Senate Education and Employment References Committee

Inquiry into the principles of the Higher Education and Research Reform Bill 2014, and related matters

From:

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Summary of analysis

- The higher education reform package had three separate origins
    - The overall Budget situation
    - The Kemp-Norton review of the demand driven system
    - Fee deregulation as a response to Commonwealth funding limitations
- Spending on tuition-related subsidies through the Commonwealth Grant Scheme has increased significantly in recent years
- The level of tuition fees does not have a strong relationship to attainment levels, either in Australia or internationally
- HELP's costs are increasing considerably, exacerbated by plans to abolish loan fees and not proceed with real interest on HELP debt
- Current per student funding rates are not based on cost studies, standards, or student preferences
- Current per student funding rates could lead to under-supply in a demand driven system
- Unlimited student-driven funding is likely to contribute substantially to research expenditure
- Any new price regulator needs to deal with political risk as well as market risk
- Any new price regulator needs a political decision about what it is regulating, especially in how much research spending can be financed from student-driven revenue
- The UK and USA report university expenditure on teaching, but Australia does not
- Taxing high university fees could exacerbate the problem of students not receiving benefits from extra fees that they pay

Summary of recommendations

- Independently of what happens to the broader reform agenda, HELP loan fees should be retained and expanded
- Independently of what happens to the broader reform agenda, the initial threshold for HELP repayment should be reduced
- Extension of the demand-driven system to sub-bachelor courses and to students in NUHEPs and private universities should proceed
- Improved cost data is necessary to monitor university activity and provide the basis for future regulation

Principles of the Higher Education Research and Reform Bill 2014

I believe that the *Higher Education Research and Reform Bill 2014* has three distinct sources, each of which explains different elements of the package. While there are connections between them, each could have been enacted as a standalone reform. Unbundling the package may be a way forward.

The three elements are:

- Budget cuts, coming out of the Government's overall response to the Budget deficit;
- System expansion, coming out of the review of the demand driven system I conducted with Dr David Kemp; and
- Fee deregulation, coming from dissatisfaction with Government price-setting, a history of support in the Liberal Party and in parts of the higher education sector, and a long track record in international, postgraduate and private higher education.

It is sensible to deal separately with the principles behind the three different elements.

Budget cuts

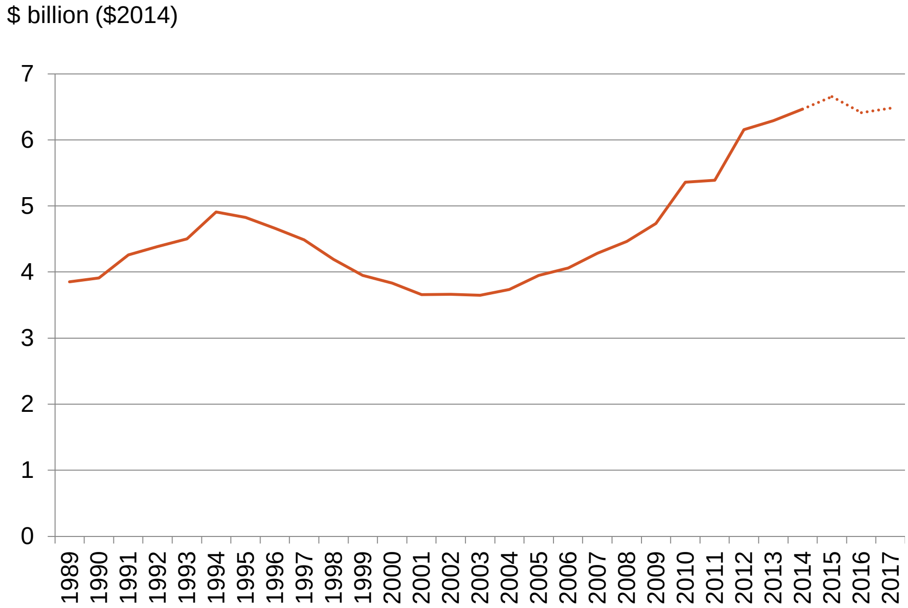
Commonwealth Grant Scheme

Due largely to increases in student numbers, spending on the main tuition subsidy program, the Commonwealth Grant Scheme, has increased considerably since its low point a decade ago. The proposed cuts to Commonwealth contributions are aimed at stabilising spending, while accommodating increased student numbers. More students are expected due to a mix of projected expansion in public university bachelor-degree places, extension of the demand driven system to diplomas and associate degrees, and the inclusion of higher education providers that are currently outside the public funding system. In Figure 1 the solid line shows historical spending and the dotted line shows the forward estimates.

The level of public subsidy per student is inherently a political matter. It is hard to show empirically that it makes a reliable difference to higher education enrolment levels, the socioeconomic make-up of the student body, or the courses students take.[1] The basic theoretical explanation for this is that the subsidy is typically small relative to the lifetime private benefits, both financial and non-financial, of higher education. With a loan scheme like HELP removing the necessity for upfront payments, the subsidy does not do much to further change behaviour. In most cases it just makes a small addition to the already sufficiently high private benefits. Where private benefits are low HELP absorbs losses, again reducing the practical effect of the tuition subsidy.

[1] Norton (2012); Norton (2014)

Figure 1: Commonwealth grant scheme spending, 1989-2017



Notes: Operating grant figures are used prior to 2005, less HECS charges. From 2005, the figures report total cash paid to universities. Due to reconciliations for over- or under-payments for the previous year's enrolments, the annual payments in respect of each year may be slightly different to those shown here. Forward estimates numbers are financial years, preceding years are calendar years.

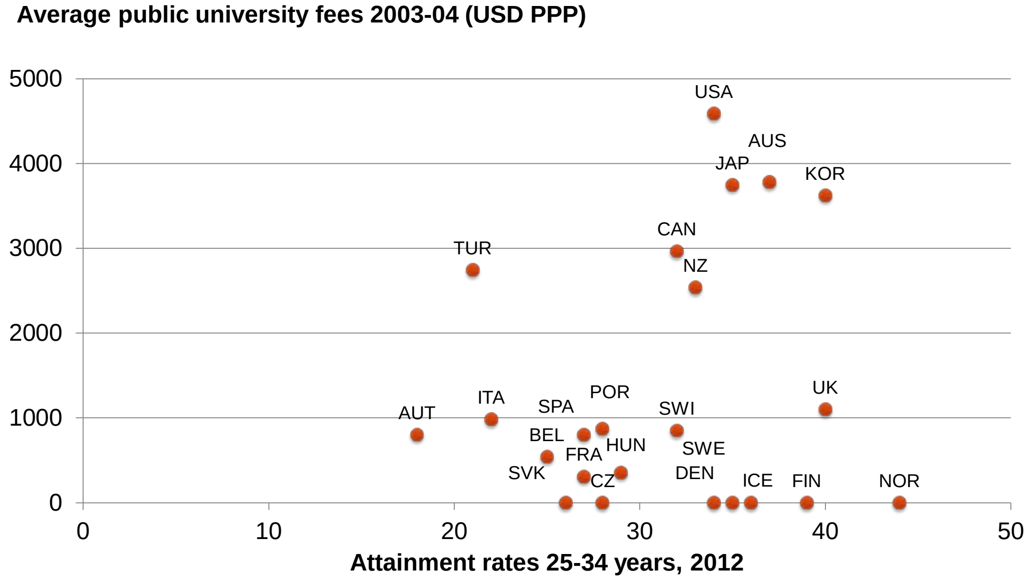
Sources: Data provided by the Department of Education, Department of Education and Training (2015)

Tuition subsidies do alter the distribution of a student's lifetime income. Compared to having an income contingent loan to pay fees but with no tuition subsidies, the subsidies mean that student debt is fully repaid at an earlier age. However, subsidies require higher taxation than would otherwise be the case. Graduates would contribute to their subsidies via taxation. However, this may be at a later stage in their lives, providing advantages in further smoothing income over time. Graduates also benefit from taxes paid by people who never went to university.

Because of the political difficulties in increasing taxation and the many competing demands on government, high levels of tuition subsidy can mean that spending is rationed by restricting the number of places. This was the case in Australia prior to the demand driven system, and is still the case for the sub-bachelor courses outside the demand driven system. As noted in my submission to the legislation committee inquiry, the Department of Education has said that it had declined applications for nearly 4,000 more sub-bachelor places for 2014.[2] Restrictions on places to save money are likely to be one reason why a range of European countries have lower higher education attainment than relatively high fee countries, as seen in Figure 2. However, there is no iron law here. There are three broad clusters of countries: low fee-low attainment, mainly in continental Europe; no fee-high attainment in Scandinavian countries, and high fee-high attainment, a mix of English-speaking and Asian countries.

[2] Senate (2014), p. 48

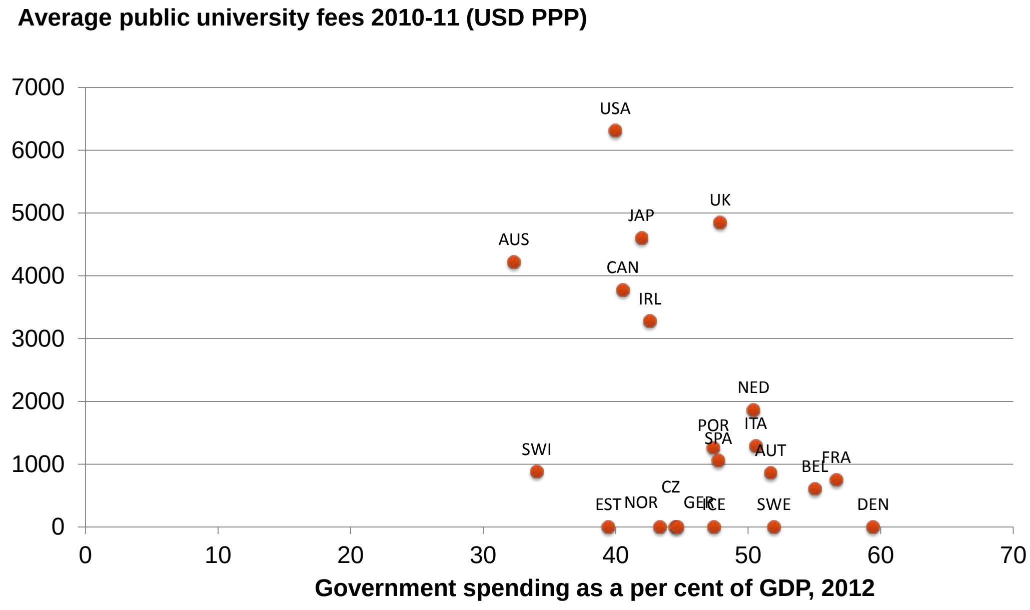
Figure 2: Rates of higher education attainment and fees



Note: 2003-04 fees used as a guide to what persons aged 25-34 in 2012 would have paid when undergraduates.
Sources: OECD (2005); (2014a)

Underlying these varying fee levels and attainment rates are different models of financing social service expenditure. As Figure 3 shows, the low fee countries typically have high rates of government spending as a proportion of GDP, supported by relatively high tax rates (especially over the longer-run, spending rather than taxation is shown due to the effects of slow economies and high deficits in the year shown). The higher fee countries typically have government spending that is below that of the low fee countries. Each mix of public and private spending is capable of delivering high attainment, but there appears to be more low-attainment risk associated with the low fee model. Except for a developing country, Turkey, there are no countries in the OECD's data with high fees and low attainment.

Figure 3: Fees and public spending as a percentage of GDP



Sources: OECD (2014b); a)

HELP

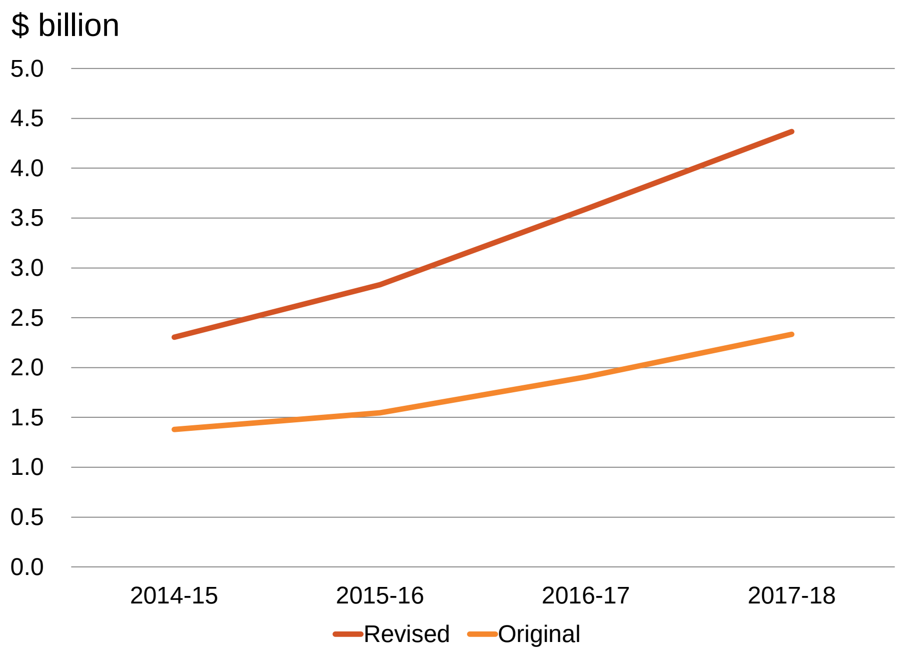
The original *Higher Education Research and Reform Bill 2014* included measures to contain the cost of the HELP loan program. These were a reduction in the initial threshold for repayment and a real interest rate on student debt. The real interest rate has been removed from the re-introduced bill. While there were reasonable policy and political reasons for abandoning real interest, the general position that HELP's costs should be contained is a sound one. HELP's risk management and income smoothing objectives can be achieved at lower cost to taxpayers.

With the removal of real interest, HELP's costs will increase even more considerably than had originally been forecast in May 2014, as seen in Figure 4. In May 2014, HELP costs were largely doubtful debt, the share of HELP lending not expected to be recovered. Grattan analysis suggests that doubtful debt costs have been revised up since the May 2014 Budget, principally due to more VET FEE-HELP borrowers.[3] However, the bulk of the increase is due to real interest rates being removed from the reform package.[4]

My submission to the legislation committee inquiry recommends the retention and extension of loan fees as an alternative to real interest. As Figure 5 shows, loan fees on FEE-HELP and VET FEE-HELP lending are a significant source of revenue offsetting HELP's costs. They also encourage students who can pay upfront to do so, lessening the Government cash needed to finance HELP and removing the risk of doubtful debt for those students. The appropriate loan fee levels need further analysis.

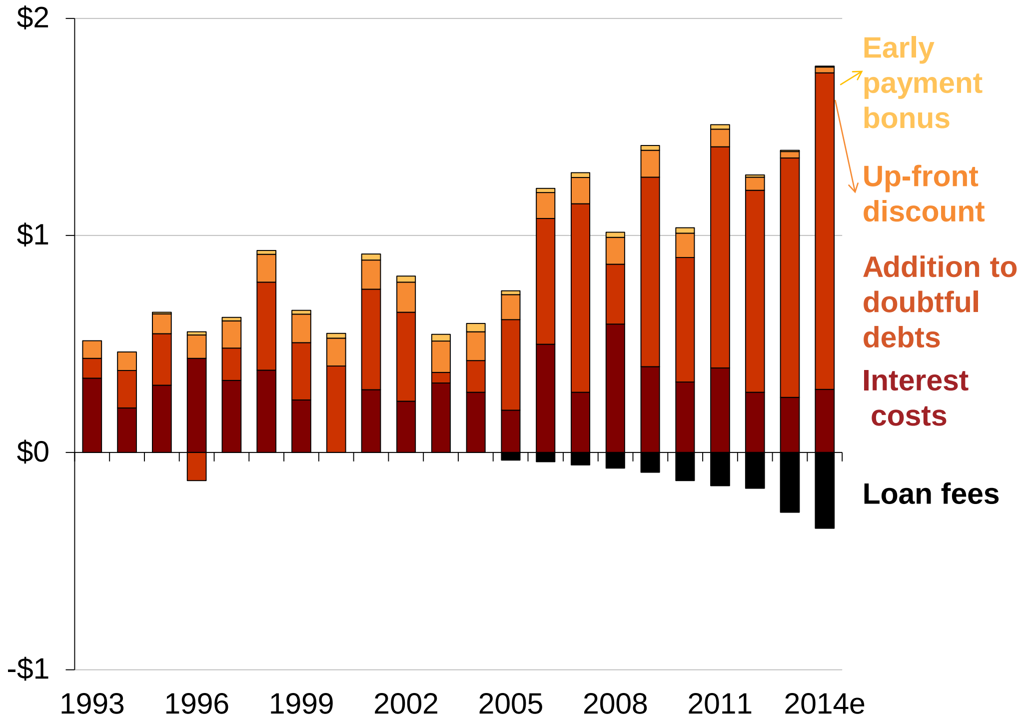
[3] Norton (2015) examines VET FEE-HELP doubtful debt costs. Using information in Department of Education and Training (2015) we estimate for 2014-15 that 15 per cent of forecast increases in HELP cost increases are due to doubtful debt.
[4] There is also the cost of an amendment that provides a repayment holiday to parents of young children.

Figure 4: Revised and original Budget forecast HELP costs, 2014-15 to 2017-18



Source: Department of Education (2014a); Department of Education and Training (2015)

Figure 5: Costs of HELP, 1993-2014



Notes: Addition to doubtful debt calculations is the increase in doubtful debt since the previous year. Interest cost is calculated as the difference between ten-year Commonwealth bond rate and the indexation rate, multiplied by the level of outstanding debt. This is different to the way interest costs are calculated in figure 3, which includes forecast interest costs of that year's lending. Loan fees include both FEE-HELP and VET-FEE-HELP, based on estimates of loan fee-liable lending. Deflated using CPI.
Sources: Based on DEEWR (2012), annual reports for portfolios responsible for higher education, information supplied by the Department of Education.

Lowering the HELP initial threshold for repayment, a measure still in the bill, is desirable in helping to reduce doubtful debt, by ensuring that more people repay, and interest costs, by requiring people to repay more quickly. However, far more extensive measures are needed to make HELP's finances sound. These including CPI indexation of all the thresholds, requiring repayments from overseas debtors, and ending the automatic write-off of debt on death.[5]

System expansion

The second source of the *Higher Education and Research Reform Bill 2014* is the review of the demand driven system I conducted with David Kemp.[6] It recommended expansion of the demand driven system to non-university higher education providers and private universities. The argument on this below repeats my submission to the original inquiry into this bill.

The current system of restricting the demand driven system to Table A universities is not based on any clear public policy objective. It is an artefact of history. Institutions or descendants of institutions that were in the equivalent of Table A in the late 1980s are part of the demand driven system. Institutions that were not in the equivalent of Table A in the late 1980s, or were founded since the 1980s, are not in the demand driven system.

Over time, policy has edged towards a more consistent approach. Students in non-university higher education providers (NUHEPs) and private universities have long been entitled to student income support. Since 2005, they have been entitled to income contingent loans (albeit on less favourable terms than other students). Since 2012, all higher education providers have been part of the same standards-based regulatory system. Eligibility for Commonwealth supported places is the major exception to this general pattern.

Like the Bradley report before it, the *Review of the Demand Driven System: Final Report* recommended a consistent and coherent system of higher education funding. The main reasons are summarised below.

Fairness to students As with the sub-bachelor places, there are fairness issue in excluding private university and non-university higher education providers from Commonwealth supported places. Under the current system, students in Table A institutions are in places that receive subsidies of up to $21,707 a year and have access to the generously subsidised HECS-HELP scheme. Other students are in places that receive no subsidies and are charged a 25 per cent loan fee on any undergraduate tuition fees that they borrow through FEE-HELP. Fairness does not require that every student is treated in the same way. But it does require that differences in treatment have rational explanations linked to public policy objectives. The current system fails this test.

These radical funding differences are not based on any assessment of students' educational or financial needs. Pathway colleges are mostly in the full-fee NUHEP sector and specialise in assisting students with educational disadvantage, which is in turn correlated with financial disadvantage. The TAFEs offering higher education also have a strong focus on educational and socioeconomic disadvantage.

Enrolment data provided for the demand driven review found that 14 per cent of undergraduate students paying full fees had low SES backgrounds. Opposition to extending the demand driven system equates to support for low SES students paying full fees. Senators concerned about

[5] Norton and Cherastidtham (2014a)
[6] Kemp and Norton (2014)

increasing costs for students in public universities should be as concerned about students in other higher education providers.

Supporting extension of pathway programs Pathway colleges were pioneered by the private higher education sector. Originally they were aimed at international students, but now serve both international and domestic markets. The universities consulted during the demand driven review were very satisfied with the pathway system, usually involving arrangements between their institutions and specific pathway colleges. Some universities already have their own pathway colleges, and more are likely to create them if the demand driven system is extended to sub-bachelor courses. But it will inevitably take time for these colleges to be created and for universities to work out how to run them effectively. It makes sense to use organisations that already do it well.

Diversity in the higher education system Institutional diversity matters where it can help students find courses and institutions which are a better match with what they are seeking. Diversity can be found in particular types of students, qualification levels, curriculum content, pedagogical methods and non-academic features such as institutional size, location, or campus environment. The growth over time of private university and NUHEP enrolments shows demand for different types of higher education than is offered by the public universities.

Competition in the higher education system At the moment, few people would choose a private university or NUHEP because it is cheaper than the alternatives. The average annual fee for a bachelor degree in a NUHEP is just under $15,000, nearly 50 per higher than the maximum student contribution amount. So far as Grattan research can find, only a handful of NUHEP courses, all at TAFEs, are priced below the maximum student contribution rates for their field of education (although once the 25 per loan fee was taken into account the cost to students is more than the student contribution). Given a funding system that is heavily biased against NUHEPs and private universities, direct competition with public universities is not a common business strategy for them. They are more likely to be in complementary relationships with the public sector (eg pathway courses), in niche discipline areas that public universities have been reluctant to enter (eg theology, alternative medicine) or offer similar courses in a very different way (eg the small classes of Bond University). They have all needed something that will make them attractive to students *despite* higher student charges.

With a funding system less biased against NUHEPs and private universities, the industry structure may change in ways that lead to more direct competition with public universities. The TAFEs are in the best current position to do this. Their fees suggest low cost structures, they have existing campus networks, they have established brands and recruitment channels, and they have a mission commitment to affordable education. However, direct competition on price between public universities, private universities and NUHEPs is likely to take time. It will require new courses, and possibly new higher education providers, to make it work.

Fee deregulation

The current system of funding rates for Commonwealth supported places, like the restriction of the demand driven system to Table A universities, is based on history rather than clear public policy principles. The main influence on the total funding rate is an expenditure study conducted in the late 1980s. The main influences on the student component are the differential HECS rates introduced in 1997 and the 25 per cent increase in student contributions for most disciplines that began in 2005.

Several criticisms can be made of this system of setting funding rates. It is not based on any estimates of the reasonable cost of delivering higher education, given the minimum standards higher education providers must now meet. There is limited capacity to take into account student preferences for different kinds of education, where this would cost more than current funding rates. The system leaves universities exposed to high levels of political risk, where funding is cut without any compensating increases in revenue for students. Although this happened repeatedly in real terms from 1995 due to the indexation system, it seems that the cuts announced in Labor's final Budget in 2013 were the turning point that caused a majority of vice-chancellors to lose faith in the historic funding system.

The current funding rate system also increases risk of dysfunction in the demand driven system. Funding is the incentive for enrolling more students, so if funding rates are too low universities may refuse to supply despite demand. Clearly, this has not been the case at a system level – the demand driven system triggered large enrolment increases. But the demand driven review of 2013-14 identified some disciplines for which funding levels appeared to be causing or risking under-supply.[7]

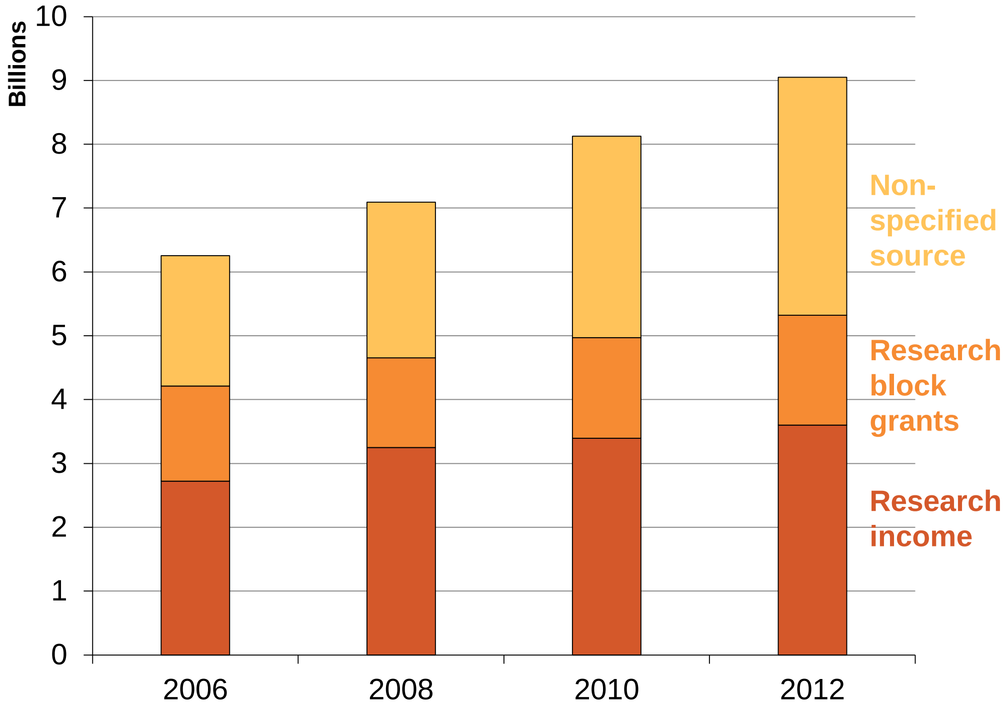
Simply lifting controls on student charges was the most obvious alternative to the historic system for setting student contributions. Fee deregulation has a long track record for international students, for domestic postgraduate students, and in private universities and non-university higher education providers. Fee deregulation for domestic undergraduates in public universities has been proposed several times in the past, although with only limited success apart from a small number of domestic places operating in parallel with the regulated system.[8] Fee deregulation avoids having to impose a single funding set of funding rates on the diversity of student preferences and provider missions. Fee deregulation saves a regulator from the complex task of determining reasonable costs.

Although fee deregulation is the simplest alternative to the current system, there are reasonable criticisms that can be made of it. Many of these are variations on the concern that under fee deregulation there will be increases in costs to students without corresponding increases in benefits.

One concern is that universities will use additional revenue primarily to fund additional research activity rather than improving teaching or other aspects of the student experience. Universities are open in saying that tuition fee income, which has primarily been from international students in recent years, supports research.[9] While we can't say precisely how significant this issue would be under fee deregulation, we can get an approximate idea of recent practices on research funding. This can be done by comparing the research spending the universities report to the Australian Bureau of Statistics with their research income as reported to government. As seen in Figure 6, research funding from non-research sources increased in both absolute and relative terms between 2006 and 2012. In 2012, $3.7 billion, or 41 per cent, of research funding was from a source that was not specifically for research. This is not just from teaching: universities also have investment income, donations, profits from commercial operations and other sources of funding. However, it is likely that money from the Commonwealth Grant Scheme and profits on full-fee students, mainly from overseas, contribute substantially to funding research.

[7] Ibid., p. 73
[8] Norton (2013)
[9] University of Sydney (2011); Hoj (2014)

Figure 6: Sources of research funding in universities ($2014)



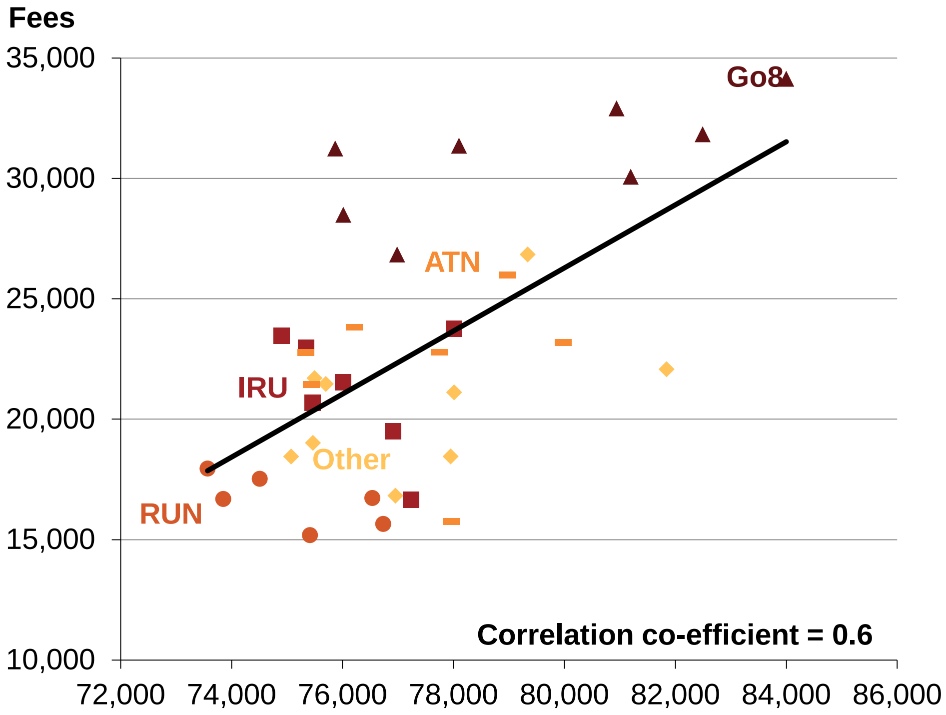
Sources: ABS (2014); Department of Education (2014b); Department of Education and Training (2014); DEEWR (various years)

Concerns about how revenue from high fees would be used were not allayed by the University of Western Australia, one of two universities to announce their likely fees should they be deregulated. UWA proposed a flat $16,000 a year, regardless of discipline, a substantial increase on current rates. The way UWA structured its rationale for this fee structure did not inspire confidence that they were focused on improving the circumstances of students. Of the eight reasons it gave for the flat $16,000 fee, the first was that it was commensurate with UWA's standing as one of Australia's and the world's leading universities. This standing is substantially driven by UWA's research. Eighth of the eight reasons was the quality of the student experience.[10]

Another concern is that fee deregulation would weaken pressure on universities to control costs. Arguably the absence of a profit motive, relatively weak market pressures, and a strong union increases the risk that extra revenue will be diverted to higher salaries and used unproductively by avoiding hard decisions on university activities and staff numbers. Wage increases have been slightly higher in the university sector than in other education or research industries, and exceeded broader ABS labour cost indexes.[11] The universities that charge international students the most also tend to pay academics the highest salaries (Figure 7). The annual higher education finance reports indicate that total spending on non-academic salaries has risen slightly more quickly over time than on academic salaries.[12] There may be good reasons for these trends, but they illustrate the potential for costs to rise when discretionary revenue increases.

[10] University of Western Australia (2014)
[11] O'Brien (2013)
[12] Department of Education (various years)

Figure 7: International student fees and wages for a level A academic, by institution 2012 ($2014)



Note: Weighted average of international student undergraduate fees. Level A academics are the most junior in the academic hierarchy. Go8-Group of Eight, ATN Australian Technology Network, IRU-Innovative Research Universities, RUN – Regional Universities Network. For group memberships see Norton and Cherastidtham (2014b), p 94-95
Sources: Grattan analysis of enterprise agreements between the National Tertiary Education Union and universities, Grattan analysis of fee information on university websites.

Fee inflation would be funded by the HELP loan scheme, discussed above. HELP interest costs and doubtful debt would both escalate significantly. The declining female full-time labour force participation rate as women reach their early thirties has a significant impact on these costs.[13] The higher the original debt, the lower the chance that it will be paid off before departing full-time work. These costs could be reduced by a lower threshold and other measures to speed up repayment such as indexing all thresholds to the consumer price index rather than average weekly earnings, as recommended above. However, given that HELP is designed to smooth repayments over time it is hard to avoid entirely the issues caused by higher amounts of debt.

[13] Norton and Cherastidtham (2014a), p. 17

Alternatives to fee deregulation

Alternatives to deregulation need to deal with the political risks in the current funding system, while also limiting the market risks of fully deregulated tuition fees. The section below is not endorsing any specific policy action, as this requires more work than can be done in the available time. Instead, it is raising issues that need to be considered further.

Given the political risks of the existing funding system, there have been various proposals for an independent funding regulator to determine per student funding rates.[14] This has primarily been focused on minimum funding rates, to free universities from the risk of arbitrary cuts to funding rates, as have occurred in the past. The regulator would not require any particular level of government spending on higher education; that is rightly a judgment governments must make in the context of the overall Budget situation and their expenditure priorities. However, the regulatory framework would mean that any cuts to government spending would automatically lead to compensating increases in maximum student contributions. It would avoid the situation that would have occurred had the 2013 Budget measures passed the Senate.

Before a regulator can establish a price regime, it needs to know what it is pricing. Compared to other price-regulated industries, in higher education what is being regulated is not self-evident. Universities co-produce teaching, research and community engagement. The three are deeply intertwined; the same people and the same facilities are used for them all. The desire of universities to do more research is likely to be the major force for fee inflation. Before we can decide on what is to be costed, we need a judgment as to what extent research costs can be incorporated into the price paid by students.

At the minimum funding rate level that judgment would be informed by the relevant higher education standards in the context of overall research funding policy.[15] The current standards require research activity in at least three broad fields of education for a full university. Current research funding policy does not necessarily support achievement of that standard. Enrolling students confers no entitlement to public research funding, which is based on historic research performance. This is especially an issue for newer universities, particularly if they are not eligible for Commonwealth research funding.

Above the minimum funding rate level, there could be scope to determine higher rates applying generally or to a particular higher education institution. Even in a regulated system, there could be a role for market input into that decision. Students with research aspirations could reasonably be expected to pay more. This primarily reflects the additional costs of research.[16] This cost would not necessarily be a major financial burden on students. Graduates of the more research-intensive universities earn more over their careers than graduates from most other universities.[17]

While acknowledging a role for market forces, there are legitimate concerns about the level of possible fee increases at public research-intensive universities. One policy option would be to incorporate State and Territory governments into the process of setting maximum funding rates for public universities. In most cases, they established these universities and still control university legislation. That legislation sets out each university's aims and objectives, and it is reasonable for State and Territory governments to be consulted about the priority given to these aims and objectives. For example, some university acts expressly refer to equity and social justice objectives, or to the serving of some particular region. At least for domestic students, a State or Territory

[14] For example in the past University of Melbourne (2011)
[15] DIICCSRTE (2013)
[16] Deloitte Access Economics (2011)
[17] Norton and Cherastidtham (2014b), section 9.5

government should be able to indicate that it wants these goals seriously pursued, rather than research missions receiving the highest priority.

Within this system, it would be open for a State or Territory government to nominate a university or universities as a flagship research university, which would have a higher maximum funding rate than other institutions. Under the maximum rate, universities could set their own fees, reflecting their own mission considerations and market forces.

Improving cost data

Under any regulatory system, we need to improve university financial information. The current financial statement guidelines do not require the reporting of spending by its purpose.[18] The systems used in England and the United States do require this information.[19] Without data on spending by purpose, a regulator could not easily determine what it costs to educate students or conduct research, and therefore could not easily set reasonable funding rates.

Universities may object to this proposal on the grounds that it is more red tape. However, expenditure by purpose is basic business information that many universities have already, and if not should have it. Without it, they cannot make informed decisions about whether or not their various activities are recovering costs, or whether proposed new activities are likely to be financially prudent.

The absence of this information has also been a long-term obstacle to the universities presenting credible arguments for more funding. While they have frequently complained of being 'under-funded', in the absence of cost evidence these arguments have not been very persuasive.

The Minister can require this new information under section 19-10 of the *Higher Education Support Act 2003.* It does not require further parliamentary approval.

Other alternatives to full deregulation

A levy on high fees

In a submission to this inquiry, Bruce Chapman (working with David Phillips) has proposed a system of taxing high fees at various rates.[20] The aim is to inhibit and limit fee increases by reducing the financial benefit to the university in doing so.[21]

To take an example from Chapman's submission, fees for humanities courses up to $6,499 a year (slightly higher than current student contributions) would incur no tax, fees above $6,500 but below $11,499 would incur 20 per cent tax, fees above $11,500 but below $16,499 would incur 60 per cent tax, and fees of $16,500 and over would pay 80 per cent tax.

Taxes at these rates would reduce the University of Western Australia's income on a $16,000 humanities degree by about $3,700. The 20 per cent tax on the first $5,000 would cost $1,000 and the 60 per tax on the next $4,500 up to $16,000 would cost another $2,700. With current subsidies of around $5,500 a year for humanities courses, UWA's subsidy would be reduced to around $1,800. (For high fees in low subsidy disciplines, the fee tax could mean that the government taxes more than it contributes for that discipline).

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[18] Department of Education (2013)
[19] HEFCE (2014); National Center for Education Statistics (2014); NACUBO (2015)
[20] Chapman (2015)
[21] This section paraphrases a blog post at http://andrewnorton.net.au/2015/02/24/should-high-university-fees-be-taxed/

To minimise the problem of students not getting benefits from higher fees, the tax policy relies heavily on deterrence. To the extent that universities do charge taxable fees the problem of limited benefits is exacerbated – the money goes to the government, a use that is less likely to benefit the student than the university spending money on research. Research spending might at least contribute to the general prestige of the university and the graduate's qualification. The problem of students not getting benefits would be intensified if the proposal to fund scholarships out of fee revenue was implemented in addition to the government tax on fees. If the 20 per cent scholarships levy was on top of the government tax rate, from the student perspective that would mean marginal tax rates ranging from 40 to 100 per cent.

To address the problem of HELP's finances, the tax policy would raise revenue that would offset some of HELP's interest and bad debt costs. However, it means that students who pay upfront are compensating for costs that they won't generate. Other students who do borrow could over-compensate. Using the tax rates in Chapman's submission, and a fee of $30,000 for a law student, we estimate a tax of more than $11,000, leading to government savings of $3,000 in excess of the likely additional HELP costs.

In both cases, it is not clear why we don't confront the core problems much more directly. On the revenue side, caps on fees would avoid students paying a very high price for their education. The diversion of student-driven funding to research could be controlled through regulation of spending – hence the emphasis on cost data above. For HELP, there are a range of measures to reduce costs, discussed above, that do not involve charging people who are not borrowing, and which do not rely on universities charging high fees to generate revenue.

Annual caps on HELP lending

Swinburne University has proposed a 'soft cap' maximum annual amount of HELP lending.[22] This would serve the dual purpose of limiting potential HELP losses, and discouraging universities from setting fees that exceed the cap. The main criticism of this proposal is that it would lead to some students having to pay upfront fees, outside the HELP loan system. This is the mechanism by which it would work to moderate fees, as universities for mission and/or market reasons would be reluctant to price low-income students out of their courses. However, as Swinburne acknowledges there are already courses with total costs that exceed the current lifetime FEE-HELP limit.

[22] Swinburne University (2014)

Conclusion

In my view the *Higher Education Research and Reform Bill 2014* does address genuine problems in the higher education system. It is becoming very expensive for government, there are anomalies in the demand driven system that should be removed, and the current price-setting mechanism has clear weaknesses.

However, some solutions proposed in the bill create their own risks. Due to its interaction with the HELP loan scheme, fee deregulation can create significant additional costs. There are also reasonable concerns that some universities will increase their fees in ways that do not benefit students. We need a mechanism that limits these downsides of fee deregulation while still improving on the pricing system we have today. While this submission offers some input into solving these problems, I do not have the answer. I am not convinced that the alternatives proposed so far are the answer either.

The task over the next few years is to devise a new system that improves on the status quo and is broadly acceptable to both Labor and the Coalition. Without that acceptability the system will be too unstable for students and providers to make plans confident that they will not be destroyed by a policy change. We have bipartisan support or acquiescence on income contingent loans, largely deregulated postgraduate and international markets, and the demand driven system (although it has more doubters than the others). Bipartisan acceptance of further opening up the demand driven system is also possible. Despite Labor's current opposition to including private universities and non-university higher education providers in the demand driven system, it seems unlikely that they would push their students back into a full-fee, price deregulated market.

As discussed in more detail in my submission to the legislation committee inquiry, there are savings measures that would enable the demand driven system to be extended in a Budget neutral way. That would enable some progress on higher education reform in 2016, while more work is done on Commonwealth supported place funding rates and HELP's operation and finances.

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