

## **Introductory Remarks**

La Trobe University broadly supports the Higher Education and Research Reform Bill 2014 (HERR). The HERR reforms are consistent with recommendations made by the University in its submission to the Review of the Demand Driven Funding System, a copy of which is attached to this submission.

La Trobe University supports a more sustainable, efficient and effective system for financing higher education, including the extension of demand driven Commonwealth support to sub-bachelor degrees and non-university providers. We also endorse the deregulation of student tuition fees, subject to suitable market design and appropriate oversight.

La Trobe University has articulated its rationale for supporting reform to higher education policy and financing across the policy consultation period. In October 2014, the Vice-Chancellors of La Trobe University and the University of Melbourne outlined reasons why the *status quo* is not a sustainable policy option<sup>1</sup>. A long-term reduction in per student funding has seen Australian universities adopt an almost universal growth strategy. Growth has become a substitute for adequate funding. This is not a sustainable basis for the system.

The exclusion of sub-bachelor degrees and non-university providers from Commonwealth funding support has also led to large increases in bachelors enrolments, increases in Commonwealth expenditure and has had adverse consequences for participation in upper level vocational and sub-bachelor qualifications. Students are being admitted to bachelor programs with lower levels of prior attainment and for students with lower ATARs this has resulted in inefficient completion rates of around 50 per cent. These outcomes are just some of the compelling reasons to consider reform of Australian higher education.

Since the introduction of the Higher Education and Research Reform Amendment Bill 2014 (HERRA), the Government has accommodated amendments recommended throughout the consultation period, and has achieved a remarkable level of consensus across the higher education sector. La Trobe University's position is that reform of higher education policy and financing is essential and that HERR, with minor amendments and appropriate market design elements, is an appropriate response to the underlying policy challenges. We believe that it will provide a sustainable foundation for the sector and enable future generations to have access to higher education.

## **Senate Education and Employment Legislation Committee Inquiry Higher Education and Research Reform Bill 2014**

*To examine changes from the Higher Education and Research Reform Amendment Bill (2014) to the Higher Education and Research Reform Bill (2014) and to consider any further options*

La Trobe University supports the broad direction of HERRA and HERR, particularly the following aspects:

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<sup>1</sup> Professor John Dewar and Professor Glyn Davis, Status quo will hurt universities, *The Australian*, 28 October 2014

- La Trobe University supports the extension of demand driven funding to sub-bachelor degrees and to a broader range of providers.
- La Trobe University supports the principle of fee flexibility and submits that the sector can be trusted to price responsibly, as demonstrated by La Trobe's introduction of fee guarantees for commencing students through our *Aspire* and *Inspired Futures* programs and based on the experience observed overseas, particularly in the United Kingdom. However, in recognition of community concerns about excessive fee increases, La Trobe University supports the development of a suitable regulatory mechanism to prevent unjustifiable increases in fees (see below).
- La Trobe University supports the streamlining of income contingent loan schemes using a standard Consumer Price Index rate of indexation, which may address concerns regarding the impact of indexation on carers of young children.
- La Trobe University supports the introduction of a structural adjustment fund that recognises the challenges of operating in relatively low population centres. La Trobe University recommends that this fund be focused on regional community need, consistent with the eight-point plan emerging from the recent Regional Higher Education Forum which is described in later sections of this submission.

While La Trobe University supports the broad direction of HERRA and HERR, there is a case to introduce amendments:

- The 20 per cent reduction in government subsidy is too high and will itself be a driver of fee increases in a deregulated system. We urge the government to significantly reduce the magnitude of this cut.
- La Trobe University supports the establishment of a New Commonwealth Scholarship scheme, but recommends that the 20 per cent of fees above the prescribed amount be pooled at a system level to support the participation of disadvantaged students across the sector, rather than within individual institutions as currently proposed.
- La Trobe University does not support reduced funding for the Research Training Scheme.
- La Trobe University submits that the architecture for equity scholarships within HERR should be reversed. As it currently stands, HERR limits access to Higher Education Participation Programmes (HEPP) funding to institutions with higher numbers of disadvantaged students and redirects funding towards scholarships. It does not affect the overall distribution of New Commonwealth Scholarship Scheme funds. Outcomes would be improved by ensuring that funds derived through the New Commonwealth Scholarship Scheme and HEPP are allocated broadly across the sector, in accordance with demonstrated need, for the purposes of supporting participation and access by disadvantaged students.

*To examine proposals to protect universities and students from declining standards and keep students and institutions competitive with rising standards internationally*

The Australian higher education system has pursued an enrolment growth strategy for almost 20 years. Growth in higher education participation is desirable, but the rate of growth, while partly a response to inadequate funding for teaching and research, is unsustainable. The quality of Australian higher education is broadly at a high level, however limits to growth in student enrolments and government investment pose significant medium-to-long-term risks to the quality of the sector.

Mitigating these risks requires significant reform to higher education policy and financing. HERR, with amendments, introduces reforms that will make higher education financing more sustainable, efficient and effective, and is therefore supported by La Trobe University.

In the context of uncertainty around the passage of HERR through Parliament, alternative options have been introduced to public discourse. These proposals include but are not limited to:

1. A modest uniform increase in student tuition fees and decrease in Commonwealth subsidy.
2. Establishing a price regulator or advisory panel to ensure that student tuition fees are set according to defined principles.
3. Allowing institutions to opt-out of public subsidy and set tuition fees for those courses not receiving public support.
4. Allow institutions to opt out of public subsidy and set tuition fees for all courses.
5. Providing a progressive levy on tuition fee increases above specified thresholds.
6. Setting a soft cap through Higher Education Contribution Scheme loan limits.
7. Setting a hard cap through student tuition fee limits.
8. Recapping higher education places.
9. Linking domestic student tuition fees to a set percentage of international student tuition fees.
10. Prioritising higher education places in lower-cost teaching centric providers.

La Trobe University notes that there are benefits and disadvantages associated with each of these alternative options and that some may involve a risk of unintended consequences. La Trobe University believes that all options, including HERR, should be evaluated according to the following criteria:

Will the changes lead to:

- Improvements in the student experience;
- Long term sustainability of the resource base for higher education providers; and
- Reassurance that any fee increases will be reasonable and justifiable.

La Trobe believes that HERR, with suggested amendments, fulfils these criteria. Of the alternatives, a preliminary analysis suggests that Option 5 – providing a progressive levy on tuition fee increases above specified thresholds – also appears to effectively meet the three criteria.

*To examine measures to increase opportunity for up to 80,000 more Australians to access subsidized higher education, without having to pay upfront*

The impact of the higher education reform package on the distribution of the projected 80,000 Australians who would gain access to subsidised higher education across institutions and course levels is unclear. La Trobe University welcomes the extension of Commonwealth subsidies to sub-bachelor level programs, but recommends caution in predicting the volume and distribution of places across the system because the magnitude of the market's response may be difficult to accurately forecast.

2013 data suggests there are around 50,000 students enrolled in non-Table A providers at an undergraduate level who currently have limited access to Commonwealth support. Many of these

students have access to the interest subsidy associated with FEE-HELP, although they do incur a 20 per cent FEE-HELP surcharge. The transfer of these students to Commonwealth support may resolve a significant inequity in the system, but also invokes a risk that the Commonwealth would be subsidising programs where quality is not subject to standards of academic scrutiny and governance that exist in Australia's universities.

La Trobe University does not object to non-university provider access to Commonwealth support, nor in providing access to income contingent loans on more equitable grounds, however there is a continuing need for the Tertiary Education Quality Standards Agency (TEQSA) to assess program and institutional quality. There have been efforts to discredit the extension of subsidies to non-university providers by questioning the legitimacy of subsidising programs such as natural therapies and theology. This matter is best resolved by TEQSA in the context of the revised Higher Education Standards Framework.

*To examine proposals for choice for regional students by allowing universities to specialise in what they do best and offer pathway programs and new scholarships`*

La Trobe University in collaboration with Charles Sturt University and the Member for Indi, Ms Cathy McGowan AO, recently hosted a Regional Higher Education Forum to explore how regional higher education policy could be enhanced. La Trobe endorses the eight-point plan that emerged from the forum, which was broadly supported by the stakeholders in attendance. The alignment of this plan with the intent of the HERR legislation is outlined in the Table below. HERR is compatible with calls to enhance the focus of regional considerations in higher education policy.

Regional Higher Education Forum	Relationship to HERR
1. Regional tertiary education warrants a higher order policy focus	<ul style="list-style-type: none"> <li>- A designated structural adjustment fund targeting regional higher education is consistent with this recommendation</li> <li>- The design of the New Commonwealth Scholarship Scheme could overtly prioritise regional students</li> </ul>
2. Regional tertiary education policy would benefit from a principle driven approach, which includes putting regional student, community and economic needs at centre of policy design	<ul style="list-style-type: none"> <li>- The design of the structural adjustment fund could integrate consideration of regional student, community and economic need</li> <li>- Scholarship programs should balance consideration of costs of relocation for those who relocate for study, as well as the needs of those who remain in a regional location</li> </ul>
3. There is a need to holistically consider relationships between communities, employers and individuals within regional tertiary education policy	<ul style="list-style-type: none"> <li>- The design of the structural adjustment fund could integrate consideration of regional student, community and economic need rather than institutional financial position</li> </ul>
4. There is a need to stimulate demand for regional higher education through targeted schools and community outreach	<ul style="list-style-type: none"> <li>- La Trobe does not support HERR redirection of HEPPP funding for scholarship purposes as it may diminish investment in outreach activity</li> </ul>

Regional Higher Education Forum	Relationship to HERR
5. There is a need to better support interaction across TAFE and higher education, and cut through perceptions of cost shifts between State and Commonwealth governments	– The extension of subsidies to sub-bachelor programs will influence the character of the HE/VET interface
6. Demand for regional higher education would benefit from improved capacity for institutions to offer high status and demand programs in regional locations	– HERR maintains caps on medical places. La Trobe’s proposed Murray Darling Medical School would bring greater access to a high demand and high status program to regional Australia and address critical skills shortages.
7. Demand for regional higher education would benefit from investment in high speed internet and collaborative learning infrastructure (TAFE – university, multi-versity)	– The focus of regional higher education funding, including the structural adjustment fund could support investment in collaborative learning infrastructure and high-speed internet access
8. Regional higher education would benefit from fairer access to contestable funding streams such as research funding	– HERR provisions for the Future Fellows Scheme could be designed to provide fair access for regionally-based academics to be appointed as Future Fellows

*To consider the implications of not proceeding with the Bill*

La Trobe University supports the broad intent of the Bill, and similar to submissions made by Universities Australia and the Innovative Research Universities to this Inquiry and the earlier Inquiry into HERRA, recommends only minor amendments that would strengthen Australia’s higher education system. In the absence of reform it is likely that the sector will continue to pursue an unsustainable growth agenda, which will place ongoing pressure on the Commonwealth higher education budget.

An additional consequence of the Bill not progressing is uncertainty around the funding of the National Collaborative Research Infrastructure Strategy (NCRIS) and Future Fellows programs which have been linked to the passage of the Bill. It is critical to university research capacity that the funding of these two programs is confirmed, which will avoid severely diminishing the capacity of Australia’s research and innovation system.

**Senate Education and Employment References Committee Inquiry into the principles of the Higher Education and Research Reform Bill 2014, and related matters**

*i. The principles of the Higher Education and Research Reform Bill 2014*

The principles of the Higher Education and Research Reform Bill are consistent with principles espoused by La Trobe University in the attached submission to the Review of the Demand Driven Funding System, which supported the use of market-based approaches as more efficient and effective mechanisms for achieving the objectives of Australian higher education system.

*ii. Alternatives to deregulation in order to maintain a sustainable higher education system*

As detailed in earlier responses, a range of options have been canvassed as alternatives to HERR. La Trobe University supports HERR, with suggested amendments, as the preferred option for addressing the policy challenges facing Australian higher education.

It is worth noting that HERR will deregulate student tuition fees, but this does not equate to the deregulation of the system itself, nor should it preclude the establishment of appropriate market oversight.

*iii. The latest data and projections on student enrolments, targets, dropout rates and the Higher Education Loans Program*

The Department of Education is best placed to provide the latest data.

*iv. Structural adjustment pressures, and the adequacy of proposed measures to sustain high quality delivery of higher education in Australia's regions*

There is an opportunity to consider better ways of designing policy to ensure that Australia's higher education system meets the needs of regional students, communities, employers and industry. The eight-point plan discussed at the recent Regional Higher Education Forum hosted by La Trobe and Charles Sturt Universities received unanimous support from the attendees of the forum, who represented many stakeholder groups and political affiliations. HERR will support progress on many aspects of the eight-point plan, but more could and should be done to support regional higher education participation and improve outcomes for regional Australians.

The emphasis of the sectoral response to HERRA and HERR has been at the level of the institution, through a designated short-term structural adjustment fund with limited reference to other regional and higher education policies and programs. Notwithstanding the important role that regional higher education institutions play in regional communities, institutional perspectives have taken priority over regional and community perspectives. Structural adjustment funding will inject welcome and significant funds to universities over a short period of time, but will not resolve the underlying regional higher education policy challenges. This is not a reason to dispense with HERR, but does highlight that further policy reform will be needed to progress the regional higher education agenda in addition to HERR.

*v. The appropriateness and accuracy of government advertising in support of higher education measures, including those previously rejected by the Senate*

This matter is under review by the Auditor General.

*vi. Research infrastructure*

There has been some commentary around the relationship between the status of higher education reform and research funding and research infrastructure funding. While explicitly examining matters of research infrastructure, one cannot ignore the broad relationship between research and teaching funding. Potential implications for NCRIS have been noted above.

The National Commission of Audit affirmed the legitimacy and commitment of Government to the funding of critical research infrastructure in Australia, although it recommended that this be informed by a reassessment of existing research infrastructure provision and requirements. Continuing investment in research infrastructure is dependent on the broad capacity of government to invest in this domain, and trade-offs made across other Government expenditure, including teaching and research. Expenditure on teaching is increasing as a result of growth-focused strategies and declining per student funding rates over time. Underfunding of research means that research expenditure is significantly cross-subsidised by teaching related revenue. There is thus an interconnection between teaching, research and research infrastructure that is not well accommodated by existing policy. The HERR reforms may address teaching related costs, but there will be continuing pressure on Australia's research and innovation system as a whole if research and research infrastructure funding is not addressed holistically.

Options for better balancing the relationships across teaching, research and research infrastructure include reforms consistent with HERR, a review of Provider Category Standards and a commitment to supporting the full costs of research.

*vii. Any other related matters*

La Trobe University would welcome an opportunity to discuss higher education reform with the Committee.

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# La Trobe University Submission to the Review of the Demand Driven Funding System

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## Key Points

La Trobe University strongly supports a demand-driven funding model for Australian higher education. The current model is not comprehensively demand-driven given the distortions introduced by government involvement in the allocation of places for specific disciplines, at course levels and to certain institution types. The efficiency and effectiveness of Australian higher education funding would be enhanced by:

- expanding the entitlement of eligible students to Commonwealth support across all levels of higher education, including sub-bachelor and postgraduate;
- the government progressively reducing the number and proportion of places that it centrally allocates, whilst retaining a mechanism for oversight of the allocation of places in very specific and exceptional circumstances of high cost disciplines;
- streamlining income contingent loan schemes; and
- prioritising government involvement to targeting of specific economic and social policy objectives through supplemental programs rather than place allocation.

A more comprehensive demand driven funding model is consistent with the focus on reducing bureaucracy and a reduction in centralised national planning in the operations of Australian higher education. Central planning is an inefficient and ineffective mechanism for achieving the underlying objectives of Australian higher education. Adopting a comprehensive demand driven funding model would constitute a significant reform necessitating broad change to higher education funding and regulation. The transition to a comprehensive demand driven funding model would be assisted by adopting principles to inform system design. La Trobe proposes these principles should be as follow:

1. Higher education policy must anticipate and accommodate continued growth in the economic and social demand for higher education.
2. The higher education funding model should enable accurate budget projection, limit volatility in Commonwealth liabilities and place the funding of higher education on a financially sustainable foundation.
3. The funding model ensures that taxpayers are receiving value-for-money from funds invested.
4. The funding model is adequate for institutions to meet higher education standards.
5. The funding model supports diversity of institution and fosters innovation in teaching and learning, and research.
6. The funding model is administratively efficient, with regulatory and reporting requirements proportionate to essential purposes.
7. The funding model supports student access and choice to pursue studies where there is aptitude and interest.
8. Commonwealth funding recognises the differential public and private benefits associated with levels of course, disciplines and institution type.
9. Higher education providers are free to set student fees and charges that reflect institutional mission, costs, service obligations and market demand.
10. The Commonwealth maintains support for an income contingent loan scheme to defray up-front cost barriers to higher education.
11. The Commonwealth identifies community service obligations in areas of true market failure (e.g. where industry needs are not being met) that are associated with receipt of government funding to apply to both public and private higher education providers.
12. The Commonwealth refines and develops separate programs to pursue specific economic and social policy objectives.

## **Recommendation 1**

*La Trobe recommends that a comprehensive demand driven funding system be introduced.*

The principles and recommendations set out above are made with a view to further improving and responding to our assessment of the impact of the current demand driven arrangements. In addition to recommending a comprehensive demand driven funding model, La Trobe's submission to the review of the demand driven funding system finds that:

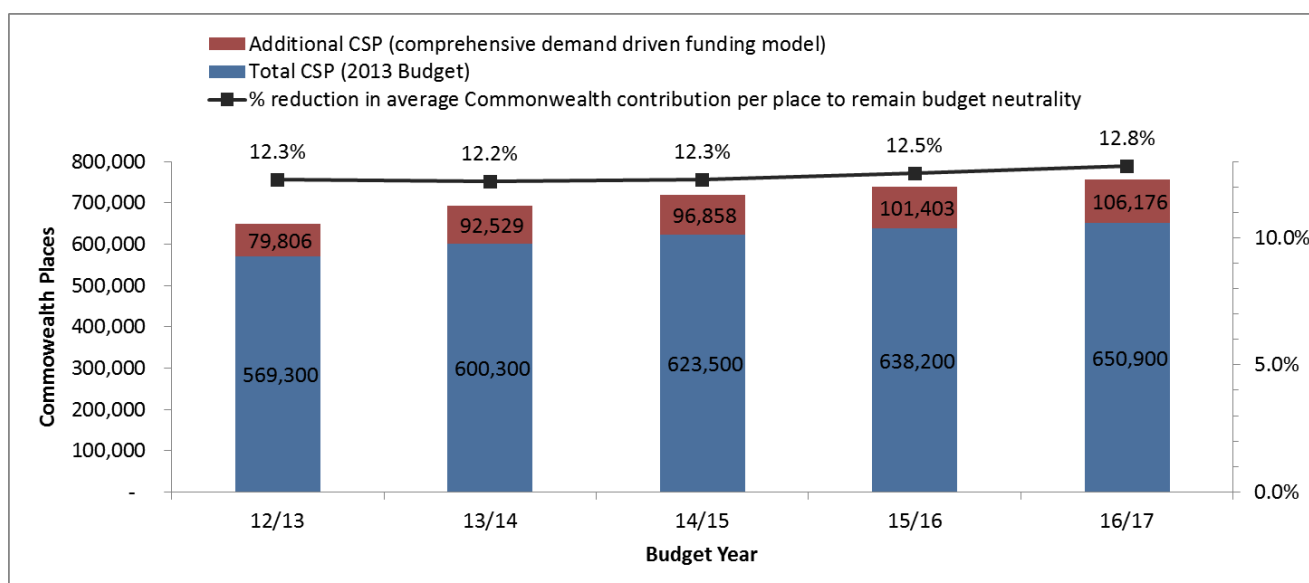
- The funding system is contributing to the fulfilment of objectives of extending higher education participation and attainment to address long term needs for a highly educated and skilled population to fuel national innovation and productivity.
- The funding system is responding to national skills needs, but there remain challenges in ensuring graduates have the right skills in the right place and the right time. Skills shortages remain in areas of national priority and are particularly acute in regional areas in health and agriculture disciplines.
- Regulatory reforms accompanying government acceptance of the Philips KPA Review of Higher Education Reporting and Lee Dow Braithwaite Review of Higher Education Regulation offer much promise in reducing regulatory burden. The reforms currently proposed by TEQSA go some way towards reducing regulatory burden, but there remains scope for additional reform. In reducing regulation, mechanisms for managing the risks associated with non-self-accrediting providers should remain.
- The funding system is fulfilling objectives to enable access for students from designated equity groups. There is however, a need to renew higher education equity frameworks for alignment with the realities of the contemporary higher education context.
- There is a need to elevate the policy priority for regional higher education. Improving regional participation can be achieved by funding regional outreach, incentivising school engagement for regional youth, removing regulatory barriers to offering high status programs in regional locations, and redesigning subsidies and loadings for fairer competition in regional markets.
- Latent demand for undergraduate education has been filled, and growth in participation is slowing.
- The gap between supply and demand for undergraduate places has narrowed under the demand driven funding system, reducing the likelihood of unbudgeted higher education liabilities if the current system is maintained.
- The introduction of the demand driven system has been associated with an increase in regulatory burden, motivated in part by concerns that quality would suffer. There is no evidence of deterioration in system quality, warranting a significant reduction in regulatory and reporting requirements for universities.

# Affordability of a comprehensive demand driven funding model

In recommending principles for reform and introduction of a comprehensive demand driven funding model, La Trobe acknowledges that an expansion of student entitlements to Commonwealth support at a sub-bachelor and postgraduate level can only be achieved with a significant increase in government funding, and/or reforms to the existing government and student contributions to higher education funding. Should student contributions to the cost of their education be increased, La Trobe recommends that funding reform be balanced with bolstered support for equity of access to higher education, particularly for students from regional Australia.

Many mechanisms that have been proposed for reform of funding for Australian higher education system and are observable in submissions made under the Base Funding Review.<sup>1</sup> These mechanisms include a single maximum student charge with discipline variable costs funded by government (e.g. Innovative Research Universities) and gradual fee deregulation trialled within a single funding cluster (e.g. Group of Eight). La Trobe’s central proposition within this submission is that student entitlements to government support and subsidy should be made available to all elements of the higher education system, underpinned by appropriate levels of regulation and quality assurance, and in a fiscally sustainable manner. This proposition is a significant change to the philosophy that guides higher education funding, and modelling its impact invokes considerable challenges given the underlying complexity of the system. However, to demonstrate that a comprehensive demand driven system is possible within existing budget projections, the change in average Commonwealth contribution per student required to accommodate additional Commonwealth Supported Places across course levels, institution types is modelled in Figure one.

**FIGURE ONE: ADDITIONAL CSP PLACES IN A COMPREHENSIVE DEMAND DRIVEN FUNDING MODEL AND REDUCTION IN COMMONWEALTH CONTRIBUTION PER STUDENT TO MAINTAIN BUDGET NEUTRALITY**



Derived from 2013 Budget Papers and uCube data assumes additional growth in sector as a result of extending CSP

<sup>1</sup> [Base Funding Review Submissions](#)

Budget neutrality can be achieved through many permutations and combinations, which include differential application of student and commonwealth contributions by discipline, course level, and provider category. Beyond an average cost approach, neutrality has also been achieved through modelling government reduction of 6.5% for undergraduate, a 50% reduction in postgraduate (recognising the benefits accrued with an undergraduate education) and a 20% reduction for non-university higher education providers (recognising that there is no need to support base level research activity or infrastructure). La Trobe would prefer that the principle of a comprehensive demand driven funding approach be pursued consistent with the principles outlined.

### **Demand Driven Funding and Price Controls**

The funding that is available per student under the current funding model has been persistently low the level required to sustain universities of an international standing. Universities have built an international student industry to compensate for chronic under-funding. Government policy intent to stimulate the international student market is welcomed, but there remains a pressing need to resolve the funding mechanism for Australian citizens.

A consequence of fixed maximum price and low (and negative) margin funding policy is that institutions can and will grow in scale to generate the free cash flows necessary to reinvest in strategic priorities. Specific priorities vary between institutions and include investment in infrastructure and research. There was undoubtedly an imbalance between demand and supply of places that has been rectified by the demand driven system. However, under the current fixed price funding arrangements, student volume became one of the few variables that could be used by institutions in optimising their balance sheets. The pursuit of institutional quality under the current system is dependent on the quantity of students rather than measures of price or cost. The sustainability of Australian higher education will be enhanced by allowing more flexible pricing.

The Victorian Auditor General's analysis of the tertiary sector<sup>2</sup> routinely assesses self-financing capacity. 75% of Victorian universities were assessed as medium risk of not being able to fund asset replacement from cash generated from their operations over the last five years. One university is currently rated as high risk. There is a medium term risk to quality associated with a sector that is reliant on growth to achieve a strong balance sheet. Options for enhancing cash flows include cost control and income generation. The international student downturn and efficiency dividend has triggered cost control measures in many institutions. The opportunities to generate revenue in a fixed price funding system are limited. Whilst prices remain fixed there will remain an institutional financial driver for growth that imposes a risk to the Commonwealth budget position.

The likelihood of a significant increase in student fees in a liberalised context is high, and is already evident in the differential fees charged for international students, domestic fee paying undergraduate student (in the exceptional circumstances where this is permitted) and fee paying postgraduate students. Table one compares the course fees for courses in Business and Commerce across 5 universities in the Melbourne region, and demonstrates significant differences evident between institutions, and a significant difference between the annual fee and Commonwealth and student funding cluster rates.

It is unclear whether price setting in a fee liberalised context would follow existing pricing structures for international and domestic fee paying students. If base funding was more generous, and there was more competition on price, there is a potential for average costs to settle between existing funding rates and existing full fee rates. There is an underlying risk that the government, under the income contingent loan system would face a significant increase in the interest rate subsidy associated with increased HELP liabilities.

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<sup>2</sup> Victorian Auditor General's Office 2013, Tertiary Education and Other Entities: Results of the 2012 Audits

TABLE ONE: COMPARISON OF COURSE FEES SELECT VICTORIAN UNIVERSITIES

INSTITUTION	BACHELOR OF BUSINESS/COMMECE INTERNATIONAL ANNUAL FEE	FUNDING CLUSTER 1A COMMONWEALTH CONTRIBUTION	FUNDING CLUSTER 1A STUDENT CONTRIBUTION
La Trobe University	\$21,440 p.a.	\$1,933	\$9,792
University A	\$20,950 p.a.		
University B	\$21,630 p.a.		
University C	\$33,344 p.a.		
University D	\$34,000 p.a.		

Options for minimising increased government liabilities associated with significant excessive price rises include:

- The progressive withdrawal of the Commonwealth funding component where student fees are levied above a specified threshold.
- Linking eligibility to charge fees above a specified threshold to the percentage of income contingent loans associated with an institution that is unpaid, or the time taken for income contingent loans associated with an institution to be repaid.
- Differential community service obligations for providers who levy fees above a specified threshold.
- A system of merit based and means tested fee scholarship programs, potentially incorporating funding from Commonwealth, State and institutions, to offset higher headline prices for specific targeted groups.

**Recommendation 2**

*La Trobe recommends that the capped pricing for higher education be abandoned, allowing higher education institutions to set their own fees within an appropriately designed funding policy that minimises exorbitant price rises.*

## Background and Context

La Trobe University's mission, and indeed the underlying intent of the Australian higher education sector, serves many and complex purposes. La Trobe's founding mission is to serve the community by making knowledge available for the benefit for all through teaching and research. La Trobe strives for global relevance and local impact. This complexity of mission is made possible by a system of policy, funding and regulation, which includes the demand driven funding system. The complexity of higher education defies a consensus perspective on the optimal configuration of the higher education policy. The distribution of public investment in higher education is a balancing act between public and private good that rarely satisfies the needs of all stakeholders. This challenge is worth acknowledging explicitly, and contextualises the character of La Trobe's submission.

In broad terms La Trobe University supports demand driven funding as the most efficient and effective mechanism for allocation of funding across Australia's higher education system. However, La Trobe's support for the current demand driven funding system is qualified because the system is only partially demand driven. The funding system currently operates as a hybrid system with the following features:

- A significant proportion of allocated places reflect continuing government intervention, eroding from the integrity of a true demand driven system, both in specific award types (sub-bachelor and PG) and in selected discipline areas such as medicine.
- Non-university higher education providers have limited access to public funding for undergraduate education.

The restricted use of demand based market mechanisms within the funding system is intentional, as "*public funding is available for each undergraduate student who is eligible for a university place*"<sup>3</sup>. Through restricting the system to undergraduate university places at a centrally controlled price, the government has facilitated expansion at a high cost, limiting the role of competition to drive efficiencies in the higher education sector. The current fixed prices means the sector has pursued high volume at a fixed unit cost and compromised the value of what can be offered. The government's role in the operations of the higher education system are not restricted to place allocation and price setting, with the Lee Dow Braithwaite Review of Higher Education Regulation and Philips KPA review of Higher Education Reporting finding that the sector experiences excessive regulatory burden. As the governments deregulation agenda is applied to higher education, the intervention of government in demand driven funding for higher education should be recalibrated.

The demand driven system was formally in place from 2012, with transitional arrangements in 2010 and 2011 to lift the cap on funding for over enrolment. Many institutions grew load significantly prior to 2010 when the introduction of the demand driven system was signalled. This submission takes 2009 as the base line for which the impact of the demand driven system is assessed.

The demand driven funding system has its origins in the Bradley Review of Higher Education. The demand driven funding system was one of an integrated suite of reforms under the rubric of Transforming Australian Higher Education. These reforms included the establishment of TEQSA, Mission Based Compacts and promises of increases to indexation and research funding. The implementation and effect of the demand driven system cannot readily be separated from the broader suite of reforms.

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<sup>3</sup> Department of Education Employment and Workplace Relations, 2009, Transforming Australian Higher Education



The underlying logic of the Bradley Review and Transforming Australian Higher education was that future needs for high skill labour would outstrip supply based on the higher education attainment rates of the time. The shortfall in skilled labour would be addressed by an expansion in higher education provision, enabled by a significant increase in government investment. Higher education expansion would also drive research and innovation as a critical foundation of Australia's interaction with a globalised world. The most efficient way of enabling system expansion was to move towards a student entitlement system. This system would encourage students to choose for themselves what and where to study. Perceived risks that system quality would be adversely affected by expansion were addressed by bolstering regulatory frameworks and introducing an element of quality related performance funding.

A combination of factors that include the post-GFC deterioration in budget position and sector feedback on the character of the quality and performance funding frameworks has meant that alignment of the Bradley recommendations and actual policy outcomes has drifted. Irrespective of challenges around implementation, the underlying logic of the reforms remains strong. Demand for high skills is destined to increase. The Business Council of Australia<sup>4</sup> and Australian Workplace Productivity Agency<sup>5</sup> have reinforced the Bradley Review conclusions from differing perspectives. Participation and attainment should increase, and should be accommodated by a Commonwealth higher education policy that enables expansion.

The Review of the Demand Driven Funding System encounters a higher education system that fulfils complex purposes and where contested perspectives limit consensus on appropriate policy settings. There are many voices in the sector, including La Trobe, who support a demand driven funding model. La Trobe considers that the funding model should be more student entitlement and demand driven. The Government's focus on red tape reduction and deregulation is very welcome and should be made tangible in the higher education by government recalibrating its role, progressively contracting the number and proportion of places that it allocates, whilst retaining a mechanism for oversight of the allocation of places in very specific and exceptional circumstances of high cost disciplines.

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<sup>4</sup> Business Council of Australia, 2013, Action Plan for Enduring Prosperity

<sup>5</sup> Australian Workplace Productivity Agency, 2012, Scenarios for Australia to 2025

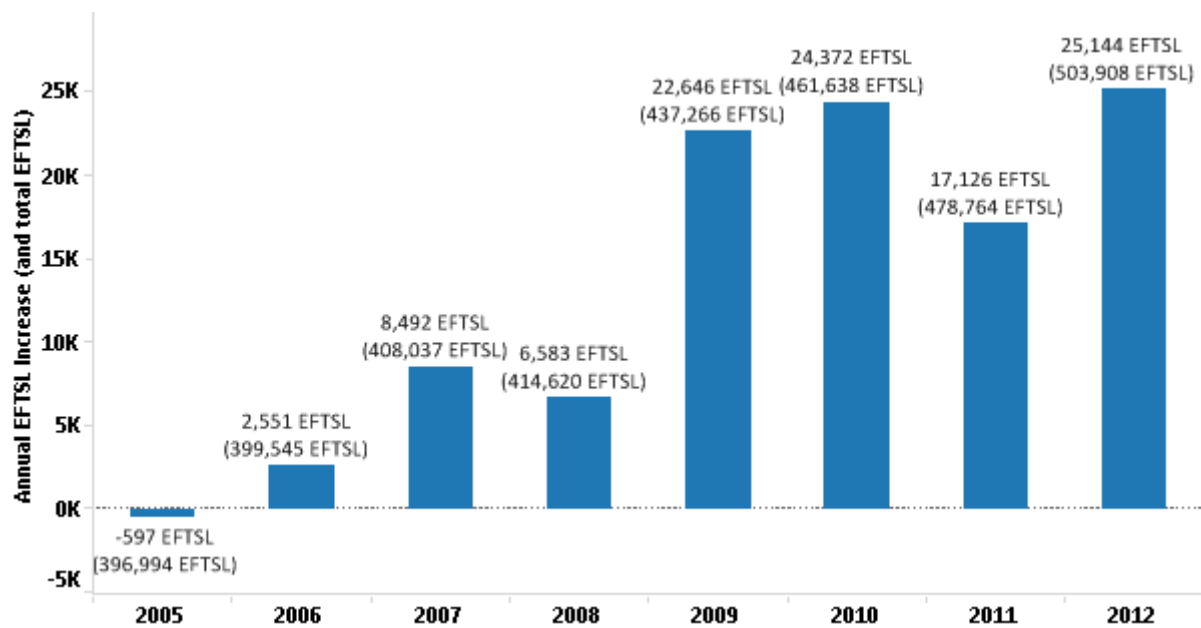
# RESPONSE TO TERMS OF REFERENCE

## 1. THE EFFECTIVENESS OF ITS IMPLEMENTATION, INCLUDING POLICIES REGARDING THE ALLOCATION OF SUB-BACHELOR AND POSTGRADUATE PLACES

### Effectiveness of Implementation

In assessing the implementation of the demand driven funding system from a procedural perspective, the transition from central allocation of places, to phased increase in over-enrolments, to demand driven funding was unproblematic. Patterns of enrolment growth suggest that there was significant unmet demand and surplus capacity within the sector. The gap between demand and supply of places was filled quickly, with strong growth in Commonwealth Supported Place (CSP) student load occurring from 2009 to 2012 (Figure two). Given that sector expansion was one objective of the demand driven system, from that perspective it can be considered successful.

FIGURE TWO: COMMONWEALTH SUPPORTED UNDERGRADUATE LOAD 2006 - 2012 (ANNUAL CHANGE AND TOTAL)



Source: uCube

A challenge associated with the implementation of the demand driven system has been budgetary, with enrolment growth and resulting government expenditure outpacing projections in the budget years immediately following announcements that signalled a move to a the demand driven system<sup>6</sup>. Three considerations emerge from challenges of accurately forecasting expenditure in a demand driven system: is it a problem, will it continue, and what lessons to be learned?

The challenge in accurate forecasting of higher education expenditure has decreased over time. The Commonwealth's projected costs are now more closely aligned to actual costs. Notwithstanding uncertainty around legislating the 'efficiency dividend', the 2013 budget estimates for the Commonwealth Grant Scheme are now lower than 2011 and

<sup>6</sup> Norton, A., 2013, *Keep the caps off! Student access and choice in higher education*, Grattan Institute, Melbourne.

2012 budget projections. More accurate budget forecasting will limit future budget exposure to significant fluctuations in demand. However, higher education related outlays continue to rise, and remain a legitimate area of interest given the global economic outlook and Commonwealth's fiscal position.

Demand for higher education appears to be softening, with growth rates in applications falling below population growth since 2012 (Table two). **The surge in enrolment growth rates observed from 2009 to 2012 will not be sustained in the face of declining growth rates in applications. Many universities are shifting emphasis from targeting unmet demand to increasing market share in a mature and slowly growing pool of potential applicants.** Slower growth in applications will have an impact on future enrolments. A deceleration of expenditure growth may be welcome in the short term, but it is not in the national interest for there to be a decrease in higher education participation and attainment. Establishing a mechanism for sustainable funding for higher education is more desirable than skills shortages over the long term.

**TABLE TWO: GROWTH RATES OF TERTIARY PRELIMINARY APPLICATIONS AND AUSTRALIAN POPULATION**

YEAR	TERTIARY ADMISSION CENTRE'S PRELIMINARY APPLICATIONS <sup>7</sup>	ANNUAL GROWTH IN TERTIARY ADMISSION CENTRE PRELIMINARY APPLICATIONS	AUSTRALIAN POPULATION GROWTH <sup>8</sup>
2011	226,106	4.2%	1.4%
2012	228,334	1.0%	1.8%
2013	229,770	0.6%	1.8%

### Postgraduate Places

An underlying purpose of the demand driven funding system is to enable the education of high skilled graduates at a rate that can align with future need. The continuing advancement of knowledge and sophistication of global innovation systems means that an undergraduate education is not sufficient to prepare our best and brightest for professional life and business and civic leadership roles. Enhancing access to postgraduate education is an emerging priority for higher education.

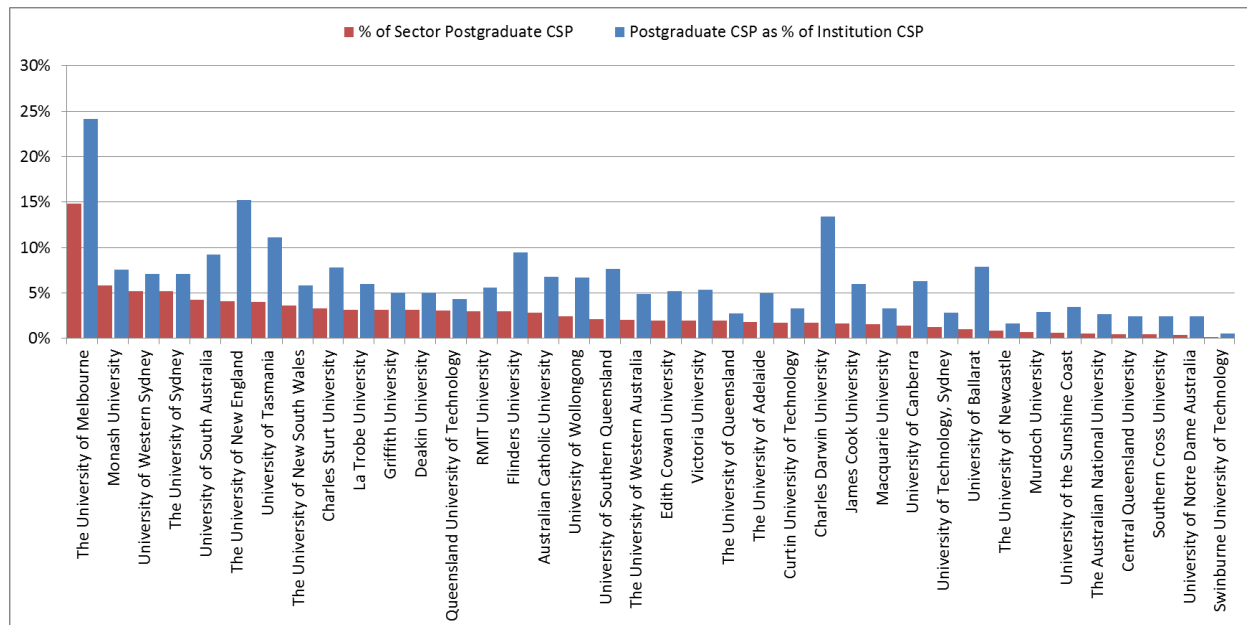
The Bradley Review of Higher Education modelled future demand for across qualifications ranging from diploma to postgraduate qualifications, concluding that demand driven funding approaches were the best way to balance supply and demand of graduates. The Bradley Review recommended that demand driven funding apply initially to undergraduate study, but be extended to postgraduate coursework study. The extension of demand driven funding to postgraduate study was deferred because knowledge around the balance of private and public benefits of postgraduate study was imperfect. The Base Funding Review and government response was an opportunity lost for the sector in tackling the issue of differential rates of funding and contribution for postgraduate study. This remains a policy issue requiring resolution.

**In the absence of a demand driven system for postgraduate places, the distribution of CSP for postgraduate study is deeply flawed, reflecting ad hoc historical policy decisions.** There is significant variation in each institutions share of postgraduate CSP (ranging from 0.15% to 14.84%) and significant variation in the proportion of CSP funded at a postgraduate level within each institution (0.50% to 24.15%) (Figure three). The variation is explained by case-by-case agreements around the allocation of postgraduate places. This explanation does not constitute good policy.

<sup>7</sup> Department of Industry 2013 Undergraduate Applications Offers and Acceptances Reports

<sup>8</sup> Australian Bureau of Statistics 3101.0 - Australian Demographic Statistics, Mar 2013

FIGURE THREE: DISTRIBUTION OF POSTGRADUATE COMMONWEALTH SUPPORTED PLACES 2012



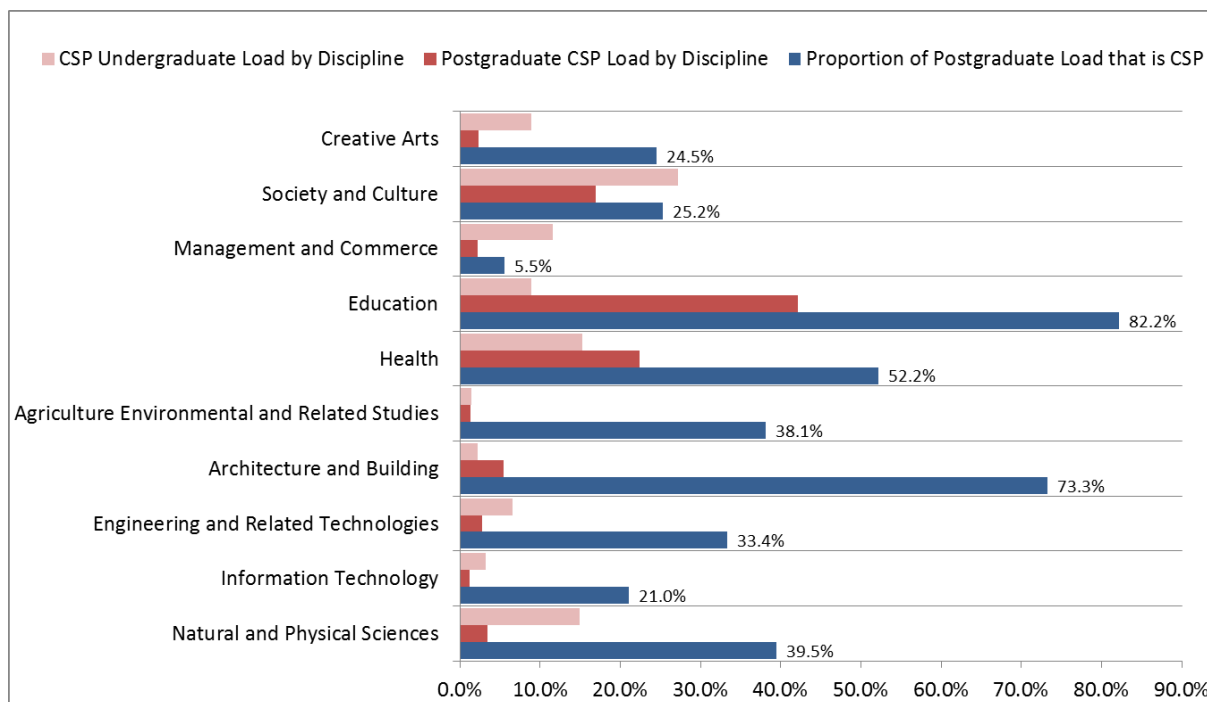
(Source uCube)

The impacts of an incoherent distribution of postgraduate places are not neutral within institutions or between institutions. Institutions with significant postgraduate CSP can subsidise a viable program cohort, with additional enrolment being full fee and usually higher margin. CSP can contribute to competitive advantage and acts as a distortion to the efficient operations of the market. This effect is moderated by the concentration of postgraduate CSP in health and education, which combined comprise 64.6% of postgraduate CSP (Figure four). The presence of Commonwealth Supported Places in postgraduate coursework programs remains a significant market distortion. A more concerning issue is the intra-cohort variation in the private cost of education. The difference in student liability over the length of a professional course between CSPs and full fee places can exceed six figures. This conferral of significant public benefit on some but not all postgraduate students occurs without a clear policy objective. It is unclear if the distribution of government subsidy reflects socioeconomic status, geography, gender, Indigenous status or disability. There has limited analysis on the equity characteristics of the postgraduate cohort, but what is available suggests that students from regional backgrounds and low socioeconomic status backgrounds are underrepresented in postgraduate education relative to their already underrepresented status at the undergraduate level<sup>9</sup>.

The role of government in postgraduate education has increased significantly since 2005. The number and proportion of postgraduate CSP has increased markedly (Figure five). The government’s role in case by case incremental increase in the allocation and distribution of postgraduate places is an example of out-dated central control. The introduction of the demand driven system for undergraduate study is not the cause of problems in the distribution of postgraduate places, but budget pressures arising from growth in undergraduate education have limited the capacity of government to consider more coherent policy around postgraduate education.

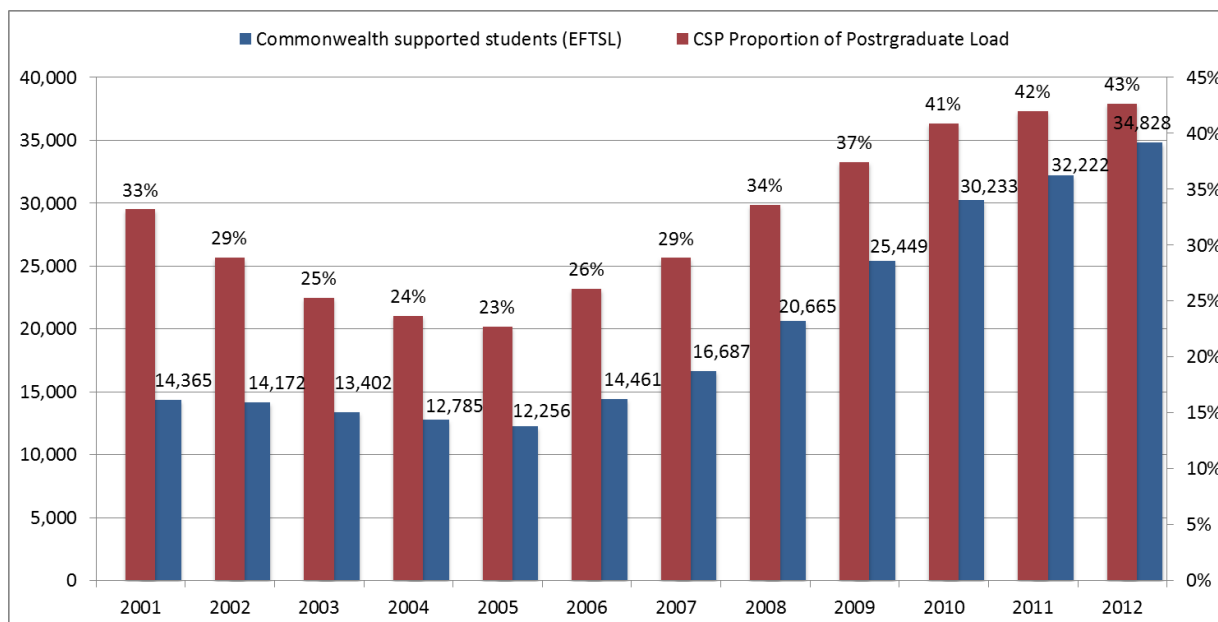
<sup>9</sup> Heagney, M. (2010). Beyond Bradley: Equity for postgraduates. Presentation to the Australian Association for Institutional Research Conference, Geelong, VIC

FIGURE FOUR: DISTRIBUTION OF POSTGRADUATE COURSEWORK COMMONWEALTH SUPPORTED PLACES BY DISCIPLINE 2012



(Source uCube)

FIGURE FIVE: POSTGRADUATE COMMONWEALTH SUPPORTED PLACES AND PROPORTION OF POSTGRADUATE COURSEWORK DOMESTIC STUDENT LOAD 2001 - 2012



(Source uCube)

### Recommendation 3

La Trobe recommends that the original Bradley Review recommendations for postgraduate education be revisited. Demand driven funding for postgraduate study should be considered, and the relative student and government contributions should be reviewed to reflect the private and public benefits associated with this level of study.

### Sub-Bachelor Places

Sub-bachelor places serve diverse functions that include pathways into higher education and specific skills (such as language diplomas) that compliment undergraduate education, but are not in isolation sufficient to warrant bachelor's level awards. The role of sub-bachelor qualifications is critical for enabling retraining of the Australian workforce affected by structural adjustment of the Australian economy and refinement of specialised skills (such as languages) that enable engagement with the global economy. The Bradley Review was less definitive on the role that sub-bachelor places have in higher education and the demand driven funding system. Sub-bachelor places are currently government allocated places, and include diplomas of languages and enabling programs.

Commonwealth Supported Enabling Load has nearly doubled from 2008 to 2012, but remains a small proportion of Commonwealth supported student load (1.7% in 2012). Effective pathways into higher education for non-school leavers remain a significant policy issue. Non-school leavers who are 20 or over make up around 42% of commencing undergraduate students and over 60% of associate degree and enabling program participants. Sub-bachelor places should enable life-long entry points into higher education, and are more efficiently delivered through a student entitlement demand driven basis. These places are appropriately situated with the Commonwealth's responsibilities for higher education rather than state based vocational education and skills responsibilities.

The recent announcement around the distribution of additional allocated places (which includes some sub-bachelor places) was a welcome signal of government support for the higher education system expansion, but demonstrates the inefficiency in a centralised system of allocating places. Allocating as few as 5 places per year in a specific sub-bachelor program of study involves significant administrative activity at both a department and institutional level for very small returns. The role of government would be better served in aligning a system composed of over a million students with social and economic needs than allocating single digit number of places to specific programs. There is more to be gained by freeing institutions to cater to the demands of student and labour markets than managing programs at this level of detail.

Enabling programs offered by higher education providers, such as La Trobe's Tertiary Enabling Program, provide a high-quality access pathway to higher education to students who would otherwise be underprepared for study. There is scope to further expand collaborative cross-sectoral models with TAFE providers.

#### Recommendation 4

*Sub-bachelor no longer be designated or allocated by government and subject to student entitlement and demand driven funding arrangements.*

### Implementation of the Demand Driven System and Regulation

La Trobe University welcomes government policy intent of streamlining higher education regulation and reducing red tape. A significant amount of regulation was established to address fears that the demand driven system would erode the quality of Australian higher education. These fears have proved to be unfounded. Sector experience, supported by the Lee Dow Braithwaite Review into Higher Education Regulation and Philips KPA Review of Higher Education Reporting demonstrate that the level of regulation and red tape is excessive, non-value adding, and university governance and quality assurance processes are sound. There have been no major and systemic quality issues for universities identified since TEQSAs establishment, and a net increase in red tape and reporting across university government interactions. Streamlining the regulatory and reporting frameworks is a priority, and La Trobe would welcome opportunities to contribute to the red tape reduction agenda.

## Recommendation 5

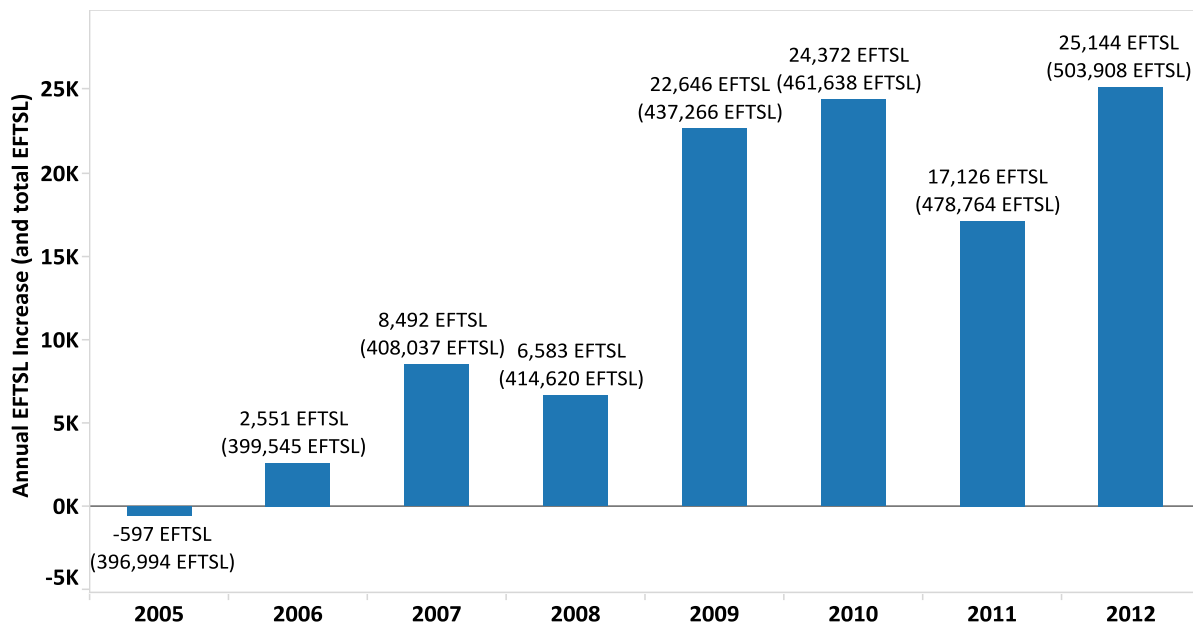
The recommendations of the Lee Dow Braithwaite Review into Higher Education Regulation and Philips KPA Review of Higher Education Reporting should be implemented expeditiously in full consultation with universities and the higher education sector.

## 2. EARLY EVIDENCE ON THE EXTENT TO WHICH IT IS:

### A. INCREASING PARTICIPATION;

The demand driven system is clearly leading to an increase in higher education participation. Student load has increased by 66,600 EFTSL from 2009 to 2012, with annual increases post 2009 significantly higher than growth over previous years (Figure two repeated below). This change is directly attributable to the demand driven system, and demonstrates that the funding system is achieving the underlying growth objective.

FIGURE TWO: COMMONWEALTH SUPPORTED UNDERGRADUATE LOAD 2006 - 2012 (ANNUAL CHANGE AND TOTAL)



Source: uCube

### B. IMPROVING ACCESS FOR STUDENTS FROM LOW SOCIO-ECONOMIC STATUS BACKGROUNDS AND RURAL AND REGIONAL COMMUNITIES;

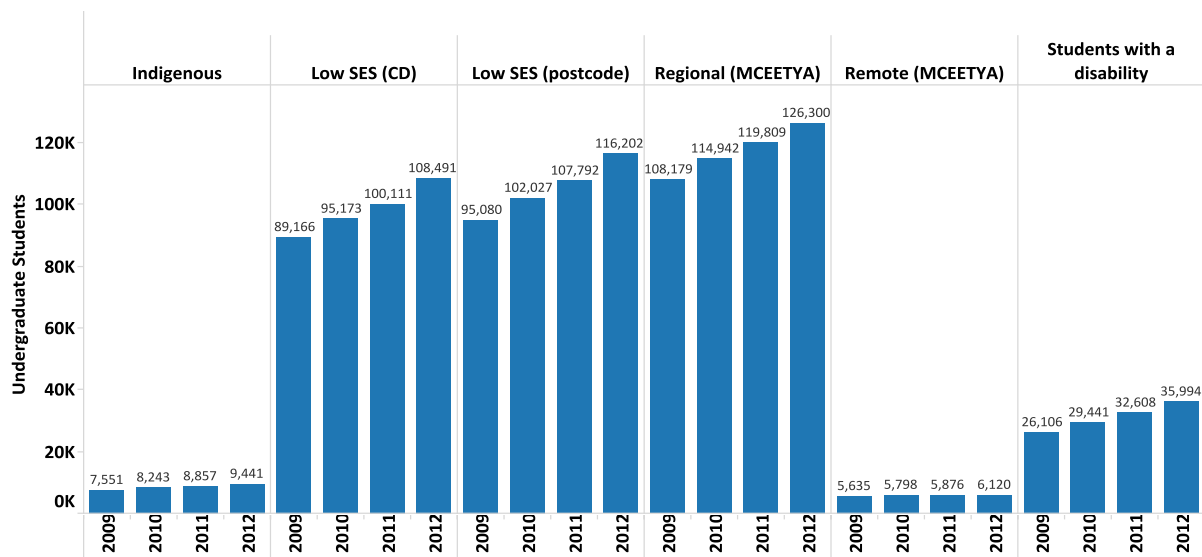
The demand driven system has had a positive impact on the numbers of students from low socio-economic status backgrounds and rural and regional communities accessing higher education. The system has also enabled continued growth in the enrolment of Indigenous students and students with a disability. Figure six highlights absolute growth in undergraduate student numbers across equity groups and Figure seven changes to participation rates from 2009 to 2012. Student enrolments across each category have increased, but significant changes to participation rates are apparent only for students from low socio-economic status backgrounds and students with a disability. The extent to which access is improving in this context depends on the value that is attributed to absolute growth, growth relative to representation in the system as a whole, or relative odds of participating in higher education relative to the equity cohort.

The equity performance indicator framework that is used in the Australian context has its origins in the establishment of the National Unified System of the late 80's and early 90's, where participation relative to representation in the system was adopted as the measure of equity performance. There is reason to reassess the validity of this approach in the demand driven era. The characteristics of the student population is now less dependent on the selection biases connected to distributing centrally controlled places, capped well below population demand. The student population is now increasingly a function of higher education providers accommodating the preferences of students.

**Recommendation 6**

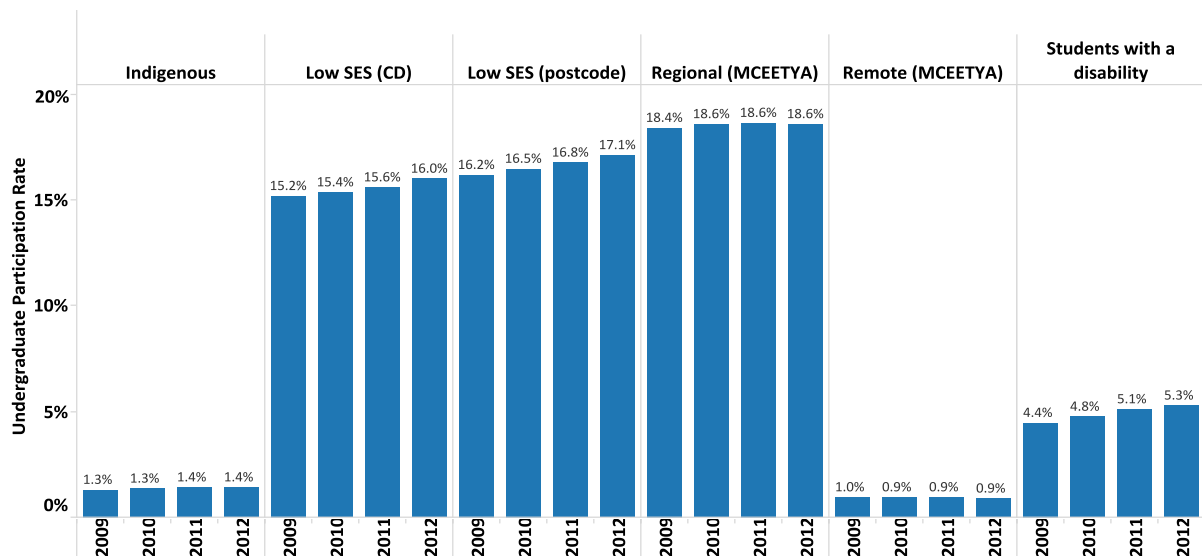
*Equity policy frameworks should be reviewed for alignment with the contemporary context, which could include reference to participation across sub-bachelor, undergraduate, graduate coursework and research higher degree levels.*

**FIGURE SIX: UNDERGRADUATE EQUITY ENROLMENTS 2009 - 2012**



(Source: Higher Education Statistics Appendix 2 – Equity Groups 2012)

**FIGURE SEVEN: UNDERGRADUATE EQUITY PARTICIPATION RATES 2009 - 2012**

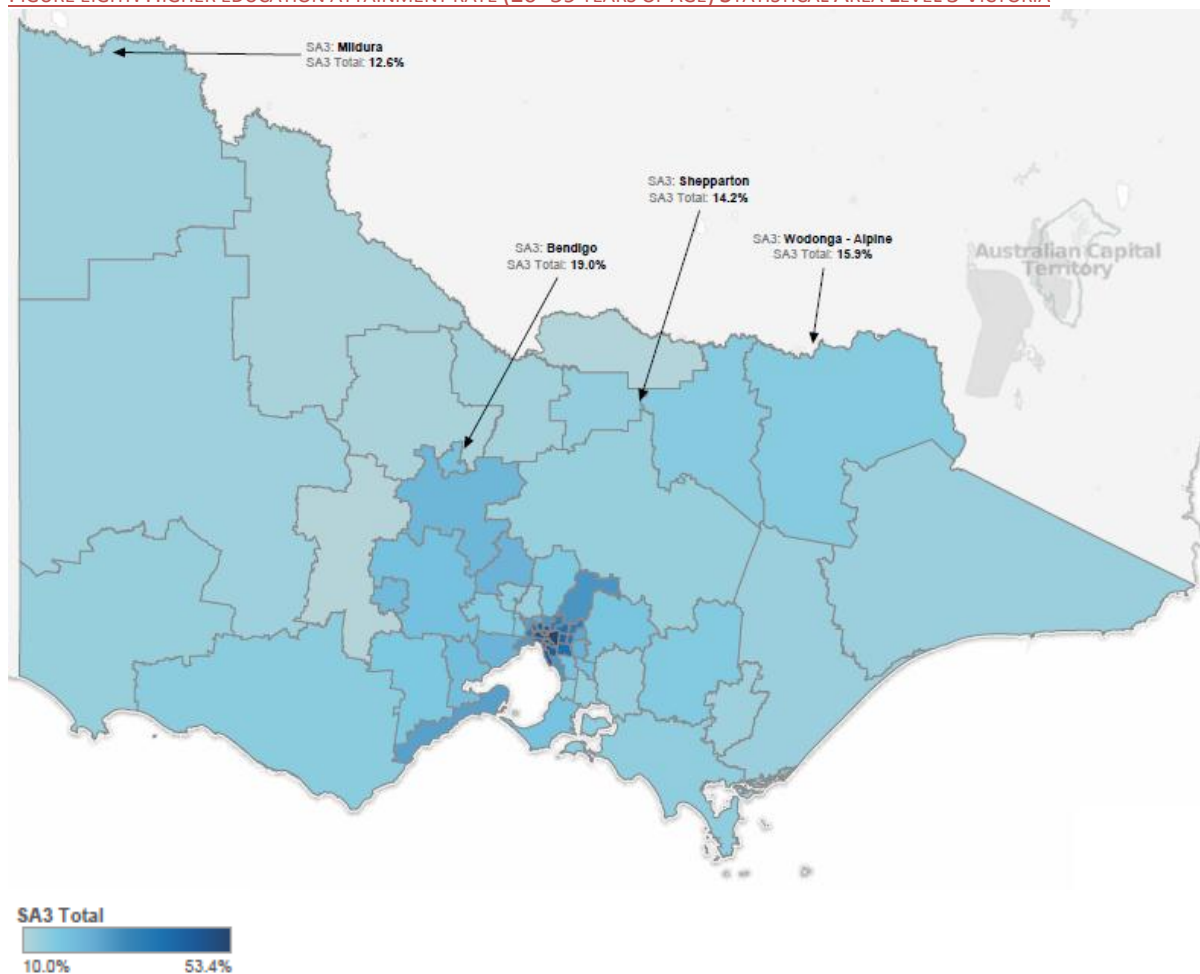


(Source: Higher Education Statistics Appendix 2 – Equity Groups 2012)



Whilst access to higher education has demonstrably shifted, there remain significant challenges around optimising the distribution of graduates along geographic and socio-economic status dimensions. Figure eight demonstrates the significant variation in higher education attainment rates (for 20-59 year olds) across Victoria, highlighting the regions where La Trobe has a regional campus presence. Higher education attainment is much higher in Melbourne’s inner and eastern suburbs, and is weak for much of regional Victoria.

**FIGURE EIGHT: HIGHER EDUCATION ATTAINMENT RATE (20- 59 YEARS OF AGE) STATISTICAL AREA LEVEL 3 VICTORIA**



The increase in low socio-economic status participation can be explained by both the expansion facilitated by the demand driven system and the significant investment in targeting this group through the Higher Education Participation and Partnership Program (HEPPP). Investing in targeted outreach has proven to be a successful strategy for increasing participation. Static participation and low higher education attainment rates in regional Australia demonstrate suggest that a bolstered approach to regional outreach is warranted. The magnitude of the attainment disparity is large and will require a long-term policy commitment and successful policy interventions to resolve.

An additional factor that limits higher education participation for regional students is the lack of an effective market for regional higher education. Population sizes and densities are lower. Poor school completions decrease the school leaver market and smaller subject offerings at upper secondary level in regional schools limit tertiary options. Restricted access to enabling places decreases pathways into higher education. The absence of research funding that targets regional interests, and relative absence of high status programs such as medicine do little to inspire regional prospective students as to the virtues of a regional higher education experience. Longstanding policy emphasis on encouraging regional students to undertake studies in larger metropolitan locations will work for some from regional Australia, but

does not address the needs of people who are unable to move away from the regions for a range of social and economic reasons.

### **Recommendation 7**

Regional participation should be bolstered through:

- elevating regional higher education as a social, economic and higher education policy issue,
- providing additional funding for regional outreach, combined with broader education policy to incentivise school engagement for regional youth,
- easing government barriers to offering high status programs such as medicine in regional locations
- redesigning subsidies and loadings for fairer competition in regional markets

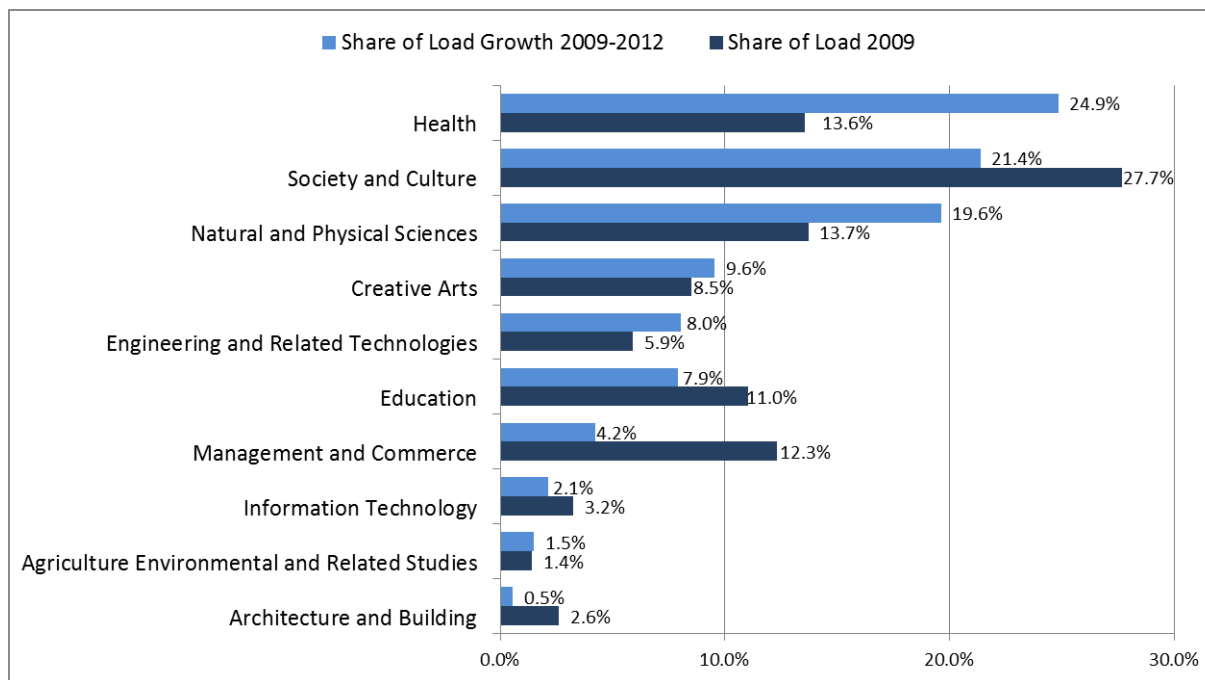
## **C. MEETING THE SKILL NEEDS IN THE ECONOMY;**

Demand in the demand driven funding system is conceptualised as a function of student demand, mediated by university capacity, with indirect responsiveness to economic and labour market needs for graduates and skills. The propensity of higher education to directly respond to economic and labour market needs has always been challenged by the long lag times between labour market need, program development, marketing and recruitment, teaching, and progression to graduation. Higher education qualifications have proven valuable as a means of providing high level and transferrable conceptual skills that can be deployed flexibly in the labour market, and are associated with an increased likelihood of higher wages and longer participation in the labour market. The demand driven system is more efficient in matching student aptitude and interest with qualifications than centralised allocation processes. Student aptitude and interest is generally rational and will be informed by patterns of labour market outcomes. This does not however guarantee that the demand for skills in the labour market will be met by the student entitlement demand driven system. There are long standing skills shortages within specific occupations and in specific geographic locations that are the focus of long term policy intervention. There may be a need for some market intervention but this should be limited to true market failure and should be rectified through community service obligation funding mechanisms to incentivise additional provision reducing the need to restrict places as broad principle.

### **Health and medical workforce**

Health Workforce Australia is focused on the availability and distribution skills to meet the needs of the health workforce. An ageing population, changing patterns of health care work, geographic maldistribution and the demography of the existing workforce combine to make this a pressing skills and social issue. The highly regulated nature of health training programs impedes the capacity for institutions like La Trobe to improve its contribution to resolving this issue. Since the demand driven system has been established, study in the health broad field of education accounted for 25% of growth in load, well above the share load associated with health in 2009 (Figure nine). Whilst the demand driven system is responding to immediate and long term skill need, there remain challenges in ensuring these skills are delivered in the right occupations, at the right place and at the right time.

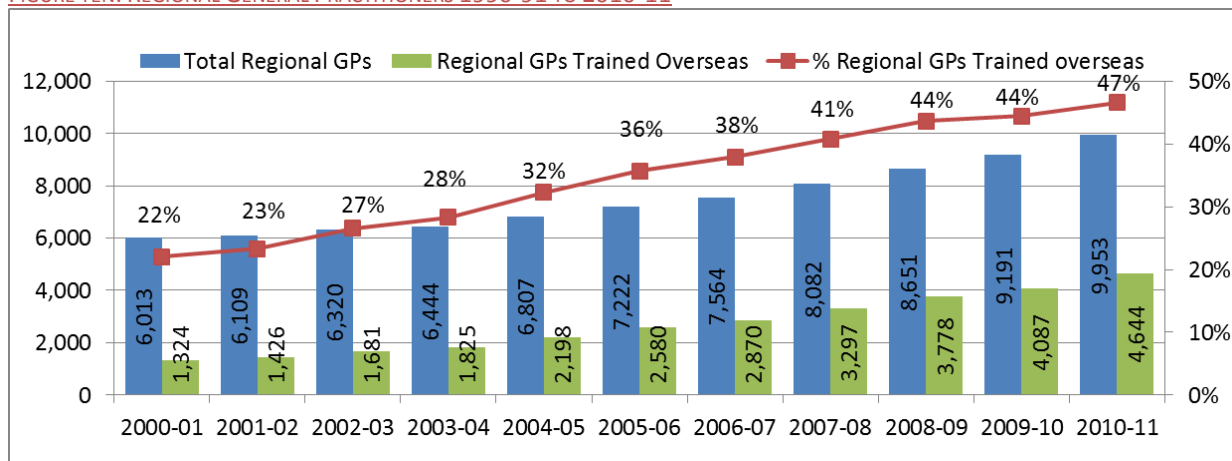
**FIGURE NINE: DISCIPLINE SHARE OF LOAD GROWTH 2009-2012, AND SHARE OF LOAD 2009 (COMMONWEALTH SUPPORTED UNDERGRADUATE STUDENTS)**



Source: uCube

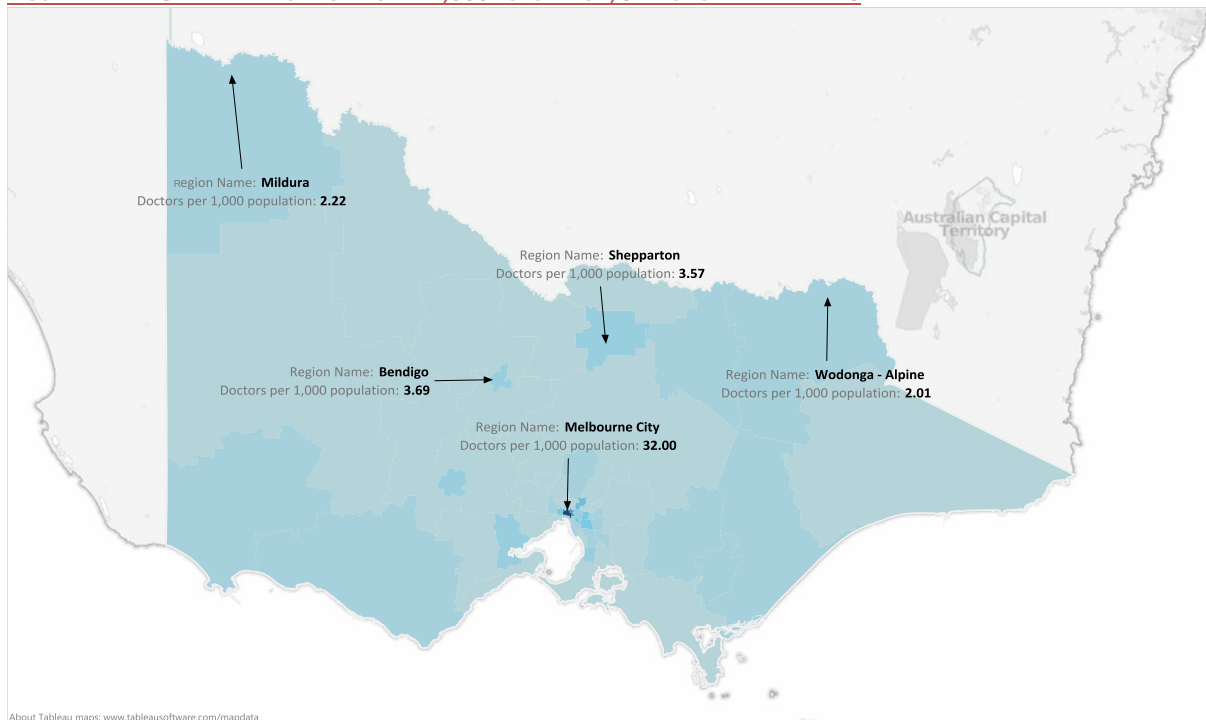
The proportion of doctors that practice in regional contexts is increasing, but this increase is a result of immigration rather than the higher education system producing medical graduates practicing in regional areas (Figure ten).

**FIGURE TEN: REGIONAL GENERAL PRACTITIONERS 1990-91 TO 2010-11**



Source: Department of Health and Aging: General Practice Workforce Statistics

Access to doctors remains highly restricted in regional contexts, with Figure eleven highlighting number of General Practitioners per 1,000 population across Victoria, with the regions where La Trobe has a regional campus presence annotated. La Trobe University in conjunction with Charles Sturt University has proposed a Medical School for the Murray Darling Basin to train people from regional Australia, in regional Australia with a regionally focused undergraduate medical curriculum. The establishment of this medical school is dependent on government support and approval.

**FIGURE ELEVEN: GENERAL PRACTITIONERS PER 1,000 POPULATION, STATISTICAL AREA LEVEL 3**

Source: 2011 Census of Population and Housing

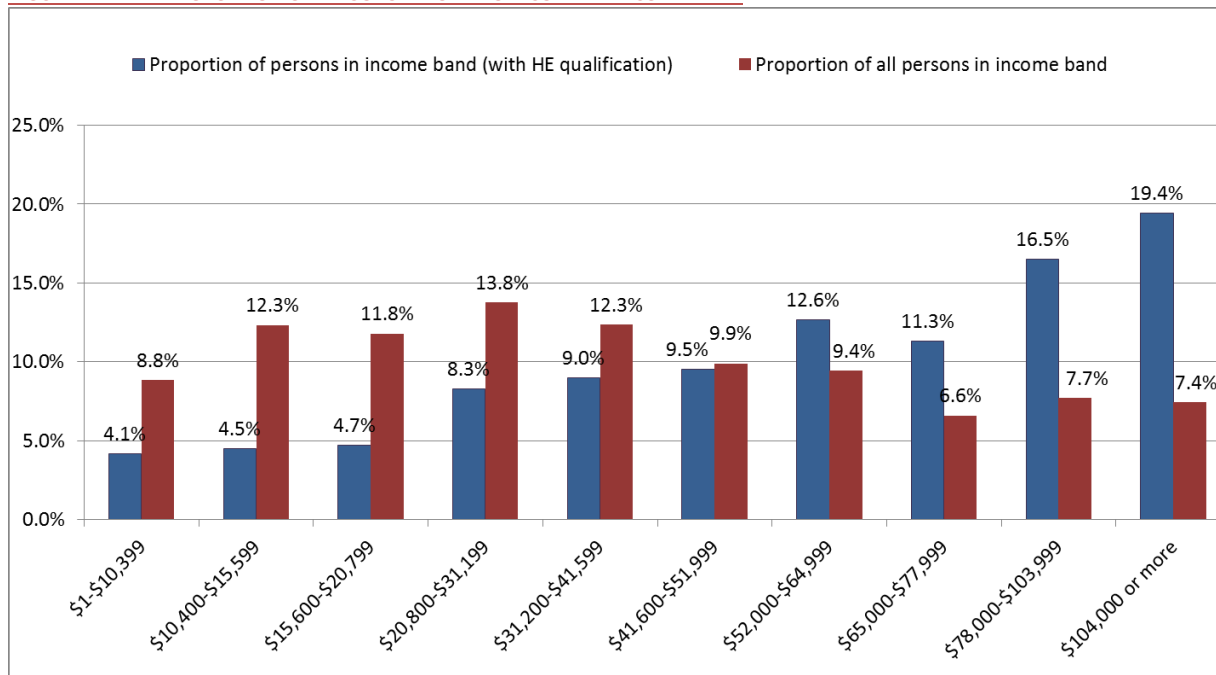
A recent Senate Inquiry into higher education and skills training to support agriculture and agribusiness in Australia identified significant skills shortages across agriculture and agribusiness<sup>10</sup>. Despite the shortage of skills, high rates of graduate employment and high graduate salaries, universities reported they struggled to maintain viable agriculture programs. There has been growth in agriculture related enrolments post the demand driven system (Figure nine), but this growth is modest when compared with other fields of education and is unlikely to resolve the skills shortages identified.

Whilst there are clear skills shortages for which demand driven funding has not proven a panacea, there has been some incorrect commentary that the higher education system is growing excessive demand in specific disciplines, for example, recent suggestions that there is an oversupply of teaching graduates<sup>11</sup>. Whilst there has been growth in education enrolments, this growth is not dramatically higher than the distribution of load that precedes the demand driven funding system. Detailed time-series data on the specific labour market outcomes of those with specific qualifications is limited, but census data does provide some insights into labour market outcomes by qualification and occupation. Graduate incomes are higher, and graduate unemployment rates are lower (Figure twelve). Not all graduates will go onto work in their discipline of study, but graduates are more likely to succeed in the labour market. For example, for those with education qualifications, the unemployment rate is low and around two thirds of graduates are employed in education occupations. Retention of teachers within the profession leads to continuing demand for education qualifications. This phenomenon is not restricted to education and is evident in other professional occupations where a degree is an entry level qualification (e.g. nursing and social work) (Table three).

<sup>10</sup> Senate Education, Employment and Workplace Relations References Committee Higher education and skills training to support agriculture and agribusiness in Australia, June 2012

<sup>11</sup> The Australian, December 4 2013, Why Australian schools trail Vietnam and Poland

FIGURE TWELVE: PROPORTION OF PERSONS REPORTING INCOME BY INCOME BAND



Source: 2011 Census of Population and Housing

TABLE THREE: LABOUR MARKET INDICATORS FOR PERSONS WITH EDUCATION QUALIFICATION

AGE RANGE	PERSONS WITH EDUCATION QUALIFICATION	PERSONS UNEMPLOYED	PROPORTION UNEMPLOYED	PERSONS WORKING IN EDUCATION OCCUPATION	PROPORTION PERSONS WORKING IN EDUCATION OCCUPATION
20-29	69,067	1,263	1.8%	50,539	73.2%
30-39	114,668	1,925	1.7%	73,581	64.2%
40-49	108,363	1,781	1.6%	72,771	67.2%
50-59	119,960	1,865	1.6%	77,433	64.5%

Source: 2011 Census of Population and Housing

Australia’s higher education system is meeting the skills requirements of Australia in broad terms, with evidence that growth has been strongest in health, sciences and engineering fields of study (all of which relate to Department of Immigration and Border Protection list of skilled occupations). There are likely to remain challenges in meeting the skills requirements around specific occupations and in specific locations that warrant both a level of reduced regulatory barriers to provision (in the case of medicine) and new ways of thinking about demand stimulation for occupations where the supply of graduates is impervious to existing market signals (as in the case of agriculture). The relationship between regional participation and attainment rates and the regional locations where agricultural and agribusiness jobs are situated supports earlier recommendations around the role of government in stimulating demand for regional higher education.

**Recommendation 8**

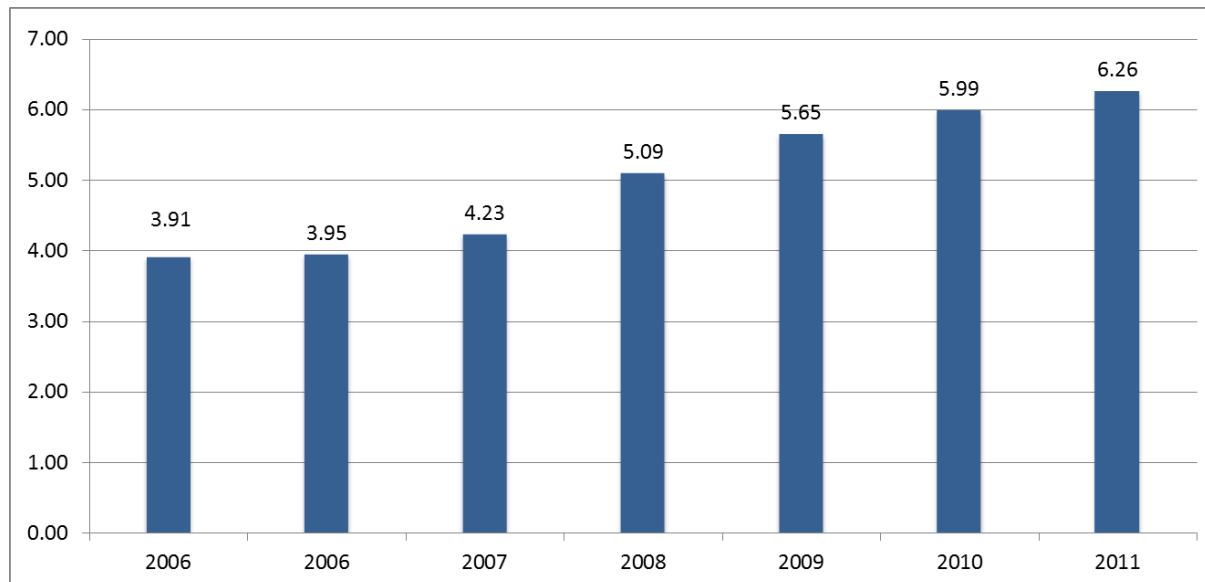
*Demand driven funding mechanisms be retained as the most efficient and effective way of producing graduates to meet social and economic needs, augmented by programs (including market orientated signals like price achieved through scholarships) to achieve specific policy objectives.*

There is a role for government programs in targeting specific social and economic policy objectives, but this should not ignore the underlying mission of many universities, and their reference to community engagement and service. There is a range of government programs that pursue social policy objectives (including HEPPP, Regional Loading, and Indigenous Tutorial Assistance Scheme) but little programmatic support for broader functions of community engagement and service. There is scope for the government to reduce the specificity of social policy funding requirements, providing universities with greater flexibility to pursue social policy objectives in a manner that is consistent with the service dimensions of their legislation.

**3. EXTENT TO WHICH THE REFORMS HAVE ENCOURAGED INNOVATION, COMPETITION, DIVERSITY AND GREATER RESPONSIVENESS TO STUDENT DEMAND INCLUDING DEVELOPMENT OF NEW MODES OF DELIVERY SUCH AS ONLINE LEARNING;**

The transition from central allocation to demand driven funding has exerted significant competitive pressure on universities to reform the quality of programs and student experience. If a course of study is poorly designed, poorly marketed or poorly taught, students can and will pursue other options. The demand driven system has resulted in an increase in students changing courses and providers. The difference between commencing bachelor student attrition and adjusted attrition (which corrects for students who change institutions) has increased in the lead-up to the introduction of the demand driven system (Figure thirteen).

FIGURE THIRTEEN: DIFFERENCE BETWEEN ATTRITION AND ADJUSTED ATTRITION 2006 – 2011 (DOMESTIC COMMENCING BACHELORS)

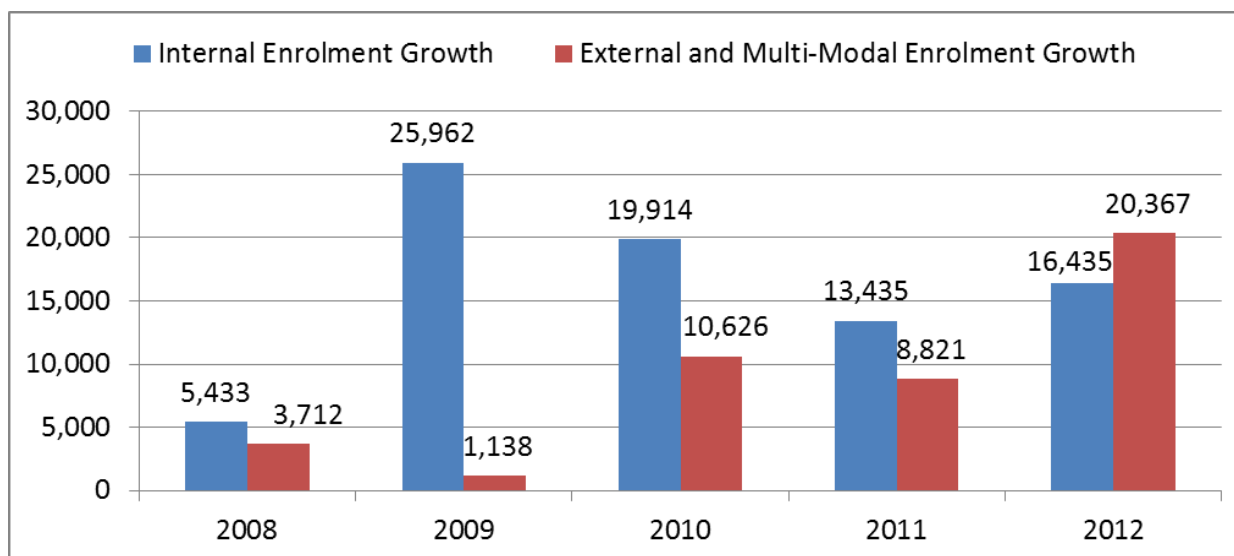


Source: Higher Education Statistics, Appendix 4 - Attrition, Progress and Retention Rates for commencing bachelor students 2012

The introduction of the demand driven system is initially characterised by an increase in internal enrolments, where institutional surplus capacity was a driver of enrolment increases. In more recent years, it is innovation and flexibility in delivery with external and multi-modal enrolment growth now exceeding that of internal enrolments (Figure fourteen).

Students are not only more likely to swap institutions, but they are increasingly choosing programs that offer an innovative and flexible curriculum.

**FIGURE FOURTEEN: ANNUAL CHANGE IN ENROLMENTS BY MODE OF ATTENDANCE 2008 - 2012**



Source: uCube

The extent to which innovation, competition, diversity and student responsiveness is enhanced by the demand driven funding system is impeded by regulatory assumptions about the costs and services associated with higher education. The commonwealth and maximum student contributions for the cost of higher education are rigidly based on the discipline being undertaken. TEQSA’s regulatory risk framework was based on a face-to-face delivery mindset and included reference to floor space per student and total information resources expenditure per student. Whilst the competitive pressures of the demand driven system are driving innovation, and responsiveness, the character of innovation and responsiveness would increase if the assumptions driving higher education regulation were moved away from a fixed-cost face-to-face mindset driven by funding relativities which date originally from the early 1990s.

An additional regulatory barrier to innovation in higher education is that of workplace relations regulation. Under the current industrial relations frameworks there is limited provision for individual flexible agreements, obtrusive requirements for union consultation on minor organisational change, and prescriptive employment conditions that allow for minimal flexibility in application and interpretation. When agility and market responsiveness are ever more necessary, there are industrial limitations to how agile universities can be. Whilst the industrial relations context sits independent of the demand driven funding system, the broad regulatory context is influential in institutional capacity to respond innovatively to the demand driven context.

#### **4. WHETHER THERE IS EVIDENCE OF ANY POTENTIAL ADVERSE IMPACTS ON THE QUALITY OF TEACHING AND OF FUTURE GRADUATES;**

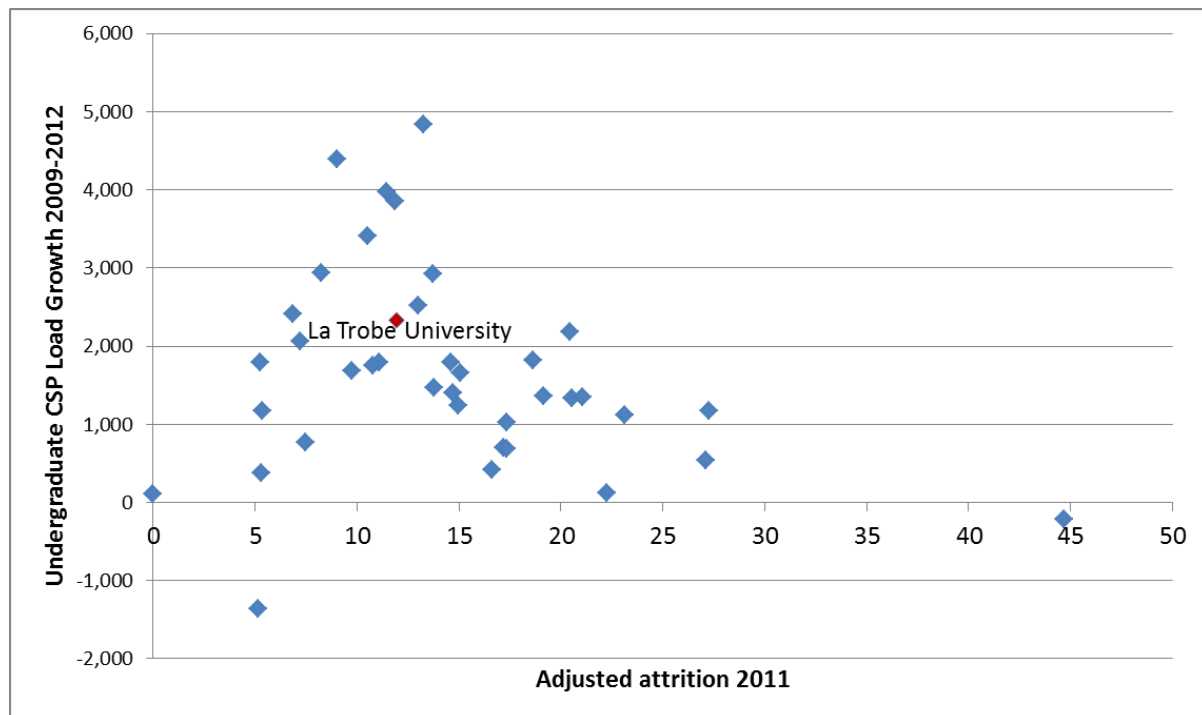
The effective measurement of quality of teaching and quality of graduates has proven to be an international challenge, leading to a range of proxy indicators for teaching and graduate quality. Attrition, success, completions, student satisfaction and graduate employment rates are all used by the sector in considering teaching and graduate quality and each has its own imperfections. Notwithstanding the additional red tape that has been created (and needs to be reduced) to support new regulatory arrangements, one can assume that there was some validity in refining regulatory and reporting frameworks to address fears that the demand driven system would erode the quality of Australian higher education. TEQSA has not publicly identified major or systemic flaws in the quality of teaching or quality of graduates

since its operation. The quality of Australian higher education remains strong and has not been compromised by recent expansion.

Public commentary on the relationship between system expansion and quality generally focuses on the increasing number of students admitted to the sector without high ATARs. It is argued that these students are under prepared for higher education and are at higher risk of failure and attrition. Analysis undertaken by the Grattan Institute<sup>12</sup> identifies that students with lower ATARs are less likely to complete their studies than those with high ATARs. However, this analysis also shows that **the majority of students with lower ATARs admitted to higher education do complete**, suggesting that any arbitrary restrictions to entry would be problematic. Any relationship between non-high ATAR and success should be mindful the relative distribution of places by ATAR. The Grattan Institute analysis also demonstrates that high ATAR students are more likely to apply, be offered and accept a place than those with lower ATARs.

Analysis of recent institutional expansion and attrition for domestic bachelor students since the introduction of the demand driven system (Figure fifteen) suggests that the relationship between expansion and attrition is weak. There remains scope for improvement in retention across the sector, but the introduction of the demand driven system has not triggered a significant change in attrition beyond a propensity to change institutions after the first year of studies.

**FIGURE FIFTEEN: ADJUSTED ATTRITION (DOMESTIC COMMENCING BACHELORS) AND EXPANSION (UNDERGRADUATE CSP 2009-2012) BY INSTITUTION**



Source: uCube, Higher Education Statistics, Appendix 4 - Attrition, Progress and Retention Rates for commencing bachelor students 2012

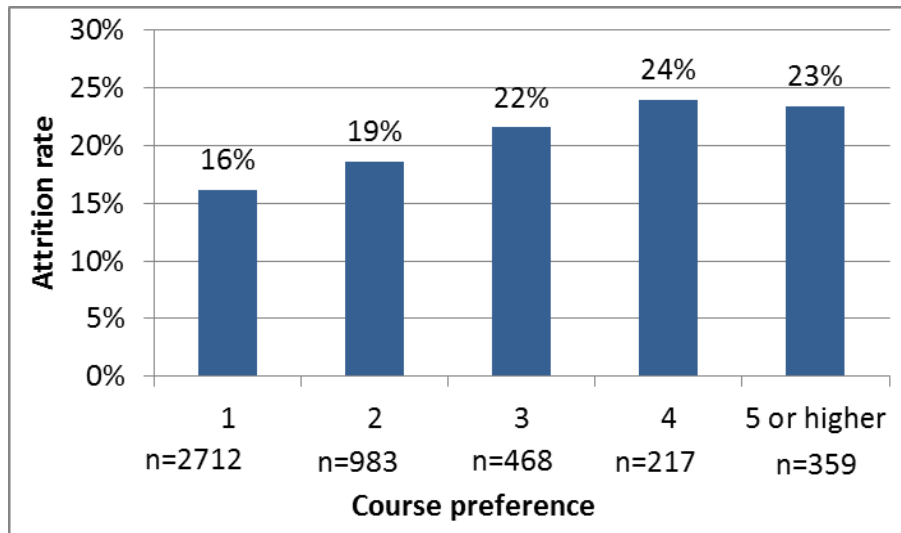
**In fact, analysis of the La Trobe University cohort identifies that in addition to the relationship between ATAR and attrition, there is as strong a relationship between course preference and attrition** (Figure sixteen). Students who obtain a lower preference place are less likely to be retained in that course than those who achieved their first

<sup>12</sup> Norton, A., 2013, Keep the caps off! Student access and choice in higher education, Grattan Institute, Melbourne.



preference. Studies of student course selection decisions come to similar conclusions, highlighting that field of study preferences are the dominant factor in student decision-making<sup>13</sup>.

**FIGURE SIXTEEN: ATTRITION RATE BY COURSE PREFERENCE, LA TROBE UNIVERSITY**



Source: Harvey, A. and Luckman, M. 2013, Exploration of factors correlated with attrition, Access and Achievement Research Unit, La Trobe University

Competition implicit in the demand driven system will exert continued pressure on institutions to improve the quality of their offering and their outcomes, making demand driven funding an effective mechanism for ensuring quality of teaching. Institutional interest in improving the quality of teaching was evident well before the introduction of the demand driven system and has seen the proportion of students indicating they were satisfied on the good teaching scale in the course experience questionnaire almost doubling from 1995 to 2012<sup>14</sup>. The demand driven funding system is more likely to match student first preferences with courses, with longer term implications for reduced attrition.

## **5. MEASURES BEING TAKEN BY UNIVERSITIES TO ENSURE QUALITY TEACHING IS MAINTAINED AND ENHANCED IN THE DEMAND-DRIVEN SYSTEM;**

La Trobe University's has always placed a high value on the quality of learning and teaching. La Trobe's institutional and academic governance, and quality assurance process are robust and ensure that La Trobe research and teaching continues to be of an international standard. In addition to compliance with a complex national higher education quality and regulatory context, La Trobe's quality assurance framework<sup>15</sup> includes:

- An independent and well qualified Council
- A Strategic Plan providing strong direction and an aligned planning and budgeting framework with clear performance measures
- Organisational (Academic, administrative and committee) structures with clear responsibilities and accountabilities
- A well articulated governance role for Academic Board in academic quality assurance

<sup>13</sup> James, R., Baldwin, G. and McInnis, C. (1999) Which University? The factors influencing the choices of prospective undergraduates. Centre for the Study of Higher Education. The University of Melbourne, 99/3. Department of Education, Training and Youth Affairs, Evaluations and Investigations Programme, August 1999

<sup>14</sup> Norton, A., Sonnemann, J. and Cherastidham, I. 2013, Taking university teaching seriously, Grattan Institute

<sup>15</sup> [Quality at La Trobe](#)

- Policies, procedures and processes supporting the strategic plan
- Rigorous approval and review processes for academic activities
- Systematic reviews against plans and budgets
- Evidence based decision making supported by high quality management information
- Robust risk management integrated into planning and review processes
- High quality student academic and personal support services
- Transparent staff performance management and development processes
- A strong service culture across all levels of the institution

The demand driven system has introduced increased competition for students, but this has not fundamentally shifted the importance that La Trobe invests in its management and governance systems. However, the nature of increased competition necessitates a strategic response, which is articulated in La Trobe’s strategic plan- Future Ready<sup>16</sup> – and in La Trobe’s Teaching and Learning Plan<sup>17</sup>.

In responding to an evolving operating context La Trobe will:

- Identify a small number of areas of research that address issues fundamental to the future of human societies and their environments in which we will be amongst the best in the world
- Develop attractive and relevant curriculum and student experiences, the La Trobe Framework, to attract creative and independent thinkers from all walks of life, cultures and backgrounds with a passion for challenging the status quo and driving change
- Seek game changing partners for our teaching and research, especially in our Research Focus Areas and Hallmark Programs
- Engage deeply with Melbourne’s north and promote educational opportunity in Victoria’s regions

These broad themes involve many aspects of institutional operations for which a comprehensive exposition would be inappropriate. The following examples highlight some of the measures being undertaken by La Trobe to ensure the quality of its teaching in the context of the demand driven system:

#### La Trobe Framework

La Trobe is developing a new curriculum and student experiences to attract diverse, creative and independent thinkers who have a desire to make a difference to their world. The La Trobe Framework comprises the following elements:

- La Trobe Hallmark Program: In addition to our current suite of degrees, La Trobe is developing a Hallmark Program that will address some of the nations, regions and world’s most pressing issues. Being the best in these areas will simply mean studying at La Trobe, and being taught by the best teachers and researchers in the field;
- La Trobe Essentials: all La Trobe coursework degrees will include either as embedded in the curriculum or as required subjects, the essentials of Global Citizenship, Innovation and Entrepreneurship, and Sustainability Thinking, that will ensure the La Trobe graduate is equipped with the skills and knowledge that can be applied in the workplaces of today and tomorrow;
- La Trobe Enrichment programs: Opportunities will be provided for all students to participate in innovation and application in the workplace, study abroad, and become involved in research and development projects and enriching partnerships;

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<sup>16</sup> [La Trobe University Future Ready Strategic Plan](#)

<sup>17</sup> [La Trobe University Teaching and Learning Plan](#)

- Design for Learning as a University-wide curriculum initiative will continue to support the development of core graduate capabilities, including critical thinking and creative problem solving; and
- Radical Learning Project and flexible learning: the student experience will be redefined through a ‘Radical Learning Project’, which will reimagine teaching and learning at La Trobe by drawing on rich educational technologies and external partners

All of these innovations are driven by a desire to take a market leader position, offering attractive programs in a competitive and demand driven market.

## 6. WHETHER LESS ACADEMICALLY PREPARED STUDENTS ARE RECEIVING THE SUPPORT THEY NEED TO COMPLETE THE COURSE OF STUDY TO WHICH THEY HAVE BEEN ADMITTED.

University expenditure and activity around student support is a core part of the teaching and learning environment and includes activity that is embedded in the curriculum and academic workloads, and activity that sits in student services divisions. Student support takes many forms and includes financial support (scholarships), academic support (additional tuition and academic skills), as well as services targeting specific groups and cohorts (counselling, disability, Indigenous services). The sophisticated range of services on offer is consistent with the higher education sector’s commitment to quality learning and teaching outcomes. It is within this context that student support occurs, and its efficacy can be measured by a range of indicators including student academic success. **The success rates of students in higher education have not changed significantly with the introduction of the demand driven system** (Table four). In the face of significant system expansion, success rates remain close to 88%.

TABLE FOUR: HIGHER EDUCATION SUCCESS RATES 2007 – 2011 (ALL DOMESTIC STUDENTS)

2007	2008	2009	2010	2011
87.95%	88.24%	88.2%	87.87%	87.74%

Source: Higher Education Statistics, Appendix 5 - Equity Performance Data 2011

The publicly available national data can be disaggregated by equity groups, who are the subject of government funding programs and standardised reporting processes. Students from designated equity groups do not perform as well as students from outside the equity group, although the difference is minor for most of the equity cohorts (Table five).

TABLE FIVE: HIGHER EDUCATION SUCCESS RATIOS 2007 – 2011 (EQUITY GROUPS)

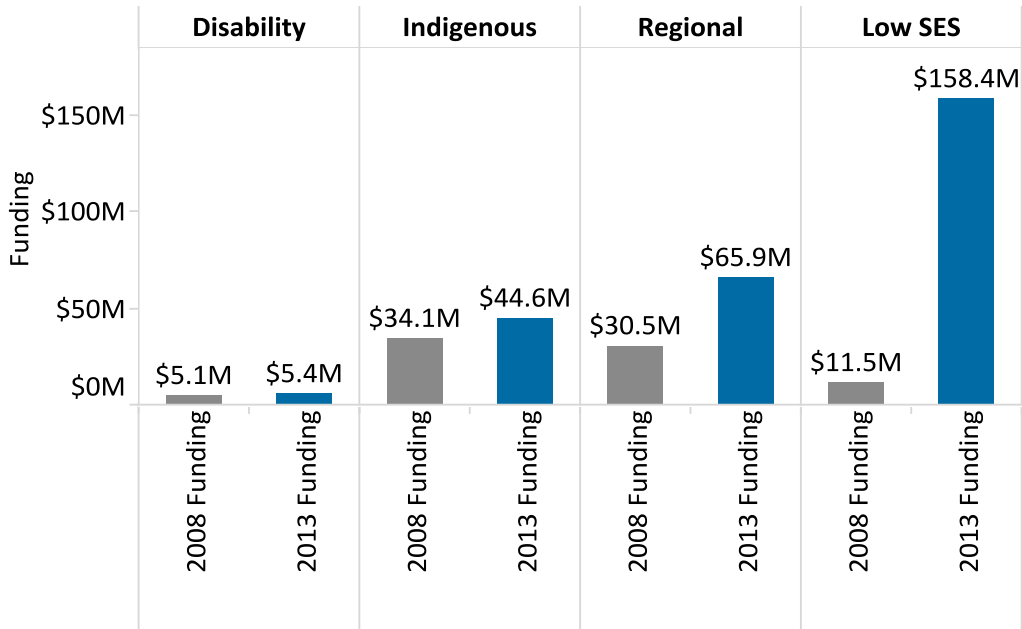
EQUITY GROUP (2011 ENROLMENTS)	2007	2008	2009	2010	2011
Regional (151,594)	0.99	0.99	0.99	0.99	0.99
Low SES (131,569)	0.97	0.97	0.96	0.96	0.96
Disability (39,798)	0.94	0.94	0.94	0.94	0.94
NESB (29,729)	0.97	0.97	0.98	0.98	0.97
Indigenous (11,428)	0.79	0.79	0.79	0.81	0.82
Remote (8,415)	0.93	0.92	0.92	0.94	0.94

Source: Higher Education Statistics, Appendix 5 - Equity Performance Data 2011

University expenditure on support services is significant, and exceeds that which is targeted at equity groups. Figure seventeen charts the change in government expenditure on equity groups from 2008 to 2013. Additional investment in low socioeconomic status students through HEPPP has been high. Additional funding for programs targeting other

equity groups is modest by comparison. Notwithstanding the differences in success rates associated with various equity groups, there would appear to be a disproportionate focus on low SES students, to the detriment of focus on other equity groups or other social policy objectives.

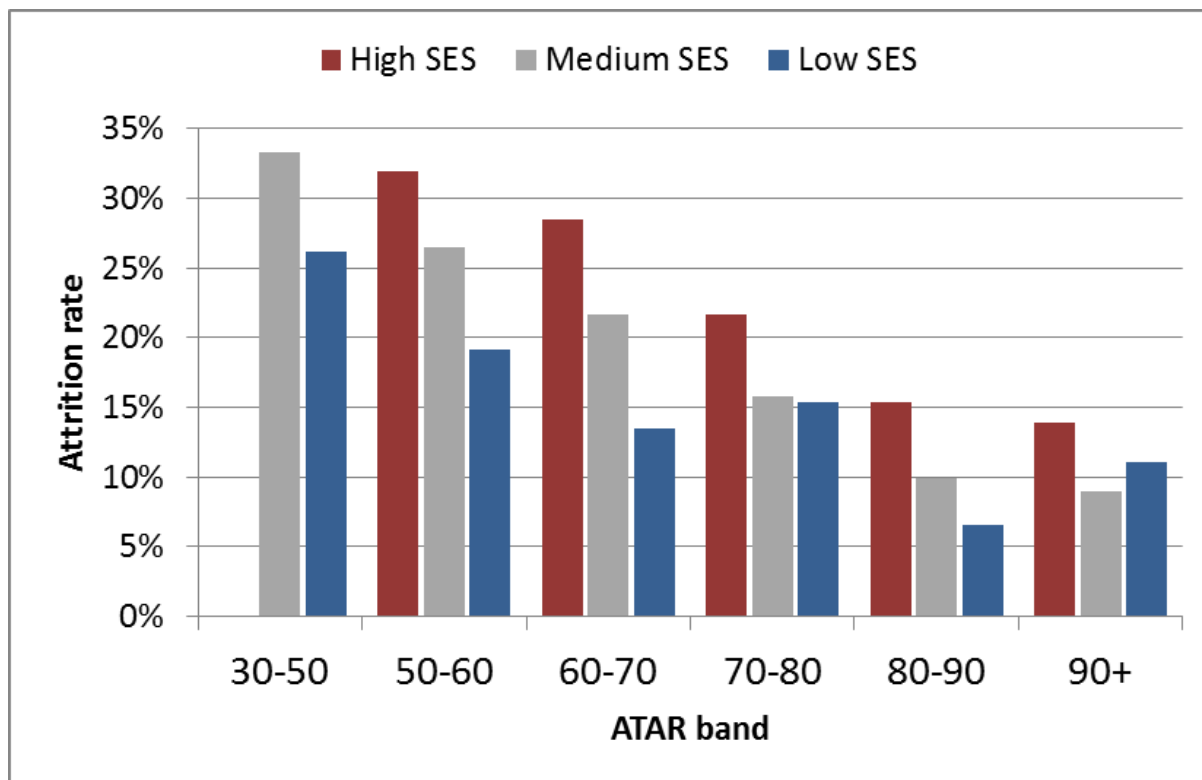
**FIGURE SEVENTEEN: EQUITY PROGRAM FUNDING 2008 AND 2013**



Source: Universities Payment Information System

Beyond equity groups, La Trobe analysis identifies that there is a relationship between ATAR, socioeconomic status and attrition (Figure eighteen). For a given ATAR band, La Trobe students from low socioeconomic status backgrounds are less prone to attrition, and students from a high socioeconomic status background are more prone to attrition. The extent to which less academically prepared students are receiving the support they need to complete the course of study to which they have been admitted involves more than equity group membership. Universities across the sector are refining systems to identify students who might benefit from support for reasons that relate to academic performance in formative assessment tasks and patterns of academic engagement. In La Trobe’s case this involves a multi-dimensional retention strategy which includes a focus on student transition, the iterative refinement of first year curriculum and assessment, an academic early warning system, and continuing evaluation strategy.

FIGURE EIGHTEEN: ATTRITION BY ATAR BAND AND SOCIOECONOMIC STATUS



Source: Harvey, A. and Luckman, M. 2013, Exploration of factors correlated with attrition, Access and Achievement Research Unit, La Trobe University