



Australian Government

Driving Innovation, Fairness and Excellence in Australian Higher Education

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Introduction

Higher education is more important to the future of Australia's industry, businesses and families than ever before. It is key to enhancing equality and delivering social and economic mobility for generations of Australians. It transforms lives and provides people with the skills and opportunities to engage in a modern economy. It is a key source of innovation for business and industry, central to Australia's successful economic transition and a valuable export.

For these reasons it is essential that higher education policy settings drive innovation and areas of specialisation across our universities; embed fairness and equitable access to university for all Australians; ensure global excellence amongst our universities; and are financially sustainable and affordable into the long term.

Since 2009, with the demand driven system, taxpayer funding for Commonwealth supported places in higher education has increased by 59 per cent as compared to 29 per cent growth in nominal GDP over the same period. Funding of university students has grown at twice the rate of the economy. Similarly, the debt held under our income contingent student loans scheme, one of the most generous in the world, has grown to over \$40 billion, with an annual expense of \$2.6 billion.

While the Government is committed to a system that provides genuine choice and appropriate support for students, removes barriers for under-represented groups and allows institutions to excel and innovate to deliver world class education, at the same time, it recognises that this system must be affordable and provide a return on investment for both the student and the nation.

As part of the 2014–15 Budget, the Government announced an ambitious package of higher education reforms to address the challenges facing the higher education sector. These reforms were intended to strengthen the higher education system and ensure Australia is not left behind at a time of rising performance by universities around the world, foster greater innovation in education offerings and to widen opportunity and access to support the growing diversity of student needs and aspirations.

While this package had the support of higher education peak bodies and almost all university vice-chancellors and was twice passed by the House of Representatives, it was twice defeated in the Senate. Since it was announced on 1 October 2015 that implementation of the reform package would be delayed by one year to 2017, the Government has been discussing with stakeholders how best to find a fair and affordable way to fund a world-class higher education system with equitable access for students. To enable finalisation of revised higher education reforms and to provide certainty to the sector, students and parents, new reforms are not budgeted to commence until 2018.

Further, in response to community concerns about the perceived cost of potential higher education fees and evidence about the possible impact on student loans, the Government will not be implementing fully flexible course fees as proposed in the 2014-15 Budget reforms. An alternative model of flexibility, which focuses exclusively on courses of clearly defined excellence or innovation, is outlined for public consultation herein.

Informed by the discussions of the last six months, this paper sets out potential reforms that support the Government's vision of a stronger, more innovative and responsive system of higher education that preserves equity of access while meeting the financial sustainability savings outlined in the budget. These reforms would complement the National Innovation and Science Agenda and the National Strategy for International Education. The Government will work closely with all stakeholders to inform a revised higher education reform package to be finalised in 2016 and legislated no later than mid-2017 for commencement from 2018.

To assist in this process, the Minister is appointing an expert advisory panel to provide advice on the content and implementation of the final package.

Driving innovation, fairness and excellence

A strong higher education system benefits everyone. For students, higher education supports entry into the workforce, access to skilled employment, higher salaries and lifetime earnings, and greater career flexibility. For business and industry it delivers skills, research partnerships, new product ideas and innovation in practices. For the wider community, it enriches our cultural landscape, upholds our standard of living, provides an evidence base to inform public debate and is a source of innovation and development across our regions. Higher education also contributes to society in other ways, including through increased tax revenues generated by a highly skilled workforce, and better access to professional services.

A new generation of Australians has embraced the benefits of higher education. The number of higher education students (including international students) has more than tripled since 1989. The proportion of working age Australians who have a bachelor degree or higher qualification has also tripled since that time. Under-represented groups such as those from low socio-economic backgrounds, Indigenous Australians, and students from regional areas have increased their participation in recent years. Many of these students are the first in their families to achieve a higher education qualification.

Australian higher education is a system with high levels of student satisfaction and graduate employment outcomes — only about 3 per cent of all Australians with a bachelor degree are unemployed, compared to 8 per cent of those without post-school qualifications. Our qualifications are accepted currency in the global job market, and this is why Australian graduates, on average, earn higher incomes and why Australia is a destination of choice for international students.

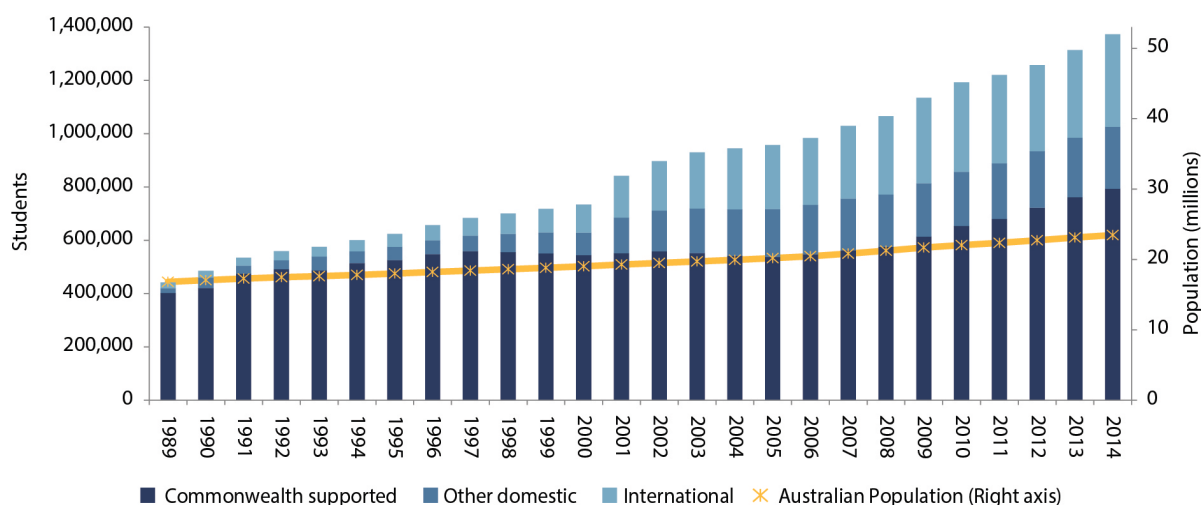
Education is one of our largest exports. Higher education delivers the lion's share of this, earning just over two thirds of Australia's \$19 billion in education export income in 2014–15 and a large proportion of the nearly 130,000 jobs nationally that international education supports. International students studying in Australia, along with visiting friends and family, add significantly to the tourism industry, as well as enriching our campuses and communities through increased cultural diversity. On 30 April 2016, the Australian Government released the first *National Strategy for International Education*, which provides a framework of priorities for the Australian international education community in order to promote, strengthen and sustainably grow the sector over the coming decade. A high quality higher education system is fundamental to attracting more international students to study in Australia.

The case for change

During the last quarter of a century, Australia’s higher education system has experienced a large expansion as more Australians have sought to participate and benefit from higher education.

Since student contributions and HECS student loans were introduced, the annual number of domestic students enrolled has grown by 144 per cent from 420,000 in 1989 to just over 1 million in 2014. In comparison, the overall Australian population has grown by about 40 per cent over that period. More than a third of people aged 25 to 34 now hold a bachelor or higher qualification, which is a reflection of significant changes in Australia’s economy and the increased value placed on advanced learning.

Figure 1: Enrolled students and population growth in Australia, 1989–2014

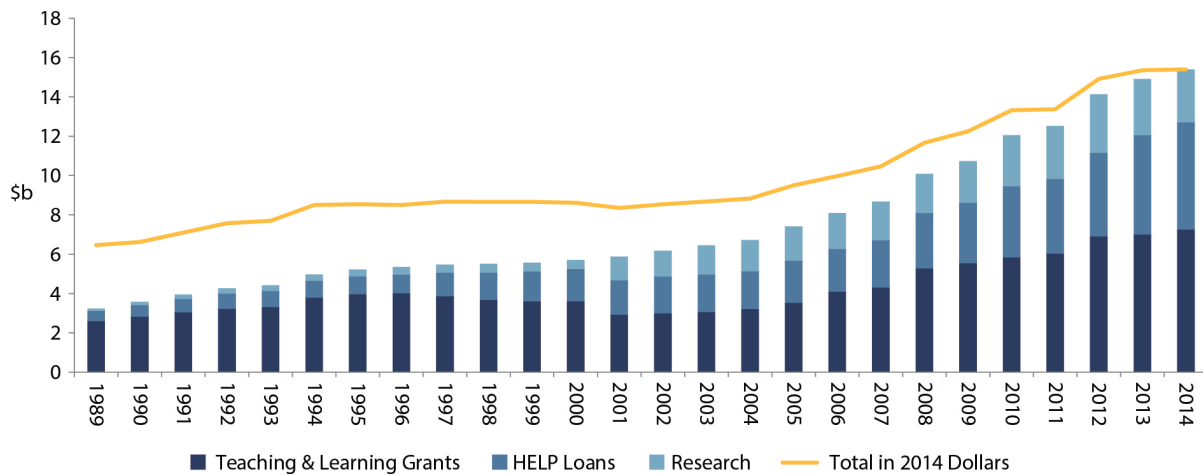


Source: Department of Education and Training; ABS 3101.0

The rapid expansion in student numbers over the last 25 years, particularly the rapid expansion in Commonwealth Supported Places since 2009, has meant that consecutive governments have faced ongoing pressure to meet the rising cost of Australians’ higher education aspirations. With further increased growth since the introduction of the demand driven system, the cost to taxpayers has grown enormously. In 1989, the Government provided around \$6.5 billion in today’s terms to support higher education teaching, learning and research. By 2014, this had grown to \$15.4 billion, including \$9.9 billion in teaching and research grants, and \$5.5 billion in HELP student loan payments.

Student contribution rates have only changed across the board on three occasions since 1989 (with the exception of annual indexation), and these rates have not had any substantive increases during the last decade.

Figure 2: Australian Government teaching and learning grants, HELP loans and university research funding, 1989–2014



Source: Department of Education and Training; ABS 6401.0

With the expanded access and opportunities that a demand driven system provides, the total value of student loans has grown. Total outstanding HELP debt now stands at over \$40 billion, and the proportion of debt not expected to be repaid on new loans has grown to 19 per cent in 2015–16 with annual HELP expenses now at \$2.6 billion.

HELP and its predecessor, HECS, have been great enablers of equitable access to Australian higher education. Income contingent loans have been a central feature of our higher education policies since 1989 and provided a strong degree of certainty to both students and higher education institutions. Ensuring this system remains financially sustainable and affordable into the future must be a key objective of reform.

Universities say they need to continue to invest resources in order to deliver truly world-beating education offerings. In its 2016 Policy Statement, *Keep it Clever*, Universities Australia noted that universities are central to fostering the innovation needed to build new industries that will enhance national income, health, and the environment.

The business community is demanding high level skills from graduates and innovation from universities. The Business Council of Australia, in its report *Action Plan for Enduring Prosperity*, highlights the need for more specialised course offerings, and more flexibility for universities to innovate and improve the higher education system. The Australian Industry Group and the Australian Technology Network of Universities, in their report *Innovate and Prosper*, note Australia’s low global ranking in innovation and collaboration between industry and universities, and called for action to increase incentives for innovation.

Australia’s higher education policies have been extensively reviewed over recent years. As a precursor to this document the Minister for Education and Training released a paper compiling some of the key findings of many of the reviews undertaken to date. Feedback on those findings, as well as the existing legislative reform proposals, has helped to inform this paper.

Australian students deserve and aspire to the opportunity to receive the best education in the world, delivered by a world-class higher education system, regardless of their social or economic

background. High quality education is necessary to compete for the best jobs in the world. Australian universities compete on a world stage for the best and brightest minds, and universities need the flexibility to continue to develop the innovative teaching, learning and research methods for which Australian universities have become renowned.

Building the national innovation and science capability

The Government has taken steps to drive change in higher education research. On 7 December 2015 the Prime Minister, the Hon Malcolm Turnbull MP, launched the National Innovation and Science Agenda. The Agenda contains measures worth \$1.1 billion over four years to create a culture of entrepreneurship, and encourage co-investment and collaboration, transforming promising ideas into social and economic benefits. It includes measures to capitalise on Australia's research excellence while aiming to improve collaboration between universities, industry and other end users. These measures include:

- decade long funding certainty for national research infrastructure to support research jobs in Australia and ensure that we can stay at the forefront of global discoveries
- extra funding for new streamlined research block grant arrangements to reward research excellence and increase incentives for university-industry engagement
- changes to the Australian Research Council's Linkage Projects scheme to open it to continuous applications and fast track decision-making, to better meet the needs of industry and other end users
- Australia's first national assessment of university research engagement and impact to assess the economic, social, environmental and other benefits of research.

Higher education and Australia's economic transition

The Government is determined that Australia will be a nation that is agile, innovative and creative. A strong and sustainable education and training system is key to achieving this. It is through access to excellent early childhood, primary, secondary and tertiary education that Australians are able to achieve their potential – in the labour market, in the social and cultural life of the nation, and as engaged global citizens.

School leavers should be encouraged to consider the full range of opportunities available to them. Vocational education and training (VET) and higher education can open doors that would otherwise remain closed, and increase earning opportunities and standards of living.

More and more Australians are participating in tertiary study later in life. Some are people who have not undertaken study since leaving school. Some are looking for a change of career, perhaps having found themselves out of a job because of changes in the economy, while others have already undertaken some study but are seeking to further deepen their skills to further their professional careers.

We need to ensure that all Australians with the ability and the motivation to succeed in tertiary education are supported to do so – there should be no perverse incentives for students to choose a VET course over a higher education course or vice-versa. Prospective students must be able to make their further study decision on the basis of sound, reliable, transparent and meaningful information

about the options available – including course requirements, costs, quality and potential employment outcomes.

Australians should not be precluded from participating because they have not had the prior opportunity or adequate preparation. However, this does not mean we should lower admissions standards. Rather, there must be open access pathway courses that genuinely support disadvantaged learners to achieve their goals. Institutions must be able to enrol students in courses that are appropriate to their aspirations *and* preparedness, which maximise the likelihood of completion and can allow for progression to other qualifications if desired. Pathways between VET and higher education, in either direction, are important so as to facilitate the acquisition of relevant skills and qualifications and to open up employment opportunities.

People from all backgrounds should be encouraged and able to participate in tertiary education. In particular, we need to do more to lift participation and success in some traditionally under-represented cohorts. It is not acceptable that Indigenous Australians and people from regional and remote locations remain under-represented in higher education despite the opportunities provided by the demand driven system and the advent of the Higher Education Participation Programme (HEPP).

The courses Australians undertake should pay dividends – not only for the individual but for the economy as a whole. Institutions must therefore be focussed on delivering students the best possible learning experiences. They must innovate to deliver learning that gives graduates a competitive edge and delivers productivity gains to future employers. There must be both transparency of and accountability for graduate outcomes.

There must also be development of new kinds of institutions and new models of delivery. The Geraldton Universities Centre in Western Australia is an example of how innovative collaboration is bringing higher education to regional Australia. New partnerships between TAFEs and higher education providers, or between universities and medical research institutes, or between higher education providers and Australian businesses, could provide new, fertile frontiers for delivery. New technologies and mediums of learning are continually expanding possibilities for students and institutions, sometimes at lower cost of delivery, which must be embraced without diminution of standards.

Policy settings must help our higher education system to achieve this vision: a system in which universities are able to reflect and respond to the demands of students and employers and to leverage their research strengths to position themselves in a global context. In this system, universities would be able to take advantage of technological advances to remain at the cutting edge of course design and delivery.

It is essential that the integrity of our higher education system and Australia's international reputation for quality continue to be upheld by a strong quality assurance system, including the new Higher Education Standards Framework, due to commence in 2017, and the Tertiary Education Quality and Standards Agency (TEQSA). Australian higher education must stand for quality in the eyes of the world, in the eyes of Australian employers and indeed all Australians.

Australian higher education providers must continue to be held accountable and meet national standards, particularly to be eligible for government subsidies and to be able to offer student loans. Students and taxpayers both deserve these protections.

Our tertiary education system also must be affordable and financially sustainable. Both individuals and the country as a whole benefit from the higher education system. People who participate in higher education enjoy a significant lifetime wage premium over those who do not participate. A sustainable system needs to strike the right balance between public and private contributions while ensuring that upfront barriers to participation are minimised.

In summary, Australia needs a system that:

- provides genuine choice of higher education opportunities – prospective students’ decisions must be supported by objective, reliable information about the requirements, costs, quality and potential employment outcomes of different study options
- offers genuine pathways – we need to maintain standards for admission while ensuring that disadvantaged learners are supported to achieve their goals
- ensures equity of access regardless of personal or economic circumstances and reduces barriers for under-represented groups
- has incentives and flexibility for institutions to excel and innovate to deliver world class education
- guarantees quality via effective regulation, non-distortionary funding models and transparency measures that deliver institutional accountability
- is affordable, and provides a return on investment from both an individual and a national perspective.

If we can achieve these things, we will be well on our way to ensuring that our higher education system supports innovation that will drive productivity, employment, economic growth and the jobs and industries of the future, while providing opportunities for more Australians to benefit.

Opportunity and choice

A higher education system built on opportunity will ensure access for all who can benefit. Students should be able to access the appropriate course at the right time, according to their needs and the national interest, whether at the sub-bachelor, bachelor or postgraduate level.

The best options for students

With increased participation in higher education, students now come from a wide range of social and economic backgrounds, bringing with them a variety of aspirations, learning requirements and support needs. The current funding system restricts demand driven funding to domestic students enrolled in an eligible bachelor-level course at a public university, and therefore provides incentives for students and universities to favour bachelor degrees. However, undertaking a bachelor degree at a public university will not suit everyone. Students with less academic preparation may require increased or different types of assistance and support to give them the best chance of completing their study. A sub-bachelor course leading to a diploma, advanced diploma or associate degree can also offer a recognised qualification that leads to rewarding jobs and careers, as well as providing a potential pathway to further study at bachelor level and beyond.

As noted in the *Review of the Demand Driven Funding System* (2014), while universities generally exercise caution in enrolling students with very low Australian Tertiary Admission Ranks (ATARs), and university offers to students with low ATARs represent only a small fraction of all offers to school leavers, sub-bachelor courses can be a better introduction to higher education for these students. The Government has asked the Higher Education Standards Panel (HESP) to examine admission practices in this context. HESP has released a consultation paper and submissions are invited by 27 May 2016.

The 2014-15 Budget proposed a number of measures to expand opportunity and choice for students, including the extension of Commonwealth support to all undergraduate courses at all registered higher education providers and the uncapping of places in sub-bachelor courses at public universities. These reforms are still provided for in the budget.

Matters for finalisation regarding the expansion of the demand-driven system beyond bachelor courses at public universities:

- whether to provide subsidies for all undergraduate courses at all registered higher education providers, noting that growth in enrolments has continued to increase at non-university providers despite the absence of Commonwealth funding
- how to expand access to sub-bachelor courses at public universities, whether this should be entirely demand driven or whether it should be limited in enrolment numbers or scope.

Postgraduate places to support innovation

Innovation in course structure, demand by some professional associations for increased accreditation requirements and the growth in combined bachelor-masters degrees are increasing the demand for postgraduate qualifications.

As outlined in the National Innovation and Science Agenda, industry-research collaboration is a key factor for more profitable, sustainable and export-focused industries. The Government is focused on encouraging our best and brightest minds to work together to find solutions to real world problems and to create jobs and growth. To help improve the linkages between universities and industry, the Government aspires to best align postgraduate research students, our next generation of researchers, with industry placements and needs. The Government is also interested in providing the best support to those students transitioning from undergraduate degrees to postgraduate degrees.

The availability of subsidised postgraduate coursework places is inconsistent across Australia, due to the fact that they have been allocated to different universities at different times and for different purposes. For students, this means access to subsidised places with capped student contributions can be available through one university, while the same course at another university may only be available through an unsubsidised full fee paying place. These inconsistencies make equitable access and choice difficult to achieve and reduce the opportunity for fair competition between institutions.

The allocation of postgraduate places has long required attention. In 2011, the previous government made some attempt to explore options with institutions, but failed to act on the outcome of its consultations. There is a pressing need for a solution with more undergraduate students now graduating than ever before, and a greater need for institutions to be able to respond flexibly to demand from employers for postgraduates.

Reforms to the allocation of and support for subsidised postgraduate places have not been considered as part of legislative changes to date but could be considered in revised proposals, subject to the financial sustainability savings outlined in the budget. Measures that could be considered include:

- reallocate all subsidised postgraduate places on a more transparent and consistent basis, to be determined by an independent process, driven by identified principles around economic, societal and academic need, and reassessed at regular intervals
- better target Commonwealth support to those postgraduate courses identified as delivering significant community benefit where private benefits may be more limited – for example, teaching and nursing courses, where graduate salaries may be comparatively lower while demand for skills is high
- allocate additional places for skills-deepening qualifications consistent with the National Innovation and Science Agenda, for example in science, technology, engineering and mathematics fields
- introduce a time-limited learning entitlement for Commonwealth subsidies (for example, seven years) that students can access at both the undergraduate and postgraduate level
- introduce demand driven funding for some or all postgraduate coursework courses. This would make Commonwealth funding more consistent across different levels of course, but would risk a significant budgetary impact unless managed carefully, such as including a lower level of Commonwealth subsidy to increase affordability

Fairness and equity

Improving support for disadvantaged students

People from disadvantaged groups remain under-represented or continue to face barriers to participation in higher education. Higher education policy should be targeted to provide appropriate and effective support for those facing additional barriers.

Table 1: Participation of disadvantaged and under-represented groups – 2014

Disadvantaged group	General community	Higher education enrolments
Students from a low-SES background	25.0%	15.7%
Persons with disability	8.3%	5.5%
Indigenous Australians	2.7%	1.5%
Regional and remote (ASGS)	25.8%	20.6%
Non-English speaking background	5.4%	3.9%

Source: Department of Education and Training (Table A and B universities only).

While Indigenous higher education enrolments have grown by an outstanding 70 per cent over the last ten years, we need to do more to ensure more Indigenous students complete award courses. In addition, advice from the Aboriginal and Torres Strait Islander Higher Education Advisory Council noted the need to increase Indigenous participation in STEM and business fields, where Indigenous Australians remain significantly under-represented.

Despite recent strong growth in student numbers under the demand driven system, the proportion of people from regional and remote Australia who participate in higher education continues to decline in relative terms. We need to do more to raise student aspiration and reduce the barriers that regional and remote students face to enter the higher education system— whether at an institution in their region, in their capital city, or online.

In order to ensure that we are achieving the best outcomes for disadvantaged students, the Government will, in the context of finalising legislative reforms, be evaluating the HEPP. The evaluation will seek to determine:

- the outcomes achieved by the programme;
- who has benefited from its activities, with particular reference to all disadvantaged groups, including people from regional and remote Australia;
- whether the programme provides good value for money; and
- what changes may be required or more effective alternatives (such as scholarship type models provided for in the original 2014-15 Budget reforms) to increase higher-education participation and success by people from disadvantaged backgrounds into the future

Supporting the regional presence of universities

One of the identified inhibitors to more regional students pursuing higher education opportunities are the costs of relocation and living away from home that most other domestic students do not automatically face. The Government has sought to provide additional support for such students however, there remain greater living costs associated with higher education for many such students, which is why the presence of university campuses in regional Australia and other modes of delivery are also important equity measures.

While most universities are well placed to fund their infrastructure investments, some institutions, such as smaller regional and outer metropolitan universities are more dependent on capital grants for infrastructure investment. These universities will need to respond to a particular set of challenges given the market in which they operate. In respect of infrastructure investment the capacity to access a range of capital markets to fund large infrastructure projects may be limited. How best to strengthen institutional capability to undertake transformative infrastructure investments that will assist them in responding to their particular market conditions needs to be examined.

Increased collaboration and/or the use of new technologies expand opportunities for university courses, or part thereof, to be delivered in regional centres. An example of collaboration is the Geraldton Universities Centre in Western Australia, which supports courses on behalf of a range of universities from the one location.

Subject to the financial sustainability savings outlined in the budget, the Government could:

- introduce a new infrastructure fund or loan facility to enable regional and outer metropolitan universities to undertake transformative infrastructure investments to assist them in adapting to local market conditions, improve their long-term viability and enhance the student experience
- consider whether any transformative infrastructure should prioritise new physical facilities, establishment of networks and virtual teaching spaces and better utilisation or rationalisation of the existing estate
- assess alternative opportunities from collaboration or use of new technologies to cost effectively enhance access to higher education for students not living near established campuses

Excellence and quality

Maintaining and boosting the quality and reputation of Australia's education system, in terms of teaching, learning and research, is vital to the Government's vision for higher education. TEQSA ensures that providers meet the high standard of education services for which Australia is renowned. The availability of readily accessible, accurate and comparable information is also critical to inform student choices about which course and institution offers them the best opportunity to meet their educational and career goals.

Universities report that, in order to offer truly world class courses equal to those offered in some of the most highly regarded overseas universities, they need access to additional flexibility and resources to provide the necessary academic content, course delivery and infrastructure support. Institutions need this flexibility to pursue innovative approaches that can set them apart from each other and be their best on the world stage.

Flexibility to innovate

Giving universities flexibility to attract additional revenue in courses where they have developed particular expertise would enable them to innovate and differentiate themselves and pursue their individual vision for higher education excellence. This would support their efforts to distinguish themselves internationally, and ensure that more of our universities are ranked among the top 50 universities in the world.

Moving away from the current one-size-fits-all approach could also provide prospective students, academics, industry and research partners greater opportunity, competition and choice in the education options available in Australia.

Although concerned about some of the misleading statements made in relation to potential impacts of fully flexible courses, the Government has listened to community concerns about the perceived cost of potential higher education fees and evidence about the possible impact on student loans. As a consequence the Government will not be implementing fully flexible course fees as proposed in the 2014-15 Budget reforms.

We will continue to provide a generous government subsidy for all undergraduate university courses and will continue to provide an income contingent loans system that ensures students face no up-front financial barriers to undertaking a course.

Nevertheless, the Government is committed to providing universities with additional flexibility to innovate, differentiate themselves and offer students more choice and higher quality offerings. To provide this ability, institutions could be given the freedom to set fees for a small cohort of their students enrolled in identified high quality, innovative courses. Introduction of these flagship courses, originally suggested in the *Higher Education Base Funding Review (2011)*, would deliver the benefits of differentiation, excellence and innovation among universities while giving certainty to all Australians that they could still access fee capped places.

If flagship courses were introduced, the Government is also interested in options on what conditions should be met for the declaration of a flagship course and how best to monitor and constrain the fees charged to students, whether through an organisation such as the Australian Competition and

Consumer Commission (ACCC) monitoring fees, or through a mechanism which reduces Government contributions as fees go above a particular threshold.

Matters for finalisation regarding the potential offering of Flagship Courses:

- would a model of Flagship Courses provide worthwhile incentives for universities to promote areas of excellence, innovate in their approach to teaching and learning, improve the experience and outcomes for their students and enhance their global standing?
- how should a model of Flagship Courses – operating on an opt-in basis – be regulated to ensure Flagship Courses are founded on the basis of excellence and innovation?
- what limits, if any, should be placed on the number of Flagship Courses that may be offered by an institution and/or should the total number of students enrolled in Flagship Courses be limited to a maximum proportion (for example, 20 per cent) of the university's equivalent full-time student load?

To ensure any fees set for Flagship Courses are reasonable and fair for students, the Government could:

- ask the Australian Competition and Consumer Commission to monitor fees and report to the Government on a regular basis, or an independent body could review proposed fee increases before approval
- consistent with recommendations from a number of experts, the Government could reduce the Government subsidy as fees increase above the maximum student fee under current arrangements – or some other threshold as appropriate

More information for students

Undertaking a higher education qualification is a significant investment for students, both in monetary terms and the time it takes to complete a course. It is essential that prospective students have high quality information to support informed decision-making about which course to undertake and with which institution to enrol. Reliable information about the institution and course quality and outcomes is needed to support student choice, and is the basis for creating a genuine informed market for higher education qualifications in Australia.

The Quality Indicators for Learning and Teaching (QILT) website, an important innovation introduced by the Coalition Government, is a platform that increases transparency in our higher education system. QILT has been welcomed by students, institutions and sector commentators alike as a significant improvement in the level and quality of information to inform student choices. Students are able to compare the overall satisfaction of current students and recent graduates, as well as the percentage of graduates moving into full-time employment and their median salaries.

Transparency measures should not just seek to influence student behaviour, but also act as accountability factors that positively influence university enrolment and teaching practices. Stronger data on the employment and salary outcomes of graduates from different courses and different universities will help to ensure universities are incentivised to act in ways that enhance their reputation and standing as well as the quality of graduate outcomes.

The government has announced additional funding for QILT so that students will have access to broader information about courses, course entry requirements and future earnings data. Enhancing QILT and releasing a course finder app will provide students with instant access to better information delivered online when they want it and enhance university accountability. In addition, the Government has asked the Higher Education Standards Panel to examine options for improving transparency in student admissions policies, without significantly increasing regulation.

The Government has announced additional funding but welcomes views on proposed further enhancements to the QILT surveys and website to provide greater transparency on the performance of institutions to support student decision making and enhance their decision making. Options include:

- undertake a longitudinal survey of graduate outcomes
- further develop the employer satisfaction survey
- collect and publish additional information on prospective earnings data, course information, and fees
- integrate with Australian Tax Office or other actual earnings data to publish real graduate employment and income data
- publish university profile information, course information and new survey data on the website
- capture student involvement through the development of an online application
- enhance the website to support frequent and meaningful student engagement, both domestically and internationally, through social media.

Affordability

Australia's student loans system is fundamental to maintaining fair access to higher education. The Higher Education Loan Programme (HELP – commonly known as HECS) has underpinned student contributions to the cost of higher education since its introduction in 1989. HELP will remain a critical element of the Australian higher education system, ensuring students do not face up-front cost barriers to getting a good education, with loan repayments commencing only when they are earning a decent income, and at a rate which can easily be maintained. These features are what make Australia's HELP student loans one of the best and most generous student loan schemes in the world.

A fair share from taxpayers and graduates

Since the introduction of HECS in 1989, there has been broad consensus that taxpayers and students should share the investment in higher education. This helps to enable increasing numbers of students to participate and benefit from their studies. There are both public and private benefits that accrue from participation in higher education: university graduates earn significantly more over their lifetime, on average, than a person with a high school certificate; the community gains access to skills and knowledge that support a vibrant and growing economy.

On average, taxpayers currently contribute around 58 per cent of the cost of higher education study for Commonwealth supported places, while students contribute around 42 per cent. The level of Government and student contributions varies from course to course – in some cases the Government contributes much more than 58 per cent. In others, students pay a higher share.

The current framework of eight levels of Government grants ('funding clusters') and three different levels of student contributions was introduced in the 1990s, and was intended to cover the cost of offering every course and recognise the shared public and private benefits of a student completing the course. However, the combined Government cluster and student band funding rates do not in all cases reflect well the relative cost of delivering different types of courses, resulting in significant cross subsidies occurring across courses. In other instances some universities report that payments (both Commonwealth subsidies and HELP payments) cross subsidise research effort.

Given the time since the current framework was introduced, and building into this previous budgets of savings from a rebalancing of contributions between Government and students, the Government believes that it is an opportune time to re-evaluate the level and relativity of funding clusters. This could be achieved through an efficient pricing review, potentially undertaken in partnership with the higher education sector and overseen by the Expert Advisory Panel. Such a review would provide an invaluable evidence base for any final policy decisions and would need to ensure the differing private benefits of different courses are reflected in final contributions too.

In addition to the Government subsidies that are paid, most students' contributions are underwritten by taxpayers through access to HELP loans. Taxpayers fund the government borrowing required to provide the loans, and subsidise the interest rate charged to students so they pay no real interest rate.

As Australians increasingly seek to benefit from higher education, and the need to expand opportunity to a broader range of courses and institutions becomes more pressing, the federal education budget is under acute pressure. The Government believes that the balance of contributions should be adjusted to ensure it appropriately reflects the private and public benefits of higher education to individuals, the community and the economy. As part of this process, we also need to determine more appropriate funding cluster arrangements.

In finalising the legislative reforms the Government will need to adjust subsidy and student contribution rates to meet the financial sustainability savings outlined in the Budget. Dependent on other structural savings or expense measures adopted as part of these reforms, options include:

- reduce the Government's contribution by 20 per cent on average, as first proposed in the 2014-15 Budget
- a small reduction in the Government grant per student, and a small increase in the maximum capped student contribution that institutions may charge, such that students and taxpayers contribute equally to the cost of higher education courses (on average).

The Government also seeks the views of the sector on the relativities between disciplines of funding clusters in the context of its overarching objectives. It is proposing to work with Universities Australia and the higher education sector to investigate the relative cost of delivery of higher education. Based on this work, Commonwealth and student contributions could be adjusted to reflect a more streamlined framework that better reflects these costs, teaching method, infrastructure required, and the potential value to students.

Issues of cross subsidisation both across courses as well as between the teaching of courses and conduct of research would also require examination, to ensure they are as equitable as possible while also preserving or enhancing the research capabilities of our universities. In addition, the revised funding framework would be considered in the context of the Government's National Innovation and Science Agenda to ensure that it appropriately supports areas of priority. The Government could also consider whether to grandfather current arrangements for existing students, or otherwise phase in new arrangements over time.

An affordable loan scheme

Australia's world-leading student loan scheme ensures that no Australian student has to pay their contribution upfront; they only repay their student loan when they have the capacity to do so. It has taken the average graduate 8.8 years to repay their debt (which on average has been \$18,900) through the tax system. They do not need to make any repayment if their income is below the threshold for repayment (currently \$54,126). The amount a graduate is required to contribute depends on their repayment income – a person on \$54,126 will pay 4 per cent of their repayment income, while a person who earns more than \$100,000 will repay at the maximum rate of 8 per cent.

These arrangements make Australia's HELP scheme one of the most generous income-contingent student loan schemes in the world. The minimum repayment threshold in Australia is the highest among OECD countries. For example, in the UK, students are required to make repayments once their income reaches £21,000 (roughly equivalent to \$A39,000) and in New Zealand, students are

required to begin making repayments when their income exceeds \$19,084 NZD (roughly equivalent to \$A17,000).

The rate of repayment for Australian students is also lower than that of students in New Zealand. An Australian borrower earning just over the threshold (\$54,126) would make an annual repayment of about \$2,165. To make the same repayment, a New Zealand borrower would only have to earn the equivalent of \$A35,000.

In addition, during the life of a loan Australian students pay no real interest rate; the loans are indexed annually according to the Consumer Price Index. In effect, this means that an additional subsidy is provided to students, as the Commonwealth carries the loan at a real interest rate.

It is now a quarter of a century since the introduction of the original HECS, and the level of unpaid debt is growing due to a range of factors including expansion of the higher education system, creation of the VET FEE-HELP scheme and its 2009 expansion (which is currently being redesigned to address significant policy failures stemming from its expansion) and higher demand for qualifications. Students are also enrolling in longer courses and more commonly undertaking postgraduate qualifications.

The Government is providing subsidies and loans to an increasing number and wider demographic range of students. For example, while the number of students accessing a HELP loan has grown by 21 per cent from 637,978 in 2010 to 771,919 in 2014, the number of students aged 65 years or over has grown by 80 per cent in the same period (from 857 in 2010 to 1,543 in 2014). While the absolute numbers of older Australians accessing HELP loans is still relatively small, the growth rate of this cohort may raise questions of why the Government is supporting (in both Commonwealth subsidy and HELP loan) students where there is a diminished likelihood of a public benefit through workforce participation.

While most new HELP debt will eventually be repaid, it is currently estimated that around 19 per cent will not and some analysts have predicted this to continue growing.

The original HECS was designed to provide insurance, or a safety net, for people who do not earn sufficient income to repay their debt. That is the central principle behind an income-contingent scheme. While debt not expected to be recovered is an intrinsic part of an income-contingent loan scheme, there is a clear need to reduce HELP expenses in order to preserve the scheme's long-term affordability and viability. The Government has already acted to partly address this issue by requiring Australians resident overseas to make repayments on their HELP debts. The Government believes that with some further modest changes, student loans can remain affordable, will continue to represent a good deal for taxpayers into the future and, most importantly, will continue to underpin equitable access to higher education for Australians from all backgrounds.

Consistent loan fee arrangements for all HELP loans

At the moment, HECS-HELP loans have no loan fee, while FEE-HELP undergraduate loans and VET FEE-HELP loans attract a 25 per cent and 20 per cent fee respectively. While the Government has previously proposed to remove the loan fees to create a level playing field for students and providers in all sectors, it has been suggested that charging a loan fee for all loans would provide an

efficient mechanism to help defray the costs of running HELP. The Government remains committed to applying a more uniform approach to the application of these loan fees than currently occurs.

In finalising legislative reforms and meeting the financial sustainability savings outlined in the Budget the Government will consider a range of levels of potential HELP loan fees:

- removing loan fees altogether would remove the current anomalies and reduce the cost pressures on fee paying students but would involve a significant cost compared to current arrangements.
- a modest loan fee – 5 per cent, for example – would remove the anomalies for students and providers, while leading to a slight increase in costs for students in Commonwealth supported places. This approach would enable the Government to recover a small proportion of the costs of running the HELP scheme – but still only a fraction of the expenses relating to debt not expected to be repaid.
- by contrast, a loan fee of 20 per cent as currently applies to VET FEE-HELP would enable the Government to recover most of the costs associated with debt not expected to be repaid. It would similarly provide for greater equity and reduce the cost pressures for undergraduate FEE-HELP students but with a greater increase in costs for students in Commonwealth supported places.

Changes to repayments and rates

The current repayment rates and thresholds have been in place for a number of years and do not take into account the significant growth in access that has occurred in recent years, including to people engaging in different work and employment patterns. There are now more than 2.2 million debtors, the majority of whom are earning incomes below the minimum \$54,126 threshold.

One option that would significantly improve the sustainability of the programme would be to commence repayment of HELP debts at a lower threshold income than the current minimum (\$54,126), potentially in conjunction with a lower repayment than the 4 per cent rate that applies under current arrangements. This would ensure that repayment commences earlier when a person is earning a reasonable income. Should repayments start at a lower threshold of around \$40,000–45,000, the proportion of HELP debtors making a repayment each year would be estimated to increase from 20 per cent to around 30–35 per cent.

In addition, the Government could introduce a higher contribution rate for high income earners (the maximum rate is currently 8 per cent for \$100,520 and above). This would ensure a more rapid repayment for those who can afford to do so, reducing the Government's borrowing requirements and holding costs to fund the outstanding loans.

It has also been suggested by the Grattan Institute that the indexation of HELP repayment thresholds should be changed from Average Weekly Earnings, which is currently the case, to the Consumer Price Index. This would align repayment thresholds with the indexation rate and, over time would help to speed up the repayment of HELP debts and reduce the cost to the Government.

A renewable lifetime limit on HELP loans

Currently, there are lifetime limits on FEE-HELP loans. For 2016, the limit is \$99,389 for most students. For students undertaking medicine, dentistry and veterinary science courses the limit is \$124,238.

The Government previously proposed abolishing these limits in order to remove potential access barriers for FEE-HELP students and provide consistent loan arrangements for all students. However, concerns have been raised that this may increase the financial pressures on the programme and that some limits should apply to maintain the integrity of the scheme. The Government remains concerned that these limits can be unfair in their impact on students, particularly where a person has repaid some or all of their debt and wishes to undertake further training to improve their capacity to compete for the jobs of the future.

To enable these limits to be maintained while still supporting lifetime learning, a possible option may be to allow a FEE-HELP debtor's loan balance to 'refresh' as debt is repaid. Under this approach, any repayments made towards a student's HELP debt would not only reduce the amount of HELP debt outstanding, but would also enable the student to re-borrow up to the FEE-HELP loan limit to support further study.

Other options

As proposed by the Kemp-Norton *Review of the Demand Driven Funding System*, the Government could discontinue the HECS-HELP benefit, which reduces repayments for professionals in certain occupations and regions. Kemp and Norton found that the HECS-HELP benefit had not been effective, with no systemic impact on recruitment to areas of workforce shortage. The benefit tended to provide a windfall gain to graduates who would have chosen these professions regardless of the incentive.

Recent public debate on HELP repayments has partly focussed on those people who have HELP debts, earn less than the current minimum repayment threshold, but who live in a high-income household. To improve repayments from this group, it has been suggested that a household income test be introduced. A further suggested option is the recovery of outstanding loan amounts from deceased estates, to ensure that people who have not repaid their loan through their lifetime but have accumulated significant assets are also required to repay their HELP debt like any other liability.

In finalising legislative reforms and meeting the financial sustainability savings outlined in the Budget the Government will consider options to enhance the long term sustainability, viability and affordability of HELP student loans, including:

- changes to repayment thresholds and rates, for example by commencing repayment of HELP debts at a lower threshold income than the current minimum (\$54,126), and/or introducing an additional higher contribution rate for high income earners (the maximum rate is currently 8 per cent for \$100,520 and above)
- change the indexation of HELP repayment thresholds from average weekly earnings to CPI
- a renewable lifetime limit on HELP loans
- restrictions on the availability of HELP loans or Commonwealth subsidies to those who have left the workforce permanently

- discontinue the HECS-HELP benefit
- introduce a household income test for HELP repayments
- recovery of debts from deceased estates

The Government is also currently consulting on the design of VET FEE-HELP, with submissions closing on 30 June 2016; see <https://docs.education.gov.au/node/40661>.

Feedback opportunities

The Government welcomes feedback on the ideas presented in this paper and any other ideas to improve Australia's higher education system that stakeholders wish to raise. Submissions should recognise the need to put the funding of Australia's higher education sector on a sustainable footing for institutions, students, the Government and taxpayers, including currently budgeted savings.

The Government and Minister, informed by the Expert Advisory Panel, will work with students, parents, employers, higher education providers and peak bodies to finalise legislation for its revised reform proposals.

Any written comments you would like to make can be sent by 25 July 2016 to:

- Higher Education Reform Feedback
Higher Education Group
GPO Box 9880 CANBERRA ACT 2601
- Or by email to HEReform@education.gov.au