

# 2017-2018 Pre-Budget Submission

## HIGHER EDUCATION FUNDING

### January 2017

#### Executive Summary

Significant changes are likely to affect the Australian workforce over coming decades due to technological change. Some 40% of the workforce may be replaced by technology in the next 10 to 15 years. The future prospects of the Australian economy and business and industry depend, more than ever, on having a highly skilled workforce that is able to respond flexibly to an increasingly global market, the growing pace of technological change and the need for ongoing innovation.

Australia must develop its world-class tertiary education sector with reforms that provide the integration, flexibility and choice necessary to respond to diverse student and industry needs. In May 2016 the Federal Government released the *Driving Innovation, Fairness and Excellence in Australian Higher Education* consultation paper that outlined the need for funding arrangements that support the best higher education choices for students, industry and the national interest.

In addition to 43 universities, Australia's higher education sector also comprises 129 non-university higher education providers (NUHEPs). These providers play an increasingly important role in preparing Australia's future workforce. However, students who choose to study with NUHEPs are currently heavily and unfairly penalised. Current VET and higher education funding arrangements also encourage university studies over sub-bachelor degree qualifications that may be more suitable and more affordable for both students and taxpayers.

ACPET, the national industry association for independent providers of tertiary education and training in Australia, supports higher education funding reform based upon the following principles:

- *Consistent and affordable Higher Education Loan Program (HELP) arrangements*
- *Equitable access to Commonwealth Supported Places (CSPs)*
- *An integrated tertiary education funding model*

#### Summary of priorities for 2017-2018 Budget:

- *A consistent HELP loan administration fee should apply for all students regardless of their higher education provider or course.*
- *The income threshold for repayment of HELP loans should be reduced to around \$42,000.*
- *Commonwealth Supported Places assistance should be extended to students enrolled in eligible courses at all registered higher education providers.*
- *This assistance should be extended to sub-bachelor degree courses.*
- *This assistance should be demand driven.*
- *Integrated tertiary education policy and funding.*

## **Higher Education and the Future Workforce**

In its report, *Australia's future workforce?*, the Committee for Economic Development of Australia (CEDA) highlighted the significant changes likely to affect the Australian workforce over coming decades as a result of technological change. This report indicates that some 40% of the workforce may be replaced by technology in the next 10 to 15 years. It highlights the shift to high skilled jobs and the need for workforce innovation<sup>1</sup>.

The future prospects for the Australian economy and business and industry depend, more than ever, on having a highly skilled workforce that is able to respond flexibly to an increasing global market, the growing pace of technological change and the need for ongoing innovation.

To meet these future skills needs, Australia must develop its world-class tertiary education sector with reforms that are focused on the needs of industry and students - that offer the flexibility and choices necessary to respond to these diverse needs. It is important that access is available to all Australians seeking a tertiary education regardless of their financial situation. Funding that is fair for students and sustainable for taxpayers is pivotal. Funding must support flexibility, diversity and choice across Australia's tertiary education sector.

Australia has a vibrant, quality higher education sector that comprises 129 providers, in addition to its 43 universities, that can play an important role in supporting these priorities. Current policies, however, add heavy student loan fees to those students who choose private providers and access the Higher Education Loan Program (HELP) to finance their studies. No such fees apply to public university students. They also restrict Commonwealth funding largely to students enrolled with public universities.

These policies simply discriminate against and financially disadvantage students who choose a private provider. They also limit the opportunities to ensure higher education sector funding is efficient and targeted to the real needs of students, industry and the economy.

In May 2016 the Federal Government released the *Driving Innovation, Fairness and Excellence in Australian Higher Education* consultation paper<sup>2</sup>. That paper outlined the need for funding arrangements that support the best choices for students, industry and the national interest.

That paper also articulated that there should be no perverse incentives for students to choose a VET course over a higher education course or vice-versa. However, this exact situation has occurred with VET participation and enrolments in decline. The National Centre for Vocational Education Research (NCVER) reported Government-funded VET enrolments declined 10.7% from 2014 to 2015.

VET and higher education should be funded so that students and industry can choose the most appropriate study and skills development pathway - not one determined by available funding. It is

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<sup>1</sup> CEDA, [Australia's workforce future?](#), June 2015.

<sup>2</sup> Department of Education and Training (a), [Driving Innovation, Fairness and Excellence in Australian Higher Education](#), May 2016, Australian Government.

also recognised that reforms must ensure sustainable and affordable funding for students and taxpayers.

### **Australia's non-university higher education institutions**

The higher education sector comprises 129 non-university higher education providers (NUHEPs) in addition to the 43 universities<sup>3</sup>. All are required to comply with the Higher Education Standards (Threshold Standards) 2015 and are regulated nationally by the Tertiary Education Quality and Standards Agency (TEQSA).

University enrolments have grown rapidly over the last quarter century and especially with demand driven growth in Commonwealth Supported Places. The May 2016 consultation paper highlighted domestic enrolment growth from 420,000 in 1989 to just over 1,000,000 in 2014<sup>4</sup>.

The restriction of government funding largely to domestic students enrolled in eligible bachelor degrees with public universities and the discriminatory student loan administration fees are reflected in their dominance of enrolments. The private universities and NUHEPs accounted for only 75,000 (7.1%) of the 1.046 million domestic higher education enrolments in 2015<sup>5</sup>.

Notwithstanding this lack of funding support, private university and NUHEP domestic enrolments grew by 5.3% over 2015 compared to 1.8% for public universities<sup>6</sup>.

The NUHEPs are small institutions relative to their university counterparts. Whereas all but four universities reported more than 5,000 equivalent full-time students no NUHEP had this many students in 2014. Ninety-nine (99) NUHEPs had less than 1,000 students with half of those (47) having less than 100 students<sup>7</sup>.

With their smaller size, together with smaller classes and high levels of support, NUHEPs provide real alternatives and choices for students seeking to access higher education. Many focus on limited fields of education with courses targeting the special needs of their students and industry. This includes fields such as theology, applied psychology, creative industries, health and public safety.

The latest national Quality Indicators for Learning and Teaching (QILT) data indicates that NUHEP's overall student experience satisfaction is on par with the universities (78% vs 80%)<sup>8</sup>.

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<sup>3</sup> TEQSA, [National Register for higher education providers](#), Accessed January 2017.

<sup>4</sup> Department of Education and Training (a), p6.

<sup>5</sup> Department of Education and Training (b), [Selected Higher Education Statistics - 2015, Student data](#).

<sup>6</sup> Ibid.

<sup>7</sup> TEQSA, [Statistics Report on TEQSA Registered Higher Education Providers](#), 2016, p6.

<sup>8</sup> QILT, [2015 Student Experience Survey National Report](#), February 2016, p18.

## **The ‘bottom line’ impact of current policies**

Current government policies largely deny any government tuition support for students enrolled with private higher education providers and then charge a 25% administration fee if they access FEE-HELP to meet the cost of their studies.

Public university students not only have their tuition fees subsidised by the Government (through Commonwealth Supported Places) and also do not pay any administration fee on their loans to meet their (reduced) tuition fees.

The following table highlights the real financial impact of this inequity for students who choose to study with a private higher education provider.

<b>Field</b>	<b>Course</b>	<b>HELP debt for public university student (\$) *</b>	<b>HELP debt for private provider student(\$) **</b>
Business and Management	Bachelor Degree - 3 years	31,788	47,568
Education	Bachelor Degree - 4 years	25,396	85,220
Religious Studies	Bachelor Degree - 3 years	19,047	45,593
Performing Arts	Bachelor Degree - 3 years	19,047	71,213

\*Assumes all units from the field and maximum contribution amounts. Source: [DET 2017 Allocation of units of study to funding clusters](#)

\*\*For comparability assumes same student tuition fees

In the 2014-15 Budget the Federal Government sought to address these shortcomings as part of a broader higher education reform package. Significant concerns with the proposed ‘deregulation’ of student fees meant the reform package was largely not supported by the Parliament.

## **Key Budget priorities**

### ***Consistent and affordable HELP arrangements***

Students enrolled with NUHEPs and private universities are mostly not eligible for any government tuition subsidies and must finance the full cost of their course. Where their provider is approved, they are eligible to access a HELP income-contingent loan (FEE-HELP) to help fund their student fees. However, these students incur a 25% loan administration fee. These administration fees alone can, for example, add \$14,000 to the cost of a performing arts degree.

In 2016 undergraduate FEE-HELP loan fees were in the order of \$135 million<sup>9</sup>. These administration fees are not paid by university students accessing HELP loans (HECS-HELP). This discriminatory loan fee is clearly not defensible.

The Grattan Institute has recently articulated a proposal for a universal 15% HELP loan administration fee for all students (including public university students) to support the program's long-term financial sustainability and address the inequity in current arrangements<sup>10</sup>.

Other reports by the Grattan Institute<sup>11</sup> and the Parliamentary Budget Office<sup>12</sup>, in particular, have highlighted the need for reform of the current HELP arrangements that reflect labour market and higher education policy settings of three decades ago. The structural changes to the workforce, together with moderating graduate career outcomes and incomes, means that lower HELP repayments are likely to add significantly to the Government's cost of servicing an increased loan portfolio over the next decade.

These structural changes also mean, for an increasing proportion of students, the price 'signals' that influence decisions to undertake higher education versus other study and career options have also been weakened.

Noting the income repayment threshold of the United Kingdom and New Zealand, minimum wage rates and the income thresholds for persons receiving social security benefits, the Grattan Institute proposal to reduce the income threshold to around \$42,000 per annum, along with a lower initial contribution rate, is supported by ACPET<sup>13</sup>.

- *A consistent HELP loan fee should apply for all students regardless of their higher education provider or course.*
  
- *The income threshold for repayment of HELP loans should be reduced to around \$42,000.*

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<sup>9</sup> Norton, A and Cherastidham, I, [Shared interest: a universal loan fee for HELP](#), December 2016, Grattan Institute, p42.

<sup>10</sup> Ibid, p38.

<sup>11</sup> Norton, A, [HELP for the future - fairer repayment of student debt](#), March 2016, Grattan Institute.

<sup>12</sup> Parliamentary Budget Office, [Higher Education Loan Programme - Impact on the Budget](#), Report no 02/2016, Commonwealth of Australia.

<sup>13</sup> Norton, A, p28

### ***Equitable access to Commonwealth Supported Places***

As highlighted in the Government's 2016 consultation paper, the current higher education funding system largely restricts demand driven funding to domestic students enrolled in eligible bachelor degrees at public universities<sup>14</sup>. Students of other providers essentially are required to meet the full costs of their study. This means, for example, a student completing a performing arts degree with a private provider can face tuition fees \$38,000 more than their university counterpart. As with the loan administration fee, this unfairly penalises students whose study and career aspirations are best addressed by enrolling with a private higher education provider. They either must forego their preferred course or incur the full costs of their study and significantly greater debt.

The disparity in funding arrangements also mean bachelor degrees are preferred over other sub-bachelor degree options (diplomas, advanced diplomas and associate degrees) that may be more suited to the academic needs of students and their career aspirations and the needs of the labour market and economy. These study options also generally cost less. Extension of CSPs to less costly sub-degree courses would have financial benefits for students and taxpayers.

One of the many benefits of an expanding higher education sector is the potential to provide access to students from more diverse backgrounds and economic circumstances. Unfortunately, the disparity in persons from disadvantaged backgrounds accessing higher education has not been adequately addressed by the strong growth in enrolments at universities<sup>15</sup>. Participation by all disadvantaged and under-represented groups at public universities lag significantly relative to their proportion in the general community.

Clearly other study options must be available to meet the needs of students with diverse and disadvantaged educational and economic circumstances. This means providing a range of affordable study options that respond to a range of student needs and maximise the chances of successful higher education participation. Some students require the additional learner support that may not be available in a large university. NUHEPs are well placed to offer this tailored support.

Equitable access to government funding, through Commonwealth Supported Places (CSPs), should be available to all higher education students regardless of their provider. This will help ensure students are able to make the best decisions in terms of meeting their career aspirations and needs of the labour market.

- *Commonwealth Supported Places assistance should be extended to students enrolled in eligible courses at all registered higher education providers.*
- *This assistance should be extended to sub-bachelor degree higher education courses.*
- *This assistance should be demand driven.*

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<sup>14</sup> Department of Education and Training (a), p11.

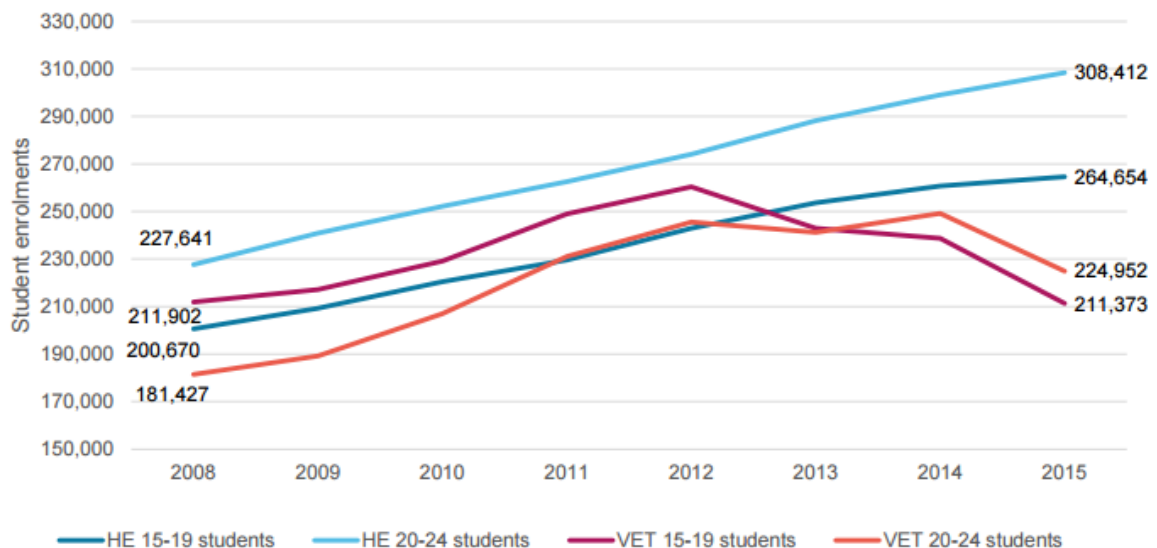
<sup>15</sup> Ibid, p13.

### ***An integrated tertiary education funding model***

The Federal Government's May 2016 consultation paper identified the need for all Australians with the ability and motivation to succeed in tertiary education to be supported - there should be no perverse incentives for students to choose a VET course over a higher education course or vice-versa. Unfortunately, the funding and governance arrangements for Australia's tertiary education system feature some very strong perverse incentives that are evident in the relative performance of the VET and higher education sectors.

Largely as a result of state and territory funding restrictions, current arrangements drive a preference for higher education courses over VET. This is not in the best interests of students, industry or taxpayers. Funding availability should not be the deciding factor in addressing workforce skill needs.

The Mitchell Institute has mapped (see graph below) the impact of current VET funding arrangements that has seen enrolments decline in recent years, while higher education sector enrolments have grown significantly<sup>16</sup>.



Clearly, this widely acknowledged failure in VET sector governance and funding must be addressed in order to have a tertiary education sector that best meets the needs of students, industry and the Australian economy. Indeed, the future arrangements for higher education should not be considered in isolation of the VET sector. As the Mitchell Institute argues, there is a need for a coherent overarching tertiary education policy and funding framework supported by an independent tertiary education financing authority<sup>17</sup>. The continuation of the silo approach to VET and higher education funding must be addressed.

- *An integrated tertiary education policy and funding framework should be developed.*

<sup>16</sup> Noonan, P, [A new system for financing Australian tertiary education](#), September 2016, Mitchell Institute, p6.

<sup>17</sup> Ibid, p10.