

**Grattan Institute submission to the Commonwealth consultation
on Commonwealth supported places for enabling, sub-bachelor
and postgraduate courses**

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Recommendations

Roll sub-bachelor funding for each university into an undergraduate block grant

- Block grants let universities adapt to changing student needs and demands.
- An undergraduate block grant would let universities move places between bachelor and sub-bachelor courses.
 - Universities with low current sub-bachelor allocations could offer more sub-bachelor student places.
- Implementing this policy would require ending the designation of sub-bachelor places and creating a new maximum basic grant amount.
- Enabling places could also be included in this block grant.
- Postgraduate places should not be included in an overall block grant, to protect undergraduate provision and discourage new postgraduate initial professional entry courses.

Do not reallocate currently used student places

- That a university can currently fill a place is evidence that it meets a need.

- There is too little reason for confidence that the new use for a reallocated place will be better than the old use.
- Block grant systems do not have automatic mechanisms for letting in-demand universities grow, but the demand driven funding era has moved supply and demand closer together.

Under-utilised places should be reallocated

- In block grant and central allocation systems of allocating student places, significant under-utilisation of places should lead to reallocation.

Improve decision making for centrally allocated student places

- Without demand driven funding, the government will still need to allocate some student places.
- The consultation paper suggests that the Department's system for deciding on how to allocate places is to ask for feedback on high-level ideas.
- A better process would be to consult providers first and make greater use of the Department's existing data, along with data on school enrolments, population and the labour force.

Do not allocate diploma places based on industry needs

- The consultation paper proposes allocating sub-bachelor student places based on industry needs.
 - Higher education diplomas are not intended as standalone employment qualifications and there is unlikely to be demand for them.
 - Diplomas should keep their current status as pathway or complementary courses to bachelor degrees.

Do not require full articulation of sub-bachelor courses into bachelor degrees

- It is normal for sub-bachelor courses to articulate into a bachelor degree.

- A requirement for full articulation would restrict the capacity of sub-bachelor degrees to serve purposes distinct from a bachelor degree.

If reallocation occurs, it should be a percentage of all places and not commencing places

- Reallocating a percentage of all allocated places gives government and providers certainty over the numbers in each funding agreement cycle.
- The proportion of commencing places is only known after the year is complete.
- Reallocation based on commencing places is biased against shorter courses.

1 Allocating student places in Australian higher education

Any higher education system needs a process for distributing student places between institutions; within institutions to faculties, departments and courses; and then to students. In Australia, universities have always decided which applicants should be admitted. But various systems have been used for allocating student places to and within higher education institutions.

1.1 Theoretical models for allocating student places

The three broad theoretical models for distributing student places in Australia are markets, block grants, and central allocation.

In the market model, higher education providers decide what courses to offer students and what fees to charge, and students decide whether to enrol. This is the model for international students, the fee-paying domestic postgraduate market, and non-university higher education providers. In a market model, there are no regulatory or funding policy limits on how many student places higher education institutions can provide. The potential supply of student places usually exceeds demand for them.

Student preferences are powerful in market systems because the higher education provider income they drive cannot be taken for granted. However, with many not-for-profit institutions in higher education, mission constraints can limit willingness to supply. For example, a provider may want to restrict the courses it offers by discipline or qualification level, stay within its geographic region, or limit its enrolments to a certain size or mix of students. Although not-for-profit institutions will not necessarily aim for cost

recovery on every course, market models will not guarantee a supply of student places in low-demand fields and regions.

Demand driven public funding is a variant on the market model, using its distributive mechanisms between and within universities, but with a different pricing system. Tuition subsidies and capped student fees mean students pay lower prices than in the market model. This may push up student demand. However, capped income per student may constrain the willingness of higher education providers to supply student places.

In a block grant model, the government allocates funding to higher education providers, with broad policies guiding its use. Within these constraints, universities decide how to distribute student places between faculties, departments and courses. Because total block grants are usually too low to meet all demand, and each university has capped funding, competition is muted. Student demand can influence the distribution of student places, but internal university stakeholders usually have a substantial say.

In a central allocation model, the government goes beyond the institution level in allocating student places. It decides on detailed priorities and allocates the student places it funds accordingly. It can restrict funding to specific disciplines, courses, campuses and/or types of students. Students are never required to enrol in the universities or courses that receive funding, but their demand as expressed through applications is not necessarily taken into account. Universities usually volunteer to offer courses, rather than being forced to do so.

Table 1 summarises how the models differ on the issues of identifying the needs to be met, how to implement change, and the frequency of change. Given the inherent uncertainties involved, all systems will result in the supply of places for which

there is no demand and the under-supply of places for which there is demand. Table 1 also summarises the consequences of not identifying needs for decision makers.

Table 1: Different methods of reallocating student places between disciplines and courses

	Centralised	Block	Market
Who identifies needs?	The government. Potentially using feedback from higher education providers, along with other sources of information.	Universities, according to their mission and using local and other sources of information.	Higher education providers, using local and other sources of information. Compared to block grants, a greater weighting to student demand.
Mechanism for change	Government decision.	University decision.	Provider decision.
Frequency of change	According to a bureaucratic cycle, usually each year or each funding agreement.	University decision.	Provider decision.
Consequences of not identifying needs	Places under-utilised. Possibly some political cost for unmet demand. Financial savings for government. Rectification slow because of weak incentives and a long decision-making process.	Places under-utilised. University may not receive its full block grant and risks losing part of its allocation of places. Financial incentives to rectify as soon as possible.	Places under-utilised at the provider level. Provider enrolls fewer students and earns less revenue, creating a strong incentive to rectify errors. Other providers may expand to meet demand, reducing system-level loss of places.

1.2 Historical allocation of undergraduate places

For domestic undergraduate students, block grant funding has been the dominant funding model, with the bachelor degree demand driven system of 2012–2017 the main exception. Central allocation has been used at the margins, principally to allocate new places. It has occurred at widely varying levels of detail, from general allocations universities can use at their discretion to specific courses and campuses.

Prior to 2012, sub-bachelor places were not funded separately. Universities had an overall block grant for undergraduate places which they could distribute through the different undergraduate course levels – diploma, advanced diploma, associate degree and bachelor. Typically, universities did not allocate large numbers of places to sub-bachelor qualifications, as can be seen in Figure 1 (page 7)

From 2005 to 2011, funding agreements between universities and the government allocated student places to funding clusters – disciplines or groups of disciplines with the same Commonwealth contribution. There was no formal penalty for enrolments not matching funding cluster allocations, but a close match would maximise Commonwealth funding.

In 2009, the government announced that the block grant system for undergraduate places, including sub-bachelor places, was going to be replaced by demand driven funding from 1 January

2012. But on 28 November 2011 the then minister, Senator Chris Evans, ‘designated’ sub-bachelor places under the *Higher Education Support Act 2003*.¹ Designation removed sub-bachelor places from the demand driven system and put them under the government’s control through funding agreements. Senator Evans did this to protect vocational education providers and prevent universities shifting students from vocational education to more generously funded higher education courses.²

Although designation opened sub-bachelor places to central allocation, because of these limited policy goals the government was not prescriptive about how sub-bachelor places were used. The funding legislation permits separate allocations of sub-bachelor and enabling places, but they were left interchangeable. Funding agreements between the government and universities largely reflected the already-existing distribution of student places between funding clusters. Initially, most university requests for new sub-bachelor places were approved provided that they did not conflict with the reasons for designation. Effectively, this was still a block grant system, but one limited to sub-bachelor and enabling places.

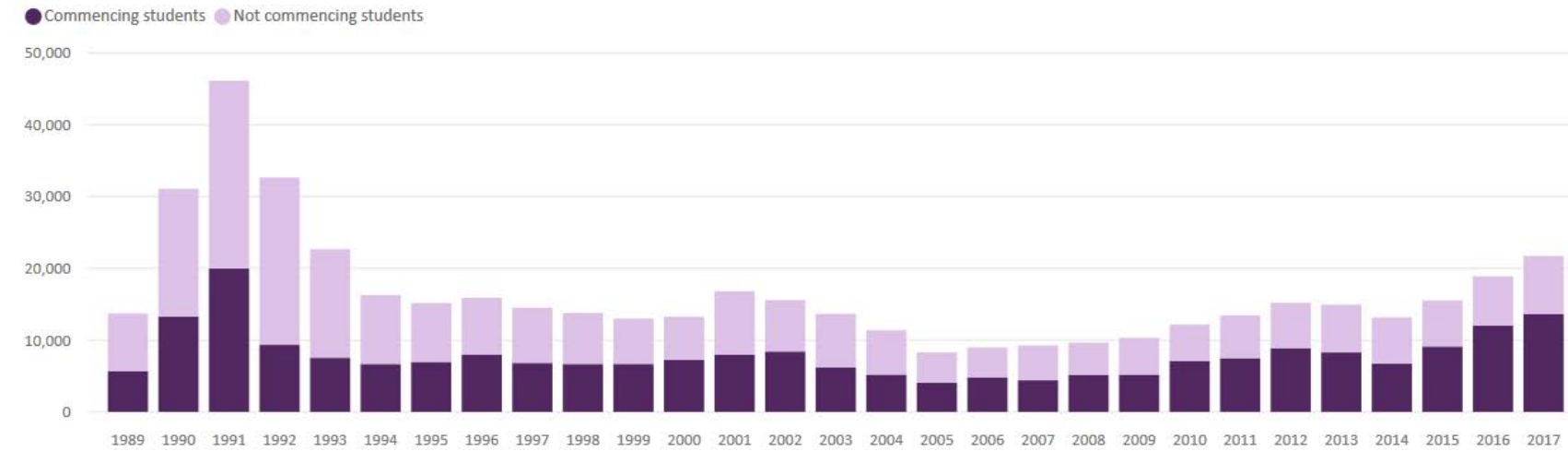
In later years, sub-bachelor places were allocated for specific purposes, such as language programs and tertiary preparation courses.³ These places created a hybrid system of block grants and central allocation.

¹ Higher Education (Designated Courses of Study) Specification 2011

² Kemp and Norton (2014), p. 57

³ Department of Education and Training (2013)

Figure 1: Sub-bachelor students in Table A institutions, 1989-2017



Source: Department of Education and Training, Enrolments time series, Microsoft Power BI.

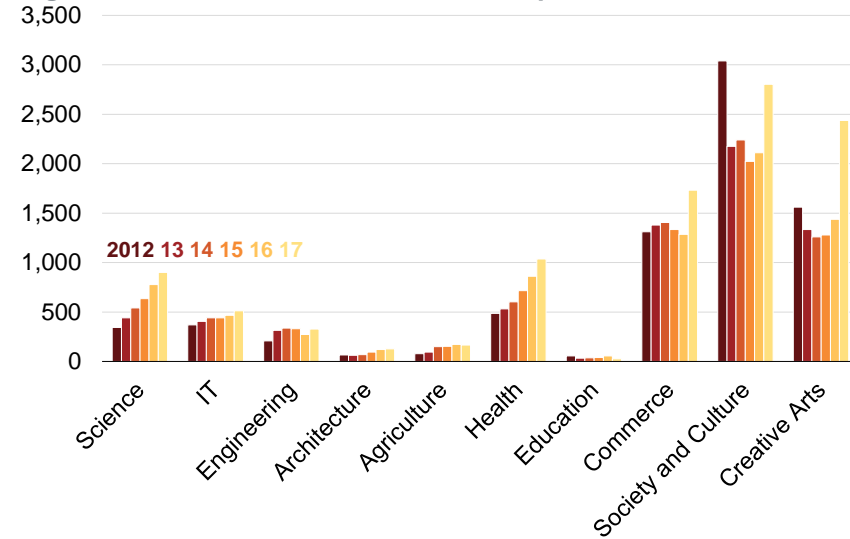
1.3 Performance in reallocating student places

Market systems are usually faster than block grant or central allocation systems in responding to student demand. The number of student places is not limited in a market system, so higher education providers can respond to all demand. Bachelor-degree places grew dramatically under demand driven funding, and international student enrolments are still growing strongly. Without fixed allocations of places or funding to institutions, places can flow between higher education providers according to their supply decisions and student demand.

In non-market allocative systems, places and funding may not move between institutions at all, or only do so on a scale and schedule determined by government. Within institutions, in the absence of new places, block grant and central allocation systems create zero-sum trade-offs between fields of education: they increase places in one discipline by decreasing them in another. Maintaining the status quo helps avoid internal conflict, but reduces system adaptation to changed needs. By contrast, in market systems the providers have a strong incentive to adjust what they offer to meet demand, as their funding depends on it.

The actual distribution of domestic full-fee sub-bachelor places in recent years, mostly in the non-university higher education sector, shows that most disciplines have grown over a six-year period, but some more than others and with some volatility (Figure 2). There are few places in some fields of education, particularly those with higher per student costs of teaching.

Figure 2: Domestic full-fee sub-bachelor places, 2012-2017

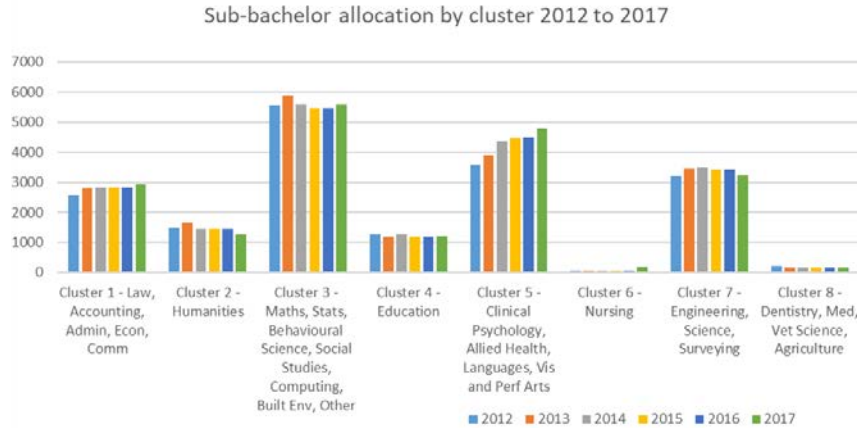


Source: Department of Education and Training (2019)

As noted, currently Commonwealth supported sub-bachelor places include historical block grants and centrally allocated new places. The consultation paper has a chart, reproduced in Figure 3, showing the funding agreement distribution of student places between funding clusters, which combines enabling and sub-bachelor places.

This lack of movement between clusters may support the consultation paper's concerns about allocations of places based on 'historical, ad hoc decisions that may no longer be optimal'. The relatively low variation in allocated places in Figure 3 reflects the fact that change needs a formal government decision, which mostly happens with new places. When there are few new places.

Figure 3: Sub-bachelor and enabling allocation by cluster, 2012-2017

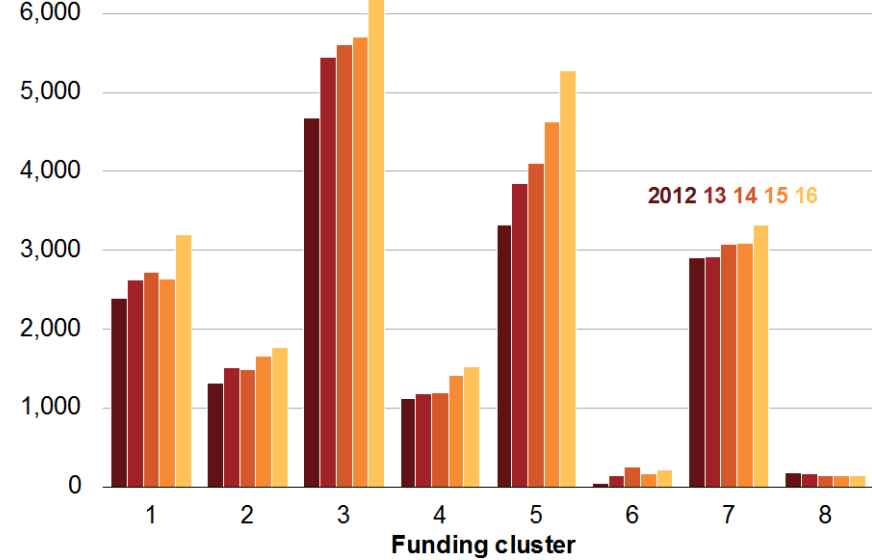


Source: Department of Education and Training (2018b)

little change will occur. A more regular process of reallocation, as proposed in the consultation paper, would increase the rate of change

While funding agreement allocations are broadly stable, except for cluster 5 with its additional foreign language diploma allocations, actual places delivered show more movement (Figure 4). Due to over-enrolments, universities delivered increased student places in most funding clusters. This suggests that demand for sub-bachelor and enabling places exceeded allocations significantly, and that universities chose to respond to this demand. Some of these additional places may have been ‘loss leaders’ – universities enrolling students in an enabling or diploma course in the hope they would transfer to a demand driven bachelor degree

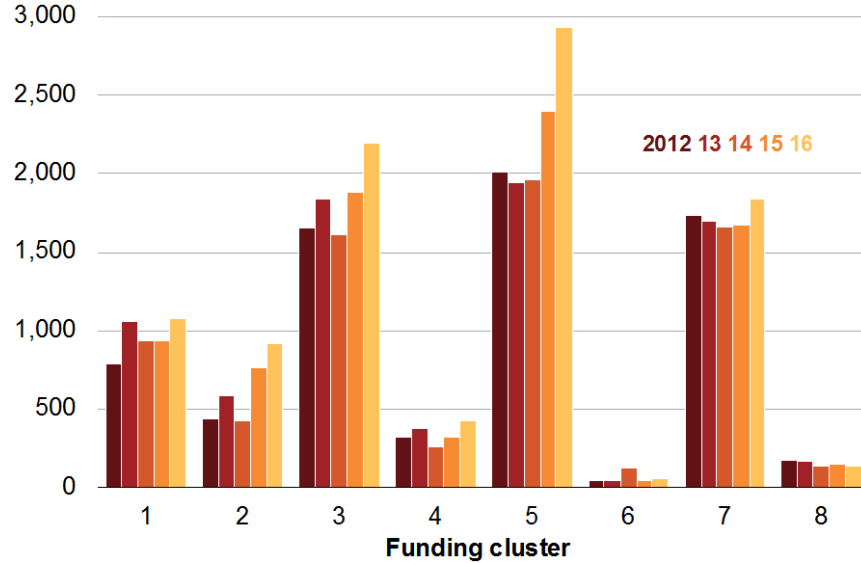
Figure 4: Sub-bachelor and enabling provision by cluster, 2012-2016



Source: Higher education statistics collection data previously supplied to the Grattan Institute.

later. If so, without demand driven funding over-enrolments in sub-bachelor courses will decline. Nevertheless, the actual distribution of places shows that a block grant system can be flexible. There is more variation in places delivered by funding cluster if the data is narrowed to sub-bachelor places only (Figure 5). On a year-to-year basis, numbers go down as well as up. Although every funding cluster but one increased student places over the 2012-2016 period, all clusters had at least one year in which places fell on the preceding year.

Figure 5: Sub-bachelor only provision by funding cluster, 2012-2016



Source: Higher education statistics collection data previously supplied to the Grattan Institute.

1.4 Changes proposed by the consultation paper

The consultation paper proposes steering the system not just through new places (there are some being allocated to regional universities in a separate process⁴) but also through reallocating existing sub-bachelor places. This would be a significant change

from the previous practice of the government only allocating new and unused places.

In principle, a regular process of reallocation responds to a disadvantage of historical block grant and central allocation systems, which is that their mechanisms for moving student places between institutions and to a lesser extent (for block grants) between disciplines are weak.

Under the proposed reallocation policy, the pool of places to be allocated would include 5 per cent of commencing places in each funding cluster, most likely once every three years to align with funding agreements.⁵ Each university would have to return some of its places to a central pool, with the opportunity to apply for additional places according to government criteria (discussed in chapter 2).

All places would work better than commencing places

Whatever the percentage chosen or its schedule, returning a share of all allocated places rather than just commencing places to the central pool would be administratively easier and create more certainty.

A problem with reallocating commencing places is that for existing places there are no specific allocations of commencing places. A commencing place is a place held by a commencing student. The final division of places between commencing and continuing students is only known retrospectively, after the finalisation of enrolment figures. A percentage of allocated places would be

⁴ Tehan (2018)

⁵ Department of Education and Training (2018b), p. 9

known once funding agreements are signed, providing certainty over how many places are up for reallocation.

Another problem with using commencing places in the reallocation formula is its bias against shorter courses, in which the share of commencing students is larger – for one-year courses students who complete on schedule will only ever be commencing students. For sub-bachelor courses, more diploma than associate degree places would be put up for reallocation each cycle.

Attrition and under-utilisation

In addition to the 5 per cent reallocation, the consultation paper says that poor or increasing attrition would result in places returning to the reallocation pool.⁶ Although attrition can indicate problems in student selection and course delivery, this too might bias the types of courses offered. For pathway diploma courses, a popular sub-bachelor course which targets less academically able students, attrition is probably high. In the non-university higher education provider sector, where pathway diploma courses are common, diploma attrition rates are around 34 per cent six years after commencement, compared to around 22 per cent for bachelor-degree students in public universities.⁷

⁶ Ibid., p. 13

⁷ Department of Education and Training (2018a)

⁸ The discussion of under-utilisation (p. 13) seems to be about how places would be allocated – not to universities that are under-utilising places. A return of student places to the pool is specifically mentioned for attrition but not for under-utilisation.

An alternative way of handling attrition is returning under-utilised places to the allocation pool. Unexpectedly high attrition will result in universities not delivering all their expected student load. The consultation paper does not specifically say whether under-utilised places would be returned to the reallocation pool.⁸ The final policy should clarify this point. Major under-enrolments are a significant vulnerability in block and central allocation systems, since they reduce opportunities for students and the effectiveness of higher education policy. In practice, under-utilisation is less common for sub-bachelor than postgraduate allocated places, although in 2016 two universities under-enrolled their sub-bachelor allocation by more than 100 places.⁹ Significant under-enrolment should normally result in returning student places to the pool.¹⁰

Period of allocation

Another point on which the consultation paper is not specific is whether student places would be allocated or reallocated for a fixed time period. Tying student places indefinitely to a named course or narrow type of course reduces flexibility and increases the risk of under-utilisation. However, too much flexibility means that the public policy purposes behind an allocation of new places may not be achieved. Some flexibility at the margins of allocated

⁹ Department of Education and Training (2018b), p. 5

¹⁰ Minor under-enrolments should not send places back to the pool, as they can just reflect the inherent uncertainties in managing student load. Universities never know exactly how many applicants will accept the offer of a place, what proportion of students will study part-time, or exactly how many students will drop their course.

student load and regular review through funding agreements may be a solution.

2 Choosing criteria for allocated places

A system of centrally-allocated places needs criteria for distributing them. How it decides on the criteria is a system design issue. This chapter discusses this issue, and then raises concerns about the consultation paper's proposed criteria.

2.1 Collecting information for allocation decisions

All three models of allocating student places described in chapter 1 need systems of collecting information to guide their decisions.

Block and market systems rely heavily on the information available to and collected by higher education providers. Providers have timely and detailed information about their capacity and willingness to supply student places. No central bureaucracy can ever match this, although it can ask providers for information. Providers also know about demand for their courses, including through applications, enrolments, and attrition data. Historically the Department has lacked timely access to this information, although real-time data reporting can improve its knowledge.

Both providers and the Department can draw on existing social and economic statistics and commission market research to predict future needs and demand. In an earlier era of higher education policy, university and tertiary education commissions produced detailed reports on these issues.¹¹ This no longer happens, although there is no in-principle reason why it could not be done again. The Department already collects large amounts of

higher education data, and other relevant government-financed data sources such as school enrolments and ABS educational attainment, population and labour force statistics are available for analysis.

The consultation paper's implied system of choosing allocative priorities does not draw on these information sources as much as it could. The Department has analysed its own data for patterns of enrolments between institutions and funding clusters, noting some anomalies. But its ideas for allocating new places do not seem to be based on research. Instead, for deciding on what courses would be eligible for funding the consultation paper offers high-level ideas about 'industry needs'. The Department is asking for feedback on these high-level ideas rather than looking for ideas more broadly. The next section raises doubts about whether industry needs is a good conceptual starting point for diploma courses.

2.2 Eligible courses

The consultation paper would require a two stage process of allocating sub-bachelor places. First, a decision would be made about which courses would be eligible for allocation. These criteria are discussed in this section. Second, a decision would be made about which universities would receive places in eligible courses. This is discussed in section 2.3.

¹¹ For example CTEC (1987a).

2.2.1 Industry needs

The consultation paper suggests six industry needs criteria that could lead to an allocation of sub-bachelor places. These would have quite different implications for diplomas and associate degrees. The two qualifications are often grouped together as sub-bachelor courses, as they are in the consultation paper, but have different histories and generally serve different purposes.

Diplomas

Industry needs are of limited relevance to the higher education diplomas of the last 25 years. The contemporary higher education diploma rarely, if ever, stands alone as a workforce entry qualification. The vocationally-oriented higher education diplomas offered in the former colleges of advanced education, often multi-year courses, were generally converted into bachelor-degrees by the early 1990s.¹² The pre-Dawkins reform universities never enrolled many diploma students.¹³

The contemporary university diploma is typically a complement to a bachelor degree, which lets bachelor students study another field concurrently, or a pathway program to a bachelor degree for students who are not yet eligible for entry to a bachelor-degree course.

The most popular diploma courses in 2016 show the pattern (Table 2, page 14). The list includes several language diplomas, which are typically taught concurrently with a bachelor degree. Except for the family history diploma, the other diplomas are

pathway courses to bachelor degrees. Some of these articulate into bachelor degrees oriented towards particular occupations or clusters of occupations. Others are general university preparation courses. Family history courses are the main exception to these categories. These are hobby courses, sharing with most of the other top courses a lack of connection to industry.

Because of the higher education diploma's history, not many existing courses would meet the criteria suggested by the consultation paper. Few diploma courses are directly accredited by a professional body, few employers offer work-integrated learning for diplomas, most diplomas do not have clearly-attributed excellent employment outcomes (because most diploma students will leave university with a bachelor degree), and the courses do not directly address local or regional skills shortages – to go through a range of criteria mentioned in the consultation paper.

Employers are unlikely to want to assist universities in developing new higher education diploma courses. At the Australian Qualifications Framework diploma level, meeting industry needs is the job of the vocational education diploma. Vocational diplomas link to specific occupations, so employers know what needs they are supposed to meet. By contrast, few employers will have ever hired anyone with just a higher education diploma and so they will be unclear about what it means.

¹² DEET (1993), chapter 8

¹³ CTEC (1987b), p. 16

Table 2: Diploma courses with 200 or more students, 2016

University of Tasmania	Diploma of Family History	1416
James Cook University	Diploma of Higher Education	738
University of Tasmania	Diploma of University Studies (Health Science)	706
University of Tasmania	Diploma of General Studies	572
The University of Melbourne	Diploma in Languages	512
University of Southern Queensland	Diploma of Arts	407
Western Sydney University	Diploma in Arts Extended	280
RMIT University	Diploma of Languages	250
Western Sydney University	Diploma in Social Science (Policing) Extended	228
Western Sydney University	Diploma in Business Extended	222
The University of Queensland	Diploma Languages	200

Source: Department of Education and Training (2017)

Perhaps a modified vocational diploma could better meet student and employer needs, as some thinkers in the sector have proposed.¹⁴ But that is a matter for the AQF review and vocational education policy, not this consultation.

Rather than trying to encourage higher education diplomas that encroach on the vocational diploma's purposes, higher education diplomas should continue filling their current purposes. Pathway courses are the most likely to need expanding. As the higher education system has grown it has taken more students with weak school results. Diploma pathway programs have had some success in preparing these students for future study in a bachelor degree.¹⁵ Significant domestic enrolments in full-fee pathway colleges demonstrates strong existing demand that is not met with CSP places, making pathways much less speculative than industry needs.¹⁶ Allocation to pathway courses would lower the risk of places being under-utilised.

Associate degrees

Associate degrees are a relatively new qualification. They were first offered in the early 1990s and were recognised in the Australian Qualifications Framework in 2011.¹⁷ They remain a niche qualification with fewer than 3,000 associate degrees awarded in 2017.

Unlike diplomas, most associate degrees are intended as a standalone qualification leading to employment. This can be seen in the most popular associate degree qualifications in Table 3. Of

¹⁴ Fowler (2017)

¹⁵ Kemp and Norton (2014), p. 18-19. Cherastidham, *et al.* (2018), p. 23-24.

¹⁶ Department of Education and Training (2018c), table 13.3

¹⁷ Smith (2013)

the current large associate degree enrolments, only the University of Tasmania’s Associate Degree in Arts would fail an industry needs test (although it has the single largest enrolment). While not a major qualification, the associate degree often serves the niche needs of employers.

An industry-needs basis for reallocating sub-bachelor places is therefore not antithetical to the purposes of associate degrees. Indeed, as they could meet the criteria in a way that diplomas could not, they could gain an additional allocation of places. Over the 2013-2016 period, annual unmet demand for associate degree places averaged about 760 applicants, of the approximately 3000 applications.¹⁸

Table 3: Associate degree courses with 200 or more students, 2016

University of Tasmania	Associate Degree in Arts	1218
Charles Sturt University	Associate Degree in Policing Practice	1108
University of Tasmania	Associate Degree in Health and Community Care	978
University of Southern Queensland	Associate Degree of Engineering	854
RMIT University	Associate Degree in Eng Tech	622
Southern Cross University	Associate Degree in Law (Paralegal Studies)	431
RMIT University	Associate Degree in Business	386
RMIT University	Associate Degree in FashTextMerch	340
University of South Australia	Associate Degree in Engineering	301
University of Southern Queensland	Associate Degree of Spatial Science	286
RMIT University	Associate Degree in Fashion Des & Tech	266
RMIT University	Associate Degree InfoTech	243
Central Queensland University	Associate Degree Engineering	237
RMIT University	Associate Degree Prof Writing & Editing	209

Source: Department of Education and Training (2017)

¹⁸ Department of Education and Training (2017)

2.2.2 Articulation

Another potential issue with the criteria for selecting eligible courses is the proposed articulation requirement.

In its broad principles section, the consultation paper says that priority will be ‘given to courses that ... *fully* articulate into a bachelor degree.’ (emphasis added).¹⁹ The paper later expands the bachelor-degree link to include courses only open to students concurrently enrolled in a bachelor degree.²⁰ This is the model for language diplomas.

Articulation opportunities or concurrent enrolment requirements are standard practice for diplomas taught in universities, consistent with the analysis that they are not usually intended as standalone qualifications. In itself, a requirement for a relationship between diplomas and other courses would not cause issues.

The potential problem raised by the discussion paper is whether courses need to ‘fully’ articulate, which sounds like full credit will be required for a sub-bachelor course to be allocated student places.

In the pathways diploma market, some courses do offer full credit. The diploma’s subjects are the same as the first year of a specified target bachelor degree course. The two qualifications differ in entry requirements and teaching methods rather than course content.

But other diploma courses do not completely overlap with a bachelor degree, and therefore do not offer full credit. For

example, James Cook University’s Diploma of Higher Education, the second most popular diploma program in 2016 (Table 2), includes compulsory academic skills development subjects that do not count towards a subsequent bachelor degree. A full articulation requirement could undermine courses that fill gaps in the skills needed to succeed in higher education.

In the associate degree market, course outlines sometimes guarantee minimum credit towards a subsequent bachelor degree, but do not necessarily offer full credit. For example, the RMIT Associate Degree in Applied Science guarantees 120 credit points, out of the 196 required for an associate degree, for one of five related bachelor degree programs. The broader the options following an associate degree, the less likely it is that all the subjects taken can count towards the next qualification.

Full credit requirements might deliver for taxpayers, because less EFTSL would be consumed before a bachelor degree was awarded. But a full credit requirement does not necessarily deliver for students, as it makes it difficult for sub-bachelor qualifications to serve purposes that are distinct from their relationship to a specific bachelor degree.

As relationships with other degrees are already near-universal in the sub-bachelor market the basic policy objective will be achieved without government action. The level of credit transferred between degrees should be left for universities to determine.

¹⁹ Department of Education and Training (2018b), p. 8

²⁰ *Ibid.*, p. 12

2.3 Allocation to providers

The consultation paper also offers ideas about how places in eligible courses would be allocated to institutions.

Reasons for allocation to universities

The proposed primary reasons for a university to be allocated places in eligible courses seem to be related to likely local need or demand.²¹ There is historical precedent for this type of rationale.²²

However, the relatively narrow purposes for which sub-bachelor places are allocated may require more detailed analysis of regional demand or needs than the mentioned characteristics of youth population, population growth, or existing provision. Investigating potential demand is important due to the risks of under-utilisation in centrally allocated systems (section 1.1). Existing over-enrolments or unmet demand as recorded in applications statistics are good guides to already existing demand.

However, there is a tension between proof of existing demand, which favours providers that already have significant numbers of sub-bachelor places, and alleviating historical disparities between providers in allocating sub-bachelor places. Universities cannot prove demand for courses that they have not been able to offer. This is a problem, as one of the main justifications for reallocation is to move places between institutions. Indicators of need would have to be acceptable from institutions with low existing allocations of sub-bachelor places. For pathway diplomas,

evidence of significant numbers of students with weaker academic preparation could be used.

The consultation paper says that institutions with a good track record in completions and transition to further study would receive priority. However, especially in regions where there is only one university there is a tension between efficiency and access goals. Prospective students are penalised more than the university when no places are allocated.

Reasons for blocking an allocation

Presumably grounds for reallocation are also grounds for no further allocation, such as high attrition and under-enrolment. However, universities that cannot use their existing places are unlikely to apply for new places.

²¹ Ibid., p. 13

²² DEST (2004)

3 Go back to block grants

The consultation paper assumes that funding agreements between the Commonwealth and universities will continue to distribute sub-bachelor places. In line with its statement that it ‘welcomes input on issues or approaches not specifically canvassed here’, this section asks whether designation and central distribution of sub-bachelor places, which is a relatively recent practice, is necessary. Another option to again allocate sub-bachelor places via block grants.

3.1.1 The original rationale for designation no longer applies

Sub-bachelor places were originally designated to avoid their rapid demand-driven expansion at the expense of vocational education. As of 1 January 2018, the demand driven system ceased operating, fundamentally changing the policy context.

The capping of maximum grants for non-designated (demand driven) places means a de facto return to a block grant system for bachelor-degree places. No matter how many additional bachelor-degree students a university enrolls, it will still get no more than its maximum basic grant amount plus student contributions.

For the policy goal of limiting expansion, a maximum grant amount can serve as an alternative to designation. Each policy mechanism reduces the financial incentive to take additional students.

If sub-bachelor places were included within an overall undergraduate maximum basic grant amount some universities

would probably expand their sub-bachelor enrolments beyond current levels (section 3.1.2). However, this would reduce their fully-funded bachelor degree enrolments and not lead to any additional Commonwealth contribution income. Because of the trade-off universities would be cautious about expanding sub-bachelor places.

The mechanics of converting sub-bachelor places back to block grants would be a) remove the sub-bachelor designation and b) add current sub-bachelor funding to the maximum grant amount for non-designated places.

If the demand driven system returns, and there are still concerns about the relationship between vocational and higher education, sub-bachelor places could be redesignated

3.1.2 Advantages of undergraduate block grants

As chapter 1 argued, block grants are a reasonably flexible way of accommodating changing student needs and demands by field of education. Over the 2012–2017 period, universities increased and decreased places in different disciplines in line with changing circumstances. The generally flat funding agreement allocations between funding clusters (Figure 3, chapter 1) constrained but did not prevent change.

Reinstating an overall undergraduate block grant would create more flexibility in the distribution of student places between bachelor and sub-bachelor. As noted in section 2.2.1, pathway programs are a popular use of diploma places, and help the

higher education system meet the needs of students with weaker academic preparation. With the current distribution of sub-bachelor places, some universities with large numbers of low-ATAR students have few allocated sub-bachelor places. This creates an incentive to enrol students directly into bachelor courses, for which they may not be ready and will not get an exit qualification if they decide to leave after one year. An overall undergraduate block grant would allow universities to rebalance courses between the qualification levels to better meet student needs.

The small number of universities under-enrolling their sub-bachelor courses could transfer those places to bachelor courses, possibly reducing the number of bachelor-degree places lost due to ending demand driven funding.

Allowing universities to reallocate places within their existing funding could deal with some of the existing sub-bachelor anomalies more quickly, less bureaucratically, and less controversially than the reallocation process proposed by the consultation paper.

With only 300-400 places available under the reallocation process in each round, most university applications are likely to be rejected or receive only a small allocation. The total available might just support one of the larger existing diploma or associate degree courses, if there were many part-time students (Table 2 and Table 3). If a university believed that some of its bachelor degree students would be better off in a pathway diploma, it could allocate this many places to the sub-bachelor level on its own.

This would be much more efficient than a bid for new centrally-allocated places that would probably be rejected and even if successful would take months to approve.

A flexible undergraduate block grant would also reduce the risk of unsuccessful reallocations by government. Reallocation would only lead to a more optimal distribution of places if the needs and demands identified by the government are more important and urgent than the needs and demands currently being met.

Although government decisions about the direction of the higher education system can be improved (section 2.1), the actual record of government allocation is mixed. In the lead up to the demand driven system, additional places allocated to health and engineering courses met clear skills shortages. But successive governments have also promoted science courses, despite poor employment outcomes for science graduates.²³ The idea that sub-bachelor places should be allocated on the basis of industry needs, as chapter 2 argues, is also likely to steer diploma places from more to less needed courses.

By contrast, if a student place is currently being used it offers some evidence that it is needed. If it is not being used, under a block grant the university has the flexibility needed to allocate it to a different course.

A centralised reallocation would also cause controversy. It is a zero-sum process in which there will be winners and losers. The criteria proposed for reallocation (chapter 2) cannot easily be turned into an objective decision-making process. Inevitably

²³ Norton and Cakitaki (2016), chapter 10

bureaucratic and political judgment would play a significant role. Allocation decisions would attract criticism as special deals. All of this could be avoided if universities just reallocated their own places.

A revived undergraduate block grant system would let the distribution of student places evolve between course levels and disciplines, without the risks of the consultation paper's proposal.

3.1.3 Disadvantages of a block grant for reallocating places

Compared to the reallocation process proposed in the consultation paper, an overall undergraduate maximum grant /block grant would not redistribute total Commonwealth Grant Scheme funding between institutions. This is a general problem with block grant systems. The default outcome is that each university receives the same share of funding that it received the year before. This status quo bias can lead to some regions having too few higher education opportunities, and more university applicants missing out on their first-preference institution.

For non-designated places, reallocation of funding between institutions is not easy under current legislation. Maximum basic grant amounts for non-designated places cannot be adjusted down if they have been specified in the funding agreement, as they have been in the 2018-2020 funding agreements.²⁴ Other than in the first round, the consultation paper model of 5 per cent

of commencing places to be periodically reallocated is not an option without legislative change.²⁵

However, reallocation on the proposed scale and frequency would in any case only substantially adjust the distribution of places between institutions over an extended timeframe. Within the centralised framework, new places are going to remain an essential mechanism for adapting the delivery of places to needs.

In the longer run, a return to demand driven funding would promote reallocation on a larger scale and faster speed than is likely under block grants or central allocation. In the period since 2008, the last year of flat enrolments before a demand driven growth phase, three universities increased their number of full-time equivalent Commonwealth supported bachelor degree places by more than 100 per cent, and another dozen by more than 40 per cent.²⁶ No other system is likely to match transformation on this scale.

Because demand driven funding has recently reshaped the sector, the new base distribution of block funding is much better aligned to student demand than the pre-demand driven funding base. With little short-term major demographic change forecast, regional disparities will not be greatly exacerbated in the next few years.

Although block grant funding is not the ideal system, especially in the short to medium term it would achieve some of the

²⁴ *Higher Education Support Act 2003* Section 30-27(3). Under-enrolling universities will not be paid for places not delivered, but the maximum basic grant amount will remain the same.

²⁵ Because this requires a new increased basic grant amount to be set in the initial round.

²⁶ Department of Education and Training (2019)

consultation paper's goals with fewer negative side-effects and inefficiencies than a more detailed central allocation of places.

3.2 Enabling places

Including enabling places in the undergraduate block grant gives universities increased flexibility in meeting student needs. With the enabling loading calculated separately, universities do not necessarily receive any compensation for student contributions forgone if they increase their enabling load. However, using existing funded places for enabling courses suggests that many universities prefer this option to either offering entirely unfunded enabling places or offering full-fee enabling places.

Redistributing the loading between institutions in line with recent actual CSP enrolments may be fairest, fastest and least bureaucratic way of resolving some current anomalies.

3.2.1 Postgraduate CSP places

Postgraduate CSP places should not be rolled into a block grant.

A critical difference between domestic undergraduate and postgraduate award courses is that postgraduate courses can be full-fee paying. This gives the postgraduate market significant flexibility lacking in the undergraduate market, where full-fee places are not permitted. More than half of domestic postgraduate coursework places are full fee.²⁷

Under current government funding policies, there is a substantial risk that the number of undergraduate places will decline significantly, which will cause major unmet demand if it continues into the mid-2020s, when an expanded school leaver cohort will be looking to attend university.²⁸ Priority should be given to prospective undergraduates who are typically seeking their first degree, rather than postgraduates enrolling in a second degree. If all CSP places were in one block grant, some universities are likely to move places from undergraduate to postgraduate.

The consultation paper also correctly observes that the trend towards using postgraduate qualifications for initial professional entry creates substantial costs for both students and taxpayers.²⁹ While it would be difficult to reverse some major professional and institutional changes toward postgraduate initial professional entry, any further requests for expansion should be rejected unless a strong case can be made that the benefits are worth the costs.

In the medium term, the solution proposed in the 2014 demand driven review is probably still the best (although not perfect) balance between the competing considerations: capped legacy arrangements for the University of Melbourne and UWA: demand driven funding for a range of teaching, nursing and allied health courses; and the transition of other fields back to full-fee for postgraduate coursework.³⁰

²⁷ Ibid.

²⁸ Norton (2019), p. 5-6, 10-11

²⁹ Department of Education and Training (2018b), p. 14

³⁰ Kemp and Norton (2014), p. 66-68

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