Introduction

In releasing the 2016-17 Federal Budget, the Turnbull Government announced that it was:

- Abandoning plans to ‘fully’ deregulate university fees, and
- Delaying the implementation of their higher education policy package by yet another year to allow for further consultation.

To facilitate further consultation, the Minister for Education and Training, Senator Simon Birmingham, released a discussion paper *Driving Innovation, Fairness and Excellence in Higher Education*. The discussion paper proposes a series of policy options in relation to a number of specific policy issues including:

- The coverage of the demand driven system.
- Equity support and funding.
- The provision of higher education for regional Australia.
- Partial fee deregulation.
- Government and student contribution amounts.
- Reining in the costs of the Higher Education Loans Program (HELP).

Crucially, however, all of the policy options are ‘subject to the financial sustainability savings outlined in the budget’. NTEU understands that the sustainability measures outlined in the Federal Budget equate to total savings of $2.5 billion in cash balance terms over the next four years.

The NTEU’s immediate response to the Government’s budget announcements and the release of the Driving Innovation paper was that they amounted to little more than an overtly political manoeuvre designed to remove criticism of the Coalition’s plans to deregulate fees and extract higher education funding from the 2016 election policy debate.

The Government’s plan for higher education

While the Government has indicated that they are prepared to consider tinkering with details of individual policies, the fundamental goals remain:

- To cut public investment in higher education.
- To make students pay more, and
- To introduce a fully contestable market model into higher education by allowing private for-profit providers to offer Commonwealth Supported Places (CSPs).

The NTEU remains fundamentally opposed to this plan because:

- Australia’s level of public investment in tertiary education is already amongst the lowest in the OECD (see Figure 1).
- Australian students already pay amongst the highest fees in the world to study at a public university (see Figure 2).
- The fully contestable market policy framework in vocational education and training (VET) has been a complete failure for students, the community, industry and governments.

The only substantial policy change announced in the 2016-17 Budget was to abandon the policy to ‘fully’ deregulate domestic undergraduate fees because of public concerns about the perceived cost of potential higher education fees.

However, as the NTEU’s latest analysis (Attachment A) shows, the proposal to introduce so-called ‘flagship’ courses, for which universities could charge higher fees, would create the perfect environment for even higher fees, reaching and exceeding $100,000 without some other form of intervention.

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An alternative framework

While there is no doubt individuals derive a direct benefit from participating in higher education, NTEU believes that higher education, like all other forms of education, is essentially a public good. Higher education is far too important to be left to the market. The Government’s market driven regulatory and funding framework must be abandoned. Australia needs a well-planned and managed higher education system. This could be achieved through the use of a Public Accountability Agreement (PAA) framework, as outlined in the NTEU’s 2014 Budget Submission entitled, Towards a sustainable policy framework for Australian higher education. (Attachment B).

Under the NTEU’s PAA framework, each university would be able to enrol as many students as it likes, but in doing so it would have to clearly demonstrate that it has the physical, staffing and support resources to assure that every student enrolled has the opportunity to succeed in graduating and finding employment. The failure of the market driven approach to the funding and regulation of VET demonstrates the unacceptably high risks and costs associated with such a policy direction. As pointed out in the NTEU 2014 Budget Submission, if the demand driven system is extended to sub-degree and postgraduate qualifications and to non-university providers, it is unsustainable.

As the experience in VET has clearly demonstrated, a fully contestable funding and regulatory framework will become fiscally, institutionally and individually unsustainable.

NTEU’s analysis showed that such expansion of the system would lead to budget blowouts, which in turn would most likely result in cuts to funding per student and further cost shifts to students through increased contributions. Therefore, the NTEU rejects the premise and underlying rationale of the Government’s approach. Instead we have proffered an alternative funding and regulatory framework designed to mitigate against the risks of a market driven approach as is being proposed by the Government, without losing the flexibility and capacity to respond to changes in circumstances.

In summary the framework being proposed by the NTEU would:
- Maintain the cap on fees universities can charge for Commonwealth Supported places (CSPs).
- Restrict eligibility for CSPs to public higher education providers.
- Use Public Accountability Agreements (PAAs) as the basis of flexible and coordinated oversight for the allocation of CSPs.
- Establish an independent agency or council with statutory planning and funding responsibilities to negotiate and administer PAAs.

Under the proposed framework there would be no caps placed on the number of students that each university would be allowed to enrol. However, through PAAs each university would be required to nominate the number of students it intends to enrol as well as clearly demonstrate that they have sufficient physical and human resources to ensure that each student would be given a genuine opportunity to succeed in gaining a qualification and improve their employability. The independent council would be responsible for coordinating and moderating PAAs. Unlike the old system where the number of places would be allocated by the Commonwealth, the NTEU’s proposal would be a system of planned and managed soft caps which would take into account not only the capacity of the system to provide all students with a high quality educational experience but also ensure that they graduate with the appropriate skills to make them highly employable.

A better planned and managed system, as proposed by the NTEU, would not only ensure that all students enrolling in university were given the opportunity to succeed, it would also give the Commonwealth greater certainty over the level of public expenditure on higher education (unlike the current situation which effectively gives universities a blank cheque) and gives industry and the public greater confidence in our universities.

Response to specific issues

The following is the NTEU’s brief response to each of the broader policy issues raised in the discussion paper.

A lack of sufficient data to assess various options

A first observation is that neither the discussion paper nor the Budget papers provide sufficient financial or costing data to allow respondents to assess whether various policy options fit within ‘the financial sustainability savings outlined in the Budget.’

For example, it is impossible based on the information provided to know how much would be saved by not proceeding with extending the demand driven system to sub-degree qualifications.

Expansion of the demand driven system

The paper is seeking feedback on whether the demand driven system should be expanded to include:
- All registered higher education providers, including for profit-private providers.
- Sub-bachelor level higher education qualifications, and/or
- Postgraduate course work qualifications.
The overwhelming evidence from the vocational education and training (VET) sector shows that, even with the best intended regulation in place, a fully contestable market in tertiary education fails to plan for, or deliver adequately, qualified graduates into areas of skills shortage. Provider focus is upon marketing the most profitable courses to students prepared to sign on without verifiable assurances of course quality or career outcomes.

The risks associated with opening up the demand driven system to all higher education providers are too great and should not proceed. It would also be unsustainably expensive and wasteful, as public funds are drained for private provider profits while the level of student debt would grow at an accelerating rate.

While the NTEU understands that current funding arrangements might be providing a perverse incentive for universities to enrol academically under-prepared students in bachelor level qualifications, the solution to this issue is not to expand the demand driven system to include all sub-degree higher education qualifications.

The way to deal with this issue is to strengthen and expand existing alternative or enabling programs offered by universities. The big advantage of enabling programs is that they are generally free or low cost to students. Expanding the demand driven system to sub-degree qualifications would mean that students who are currently enrolled in free enabling programs would be incurring substantial HELP debts.

The success and importance of free enabling programs, especially for disadvantaged students, is highlighted in a recent National Centre for Student Equity Centre report entitled Pathways to Higher Education: The efficacy of enabling and sub-bachelor pathways for disadvantaged students.

The expansion of enabling programs could be funded by savings achieved by not expanding the demand driven system to private providers.

The only circumstances in which the demand driven system should be expanded to postgraduate course work qualifications is where:

- Such a qualification is the equivalent of an undergraduate qualification that is the recognised entry standard into a given profession such as in law or engineering.
- The fees for such professional postgraduate qualifications are capped at the same rate as for equivalent undergraduate qualifications where for example a postgraduate masters qualification in law would be capped at $10,440 in 2016 values.

### Better targeted equity funding and support

The NTEU agrees that equity funding and support programs need to be better funded and targeted. Public Accountability Agreements (PAAs) could be used to ensure that individual universities clearly articulate particular initiatives as well as specify targets for the participation and success rates for specific equity groups.

### Regional universities

The NTEU agrees with the establishment of a specific fund for the development and support of regional universities and campuses. Again PAAs could be used to allow each eligible university to negotiate how any such additional funding would be best used to suit their particular circumstances.

In addition to supporting regional universities, the NTEU encourages the Government to develop policies which provide better student income support to students from regional and remote Australia.

### Partial deregulation of fees – flagship courses

In a recently released briefing note (see Attachment A) the NTEU illustrated how the establishment of the Government’s flagship courses would create the perfect environment for $100,000 degrees. The irony is that the Government recognises this problem and has indicated that some form of market intervention would be needed to restrain excessive prices rises.

The introduction of flagship courses must be rejected because:

- It would establish a tiered system of standard and superior (flagship) programs where entry into the superior programs will be determined by willingness and ability to pay, rather than merit.
- Many students will end up paying significantly more, in some cases more than $100,000 for a flagship degree.
- Any attempts to ‘indirectly’ intervene in price setting will distort the way such places are allocated.

The introduction of flagship programs creates the policy wedge which would inevitably lead to further deregulation. Such deregulation will disadvantage students, communities and most universities, and undermine the strength of Australia’s world class public higher education system. It is for these reasons that deregulation has been so widely opposed by the public and the Senate. It is also why the Government sidestepped higher education in the recent election, effectively avoiding the presentation of a deregulation centred policy platform to the electorate.

### Student – Government contribution amounts

As noted above, the primary reason for the Government’s higher education deregulation and privatisation policy is to reduce the level of public investment per student and make students pay more. This position cannot be justified on the...
basis that Australia already has one of the lowest levels of public investment and that Australian students pay amongst the highest fees to attend a public university in the OECD (Figures 1 and 2). While the NTEU will continue to strongly oppose any cuts to the current average government contribution (approximately 60%) we agree that there is a need to review current cluster funding arrangements. The need for such a review was identified by the Lomax-Smith base funding review which highlighted a significant misalignment between funding rates and costs of delivery. The NTEU also supports the Lomax-Smith recommended that cluster funding should cover the costs of both teaching and basic research capability.

**Student information**

The NTEU agrees that students deserve access to more consistent and reliable information to help them make informed choices about what and where they want to study, the mode of delivery, their eligibility and career outcomes. While we support efforts to provide students with better and more accurate objective information on employability and earnings, we have serious concerns about the inclusion of any subjective information such as student and/or employer satisfaction surveys. The information provided to students should be factual and verifiable, and not be a quasi-marketing exercise on behalf of individual universities.

**Financially sustainable Higher Education Loans Program (HELP)**

The discussion paper outlines a number of policy options aimed at improving the fairness and financial sustainability of HELP including:

- The introduction of consistent loan fee arrangements for all students.
- Changes to repayment thresholds and rules.
- The introduction of renewable lifetime limits for FEE HELP loans.

Before addressing these issues, the NTEU emphasises that the best and most obvious way to ensure the financial sustainability of the HELP scheme is to limit the level of fees students are charged. Lower fees reduce average HELP debts. The lower the average HELP debt, the lower the proportion of that debt that may not be repaid. This would significantly lower the costs to the Budget of operating HELP.

The NTEU supports the Government’s current policy to abolish 20% or 25% loan fees charged to different categories of students in receipt of VET-FEE HELP and FEE HELP loans. We agree that it is not fair that a student be asked to pay a quasi-interest payment on their student loans simply because they choose to study somewhere other than at a public Australian university.

The NTEU, however, strongly opposes the suggestion that this situation is made fairer by charging all students loan fees of somewhere between 5% and 20%. The existence of an administrative loan fee is not only a quasi-interest payment. It also effectively provides a discount for someone who is in a position to pay their fees upfront. If you pay upfront, you don’t incur a HELP debt and therefore do not have to pay the loan fee. As a consequence, students who cannot afford to pay their fees upfront will incur higher costs to study at university, creating a financial disadvantage for those who don’t have the means (or have the support of families with the financial resources) to pay upfront. This will benefit students from medium to high SES backgrounds.

The NTEU is also strongly opposed to the proposition that the existing lifetime limits on FEE HELP loans of $99,389 (or $124,238 for medical related courses) be abolished or be able to be topped up (renewed) once it had been paid down. The removal of renewal of these limits together with the operation of the income contingent nature of HELP loans would provide a strong incentive for fees to rise for full fee qualifications.

Suggestions that HELP debts be made a household liability and/or paid from a deceased estate are also strongly opposed by the NTEU. Such suggestions violate the fundamental nature of HELP, that is only those who directly benefit from higher education should be asked to pay for it. Therefore, if a person does not earn sufficient income over their working lives to repay their HELP debts this should not be paid for by their partners and/or heirs. The NTEU is also strongly opposed to the denial of any access to HELP for university studies being undertaken by a student, based on their choice of course, age and/or perceived working capacity. Leaving aside the problems of determining what makes a university level course ‘recreational’, there are serious issues around discrimination and access, and it is at odds with the view that education should be part of life-long learning.

**Conclusion**

The Government’s decision to release the Driving Innovation, Fairness and Excellence in Higher Education discussion paper and undertake further consultation would be applauded if it did not appear to be little more than a political tactic to remove the Government’s highly unpopular higher education policy from the recent 2016 federal election campaign. The confirmation by the Prime Minister during the election that it is his intention to proceed with the introduction of flagship programs before any consultation on the discussion was also very disappointing.

The Government’s plans for higher education are largely unchanged from 2014 - seeking to cut public investment by $2.5billion over four years and make students pay more for their degree, while opening up the demand driven system to private, including for-profit, providers. In conclusion, we would note that the NTEU’s approach (as outlined in our 2014 Budget submission (Attachment B)) which involves a better planned and managed higher education framework through the use of Public Accountability Agreements (PAAs) is given some support by the findings of a very recently released paper by the L H Martin Institute entitled Domestic Student Load and Financing.

The NTEU’s proposed framework would certainly help provide a way of resolving some very important policy questions raised in this paper, including:

- Are universities adequately accountable for demonstrating that their quest for growth is in the national interest and has not been at the expense of quality?
- Is it in the public interest that teaching and learning funding continue to be allocated exclusively on the basis of student load?
- What policy measures might government contemplate to strengthen capability across the sector?

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Prime Minister, Malcolm Turnbull at the leaders’ debate on 17 July 2016 confirmed that his government will pursue partial fee deregulation in higher education after the election. Answering a question about higher education affordability, Turnbull said:

"What we will seek to do is to offer the universities the ability to deregulate fees, if you like, for a small number of flagship courses so that they can compete, so that you do get more competition between universities…”.

In trying to neutralise fee deregulation as an election issue, what the government is in fact doing is proposing a policy framework that will provide the perfect environment for $100,000 degrees, and it knows it.

**Driving innovation and $100,000 degrees**

The *Driving Innovation, Fairness and Excellence in Australian Higher Education* discussion paper (released during the 2016-17 Budget) raised the spectre of partial deregulation through ‘flagship’ courses as a policy option, rather than as government policy. Turnbull’s statements confirm that partial deregulation is already government policy. The Coalition government is clearly trying to dupe the Australian public with regard to higher education policy.

Since the Budget, the government through the release of its *Driving Innovation* discussion paper has sought to neutralise its highly unpopular higher education policies first introduced under the Abbott government in 2014 and rejected twice by the Australian Senate. The discussion paper reinforces the idea that the government’s fundamental long-term plans for higher education remain unchanged.

Further consultations around higher education policies are constrained by the requirement that any changes to policy are accommodated within the government’s budget/savings
envelope of $2.5billion over four years. While details may vary, the core of government’s higher education policies are to:

- cut public investment per student in higher education;
- make students pay more; and
- open up publicly supported places to for-profit providers.

Flagship courses: code for fee deregulation

While the government has been forced to back-down on the introduction of full fee deregulation, the Driving Innovation discussion paper is still proposing to give higher education providers the “freedom to set fees for a small cohort of their students enrolled in identified high quality, innovative courses”. The discussion paper is suggesting that institutions be allowed to offer a limited number of flagship courses for which they could charge government-supported students higher education fees compared to standard courses. It is clear that the government still wants to deregulate fees, just not all fees.

Not a new idea

The idea of flagship courses was first proposed in the final report of the Lomax-Smith Higher Education Base Funding Review (2011) which recommended that universities be allowed to offer flagship courses “funded up to 50 per cent more than the standard base funding rate, by both government and student contributions… to a limit of 5 per cent of each institution’s total Commonwealth supported load”. (Recommendation 13)

The government’s current proposal for flagship courses, however, differs significantly from the original proposal in a number of important respects, including that:

- there will be no increase in public funding;
- they could be offered to 20% of government-supported student load (compared to 5%); and
- there would be no legislated limit on how much students could be charged.

While the original proposal was motivated by providing additional resources to universities as an incentive to develop high quality innovative courses, the current proposal is primarily motivated by “giving universities flexibility to attract additional revenue” (Driving Innovation p 13). Fee deregulation is, after all, the government’s way of making universities directly responsible for how they make up for cuts to public funding per student. Under the current capped fee system it is the government—not individual universities—that set the maximum price.

The government’s proposal therefore raises two very important questions:
1. To what extent will giving institutions exclusive right to offer a select number of “flagship” courses raise fees compared to standard courses?

2. How should access to these innovative high quality flagship courses be determined, through academic merit or willingness to pay?

Restricting supply and increasing demand - perfect environment for $100,000 degrees

Any first year economic students would know that introducing policies that restrict supply (to 20% of government supported places) and increase demand (by certifying “flagship” courses as high quality and innovative, that is superior to standard courses) is creating the perfect environment for the exercise of monopoly power, which in the case of higher education, means $100,000 plus degrees.

How much will a ‘flagship’ degree cost?

Before considering how much flagship courses might cost, we must first take into account the government’s intention to substantially cut public investment in our universities. The Parliamentary Budget Office’s (PBO) report Higher Education Loan Programme: Impact on the Budget released in February 2016 estimated that student contributions would need to increase by 40% to fully compensate universities for the proposed cuts to public investment.

Based on 2016 values, Table 1 shows how much a standard degree will cost as result of the 40% increase in fees that the PBO estimates will be necessary to compensate for cuts to public investment. The first thing to note is that in and of themselves, the government’s cuts to funding will impose very significant upward pressure on the cost of attaining a degree. The cost of a three-year arts or nursing degree would be in excess of $26,000 in 2016 values and the cost of a medical degree would be almost $88,000.

When you take into account that the government’s plans do not commence until 2018 and students will not graduate until the 2020s the reality is that no student will graduate with a degree that costs less than $30,000, and medical graduates will be very be lucky to get any change from $100,000. Remember, this is even before we consider the impact of partial deregulation under the proposed ‘flagship’ degrees.

Figure 1 uses the data in Table 1 as a starting point and shows what impact price premiums of 10% and 50% would have on fees for flagship courses. It shows that degrees costing more than $100,000 are all but a certainty in medicine and law. This will be the case even if the government attempts to moderate fees increases because universities will need to be allowed to increase fees to at least cover the higher costs associated with flagship degrees.
The data shown in Figure 1 is conservative because in courses where student demand significantly exceeds the number of available places, such as in medicine and law, there is no reason to think that universities would not be in a position to charge a fee premium of more than 50%.

This is not news to the government. Even Minister Birmingham understands that his flagship proposal will create the perfect environment for institutions to charge $100,000 or more for some degrees. This why his *Driving Innovation* discussion paper is also seeking views on
“how best to monitor and constrain the fees charged to students” in the context of flagship courses.

The government has found itself in a policy dilemma. It wants to keep faith with fee deregulation while at the same time trying to give the impression that it will not allow $100,000 degrees. The problem is that it proposes to cut public funding while encouraging universities to offer higher quality for more innovative flagship courses. This all but guarantees $100,000 degrees. The government is seeking to partially regulate the operation of its partially deregulated proposal. While this might give the government some political cover, it will simply distort the allocation of scarce resources in higher education which will result in considerable manipulation and gaming on behalf of higher education providers.

A class divided: a two-tiered higher education

As important an issue as the guarantee that certain students will face $100,000 degrees through the deregulation of flagship courses, is the fact that this policy will result in a two-tier system for courses being offered to Commonwealth-supported students. Four-in-five students will be enrolled in a standard degree while one-in-five will be given the opportunity to enrol in a higher-quality, innovative flagship course.

The economic logic of proposing partial fee deregulation for flagship courses is to use flexible prices to help allocate places in highly-sought courses. That is, the Coalition’s policy means after the election one fifth of higher education student places will be allocated on the basis of how much a student is willing and able to pay, rather than on academic merit.

The NTEU has always argued that the allocation of highly sought after places at Australia’s public universities, including in any flagship courses, should be solely based on academic merit and not influenced by how much any individual student is willing and/or able to pay.
Conclusion

As part of the 2016-17 Federal Budget, the Minister for Education and Training, Senator Simon Birmingham, announced that the government was:

- delaying the implementation of its higher education policies by a further 12 months to allow it to undertake further consultation with the sector; and
- not proceeding with its plans for full deregulation of university fees.

The release of the *Driving Innovation* discussion paper shows that these announcements were clearly intended to neutralise the government’s highly unpopular higher education policies in the 2016 Federal election.

However, the Coalition government’s higher education agenda remains largely unchanged. Its proposal to partially deregulate fees for flagship courses in fact creates a monopoly market for higher education providers. A partially-deregulated fee monopoly is the perfect environment for significant student fee increases and the government knows it. Why else would seek advice in their discussion paper to “monitor and constrain the fees charged to students”. The creation of this monopoly means the government is inviting universities to charge students $100,000 or more for a higher education degree.