 Submission by Australian Catholic University to

“FACING THE CHALLENGES IN FINANCING AUSTRALIAN HIGHER EDUCATION”

This submission comments on the funding models outlined in Setting Firm Foundations: Financing Australian Higher Education, provided as part of the Crossroads review. It concentrates on the impact of funding options as they may affect ACU. It aims to summarise the University’s perceptions of the Models, outlines the issues they raise for a particular kind of University (see submission 55 to Crossroads) and expresses a particular perspective that fits Mission-related needs.

Context and Assumptions

Key elements of the Government discussion paper, highlighted in the following extracts, appear to frame the proposed funding models.

‘Many submissions argue strongly for the need for increased public investment in universities.’ We support that stance.

‘However, submissions also recognise that the financial security of a mass system of higher education will require universities to have increased flexibility to access complementary sources of funding.’ We support that also.

‘The real challenge is to balance public and private investment in universities so as to provide long-term financial viability for institutions while maintaining equitable access to the higher education they provide.’ The Models as proposed have decidedly different implications for equitable access.

‘In looking to the future, this paper focuses on issues relevant to, and possible mechanisms for, the development of new, flexible, accessible and equitable financing arrangements. It does so on the basis that the long-term prosperity of one of the nation’s greatest assets – its higher education system – needs to be assured.’

Major questions for consideration are seen to include:

- **How large should the Australian higher education sector be?** Should the size be determined by the number of Australians who aspire to higher education, those who can benefit, those who meet a specified entry standard, the needs of the labour market or the level of public funding? Should a combination of parameters be considered?
- **What is the best mix of public funding mechanisms** to promote a high quality and responsive higher education sector?
- **What are the options for further increasing funding sources** for higher education?
- **How does Government determine a funding model** that enables sufficient flexibility for a variety of institutions to pursue their strategic objectives while providing sufficient choice for students?
- **Whilst diversity must be respected, should targets be set for determining the size of the higher education sector?**
- **Should emphasis on increasing the size of the higher education sector be at the expense of increasing the quality of the sector?**
- **What should be the balance between public and private investment in higher education and what should the relative contributions be?**
- **Should a student’s contribution towards their higher education costs reflect the private benefits they are likely to receive?**
- **Should all students who gain entry to higher education have access to income-contingent loans?**
- **What mechanisms will provide institutions with greater flexibility in relation to student load?**
- **Should institutions be given flexibility to set fees?** If so, should there be capping? And if capping were introduced what levels are most appropriate?
What focus on fee-paying Australian undergraduates is most appropriate in any deregulated environment of the future?

Should loan repayments under HECS be reviewed to increase affordability of higher education for students?

Should the Commonwealth establish scholarship programmes targeted at disadvantaged groups to fit the missions of universities such as this one?

What measure of indexation can be adopted to provide fair salaries for University staff?

What are the options for the funding of research in higher education that are best suited to recognise true diversity in the sector?

Government has acknowledged that Universities have only limited control over their greatest source of income: undergraduate students.

The following themes and assumptions underpin this assessment of the funding models:

(a) One of the models (or a variation of one of them, or a mix of them) will be used to allocate Government Grants from 2004.

(b) There are no immediate plans by the Commonwealth Government to increase higher education funding.

(c) The Commonwealth is committed to a greater share of costs being met by others, recognising “private benefit”.

(d) Notwithstanding the current limited control over undergraduate income, the sector will be subject to some regulation “to serve the national interest”. (This may include greater interest and investment by State Governments.)

(e) Private institutions may be given opportunities to bid for government funding.

(f) There is a recognised need for a better form of indexation to preserve the current real level of funding. (This should be a major concern to Government.)

(g) There should be an opportunity for universities (such as ACU) to receive additional funding to reflect support for disadvantaged students.

(h) Research funding is likely to be available to all sectors (eg CSIRO, private industry) and research performance, as defined, will continue to drive funding share.

(i) The Government is committed to diversification.

(j) Politics, and need, will both genuinely determine the final decision.

The Funding Models

Model 1: Discipline-based model

Summary
This model represents a modified status quo with funding provided to universities based on course costs per discipline. This model will allow universities more flexibility to adjust their course profiles, and some flexibility in respect of total student load.

Here, the Government is seen to set a maximum number of Commonwealth funded places, allocated on the basis of an agreed minimum number of places with a provision for a percentage variation (“tolerance”) around this level. Institutions are free to allocate places at the undergraduate and postgraduate coursework levels and across disciplines. Institutions can offer places beyond Commonwealth funded load on a full fee-paying basis. The Government establishes a range of public investment levels based on course costs. The investment provided by the Government for a particular student is the same for courses within the same public investment level band.

Commonwealth payments to institutions reflect the mix of courses they provide. As now, most students contribute to the cost of their course via HECS. Each course is allocated by the Government
to one of the three existing HECS bands. Enrolments in undergraduate full fee-paying places are restricted to a certain percentage of the overall load for each public investment level band but there is no limit to the proportion of full fee-paying places in any individual course. Over time, full fee-paying students are able to transfer to a Commonwealth funded place on the basis of relative merit. All students have access to income-contingent loans for their contribution amounts.

**Issues**
- This could be said to represent an increasing (though partial) call on students to fund the system.
- It does not address cross-sectorial anomalies.
- The “range of public investment levels based on course costs” implies a new relative funding model.
- It is not clear that DEST would guarantee funding per student if institutions change their mix of courses.
- Funding of students in the tolerance band is unclear.
- Will fee-paying be allowed only when enrolment reaches the top of the band?
- Are there caps on fees?
- Potential size of student debt remains unclear.

**Comment**
This model is close to the existing situation, but provides for a relatively specific level of certainty in future funding. However, there is significant uncertainty in the interpretation of the Government’s “range of public investment levels based on course costs”. In the absence of more detail, ACU is concerned that it could not determine how its grant, or the specified number of students, might vary from its current level of funding. One advantage of Model 1 is that universities would not have to collect revenue from students (i.e. more than the amounts required under present HECS arrangements). This has some bureaucratic trade-off, as Government has promised to provide.

**Model 2: Fee-deregulation**

**Summary**
This is an institution-directed funding model with optional fee deregulation. This model includes the key features of Model 1 but allows universities to set the course price above a base rate set by the Government. Those universities choosing not to increase fees for a specified percentage of courses receive a financial loading from the Government. This is based on the size of the student load for which student contributions remain at the base rates or lower. Institutions are able to review decisions annually.

The Government sets a maximum number of Commonwealth funded places for the higher education sector. These are allocated to institutions on the basis of an agreed minimum number of places with a provision for a percentage variation around this level. Institutions are free to allocate places at both the undergraduate and postgraduate coursework level and across disciplines. Institutions can offer places beyond Commonwealth funded load on a full fee-paying basis. The public investment levels are interpreted to be as outlined in Model 1.

Enrolments in full fee-paying undergraduate places are restricted to a certain percentage of the overall load for each public investment level band. Full fee-paying students are able to transfer to a Commonwealth funded place on the basis of relative merit. All students have access to income-contingent loans for their contribution amounts.

Possible variations include, as a transition measure, some capping of fee increases; the additional public funding is applied on a course basis rather than on an institution basis (with implications for administration and associated costs); and there is removal of the financial loading provision (with potential adverse effects on vulnerable institutions).
Government clearly believes that this model would provide greater flexibility and choice for institutions, and it offers some safeguard for institutions choosing not to raise student contribution levels for the majority of courses. Base funding levels might be expected to remain predictable, so enabling institutions to undertake strategic planning. It could foster specialisation and diversity because all institutions, in areas in which they have particular strengths, are able to vary fees and increase the number of places. This enables institutions to commit increased resources to targeted areas, so establishing a self-sustaining, reinforcing specialisation mechanism. Students would have significant choice in terms of selection of institution, course, price and location.

Issues
In addition to the issues identified in Model 1:
- Model 2 deregulates fees but does not deregulate allocation of places, allowing Government to continue controls by determining which University gets what places.
- There are equity concerns with the tolerance of higher fees.
- The deregulation of student contribution rates is not sharply distinguished from the provision of additional full fee-paying places.

Comments
Model 2 introduces a far greater level of price competition than Model 1. Universities would be free to charge different “top-up” fees for different courses, on the basis of demand. That demand, however, would be influenced by the prices charged at other institutions. In theory, this could generate a considerable increase in (non-government) revenue. Of concern is how price competition would influence student choices. If another university decided to “discount” a particular undergraduate course at a particular campus, it is not clear how ACU could respond. There are some equity concerns.

Model 3: Flat rate learning entitlements

Summary
In this model the Government directs its funding to the student. All students eligible for the entitlement receive the same level of Government subsidy. Universities are free to set the course price.

Each year the Government allocates a set number of higher education learning entitlements, based on academic merit, to students entering higher education for the first time. The entitlement represents the Government’s public investment level, at a set value regardless of the course for which it was used. Students are able to use their entitlement for a set number of years of equivalent full-time study, for both undergraduate and postgraduate coursework studies, transferable between institutions. Use of the entitlement may be deferred and its value indexed. Learning entitlements are allocated to both school leavers and mature-age students, on merit and according to pre-determined percentages.

Students holding entitlements are able to apply to the institution of their choice for the course of their choice, taking into account the cost of the course (and implicitly the extent of private investment required of them). Student load at institutions is dependent on the demand for places and the institution’s limit on the number of places. Institutions set the price for all courses, with students required to meet the difference between the course price and the value of their learning entitlement.

Institutions receive an amount equivalent to the value of the learning entitlement plus the full amount of the student contribution. If an entitlement is exhausted prior to completion of a course, fees apply for the remainder of the course. Students not in receipt of a learning entitlement may study on a full fee-paying basis. All students (including postgraduate coursework students) are eligible for an income-contingent loan for their contribution amounts.
Possible variations are seen to include transitional limits to increases in student load; capping of fees; the possibility of government funding to reduce student contributions in targeted courses where market forces result in labour market failures; and, the encouragement of life-long learning, with provision for additional equivalent full-time study after a set number of years.

**Issues**
- It is not clear how Government would determine the method of allocation in a rationed system.
- Is the treatment of students in different courses and with different progression rates fair?
- It is not clear what are the implications of vouchers for:
  - States and regions;
  - institutions;
  - students; and
  - disciplines.

**Model 4: Variable rate learning entitlements**

**Summary**
This is the same as Model 3 (demand-driven voucher system) except that the Government can vary the rate of subsidy taking into account course costs, potential earnings and labour market needs.

**Issue**
- As previously, this implies a new relative funding model.

**Comments**
The voucher models pose significant planning, equity and administrative issues for universities. ACU courses that meet Mission needs and foster diversity would be under threat in significant ways (by course competition at other local institutions, especially if other universities expanded numbers). Conversely, unexpectedly high demand for an ACU course, that could not be met with sufficient resources, may see “opportunities” lost. The administration on processing voucher entitlements would be a significant burden.

**Research Funding**
Government is committed to changes that will “maximise publicly funded research outcomes”. These proposals for change appear to focus on three areas: the need for increased levels of funding for research; the need to explore options for greater coherence, coordination and partnership across Australia’s publicly funded research organisations; and the need for changes to arrangements for distributing public research funding.

ACU could not anticipate an improvement in the research component of its operating grant unless it is adjusted for its special circumstances. This will be an issue for many institutions outside the ‘Group of Eight’ and is a problem shared by nearly all New Generation Universities. In terms of the distribution of research income, there would be massive inequity in the system.

**Commentary on the Funding Models**

Issues that must be addressed by Government:
- The Commonwealth needs a clear statement on what it sees as its responsibility, both now and in the future, for public higher education.
• In a new system, there must be a real commitment by Government to the funding base, including a proper rate of indexation.
• There would appear to be little support from within the sector for the voucher systems. However, it is recognised that some may feel this provides the opportunity to “let the market decide”. Some definite limits to this provision have to be set if this were the case.
• What is the assessment of compliance risks with vouchers?
• Arrangements to continue or compensate for specific funding allocations, such as supplementary grants for deferred-cost State superannuation schemes, must be spelled out.
• Government acknowledges that some institutions are better placed than others to attract (additional) funding, as are some disciplines. The Issues Paper is not clear, however, on how or whether there will be additional support for those institutions and disciplines that are unable to attract funding but which serve genuine need.
• Government continues to include HECS contributions as part of its support for the sector – “Currently about 64 per cent of funding for higher education comes from the Commonwealth Government” – even though HECS payments by students is a private contribution. At ACU, grant plus HECS still represents in excess of 75% of revenue. Any change to Government funding arrangements will have a greater impact at ACU than for most other institutions and Government needs to be aware of that statistic in any future decision-making.

Conclusion

This submission evaluates all four proposed funding models and relates them to the needs of this University. It offers additional formal comments on the Models in Attachment A.

ACU supports Model 1. This support would need to be qualified in relation to expressed concerns about possible changes to the current funding model and other matters, as identified above.

ACU could plan for the implementation of Model 2, which might provide enhanced sector competition.

It is opposed to the adoption of voucher schemes, for the reasons stated above.

Peter W Sheehan, AO
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16 August 2002
## “Financing Australia’s Higher Education”: Funding Models

### Model 1: Discipline Based Model
- Total load provided by DEST.
- Undergraduate and postgraduate places can be moved.
- No limit on undergraduate fee-payers in each course.
- Student income contingent loans.

### Model 2: Fee Deregulation
- Basic ‘HECs’ rate set by DEST. Unis can raise or lower this rate ie. set fees, for every student in a course.
- Undergraduate and postgraduate places can be moved. As for Model 1.
- But only a % of load per band can be charged undergraduate fees.
- Relative Funding Model: Public Investment Bands.
- Fee-payers can move to a HECs place based on achievements.
- Student income contingent loans.

### Model 3: Flat Rate Learning Entitlements
- Government provides a set number of higher education learning entitlements to commencers. These entitlements = the public investment level. They are a set value irrespective of the course.
- This entitlement eg. $10,000 per annum is for a set number of years.
- Undergraduate or postgraduate course-work.
- Transferable.
- Indexed.
- Allocated on merit.
- % to year 12 graduates; % to mature age.
- Individual applies to university and to course of their own choice; student might have to pay more to the university.
- Load = demand + university’s own limit.
- Universities set own course prices.
- Student cost = course price – entitlement.
- Once entitlement runs out student pays full fees.
- Students unable to get an entitlement pay full fees.
- Students are eligible for income contingent loans.

### Model 4: Variable Rate Learning Entitlements
- This is similar to Model 3 but there is one exception: the public investment level entitlement varies with the nature of the course.

**Notes:**

(i) In Models 3 and 4 the Government will be free from the cost of chasing HECs; Universities will collect fees.

(ii) Universities will be able to have the TERs/UAIs for courses interact with fee levels, especially for courses in very high demand.

(iii) High demand courses will be reflected by high UAI entry scores but also in higher fees charged by universities. Higher fees may tend to dampen demand.

(iv) The states could be encouraged to provide “top-up” entitlements to encourage entrants to particular courses for certain occupations with shortages.