

LA TROBE UNIVERSITY SUBMISSION

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**Driving Innovation,
Fairness and Excellence in
Australian Higher
Education**

ENQUIRIES
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Summary of Recommendations

- La Trobe recommends a comprehensive discussion with the sector on an appropriate mix of mechanism/s to achieve sustainability and certainty for the sector, while also delivering increases in student choice and improvements in quality.

Opportunity and Choice

- La Trobe recommends the retention of demand driven funding for bachelor level study, subject to redesign of higher education financing and enhanced accountability measures;
- La Trobe recommends the extension of demand driven funding to sub-bachelor level study, subject to redesign of higher education financing policy and enhanced accountability measures;
- La Trobe recommends increasing the number of commonwealth supported postgraduate places, and reviewing the distribution of places across institutions and fields of education.

Fairness and Equity

- La Trobe recommends integrating student equity as a key consideration across each element of policy reform under active consideration;
- La Trobe recommends undertaking a review of the higher education student equity framework for the contemporary context, encompassing target groups, equity across course levels, an enhanced focus on measurement and monitoring of outcomes, and the welfare and status of international students;
- La Trobe recommends broadening the frame of analysis for regional higher education policy, to encompass the potential role of the Murray Darling Medical School, the contribution of demand driven funding to building regional student participation and attainment, and the interactions between regional higher education providers and regional TAFEs.

Excellence and Quality

- La Trobe recommends committing to a net sustainable increase in university resourcing through re-engineering of the financing model at a system level, rather than the narrowly defined flagship model;
- La Trobe recommends investing in the enhancement of QILT to influence student choice and utilise institutional competitive positioning as a driver of quality reforms;
- La Trobe recommends that in the enhancement of QILT, new quality measures are aligned with clear policy objectives that do not serve to strengthen outdated conventions;
- La Trobe recommends prioritising enhanced information about student demography and equity as an area of focus;
- La Trobe recommends reconsidering the distribution of public subsidies to facilitate growth and better align funding with policy objectives and economic needs;
- La Trobe recommends progressively increasing the caps on sub-bachelor places before introducing full demand driven funding.

Affordability

- La Trobe recommends maintaining the amount that the Commonwealth contributes per student, while progressively altering the split between public and student contribution by making higher fees conditional on well-defined outcomes;
- La Trobe recommends considering changes to the design of HELP that enhance cost recovery without undermining the program's insurance component, which could include reform to debt write off policy.

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1. INTRODUCTION

Higher education participation in Australia is predominantly shaped by access to public subsidy, both through direct investment, and indirectly through the higher education loan program. The introduction of demand driven funding has seen a major increase in participation in higher education. However, this has created a number of pressures and challenges as evidenced, for example, by the financial stress experienced by some universities.

While La Trobe has been, and remains, a strong supporter of demand driven funding to achieve increasing participation and attainment, a wider policy discussion is now needed to address key tensions in the system, including:

- Lack of certainty over policy settings to deliver financial sustainability for the sector.
- Inefficient decision-making driven by institutional self-interest rather than the national interest.
- Detrimental impacts on regional campuses and regional economies as students migrate towards metropolitan universities.
- Detrimental impacts on weaker institutions as universities with greater brand power increase their numbers at the expense of less prestigious institutions.

While the overarching challenge is to achieve policy settings that will deliver ongoing financial certainty and sustainability, there are a range of specific but inter-connected issues that will need to be addressed as part of a holistic response, including:

- Higher education expenditure has been growing faster than governments have been able to accommodate.
- The capping of enabling, sub-bachelor and postgraduate places is below levels necessary to fulfil labour market demand, and undermines quality and integrity.
- Capped student contributions provide institutions with few levers other than increasing undergraduate enrolments to drive the revenue growth necessary to fulfil the multi-dimensional missions of universities. This in turn places financial pressure on less prestigious institutions who struggle to maintain their share of an increasingly competitive market for undergraduate students.
- Inflexible financing impedes the pursuit of innovative, higher quality delivery models.
- The surge of recent graduates appears misaligned with demands of the labour market.
- There is evidence of continuing skills shortages, particularly in regional Australia.
- Equity groups remain underrepresented.
- Students are encouraged to pursue bachelor level study over other valid educational options.
- Investment in research at universities represents a declining proportion of total government expenditure in higher education and research.

The proposal to introduce fee deregulation as a market mechanism to help manage these challenges has now been abandoned. An alternative approach is required.

La Trobe submits that the complexity of the sector, and the importance of addressing the wider issues of financial sustainability and certainty, warrant a broader and more holistic discussion than that enabled by the individual proposals and structure of the discussion paper. In view of this, La Trobe's responses to the specific proposals included in the discussion paper are provided subject to an overarching and significant caveat that individual proposals ought not be considered as stand-alone.

La Trobe recommends a comprehensive discussion with the sector on an appropriate mix of mechanism/s to achieve sustainability and certainty for the sector, while also delivering increases in student choice and improvements in quality.

2. POLICY REFORM PRINCIPLES

La Trobe University supports the policy principles outlined in the consultation paper: Innovation, Fairness, Excellence and Affordability. These principles are laudable objectives for Australian higher education.

La Trobe also supports the principles outlined in Universities Australia 'Keep it Clever Policy statement 2016': Accessibility, Affordability, Quality, Research Capability, Resourcing, Accountability, Autonomy and Stability.

The principles espoused by the consultation paper and Universities Australia omit the following considerations that La Trobe recommends be emphasised in the policy reform process.

1. Evidence Base:

The higher education policy reform process will be strengthened by drawing upon a strong and accessible evidence-base. The redesign of the higher education loan program and funding clusters, for example, involve complex policy choices for which empirical data are limited. Policy reforms overly reliant on proxies, unrepresentative data or normative positions are less likely to be effective.

2. Equity:

Higher education reform succeeds or fails on the degree to which equity considerations are adequately embedded in design and evaluation criteria. Equity should feature more strongly in thinking across all policies within scope for higher education reform. Equity includes consideration of the fairness of various approaches to financing higher education and the degree to which students from various backgrounds can access a high quality higher education experience.

3. Interdependency:

Higher education policy reform should not be disconnected from its relationship to other sectors and systems. Policy reforms should be mindful of the relationships that exist between teaching, research and innovation, and between higher education and other education systems – particularly schools and vocational education.

4. Efficiency:

Australian higher education is concentrated in public universities, whose overheads are made higher by the need to engage in research and various forms of public service. The transition to universal levels of participation will be made more difficult by reliance on the public university model. Policy reforms that support efficiency within the public university system, and across the tertiary education system as a whole, will be critical to the affordability of ever widening levels of participation.

5. Consultative:

The higher education policy reform process will be strengthened by adopting a collaborative approach that effectively engages key stakeholders in the outcome. A commitment to consultation will ensure a plurality of views are considered and will assist in gaining support for reform.

3. RESPONSE TO CONSULTATION QUESTIONS

3.1 OPPORTUNITY AND CHOICE

La Trobe University supports the view articulated in the consultation paper that:

“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 design and distribution of public subsidies is the critical policy lever that supports opportunity and choice in higher education.

Current policy settings are not optimally aligning public subsidies with social and economic needs or with the national interest, and contribute to three main problems with opportunity and choice in the system:

- Bachelor level study in public universities is prioritised, driving an increase in participation by students with lower levels of preparedness. These students tend to have poorer academic outcomes eroding the efficiency and efficacy of the system.
- Sub-bachelor (and enabling) programs can be a highly effective mechanism for helping transition those with lower levels of preparedness into higher education. Current policy impedes investment in program design that builds pathways and delivers sound labour market outcomes. La Trobe demonstrates a strong track record of success with its Tertiary Enabling Program and TAFE partnerships, and similar outcomes are evident at a national level.¹ We need stronger pathways underpinned by better access to sub-bachelor places.
- Postgraduate qualifications are an area of growth in the labour market. The distribution of subsidies is inequitable and not supporting growth in postgraduate study.

Australia’s economic prosperity depends upon addressing these problem areas. The Australian economy is in long term transition from low to high skilled work (See Appendix, A.1). All industry sectors demonstrate an increase in the proportion of the workforce with higher education qualifications. The fastest growing industry sectors, such as professional services and health care, have a relatively high proportion of persons with a higher education qualification, and higher rates of growth of persons employed with postgraduate qualifications. A long term challenge facing Australian higher education policy is accommodating growth in demand for highly skilled, appropriately qualified workers.

¹ Research undertaken by Curtin University, La Trobe University and Federation revealed that students undertaking enabling studies had higher retention rates than students admitted via VET pathways. Pitman, T., Trinidad, S., Devlin, M., Harvey, A., Brett, M. & McKay, J. (2016). “Pathways to Higher Education: The Efficacy of Enabling and Sub-Bachelor Pathways for Disadvantaged Students”. National Centre for Student Equity in Higher Education (NCSEHE), Perth: Curtin University. Available at: <https://www.ncsehe.edu.au/publications/pathways-to-higher-education-the-efficacy-of-enabling-and-sub-bachelor-pathways-for-disadvantaged-students/>

3.1.1. Domestic Student Load Characteristics

The present funding settings prioritise bachelor level study over sub-bachelor and postgraduate levels. The extent of priority given to bachelor level education is evident in the distribution of public subsidy by course level (Table One).

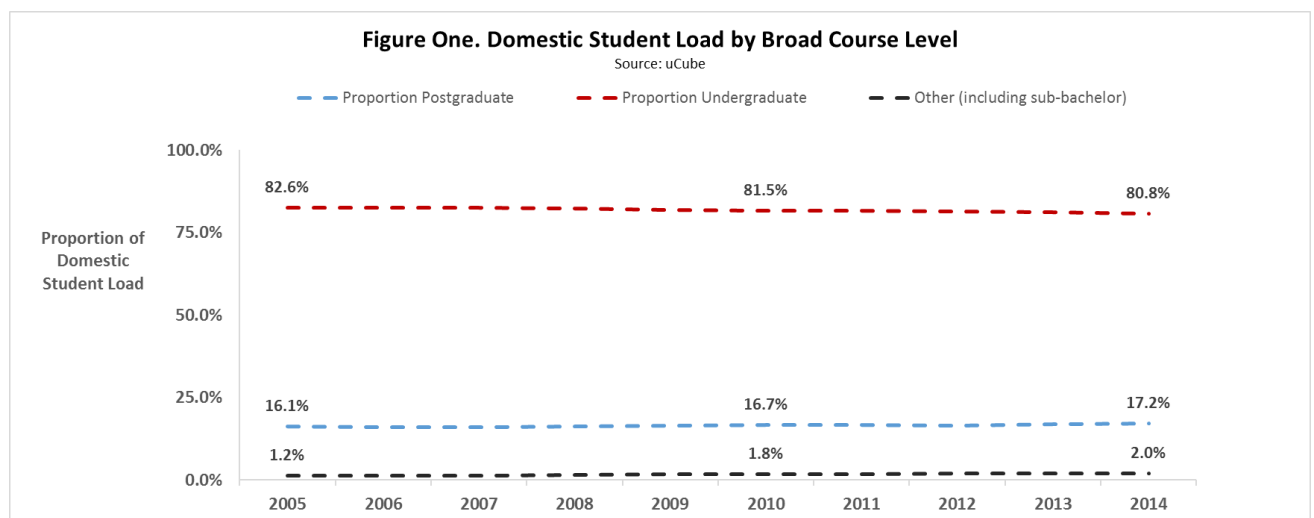
Table One. Domestic Student Load by Course Level, Provider Type and Liability Status 2014

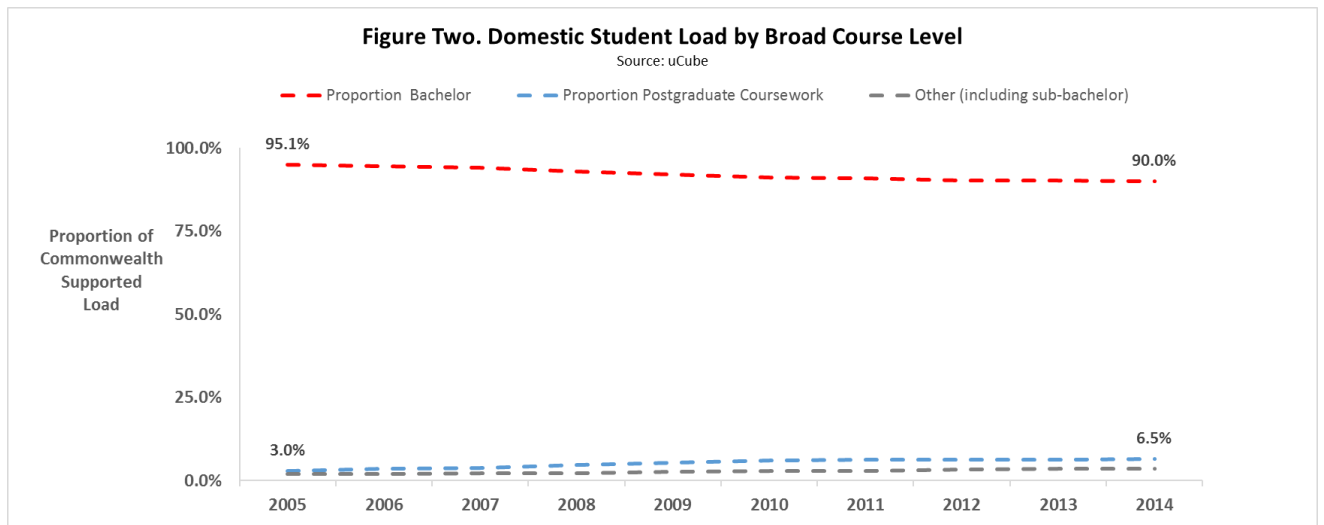
	PROPORTION LOAD ENROLLED AT PUBLIC UNIVERSITIES	PROPORTION OF LOAD THAT IS CSP	REGULATORY STATUS OF COURSE LEVEL
Sub-Bachelor	64.3%	55.2%	Capped
Enabling	94.7%	96.8%	Capped
Bachelor	94.5%	95.1%	Uncapped
Postgraduate Coursework	91.1%	41.0%	Capped

Source: uCube

Bachelor level students are overwhelmingly enrolled at public universities in Commonwealth Supported Places. Postgraduate coursework students are also predominantly enrolled at universities, though with a much lower proportion being commonwealth supported. A large proportion of sub-bachelor level students are not in receipt of Commonwealth Supported Places, and the share of those students that study at non-university providers is significantly higher than that of other levels.

It is clear that these arrangements are poorly aligned with actual demand for higher education. Despite the bias in public subsidy towards bachelor level study, bachelor level participation represents a declining proportion of higher education domestic student load (Figure One), and a declining proportion of Commonwealth Supported Place load (Figure Two).





Postgraduate and sub-bachelor level study are of growing importance, and the current funding arrangements for higher education fail to reflect this. Consequently, the higher education sector is falling short on delivering key outcomes expected of it. There is a growing need for more supportive entry points to higher education for those with lower levels of academic preparedness. The constraints on sub-bachelor provision inhibit providers in meeting this need. There is also an increasing demand for postgraduate qualifications in the labour market, and the sector's capacity to supply graduates with those qualifications is constrained.

There is no perfect distribution of attainment across course levels. Attainment by course level varies significantly across the OECD (see Appendix, A.2), and for the most part this variation is explained by differing policy choices made in the past.

Nonetheless, there is a strong case for reforming the present settings. One option that has been raised for managing the cost of growth in participation is recapping bachelor places. La Trobe urges caution on any proposals for recapping the system, as this may re-introduce a degree of regulatory intervention that will impede the efficiency of the system. An alternative approach may include negotiated funding agreements based on growth plans that are specific to individual institutions.

La Trobe's preferred approach, not necessarily exclusive of other approaches, is to reconsider the distribution of public subsidies across course levels, using demand driven mechanisms combined with enhanced accountability measures. In this way, growth at sub-bachelor level may mitigate the pressure for growth in bachelor load. Concerns about the cost of extending demand driven funding can be addressed by policy incentives and re-engineering higher education financing. This is discussed in more detail in subsequent sections of this paper.

3.1.2 Sub-bachelor provision

Under the present settings, students who require more support to transition into higher education attract fewer subsidies and pay higher fees. The need for a better approach is evident when considering the experiences of students admitted to bachelor programs with lower levels of preparedness. Six-year completion rates for school leavers with an ATAR of less than 70 are less than 60% (Table Two). This is lower

than the completion rates of all those admitted on the basis of school education and those admitted on other criteria (such as a vocational qualification).

Table Two. Select Domestic Bachelor Six Year Completion Rates

COMPLETION CATEGORY	SUB-CATEGORY	SIX YEAR COMPLETION RATE
School Leavers	ATAR 30-49	41.3%
	ATAR 50-59	51.9%
	ATAR 60-69	58.3%
Basis of Admission	Secondary Education	72.3%
	Other Basis for Admission	61.8%

Source: Department of Education 2015. Completion Rates of Domestic Bachelor Students - A Cohort Analysis, 2005-2013

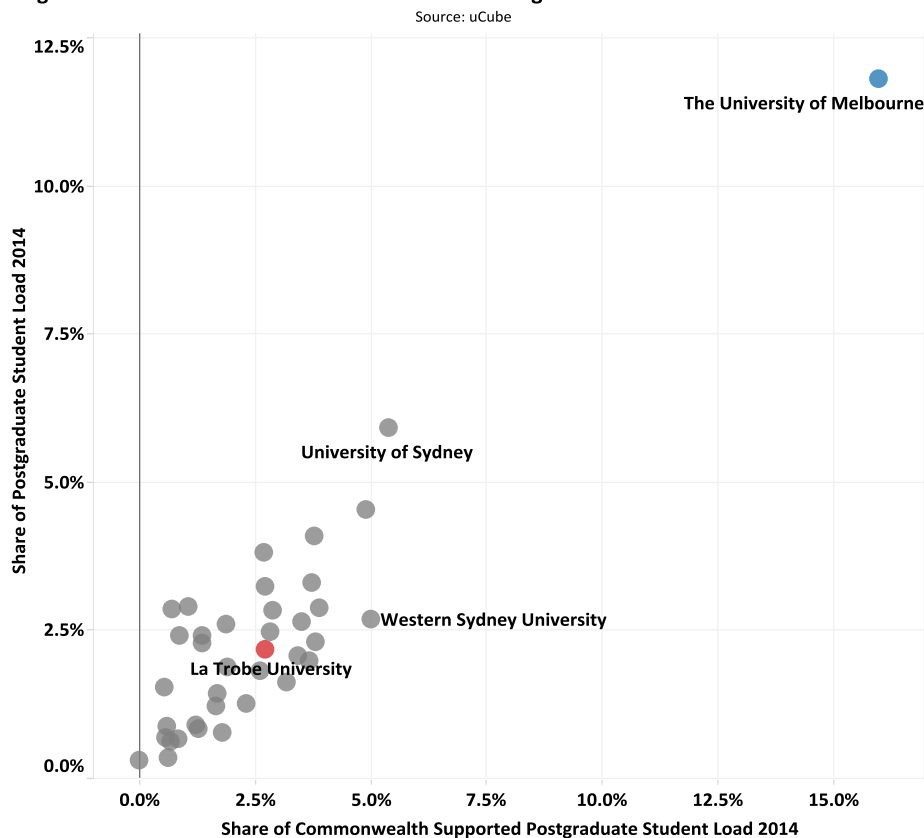
Of course school leavers with lower ATARs make up a smaller proportion of all enrolments than students with higher ATARs. Nonetheless, the relationship between levels of preparedness and academic success is clear. This relationship is a key driver of the Higher Education Standards Panel consultation around transparency in admissions. While the policy response to lower completion rates should be wide-ranging and include efforts to make admissions information and outcomes more visible to prospective students, it is important that this response also considers the distribution of public subsidies as a factor in the growth of underprepared students enrolling in bachelor programs.

Greater investment at the sub-bachelor level may lead to better educational outcomes and mitigate the growth in bachelor student load. This should coincide with greater emphasis on the design of sub-bachelor programs, and on their dual purpose both as a pathway to bachelor level study and as a qualification with currency in the labour market.

3.1.3. Postgraduate Load and Commonwealth Supported Places

At the postgraduate level, universities have a high share of domestic student load (91.1%), and around two fifths of postgraduate coursework students are Commonwealth Supported (see Table One, p.8). The unequal distribution of public subsidies at the postgraduate level – both between institutions and between fields of education – should be reviewed. The current arrangements are opaque and the product of historical decisions. As well as being unfair, these arrangements have market distorting effects.

Figure Three highlights the distribution of postgraduate student load and postgraduate Commonwealth Supported Places across the sector. The University of Melbourne is an outlier based on a deliberate strategic shift towards postgraduate education that began over a decade ago. There is also significant variation in institutional share of Commonwealth Supported Places beyond the University of Melbourne, and little transparency around how these subsidies are distributed. Financing of postgraduate study requires a new approach, one that is more responsive to labour market demand and that has a fairer allocation of subsidies.

Figure Three. Institutional Share of All and CSP Postgraduate Domestic Student Load 2014

The inequitable distribution of subsidies across the sector is exacerbated by the inconsistent regulatory treatment of postgraduate and undergraduate courses. There is presently an incentive for institutions to move baseline qualifications for professional degrees to the postgraduate level where fees are not capped. This is both unfair and counter-productive. Greater regulatory consistency across course levels would help avoid this type of perverse incentive.

The distribution of postgraduate student load and Commonwealth Support is strongly influenced by field of education (see Appendix, Table A.3). A high proportion of Commonwealth Support is focused in health and education, and a high proportion of fee paying students are undertaking studies in business, law and health. The conventional logic is that Commonwealth Support should be focused in areas where there are low rates of private return and heightened social need. However, social and economic demand for postgraduate qualifications is rising across every industry sector. In addition to the highlighted need for increased transparency and fairness in allocation of places, the policy logic should shift from who can pay to encompass both private rates of return and industry demand for high skills and postgraduate qualifications.

There is a further question relating to the gap between the level of subsidy received by Commonwealth Supported and fee-paying students. The difference in student contributions in some courses and institutions is as high as \$230,000, raising significant equity issues.² Where graduates receive high private returns, and

² <http://mdhs-study.unimelb.edu.au/degrees/doctor-of-medicine/fees-scholarships#fees-scholarships>

where there is a willingness of students to pay, the case can be made that this scenario is a legitimate market outcome. If the logic of private return and willingness to pay is valid, one can question whether the benefits conferred via a Commonwealth Supported Place are necessary at all, or whether these benefits are conferred in accordance with transparent and sound policy principles.

Where graduates receive more modest private returns, and where there remains a willingness of students to pay (as there are in some areas of study in some institutions), there are questions around the utility of underwriting large debts through the loan program with reduced confidence that loans will be repaid. The sustainability of the higher education loan program is discussed further in later sections of this submission.

3.1.4 Non-University Providers

The extension of subsidies to teaching centric providers will be required over the longer term if Australia is to accommodate universal levels of higher education participation. Solitary reliance on the public comprehensive research university as the primary model for higher education delivery is incompatible with universal levels of higher education participation.

However, recent experiences with VET-FEE HELP highlight the risks associated with opening public subsidies to a range of providers without an effective regulatory framework. La Trobe recommends that any extension of Commonwealth Support to non-university providers be undertaken at a suitable point in the future where the regulatory and market design challenges have been resolved, mitigating the risks of misuse of public subsidy. This process should include an overt commitment to understanding the regulatory failures that facilitated VET-FEE HELP rorting.

3.1.5. Recommendations

- Undertake a comprehensive discussion with the sector on an appropriate mix of mechanism/s to more effectively manage growth in the system, and to support sustainability and certainty. (Specific recommendations focused on higher education financing policy and the higher education loan program are outlined in later sections of this submission);
- Retain demand driven funding for bachelor level study, subject to redesign of higher education financing and enhanced accountability measures that optimise student success and curtail unsustainable growth rates evident in some institutions and areas of study;
- Extend demand driven funding to sub-bachelor level study, subject to redesign of higher education financing policy, and enhanced accountability measures that optimise learning pathways and align with clear labour market needs;
- Increase the number of Commonwealth Supported Places for postgraduate students, with specific consideration of:
 - o the distribution of places across institutions.
 - o the demand for postgraduate qualifications across industry sectors.
 - o regulatory treatment of similar courses at undergraduate and graduate level.
 - o more equitable differentials between students who receive and do not receive Commonwealth support within a program of study.
 - o redesign of higher education financing.

3.2 FAIRNESS AND EQUITY

La Trobe University welcomes the prominence given to equity within the consultation paper, and is particularly pleased that the specific challenges associated with regional higher education have attracted a heightened policy focus. To mitigate the risk that equity is viewed as an issue that is disconnected from other policy reforms, La Trobe recommends that equity considerations be treated holistically and as a key consideration across each area of policy reform. For example, the distribution of public subsidies at sub-bachelor and postgraduate level, and operation of the higher education loan program, involve major equity issues that are not adequately addressed in the consultation paper.

3.2.1. A New Framework for Student Equity in Higher Education

Australia's higher education student equity policy framework has its origins in the 1990 publication of *A Fair Chance For All* and the subsequent establishment of an equity indicator framework that remains in use today. There is a pressing need to update this framework so that it is fit for purpose for current circumstances. La Trobe University has significant expertise and would welcome involvement in reconceptualising higher education student equity policy. Key areas that warrant policy emphasis include:

- The utility of current student equity categories, and the potential for their enhancement.
- The relationship of student equity categories to level of study; field of study; graduate outcomes; and indicators of learning and teaching quality.
- Transparency of performance measures associated with student equity categories, including transparency around admissions, academic performance and graduate outcomes.

3.2.2. Higher Education Participation and Partnership Program (HEPP)

La Trobe welcomes a review of HEPP, and awaits formal confirmation of the terms of reference for the review. La Trobe is confident that it can demonstrate sound outcomes and good value for money, and that it can serve as an exemplar for the sector in its use of HEPP funding. La Trobe University has significant expertise on student equity and would welcome, where appropriate, the involvement of its student equity experts in the design and implementation of the review process.

For the purposes of this submission, La Trobe University recommends that HEPP be retained as a program, but that its scope be refined to encompass the participation of all students that experience educational disadvantage. The program would benefit from improved accountability measures to better align funded activities with funding objectives. There is a case to be made for more rather than less funding for student equity, but this should be approached holistically and in alignment with broader policy reform and any changes to the student equity policy framework.

3.2.3. Regional Higher Education

La Trobe has been a staunch advocate for regional higher education policy, and welcomes renewed focus on this issue. There are some major challenges facing regional communities that include:

- Regional Australia has about half the level of higher education attainment evident in major cities.
- Regional Australia has about half the level of higher education participation evident in major cities.
- Regional Australia has about half the level of medical practitioners present in major cities.

Labour market demands in regional Australia are changing as the agriculture sector adopts advanced technologies and practices, and regional city population growth fuels demand for professionals. There is a declining demand for labour in agriculture and manufacturing industries (See Appendix, Table A.1), and this decline is particularly acute in regional communities. There is, however, increasing demand for higher skilled labour and the need to foster a culture of innovation. The demand driven system has done little to increase participation rates in regional Australia. A new policy approach to regionally delivered higher education is long overdue.

The proposals outlined in the consultation paper (better support for and utilisation of infrastructure, and better use of collaborative technologies) will be part of the solution that drives innovation and skills, but there is a need to broaden the policy focus to consider the following issues.

Aligning Places with Demand

While demand driven funding has enabled many more regional students to participate in higher education, this has encouraged the migration of regional students to metropolitan institutions. This can have a detrimental impact on regional campuses and regional economies, since it drains human capital out of the regions to the cities. The financing of higher education should continue to facilitate growth in the enrolment of regional students at regional campuses, and any new mechanisms intended to help manage the system should be designed to ensure growth in regional participation at regional campuses.

Regional Infrastructure

The sustainability of regional higher education delivery is enhanced where there is strategic investment in education, research, innovation and health infrastructure. The success of the Bendigo Hospital currently under construction, for example, will be augmented by investment in clinical training and medical research infrastructure.

Sub-Bachelor Places

Lower rates of school completion and achievement leads to proportionally fewer regional students who are adequately prepared for higher education. By increasing or removing the caps on sub-bachelor places, universities would be able to provide better pathways into higher education for regional students.

TAFE Partnership Support

The economic transition evident in regional communities increases the need for retraining and reskilling. The pathway to advanced skills is optimised by seamless progression between TAFE and higher education, and is facilitated by State Government investment in subsidies and support.

Murray Darling Medical School

An inland medical school will attract high achieving students, staff and researchers to regional Australia, helping to address long-term skills shortages. The Department of Education can make medical training places available, and this would have transformative effects on regional health systems and community development. Policy should consider not just the training of people in and from regional Australia, but also the factors that impede the migration of people from major cities to regional communities. An inland medical school could serve as an important exemplar of how this can be achieved in practice.

Regional Education Policy Research Centre

There is a strong case to focus investment in research and data analysis through a regional education policy research centre to improve the regional higher education evidence base and better inform policy design, implementation and evaluation.

Teacher Entry Standards

The introduction of minimum ATAR requirements for initial teacher education programs may compromise regional community access to teachers. Regional students, who are less likely to have a higher ATAR, may be excluded from teaching, and major city teaching graduates are less likely to work in the regions. Entry standards that complement ATAR with other predictors of success are more appropriate.

3.2.4. Recommendations

- Integrate student equity as a key consideration across each element of policy reform under active consideration;
- Undertake a review of the higher education student equity framework for the contemporary context, encompassing target groups, equity across course levels, and an enhanced focus on measurement and monitoring of outcomes. The equity, welfare and status of international students could also be subject to more systematic evaluation;
- Broaden the frame of analysis for regional higher education policy, to encompass:
 - o The contribution of demand driven funding at sub-bachelor and bachelor level to building regional student participation and attainment.
 - o Interactions between regional higher education providers and regional TAFE.
 - o The role that a Murray Darling Medical School can serve in bringing prestige teaching and research to the regions to attract and retain high achieving students and staff.

3.3 EXCELLENCE AND QUALITY

La Trobe University supports the commitment articulated in the consultation paper towards:

“providing universities with additional flexibility to innovate, differentiate themselves and offer students more choice and higher quality offerings.

The one-size-fits-all approach to Commonwealth Supported Places impedes the degree to which universities can differentiate in program design and program offerings. Under current funding arrangements, student load is the driver of what can be taught and how it is taught. Higher education financing is placing ever more pressure on efficiency ahead of quality and differentiation. Universities have commenced, or have committed to, rationalising the number of courses and subjects they offer and the number of campuses they operate. Student choice, excellence and quality are compromised as a result.

The proposed reforms outlined in the 2014/15 budget were a response to the funding challenges associated with growth in enrolments. Whilst the government has indicated that it will no longer pursue the full range of reforms proposed for higher education, elements of the reform package held much merit, and should inform future policy reforms.

An important aspect of the 2014 reform package was a recognition that high quality university programs required an increase in the quantum of resourcing. Ultimately, the mechanism through which the level of resourcing could be increased – declining government funding, offset by the uncapped student fees – was rejected by the parliament. The need to find ways of improving excellence and quality has not faded, and a different mechanism for achieving this objective needs to be identified and legislated.

3.3.1. Flagships Programs

Flagship programs, as proposed in the consultation paper, are intended as a mechanism by which innovation and differentiation can be financed by increasing fees, whilst mitigating fee increases through regulatory oversight and/or declining subsidy.

La Trobe has significant concerns with this proposal. The flagships approach may introduce an unhelpful degree of complexity into higher education financing. There is a risk that students in flagship programs would become the mechanism by which adequacy of funding across the whole sector could be addressed, an unfair burden for this cohort to bear. It is possible that the sector would converge on programs with perceived high rates of private return, with limited differentiation across the sector. The quality of high cost non-flagship programs in areas of low demand, with modest rates of private return and high social impact, would continue to be at the mercy of internal cross subsidisation. For example, the financing of programs such as prosthetics/orthotics and Auslan – which few universities other than La Trobe teach and support – are not resolved by the flagship model. Finally, the flagships proposal risks opening another divisive and unproductive debate about fee increases, reducing the prospects for the reform package securing Senate support. These issues would need to be adequately addressed prior to any decision to include the flagships model in the reform package.

3.3.2. Quality Indicators for Learning and Teaching (QILT)

The introduction of QILT is a welcome development in higher education policy. Better information is an important factor in ensuring that student choices are aligned to aspirations of accessing an *'appropriate course, at the right time, according to their needs and the national interest'*.

One must caution, however, about expecting too much from QILT. The drivers of student demand in higher education involve social expectations formed through complex and diverse influences across many years. More information about teaching quality and outcomes is unlikely to disrupt the underlying causes of increasing demand for higher education. QILT is more likely to be influential at an institutional level, as providers in a competitive market seek to present the value proposition of their offerings in the best possible manner.

The sector's engaged response to Higher Education Standards Panel Consultation on transparency in admissions is illustrative of the ways in which QILT is perceived, and the risks involved in over-emphasising some indicators over others. La Trobe's submission to the Standards Panel recommended a neutral taxonomy of academic achievement representing contemporary admissions practice to inform students of admissions criteria. Over-reliance on ATAR entrenches a fixation on school leavers as the reference point that drives the system as a whole. Around half of all students in the sector are over the age of 22, and as Australia moves to ever higher levels of participation, what happens in school, though critically important for some cohorts, will be of declining relevance for others. Nonetheless, some institutions and networks framed their contributions to transparency in admissions consultation around ATAR.

If QILT is to expand the complexity of information it collects and represents, its operations should seek to align with clear policy objectives and principles. Commentary on the options for extending QILT are outlined below (see Table Four). Any enhancement to QILT should be undertaken in ways similar to that evident in its initial roll out, with a collaborative approach that iteratively responds to sector feedback.

Important issues omitted from the list of potential enhancements include social demography and student equity. Students would be better empowered about their educational choices if they have access to additional data on key elements of student demography and outcomes.³ Better data would place greater pressure on institutions to justify their student intakes, composition and student outcomes. Transparency on demography and performance by cohort, discipline and institution will facilitate much needed conversations on why some groups, such as Indigenous students or those with disability, are clustered in some disciplines but remain largely underrepresented in others.

³ For an example of how social demography, equity and academic entry standards can be represented at an institutional level, see the Columbia University model - <http://undergrad.admissions.columbia.edu/classprofile/2019>

Table Four. QILT Enhancement Options

QILT ENHANCEMENT OPTIONS	LA TROBE POSITION	COMMENT
Longitudinal survey of graduate outcomes	Supported	The University supports the Longitudinal Graduate Outcome Survey as it provides important information to supplement shorter-term graduate outcome data.
Employer satisfaction survey enhancement	Supported	La Trobe supports mechanisms that elicit views of actual supervisors. The University notes the significant complexity in the design and administration of this national survey.
Data on earnings, course information and fees	In principle support	Prefer ATO data on actual earnings, although there will be challenges in juxtaposing fees and earnings. Relevant data should be accessible to researchers with robust evaluation driving data use and representation.
Integrate data from ATO on actual earnings and labour market status	In principle support	Support recent activity to integrate ATO and Department of Education data and systems.
University profile, course information, survey data	Supported	This is basic information
Online application	Not Supported	It is unclear how a single platform would accommodate State-based differences and be better than established Tertiary Admissions Centres. A better approach would be progressive standardisation of information on admissions policies and enrolments.
Student engagement and interactivity	Supported	Data on the degree to which QILT is being used by students should be made more transparent to the institutional contributors, and form part of KPIs for QILT to ensure any enhancements are reaching students and meeting policy objectives.

3.3.3. Recommendations

- Commit to a net sustainable increase in university resourcing through re-engineering of the financing model at a system level, rather than narrowly defined flagship model;
- Invest in the enhancement of QILT to influence student choice and utilise institutional competitive positioning as a driver of quality reforms;
- Ensure that in the enhancement of QILT, quality measures are aligned with clear policy objectives and principles that are fit for emerging purpose and do not reify outdated conventions. Enhanced information about student demography and equity should be prioritised as an area of focus.

3.4. AFFORDABILITY

In the context of competing demands on the federal budget, financing the continued expansion of higher education participation will require addressing the relative composition of public and private investment. The political challenges that confront this task are significant. Changes to the funding arrangements must allow for greater numbers of students, avoid compromising equity principles and manage the stakeholder interests that may oppose reform.

La Trobe's view is that these challenges should be addressed by using an approach differentiated by course level. The level and the scope of public subsidies, and provisions relating to the use of income contingent loans, should be customised to the objectives at each level of education.

Sub-Bachelor – There is scope to grow sub-bachelor places as a response to widening participation in higher education from students with lower levels of academic preparedness. These students need more support than they currently receive. This group potentially straddles Commonwealth and State funded education programs, and both jurisdictions should make a contribution to their education. La Trobe proposes that public support for sub-bachelor places be split equally between the States and the Commonwealth, and that this funding encompass programs currently delivered through the States at the Diploma and Advanced Diploma level.

The rates of return for sub-bachelor programs are weaker than other levels of higher education, and policy should cap exposure to higher fees and charges. There should be a progressive increase in capped places before leading to full demand driven funding. This would allow the market to develop the courses and programs best suited for this cohort. The Government could support this transition with incentives to develop programs optimised for effective pathways and strong labour market outcomes. Greater use of sub-bachelor programs will support a dignified exit from higher levels of study where students are not thriving.

Bachelor – There is scope to support continued growth in bachelor places and demand driven funding as a response to anticipated growth in demand for high skills and qualifications. However, this growth must be underpinned by a greater policy focus on the quality of education and graduate outcomes. Unrestrained growth in enrolments that are disconnected from academic preparedness and labour market demand is not sustainable. Underfunding of the system and its effect on institutional scale can be mitigated by new approaches to higher education financing. This can be addressed by maintaining the amount that the Commonwealth contributes per student, while progressively altering the ratio of student to public contribution by making higher fees conditional on well-defined outcomes. This approach is proposed as part of higher education reforms in England.

There is also scope to consider contestable funding for a quantum of direct Commonwealth subsidies to drive diversity of institutional mission and focus. The Legislation and Finance Working Group – established following the proposed 2014 higher education reforms – estimated that 30 per cent of the government contribution for Commonwealth Supported Places was related to the unique research and engagement functions of universities not undertaken by non-university providers. This quantum of government support could be utilised more strategically to support the distinctive missions of universities.

Interdependencies with sub-bachelor programs should see an increase in completion and success rates, supported by suitable incentives, and penalties for poor performance. The strong rates of private return associated with higher education support a rebalancing of the relative contribution between government and student. La Trobe University notes that the National Commission of Audit recommended a 45/55 split in average relative contributions, and this could be achieved progressively rather than discontinuously by linking fee increases to quality of outcomes.

Postgraduate – There is scope to support growth in postgraduate study to fulfil demand for high skills and qualifications. A market for uncapped postgraduate fees already exists, but this opens inequities between those that do and do not receive Commonwealth support. There is also an inequitable distribution of Commonwealth Supported Places across institutions. There is scope to reduce the level of direct subsidy significantly, extending its application more broadly. The high rates of private return justify a greater private contribution, but there remain public externalities that warrant some form of public subsidy beyond those implicit in the higher education loan program.

There remains a risk to the Higher Education Loan Program from high postgraduate fees. Limited information available about repayment profiles makes it harder to quantify these risks across the sector. The integrity of the loan program can be maintained though debt limits, and private debt markets could be explored as an option above publicly subsidised loan limits.

Table Five summarises the challenges and options, and recommended policy response.

Table Five. Higher Education Financing Reform Model

	SUB-BACHELOR	BACHELOR	POSTGRADUATE
Demand Assessment	<ul style="list-style-type: none"> - Immature industry demand for sub-bachelor qualifications - Policy imperative to strengthen pathways into bachelor programs 	<ul style="list-style-type: none"> - Demand for participation and qualifications near saturation - Demographic wave of school leavers will soon need accommodating 	<ul style="list-style-type: none"> - Demand for postgraduate qualifications is growing - Growth impeded by distribution of subsidies
Program Delivery Assessment	<ul style="list-style-type: none"> - Immature distribution of program offerings, no clear labour market outcomes - Potential exit qualification 	<ul style="list-style-type: none"> - Mature market - Evidence of inefficiency with higher rates of attrition for some cohorts 	<ul style="list-style-type: none"> - Maturing market - Evidence of inefficient use of public subsidy
Cost of Delivery Assessment	<ul style="list-style-type: none"> - Immature program offerings - Higher student support costs - Scope for shared State/Commonwealth contribution 	<ul style="list-style-type: none"> - Sub-optimal resourcing driving efficiency over quality - Scope for differentiation in cost and quality 	<ul style="list-style-type: none"> - Higher costs - Major differential between Commonwealth Supported and fee paying places
Public and Private Return	<ul style="list-style-type: none"> - Weaker return on investment - Students penalised by higher fees 	<ul style="list-style-type: none"> - Strong individual and public return on investment 	<ul style="list-style-type: none"> - Very strong individual and public return on investment
Current Regulatory Status	Capped	Uncapped	Capped
Recommended Regulatory Response	<ul style="list-style-type: none"> - Staged transition to demand driven funding - Lower capped rate of funding 30/30/40 State/ Cwlth/ student - Enhanced conditions of funding (e.g. pathways, industry linkages) 	<ul style="list-style-type: none"> - Demand driven funding - Fee increases conditional on teaching quality - Contestable funding for quantum of CGS to drive diversity - 45/55 Cwlth/student - Enhanced conditions of funding (quality, equity, success, completions) 	<ul style="list-style-type: none"> - Transition to demand driven funding - HELP Limits and private debt market - 20/80 Cwlth/student - Enhanced conditions of funding (scholarships, equity)
Rationale	<ul style="list-style-type: none"> - Lowers growth in costs - Improves completions - Fair and equitable 	<ul style="list-style-type: none"> - Improves quality - Improves completions - Improves institutional diversity - Increases resourcing more gradually appeasing concerns over discontinuous fee changes 	<ul style="list-style-type: none"> - Supports growth - Fair cost

3.4.1. Funding Cluster Design

Subject to the recommended financing model outlined above, La Trobe University supports a review of the funding clusters. Any review of the funding clusters should acknowledge that historic university financial data is a function of historic financing policy. Costs are shaped by revenue, and the justification for a different approach to resourcing will not be revealed from historic data. La Trobe recommends that any assessment of funding clusters revisit the proposed change toward the streamlined five level principle-driven funding clusters announced in the 2014/15 Budget.

3.4.2. Higher Education Loan Program Sustainability

A sustainable higher education loan program will remain critical to the financing of Australian higher education. Policies that undermine the sustainability of the loan program pose an unacceptable risk to the strength of the sector. It is important that the debt accrual be appropriate and aligned with policy objectives. The insurance dimensions of the loan program should be retained, recognising that some students will not benefit financially from a higher education experience. Repayment mechanisms should ensure the program's sustainability, but without unduly eroding the fairness of the payment system. These issues are considered in more detail below:

- **Accrual**

The accrual of debt through the loan program should meet thresholds of educational validity. Decisions around loan fees or repayment mechanisms are of a second order to the legitimacy of debt accrual. The accrual of debt through VET-FEE HELP over recent years was in many cases for negligible educational outcome. The accrual of debt for services and amenities fees builds in excessive administrative complexity for limited educational or institutional benefit. The more challenging policy questions around accrual relate to the moral hazards of excessive accrual of debt rising from uncapped fees within an income contingent loan framework. It is important that these policy questions are resolved by robust evaluation of the evidence base. La Trobe welcomes collaboration between the Tax Office and Department of Education and Training on this matter.

- **Insurance**

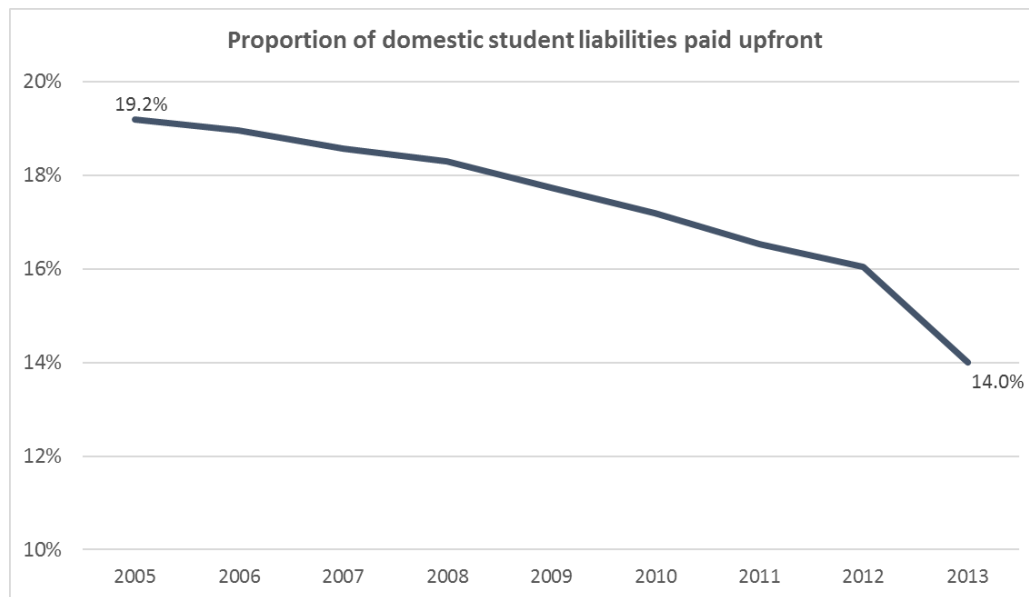
The design of the income contingent loan scheme includes an implicit insurance component that accepts that some students will accrue debt that does not generate the private returns leading to repayment. It is appropriate that this insurance component be underwritten by the government as a public good. The loan program was never designed to be self-funding nor to recoup 100% of its outlays. The proposed option for introducing a full cost recovery 20% loan fee is incompatible with the insurance related subsidies of the loan program. There is, however, a recognised need to enhance cost recovery whilst maintaining an element of insurance. The appropriate balancing of these tensions is best achieved through evaluation of the evidence base around debt accrual and debt repayment, combined with relevant contextual information that explains variance in debt profiles and repayment.

- **Repayment**

The consultation paper outlines a range of options that would improve the rates of higher education loan program repayment. The Grattan Institute is to be commended for its analysis on this topic, but this analysis utilises imperfect proxies and unrepresentative data for which actual accrual, income, taxation and repayment data is more valid. Census and HILDA data provide important insights, but are on their

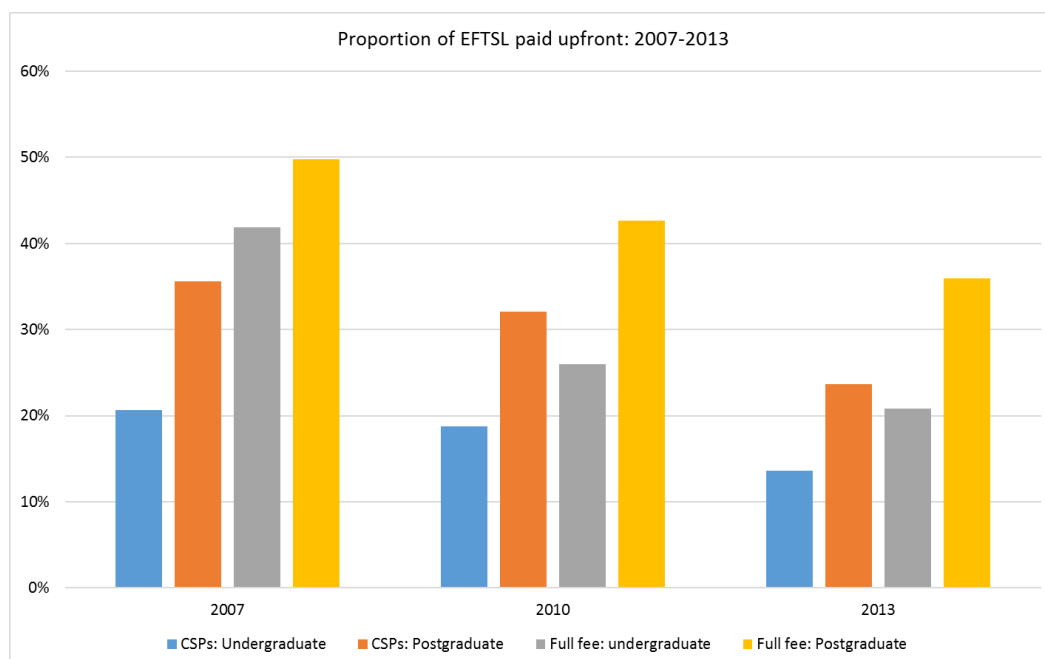
own insufficient to inform major policy reform. Repayment may be enhanced by a range of strategies, but the starting point should be a clear understanding of the problems to be solved. Capacity to pay should also be an important factor in design of the loan payment repayment framework. The proportion of liabilities paid to institutions in advance has decreased markedly over recent years (Figure Four), a trend evident across liability categories (Figure Five). The loan program design makes it advantageous for students to defer their payments, even if they have capacity to pay up front. Greater consideration could be given to how up-front payments can be encouraged.

Figure Four. Proportion of domestic student liabilities paid up-front



Source: Department of Education and Training, 'Higher Education Reports'.

Figure Five. Proportion of EFTSL Paid Upfront by Liability Status



Source: Department of Education and Training, 'Higher Education Reports'.

Equity also looms large as a key consideration in loan program repayments. Equity considerations are interdependent with the degree to which the insurance component of income contingent loans is valued, and the degree to which debt is accrued for sound educational reasons. Equity considerations must be balanced against the sustainability of the loan program as a whole.

3.4.3 Recommendations

- Reconsider distribution of public subsidies to facilitate growth and better align funding with policy objectives and economic needs;
- Consider a progressive increase in the caps on sub-bachelor places before introducing full demand driven funding;
- Maintain the amount that the Commonwealth contributes per student, while altering the split between public and student contribution, and while allowing higher fees based on well-defined outcomes;
- Consider significantly reducing the level of direct Commonwealth subsidy for postgraduate places, while broadening the number of Commonwealth Supported Places;
- Consider changes to the design of HELP that enhance cost recovery without undermining the program's insurance component, which could include reform to debt write off policy.

Appendix

Table A1. Employment and Qualifications 2006 – 2011

INDUSTRY SECTOR	PERSONS EMPLOYED	CHANGE 2006-2011 PERSONS EMPLOYED	CHANGE 2006-2011 PROPORTION WITH BACHELOR QUALIFICATION	CHANGE 2006-2011 PROPORTION WITH POSTGRADUATE QUALIFICATION
Accommodation and Food Services	612,700	72,790 (+13.5%)	+1.6%	+0.7%
Administrative and Support Services	307,011	36,180 (+13.4%)	+1.5%	+0.9%
Agriculture, Forestry and Fishing	234,157	-28,009 (-10.7%)	+1.5%	+0.4%
Arts and Recreation Services	143,185	23,226 (+19.4%)	+2.0%	+1.1%
Construction	783,604	115,543 (+17.3%)	+1.4%	+0.5%
Education and Training	764,144	101,612 (+13.3%)	+0.5%	+2.0%
Electricity, Gas, Water and Waste Services	109,428	24,920 (+29.5%)	+2.0%	+1.6%
Financial and Insurance Services	357,911	26,829 (+8.1%)	+3.7%	+3.1%
Health Care and Social Assistance	1,089,291	197,514 (+22.1%)	+1.6%	+2.0%
Information Media and Telecommunications	170,027	2,090 (+1.2%)	+4.0%	+2.8%
Manufacturing	860,028	-43,549 (-4.8%)	+1.6%	+0.9%
Mining	161,907	63,531 (+64.6%)	+1.3%	+1.4%
Professional, Scientific and Technical Services	700,807	124,469 (+21.6%)	+1.9%	+3.4%
Public Administration and Safety	640,228	75,628 (+13.4%)	+1.7%	+2.0%
Rental, Hiring and Real Estate Services	152,015	5,379 (+3.7%)	+2.5%	+1.2%
Retail Trade	1,000,652	23,200 (+2.4%)	+1.7%	+0.8%
Transport, Postal and Warehousing	446,573	49,704 (12.5%)	+1.7%	+1.1%
Wholesale Trade	387,735	8,481 (+2.2%)	+2.2%	+1.4%

Source: ABS Census Table Builder – includes all people employed Full and Part Time.

Table A2. Tertiary education attainment for 25–34-year olds in sample OECD countries

	AUSTRALIA	CANADA	GERMANY	OECD
Bachelor Degrees	30	24	14	21
Master Degrees	7	9	13	14
Short cycle Technical/Vocational	10	24	0	7
Total Tertiary	48	58	28	41

Source: Geoff Sharrock (2016): Beautiful lies, damned statistics: reframing Australian university funding, Journal of Higher Education Policy and Management, DOI: 10.1080/1360080X.2016.1150231

Table A3. Postgraduate Domestic Student Load by Liability Status and Broad Field of Education 2014

	CSP AS PROPORTION OF DOMESTIC POSTGRADUATE LOAD	FEE PAYING AS PROPORTION OF DOMESTIC POSTGRADUATE LOAD
Natural and Physical Sciences	1.3%	1.7%
Information Technology	0.4%	1.6%
Engineering and Related Technologies	1.4%	1.8%
Architecture and Building	2.2%	0.6%
Agriculture Environmental and Related Studies	0.4%	0.7%
Health	10.3%	9.0%
Education	17.0%	4.4%
Management and Commerce	0.7%	16.3%
Society and Culture	6.5%	20.3%
Creative Arts	0.7%	2.5%
Total	41.0%	59.0%

Source: uCube