

# The current and future landscape for tertiary education funding – Peter Noonan

Tertiary education in Australia is at a crossroads with major decisions currently in train. Professor Peter Noonan, a member of the government's advisory panel, sets out scenarios and issues at the interface between higher education and Vocational Education and Training.

In higher education, after three years of debate and uncertainty, a package of policy and funding proposals are currently before the Senate – but presently the outcome is uncertain.

In VET, two national agreements set policy priorities and determine the funding framework between the Commonwealth and the states.

One of those agreements expires and in 2017 will be replaced by a new Skilling Australians Fund the details of which are currently under discussion between the Commonwealth and the states.

Getting these decisions right is critical, given the importance of tertiary education in Australia today, and even more into the future. <sup>1</sup>

The Department of Employment's occupational projections <sup>2</sup> forecast that an additional 990,000 jobs are expected to be created by 2020 — but significantly, only 70,000 of those jobs will require only a senior secondary level education. The remainder will require some form of tertiary education.

Contrary to much of the public rhetoric, not all of that growth will be in the most highly skilled occupations. The Department projects about 480,000 jobs will require Degree or higher qualifications, while about 437,000 will require Certificate, Diploma and Advanced Diploma level qualifications.

Of course, these are just projections — labour market forecasting is often unreliable at the occupational level — but the trends are clear if we look at what has happened over the past five years.

These labour market projections point to a need for ongoing, but better-balanced growth across the higher education and VET sectors. Yet participation levels in VET are actually falling at present, particularly amongst young people.

At the same time Australia's population is growing, with the number of school leavers increasing through the 2020's. Modelling undertaken by the Mitchell Institute highlights the need for ongoing growth in both the higher education and VET sectors just to maintain, let alone raise participation rates in tertiary education. <sup>3</sup>

Last week the National Centre for Vocational Education Research (NCVER) released official VET student data for 2016. I was surprised when the headline figure showed a 3.3% increase in enrolments, and thought that perhaps the trend of decreasing enrolments evident since 2012 had begun to reverse.

However most of the increase in VET enrolments is accounted for by a huge increase in short courses in NSW. Enrolments fell in all other mainland states, in some cases substantially. Full year training equivalents and hours of delivery — better indicators of overall VET provision — fell by 4.2% nationally.

While 2016 full year higher education data are not yet available, comparable half year commencing student load in higher education showed slowing in the rate growth in Commonwealth Supported Places to 1.1% between the first half of 2015 and 2016.

This compares to growth of 7.6% in 2012, the first year of full per student funding under the demand driven system.

In summary, in 2016 we had ongoing, but slowing growth in higher education, and a continued decline in VET across most of Australia. If this trend continues it will lead to an accelerating decline in participation in tertiary education in Australia over the next decade as the population grows.

Let me now turn to the key decision-making processes in each sector.

The Commonwealth Government's Higher Education Reform proposals are before the Senate, with a Senate Committee holding hearings on the legislation at present.

In brief, the proposals involve a continuation of the demand driven funding system and its extension to sub-bachelor courses, a loading for low SES students through the Higher Education Participation and Partnerships Program (HEPPP), a 2.5 efficiency saving on Commonwealth funding levels in 2018 and 2019, increased student contributions, a lowering of the income repayment threshold for HELP loans from \$55,000 to \$42,000, the extension of HELP to enabling courses, a major change in the way Commonwealth funded postgraduate places are allocated between universities, and the introduction of performance based funding. <sup>4</sup>

These proposals come in the wake of more far reaching changes proposed in 2014, including deregulation of student fees and a 20% reduction in per student funding, which failed to pass the Senate.

University leaders, individually and through Universities Australia, have spoken out strongly against the new package, as have staff and students. The ALP and the Greens have indicated that they will oppose the full package in the Senate, while the crossbenchers' positions are not yet clear.

While the likely outcome of the Senate's consideration of the reforms is still unclear, two possible scenarios emerge.

The first is that the legislation passes, but most likely in an amended form. This could still include some reduction in funding rates, no or lower charges for enabling courses and some changes to student contributions and income repayment thresholds. The demand driven system would be retained, and with loadings for low SES students.

This scenario would see capacity for continued growth in higher education, based on demand driven funding – albeit at a lower funding rate. The level of growth would depend on the

willingness of universities to increase enrolments at this lower funding rate, noting that the reduced rate applies to current, as well as future enrolments. The changes to HELP contributions and repayment thresholds are unlikely to affect demand.

In the long run, the sector's continued growth at lower funding rates could only be achieved by an accelerating shift from the current model of research and teaching, to one of greater research concentration within universities and possibly between universities. The current model, where Commonwealth Grant Scheme funding cross-subsidises research, would be increasingly unsustainable.

This scenario would also most likely result in rationalisation of courses and campuses in some universities, particularly those with an uneconomic footprint.

If the legalisation is rejected, an alternative scenario — reimposing a cap on funded places may emerge. Capping places — would be contrary to the support for the demand driven system the Coalition Government has expressed since 2014. But that option might be considered by the Government, if it's determined to realise at least some of the savings built into the budget forward estimates.

The Government could also look to limit funding growth through more selective and targeted approaches, for example by tendering for growth in priority areas for both bachelor and sub-bachelor places.

A threshold decision would then be, whether growth funding would only be available to currently funded institutions, and whether growth would be at current levels or at marginal cost.

It should be noted that the Howard Government capped university enrolments from 1997, followed by selective and competitive allocation of growth between 2005 and 2008.

However, this approach would remove — or severely limit — the only source of publicly funded growth in tertiary education, exacerbating the decline in overall participation now evident as a consequence of declining VET enrolments and participation rates.

This growing imbalance between VET and higher education funding has been evident since 2012, when full funding for demand driven higher education commenced, and most states began to reduce investment in VET.

This is why decisions on higher education funding should not be considered in isolation from decisions on VET funding.

The Commonwealth has already discontinued the disastrous VET FEE HELP scheme, replacing it with the Vocational Student Loans program. This program applies to a far more limited number of providers and courses, with loan caps in place at the course level.

The Government's decision to replace the current inadequate National Partnership Agreement for Skills Reform with the new Skilling Australians Fund is welcome, particularly with requirements for matching state expenditure.

However, the Commonwealth budget papers indicate that there will be a slight decline in Commonwealth payments to the states for VET between 2016-17 and 2017-18. <sup>5</sup>

## **Payments to support State skills and workforce development services <sup>6</sup>**

In addition, the budget papers also indicate that: *from 2018-19, amounts available to the States from the Skilling Australians Fund will be determined by the revenue paid into the Fund,* <sup>7</sup> with revenue to be sourced from levies on businesses for certain types of skilled migration visas.

As such, funding levels for the Skilling Australians Fund are only estimates — not budget appropriations. States not meeting Commonwealth matching requirements would also receive less funding.

There is no matching funding requirement in the ongoing National Skills and Workforce Development SPP (Specific Purpose Payment).

Under this SPP between 2011-2015 state and territory revenue from state and territory governments decreased by \$358.5 million (9.7%) from 2014. <sup>8</sup> It is likely to have fallen further in 2016.

With stringent requirements on the states for additional schools under the new Commonwealth schools funding legislation, further reductions in state VET funding can be anticipated.

This is why I have proposed a totally different model for VET funding, through bilateral agreements based on an agreed Commonwealth and state contribution per qualification. <sup>9</sup>

The states may also further increase student fees for state funded VET courses. As students in Certificate level programmes cannot access Vocational Student Loans they must meet the cost of these fees upfront, and VET fees are increasing, in many instances significantly.

This is likely to be having a deterrent effect on VET enrolments, and creates major inequity between VET and higher education.

However, the Government's proposal to reduce HELP repayment thresholds from around \$55,000 to \$42,000 in 2018 is highly relevant here.

Much of the debate has centred on the perceived unfairness of this proposal. However, there are two related problems with the current thresholds. The first is that, as many graduates fail to reach this threshold, the debt incurred is never repaid, or repaid over a lengthy period – yet the government still has to meet the cost of borrowing.

This results in an effective additional subsidy, which affects the financial sustainability of HELP.

Bruce Chapman and Tim Higgins from ANU modelled the effective subsidies for the Mitchell Institute in 2015. Their modelling across different income levels and loan amounts demonstrated how lower income repayment thresholds reduce subsidies for different courses.

The modelling also included VET Certificate III to Advanced Diploma courses. This was an important exercise, as one of the reasons HELP has not been extended to VET Certificate level courses is that VET graduates are unlikely to earn incomes sufficient to repay their debt on current HELP parameters.

The non-availability of income contingent loans at Certificate level was not a major issue or barrier to study when VET fees were low. However, as state VET funding has declined student fees have increased, in some cases significantly.

For example, a Certificate III in Individual Support costs \$1750 at TAFE NSW (less with a concession). This is an important qualification in terms of providing support required by people ageing or with a disability. It is also an important qualification in facilitating female workforce participation, and workforce participation by people with a disability.

Wage levels in the aged care sector vary from \$38,000 at the lowest level to \$46,000 at the highest level. Under current HELP thresholds, it would be uneconomic to extend HELP to this qualification, as few graduates would ever fully or even partly repay (unless they worked significant amounts of overtime or moved into a higher skills and wages classification).

However, if students in aged care courses (and other similar courses) were able to access HELP with lower income thresholds, most would repay over time (depending on their progression through pay scales and levels of full-time employment).

Even some students in VET Diploma and Advanced Diploma courses eligible for Vocational Student Loans have loan levels capped, and may have to pay the difference between the fee charged by the provider and the loan available from the Commonwealth.

If Commonwealth funding is extended to higher education sub-bachelor programs and universities expand enrolments in these courses, prospective students may face stark choices – between paying the difference between the loan cap and the provider fee in VET, and paying no upfront fee for a similar course in the higher education sector.

How many universities will significantly expand sub-bachelor offerings, and in what areas is unclear. Some are likely to expand offerings through partnerships with TAFE, others may compete directly with TAFE, but on a very uneven playing field.

Some states may even consider not funding VET Diplomas and Advanced Diplomas, on the basis that the Commonwealth will, over time, take over funding these programs through the higher education sector.

This will result in a further cost shift from the states to the Commonwealth in VET.

I have supported the extension of demand driven funding to higher education sub-bachelor programs, as the current capping arrangements made no sense. They merely encourage universities to enrol students directly into bachelor, rather than sub-bachelor programs, which may be unsuitable for some students.

Given this interrelationship, decisions on funding sub-bachelor programs in higher education should not be taken in isolation from their impact on similar programs in VET.

This is why the Bradley Review recommended that the Commonwealth assume full funding responsibility for Diplomas, Advanced Diplomas and Associate Degrees offered in both sectors – an option the Mitchell Institute has also proposed.

In summary and conclusion, the current and future landscape for tertiary education funding in Australia is far from clear.

Even if the Government's higher education reform package passes the Senate in a revised form, and agreement with the states is reached in relation to VET funding, the absence of an overall and coherent framework for funding tertiary education in Australia means that any piecemeal agreements are neither sustainable nor sufficient in the longer term.

It will only be when either the Government or the Opposition takes a broader view across the whole sector that Australia will begin to develop a more coherent and sustainable system for funding tertiary education.

However, this needs to happen, if we are to meet Australia's future labour market needs, and the needs of a growing population.

<sup>1</sup> I favour a broad definition of tertiary education, spanning VET Certificate III to Degree level courses, as in the Australian context all of these qualifications are offered by post-secondary institutions, are typically taken by school leavers and lead to both labour market and further study outcomes. This is a broader approach than the standard international definition that would define tertiary as beginning at the overlap between VET and higher education in Diplomas and Advanced Diplomas.

<sup>2</sup> Department of Employment Labour Market Information Portal, [Skill Level Projections](#).

<sup>3</sup> Noonan P (2017) [Modeling increased tertiary participation in Australia](#) Mitchell Institute, Victoria University Melbourne.

<sup>4</sup> Note: I was a member of the Panel advising the Minister on the policy options flowing from the Discussion Paper released by the Government in 2016. The Panel's advice was confidential and the policies adopted by the government may or may not reflect advice offered by the Panel.

<sup>5</sup> Funding under the expiring Skills Reform agreement was higher in the latter years of the Agreement.

<sup>6</sup> Budget Paper No 3 [Skills and Workforce Development](#) Department of the Treasury, Canberra p.34

<sup>7</sup> Ibid p. 35

<sup>8</sup> NCVER *VET Finance Data 2015* NCVER, Adelaide.

<sup>9</sup> Noonan P, [A new system for financing Australian tertiary education](#) Mitchell Institute at Victoria University, Melbourne.

*This article is adapted from Professor Noonan's address this morning to Community Colleges Australia at its 2017 Annual Conference.*

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<http://www.mitchellinstitute.org.au/opinion/the-current-and-future-landscape-for-tertiary-education-funding/>*