providers, student demand, and graduate earnings. This body would then advise the government on appropriate tuition subsidy levels.

Though all higher education providers would be eligible for teaching funding, research and community engagement funding would be contingent on providers receiving approval through an open and transparent process. In the case of research, there is an existing system set out in the National Protocols. Community engagement is regarded in the Protocols as a characteristic of public institutions, but there is no reason for excluding other higher education providers. To gain community engagement funding, an applicant institution would need to demonstrate that it had existing community engagement activity. To maintain eligibility, all institutions receiving community engagement funding would need to demonstrate how they used these funds.

Under the current system, it appears that teaching funding is used to support research and community engagement activity. Until 2005, teaching and research were jointly funded through operating grants for Table A institutions. Operating grants were described in the then legislation as being for teaching and research. The Commonwealth Grant Scheme (CGS) that replaced the operating grant is driven by student numbers, but there are no controls on how universities spend the money. The federal government has been inconsistent in whether or not it claims some CGS money as part of its total research spending.\(^\text{16}\) Irrespective of how the federal government categorises CGS spending, the Australian Bureau of Statistics higher education research expenditure data records university research spending that significantly exceeds combined public and private research income. As teaching-driven revenue is the only major other income source, it must be filling in the gap between research income and expenditure.

Separately identified per student research funding would fit with the emerging logic of the higher education system. According to the Protocols, research is the defining feature of a ‘university’. At Table A universities, 96% of their full-time equivalent staff with teaching responsibilities are identified as having teaching and research functions.\(^\text{17}\) However, many lack specific research grants and there seems little chance of low grant application success rates improving significantly. At less research-intensive universities, the lack of grant income feeds back through into the formula-driven research block grant funding, which is based on external research income levels and other performance measures. Recent increases in block grants are unlikely to keep pace with rapid enrolment increases, meaning that research funding will be spread ever-more thinly over staff employed to teach the additional students. Unless there is a link between student numbers and research funding, ‘research’ universities will have to rely on an increasingly casualised teaching workforce for their permanent staff to be funded for ‘teaching and research’.

Identifying a research component in teaching funding would enable it to be removed from funding for non-research institutions. The non-Table A institutions currently enrolling Commonwealth supported students in ‘national priority’ places receive the same funding rate as Table A institutions, yet have no or much lower levels of research activity. In the long term, a separate teaching-only student funding rate could save the government money. Its ambitious plans to increase education levels in the Australian community will be more costly than necessary if these students are taught at institutions funded for teaching and research. These long-term savings could offset some or all of the expense of bringing non-Table A institutions into the demand-driven funding system.

Under the current system, community engagement is expected of public universities but not specifically funded. A former Education Minister, Julie Bishop, stated in a speech that she believed it was funded via the Commonwealth Grant Scheme and research grants.\(^\text{18}\) As much community engagement will be a spin-off from teaching or research—academics using their expertise for wider community benefit—this analysis has merit. However, as the system expands institutions which make no claim to be involved in community activities should not receive this funding. Those which are performing broader services for the community would need to identify and

\(^{16}\) See the Science and Innovation Budget Tables released with each Commonwealth Budget. Nothing was claimed in 2008-09 or 2011-12, but $450 million to $650 million in other years as ‘estimates of other research and research training support sourced from the Australian Government’ in the DEST or DEEWR department.

\(^{17}\) DEEWR, \textit{Staff 2009 Selected Higher Education Statistics}, table 1.3.

report these. With specific and accountable community engagement funding, taxpayers would save money by not paying it to some institutions and ensure that those institutions claiming the money were delivering the expected services.

Table 7: Proposed funding eligibility, student demand-driven system

<table>
<thead>
<tr>
<th></th>
<th>Teaching accreditation only</th>
<th>University under Protocols</th>
<th>Approved for community engagement funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teaching funding</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Research funding</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Community engagement funding</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**Student contributions**

Under the current funding system, maximum student contributions are set by the *Higher Education Support Act 2003*. This is a major problem for Table A institutions in their domestic undergraduate course provision. The maximum rate is a political judgment, made without reference to the current cost of educating students or the services students may wish to receive. It would similarly be a major problem for some institutions currently excluded from the funding system. Many of these higher education institutions have fees that are higher than the maximum per-student income for a Commonwealth-supported place.

A new price-setting mechanism is an essential element of a reformed funding system. The most obvious replacement is to allow all student fees to be set in a market, regulated by competition rather than by government. More than 45% of the students recorded in DEEWR’s 2009 student statistics already pay market-set fees. Government contributions would reduce those fees for eligible courses and students. The system would be similar to what occurs already for people attending private schools or using non-bulk-billing doctors. Government helps make these services more affordable, but does not by capping fees second-guess individual spending decisions or compromise the services offered by providers. An alternative or intermediate option is to have the body that recommends subsidy levels also propose upper limits on student contributions, but limits sufficiently high to permit institutional diversity.

If a price-capped system is preserved, higher education providers should be allowed to opt in or out of the Commonwealth-supported place system for individual courses. Some courses may be economic at the Commonwealth rate while others are not. An all-course in or out system would either endanger courses that cannot be sustained on the price-capped rate, or deny students more affordable fees for courses that are viable within the Commonwealth rate.

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The student loan scheme

The current HELP loan scheme, as noted above and summarised in table 3, treats students very differently depending on whether or not they attend a Table A institution. The disparities may be larger in the future, with the 2011 increase in the FEE-HELP loan fee to 25%, and the proposed abolition of current limits on the number of years students can spend receiving HECS-HELP. Under a reformed funding system, the loan scheme should treat students in a consistent manner: the same eligibility, the same maximum loan, and the same debt charges regardless of institution. This does not preclude non-arbitrary distinctions between students, such as higher maximum lending for students in high-cost courses. With consistent treatment, there would be no need for the proliferating higher education HELP schemes: HECS-HELP, FEE-HELP, OS-HELP, or SA-HELP, the student amenities loan scheme currently before federal parliament. One scheme would reduce student confusion as well as eliminate unjustified distinctions between them.

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20 Under the current system most students are restricted to 7 years in a Commonwealth-supported place, which creates a limit on how much they can borrow after the restriction was introduced in 2005. The Labor Party plans to remove this limit.