

Unleashing student demand by ending number controls in Australia: An incomplete experiment?

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About the author

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Foreword

Nick Hillman, Director of HEPI

In early 2014, HEPI started a project comparing the English and Australian higher education systems. So far, a pair of reports has been produced that compare the student loan systems in the two countries and we have held a conference featuring Professor Bruce Chapman, the architect of the Australian student loans system.¹ In late 2014, Professor Paul Wellings, the former Vice-Chancellor of Lancaster University and now Vice-Chancellor of Wollongong University in Australia, will deliver the HEPI Annual Lecture comparing higher education in the two countries.

This report is a central part of the year-long project. Andrew Norton of the Grattan Institute has been forensically examining the Australian higher education system for a long time. In the 1990s, he was adviser to the education minister and, last year, the current Australian Government turned to him, along with his old boss David Kemp, for an evaluation of the removal of student number controls, which took effect between 2009 and 2012. Andrew's views are rooted in the evidence and he is an independent voice, with strong opinions. No one who cares about higher education in Australia, or other countries with comparable models, can afford to ignore him.

¹ N. Hillman, *A comparison of student loans in England and Australia* (HEPI, April 2014); L. Hackett, *A comparison of higher education funding in England and Australia: what can we learn?* (HEPI, April 2014).

The pages that follow reveal some incredibly close parallels between the Australian and English higher education systems. Both have been opened up under centre-left and centre-right governments and this has revealed a hornet's nest of tricky questions with which policymakers are still grappling. At what level should fees be capped? How should student number controls be lifted? What boundaries should exist between traditional universities and other higher education providers?

When HEPI started this project, some people questioned the choice of Australia, given that the similarities between England and Australia are often bigger than the differences. Surely there could be more weighty lessons from other European countries? That is a fair question and we are keen to engage with experts in other countries too. But the UK's Coalition Government are currently implementing changes, such as removing number controls, that are close to recent Australian reforms without always having detailed knowledge about them. It would be a dereliction of duty by those with responsibility for higher education policy if they were to ignore Australia and it is HEPI's role to build evidence, encourage understanding and aid policymakers.

In his conclusion, Andrew Norton notes that in Australia, 'It has taken decades for the idea of demand-driven funding to work its way into policy.' In England, the conditions to deliver a demand-driven policy were also built up over many years. But the actual decision to remove student number controls

for full-time undergraduates was taken very rapidly and took the higher education sector by surprise. The journey can arguably be dated precisely: from the publication in late October 2013 of the pamphlet *Robbins Revisited* by David Willetts, who was then the Minister for Universities and Science, to the announcement by George Osborne, the Chancellor of the Exchequer, as part of the Autumn Statement in early December. Whatever one's views of the policy, Andy Westwood, Chief Executive of GuildHE, was surely right to describe it as an unexpected 'game-changer'.²

No other country is likely to have the perfect model for England or the rest of the UK, and any lessons that do exist elsewhere are as likely to be negative as positive. But austerity will continue to bite after the next election, irrespective of the outcome, so ignoring Australia's experiment with a demand-driven system is a luxury we cannot afford.

² A. Westwood, 'A statement that we didn't expect', <http://www.wonkhe.com/2013/12/05/a-statement-that-we-didnt-expect/>, 5 December 2013.

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Introduction

1. A demand-driven higher education funding system was a long time coming in Australia. Versions of the idea circulated from the late 1980s and reached Cabinet in 1999. But political setbacks meant another decade passed before government controls on student numbers began to be lifted. When they were, universities responded enthusiastically, triggering large increases in enrolments and higher education spending. Two successive ministers mooted putting restraints back on, but for now the reform seems safe. Indeed, there are plans to expand it beyond the public university system, financed by cutting per-student funding rates. The government has also proposed removing the upper limits on what higher education providers can charge undergraduate students. None of these measures are assured of passage through the Australian Parliament. The precise nature of Australia's higher education demand-driven funding system depends on difficult-to-predict votes in the Senate.

The system of distributing university places before the demand-driven system

2. Prior to the demand-driven system, students in Australian public universities were largely funded through block grants, with 'contributions' from students. After some consultation with universities, the Australian government set an annual grant with an enrolment target for domestic students for each institution. Universities had some scope for taking more students than their target, although not usually at the 'full' per student funding rate. Universities had considerable discretion in spending their block grant, which they used for both teaching and research. The most important conditions covered what fees they could charge government-supported students.

3. The last major changes to the block grant system occurred in 2005. These made the higher education funding system less flexible than it had been before. Instead of each university receiving an overall allocation of student places, their funding agreement with the Australian Government set out numbers of student places in a dozen different discipline categories, called funding clusters, each with its own funding rate. Universities were not specifically penalised if funding cluster enrolments varied from the agreement number, but it could reduce their maximum possible funding. For example, a university reduced its total income by enrolling fewer science students but more humanities students than planned, because science had a higher funding rate per student than humanities.

4. Although universities were not directly punished for missing discipline-specific numbers in the funding agreement, the 2005 reforms included new financial penalties for exceeding total enrolment targets by more than 5 per cent. Where previously universities had received a lower funding rate for 'over-enrolled' students (enrolments above the target number), they now had to pay the government for students in excess of the 5 per cent over-enrolment limit. Universities cut commencing student numbers to bring their total enrolments down to financially safe levels, triggering a rare decline in their total domestic undergraduate numbers.

5. The 2005 system for allocating new student places was also far from the demand-driven system that was to come. While historical student load was allocated at funding cluster level, but not otherwise prescribed, new places were distributed to specific courses and campuses. With a fixed percentage of commencing student places assumed to be drop outs, future year allocations specified student places with multiple decimal places. It looked to be government micro-management taken to absurd lengths.

6. Although the 2005 reforms made the system less flexible overall, they put in place some policy infrastructure for what was to come. A demand-driven system requires pricing at the individual student level. Revenue per student place is the incentive higher education providers have to take students. The average per-student funding implied in the original block grant system would not be effective in a demand-driven system. It offers no incentive to deliver high-cost disciplines

which incur expenditure per student above the average funding rate. Indeed, the incentive would be to phase out such loss-making disciplines. While discipline-specific funding rates were in 2005 just a way of calculating a block grant, they later supported introduction of the demand-driven system.

7. As part of the 2005 reform package, universities were also required to set their own charges for domestic undergraduates. Since 1974 higher education for these students had either been free or from 1989 subject to a government charge, HECS (the Higher Education Contribution Scheme). Through this 30-year period there was no direct financial relationship between universities and most of their domestic students for teaching (there had been separate charges for non-academic services). From 2005, universities could set and keep their own charges up to a legislated maximum. For most disciplines, this maximum 'student contribution' was set 25 per cent higher than the previous HECS rates.

8. Consistent with later English experience with the £9,000 cap, most universities soon charged the maximum student contribution amount. It is not surprising that most wanted to do so. For a decade their block grants had been indexed at a rate that was below their cost increases. While booming international student markets had eased financial pressures, all universities were keen to repair the finances of their domestic student operations. School-leaver applications dropped slightly, but with demand still substantially exceeding supply there was little chance of reduced enrolments.

Intellectual and political background to the demand-driven system

9. The system of centralised distribution of student places had long been criticised. In the late 1980s the Liberal Party, then in opposition, proposed distributing some ‘scholarships’ directly to students, which they could then take to any higher education provider, public or private. This was an era of considerable interest in private education, with the creation of two surviving private universities, the University of Notre Dame and Bond University, and various other proposals that did not result in lasting institutions. In 1991, the Liberal Party released a policy manifesto that included a full scholarship/voucher scheme that would let students take public funding to a higher education provider of their choice. This manifesto also foreshadowed letting universities set their own fees, in addition to whatever public funding they would receive through their students.³

10. In office later in the 1990s, the Liberal Party commissioned a review of the higher education funding system. It proposed gradually moving to a more market-based system, including public subsidies for students in private institutions and letting higher education providers set their own fees.⁴ In 1999 the then education minister, Dr David Kemp, took a submission

³ This and the subsequent paragraph draw on A. Norton, ‘The Coalition’, in *The Dawkins Revolution 25 Years On*, ed. G. Croucher et al. (Melbourne University Press, 2013).

⁴ R. West et al., *Learning for Life: Review of Higher Education Financing and Policy* (Department of Employment, Training and Youth Affairs, 1998).

to Cabinet proposing a substantial reform along these lines.⁵ I was his adviser on higher education policy at the time. The submission was leaked from within the bureaucracy to the Labor Party, and abandoned by the Government following public controversy.

11. It would be nearly another decade before similar ideas were again considered by a major political party. Meanwhile, however, real markets for domestic postgraduate courses and international students had prospered. Smaller, less prestigious universities that had previously feared competition found niches in these markets. This may have made them less concerned about change in the way domestic undergraduate places were distributed.

12. As part of the 2005 reforms, private higher education providers had gained access to the income-contingent loan system, now renamed the Higher Education Loan Program (HELP). While exact before and after student numbers are rare, the providers report that FEE-HELP, a HELP program for full-fee students, was and is very important to their growth. By 2011, their enrolments were at least triple what they had been in 1999.⁶ Although FEE-HELP had improved their position on the previous situation in which their students had to pay fees upfront, many private higher education providers felt that it

⁵ The submission is still available as an appendix to a Senate inquiry: D. Kemp, 'Appendix 4: Leaked Cabinet Submission: Proposals for Reform in Higher Education', in *Universities in Crisis*, ed. Senate Standing Committee on Education and Employment (Senate of Australia, 2001).

⁶ Norton, *Mapping Australian Higher Education, 2013 Version* (Grattan Institute, 2013), p.12.

was unjust that their students missed out on the tuition subsidies received by students in public universities. Over time, they formed or expanded lobby groups and become more sophisticated political advocates for their cause.

13. While the way higher education places were allocated never turned into a major political issue, it did attract persistent critiques. Several vice-chancellors, including Steven Schwartz who also spent time leading Brunel University in England, called for a less bureaucratic approach.⁷ Peter Karmel, a former vice-chancellor who had been an influential figure in Australian education policy since the 1970s, regularly called for a 'national scholarships' scheme instead of centralised funding.⁸ A lecture by the eminent economist Max Corden coined the term 'Moscow on the Molongo' (a river running through the national capital, Canberra) to describe higher education policy.⁹ The phrase resonated and has often been used since, including by the current minister, Christopher Pyne.¹⁰ I also wrote regularly on the subject of a less centralised higher education system.¹¹

⁷ S. Schwartz, 'The Trouble with University Compacts', *Policy* 24, no. 1 (2008).

⁸ P. Karmel, 'Funding Universities', in *Why Universities Matter*, ed. T. Coady (Melbourne University Press, 2000).

⁹ W. M. Corden, 'Australian Universities: Moscow on the Molongo', *Quadrant* 49, no. 11 (2005).

¹⁰ C. Pyne, 'Christopher Pyne on the Future of Australian Higher Education', *Times Higher Education*, 28 April 2014.

¹¹ See for example this critique of the then planned 2005 reforms: Norton, *Two Steps Forward, One Step Back: Dr Nelson Mixes Price Flexibility and Rigid Quotas* (Centre for Independent Studies, 2003).

14. Varying arguments were made for a more market-oriented system. Competition might focus universities on providing better teaching and otherwise improving the student experience. The first national student surveys conducted in the early 1990s had shown low levels of student satisfaction with teaching.¹² Effectively guaranteeing funding and student numbers did not seem to create the right incentives for universities. Although Australian universities generally supply more graduates than the labour market needs, the system had struggled to deal with chronic shortages in health fields.¹³ Advocates of reform argued that a more flexible system of distributing places could better match what students studied with skills needs. As in England, former colleges and polytechnic-equivalent colleges had been converted into universities by the early 1990s. This transition had always been opposed by some. As institutional diversity still existed in the private sector, it could be fostered if public funding was extended outside the public university system.¹⁴

15. The key turning point towards a demand-driven system was a review of higher education policy chaired by former vice-chancellor Denise Bradley.¹⁵ It was commissioned by a new

¹² Norton, *Mapping Australian Higher Education, 2013 Version*, p.67.

¹³ Norton, 'Markets and Central Planning in Meeting Labour Market Needs: Lessons from Higher Education', in *Competition in the Training Market*, ed. T. Karmel, F. Beddie, and S. Dawe (National Centre for Vocational Education Research, 2009).

¹⁴ G. Davis, 'The Rising Phoenix of Competition: What Future for Australia's Public Universities?', *Griffith Review* 11, no. Autumn (2006).

¹⁵ D. Bradley, *Review of Australian Higher Education: Final Report* (Department of Education, Employment, and Workplace Relations, 2008).

Labor education minister, Julia Gillard (later to become Prime Minister). Labor had come to power promising an 'education revolution', but in higher education had only a few minor policies. A review was needed to provide some policy content.

16. Intellectually, the status quo was difficult to defend. The system as of 2008 was, as the Bradley report noted, the result of decisions made for varying reasons over a long period. If it had consistent principles or policy objectives these were often hard to discern. Even so, this untidiness was no guarantee of major reform. A list of criticisms and complaints does not add up to a coherent alternative set of policies, and systems that nobody particularly likes can survive if there is too little political momentum behind any proposed reform.

17. The main alternative to either the 2008 status quo or a more market-oriented system was a reconstituted 'buffer body': a semi-independent arm of the bureaucracy that would plan higher education over the long term. Using an English model, Australia had used these bodies for about 30 years to the late 1980s.¹⁶ Arguably, such a body might have improved outcomes from the mid-1990s to the mid-2000s when the publicly-funded system drifted with little direction from either the government or the market. A centralised system needs some institutionalised means of adjusting the allocation of places between institutions and disciplines, but

¹⁶ P. Coaldrake and L. Stedman, *Raising the Stakes: Gambling with the Future of Universities* (University of Queensland Press, 2013), pp.218-224.

Australia did not have one. In the end, however, the Bradley committee did not seem to give the 'buffer body' option much consideration.

18. In recommending a demand-driven system, the Bradley report mentioned many of the arguments made over the preceding 20 years for a more market-driven system. It proposed making all higher education providers, whether public or private, eligible to participate in a demand-driven system for undergraduate qualifications. Unlike some earlier scholarship proposals, where the government would still control total student numbers by distributing the scholarships to students, the Bradley committee proposed an uncapped system. Higher education providers could take as many students as they deemed qualified. The Bradley report said that the new system should eventually be extended to post-graduate coursework degrees as well, but wanted further work done on funding levels.

19. While drawing on intellectual arguments for a more market-oriented higher education system, the Bradley report was not a cut-and-paste from them. The Bradley report recommended new targets: 40 per cent of 25-34 year olds should hold a bachelor degree or above, and 20 per cent of undergraduates should have a low socio-economic status (SES) background. The report also proposed quarantining 2.5 per cent of public funding to be awarded based on performance indicators, such as student satisfaction or completions. While precise indicators were to be negotiated

for each institution, the proposal suggested that the Bradley committee doubted that market mechanisms alone would promote performance.

20. While the Bradley report wanted to remove some restrictions on student numbers, it proposed new regulation through a national accreditation and quality assurance body. Historically, these were functions of Australian state governments rather than the national government. In practice, the states trusted the universities to regulate themselves and confined their regulatory activities to non-university higher education providers. In the 2000s, participation in audits of the Australian Universities Quality Agency (AUQA) became a condition of public funding for all institutions, which brought some external scrutiny to public universities. However, the Bradley report argued that AUQA was too focused on inputs and processes, and that Australia needed a regulator that looked at outcomes and standards.

The Government's response to the Bradley report

21. The Government accepted most of the Bradley report's main recommendations, but with some important exceptions.¹⁷ In May 2009 it announced that from 2012 there would be a demand-driven funding system for undergraduate courses at public universities, except in medicine. There

¹⁷ DEEWR, *Transforming Australia's Higher Education System* (Department of Education, Employment and Workplace Relations, 2009).

was to be a phase-in period of increased funding for students enrolled above original funding agreement target numbers.

22. Contrary to the Bradley report recommendation, non-university higher education providers were excluded. The reasons for this were not stated but were believed to be financial. Bringing these providers into the system would have required paying tuition subsidies to students who were already paying full fees. Tens and possibly hundreds of millions of dollars would be spent without increasing student numbers.

23. The legislative amendments to introduce the demand-driven system showed that nervousness about cost extended beyond the non-university higher education providers. The minister retained the power to declare courses 'designated', which would put them outside the demand-driven system and subject to allocation by the Department of Education. The designation could be disallowed by either house of parliament – the government of the day rarely controls the Senate – but it is a substantial ministerial discretion. It was used shortly before the demand-driven system was due to begin in January 2012 to designate all sub-bachelor undergraduate qualifications. The government can also limit the amount of money that any one institution can receive, with the proviso that this cannot be less than the amount they received the previous year. This power has been used in limited cases to enforce previous arrangements with particular universities. There is also a power to exclude

particular types of students (as opposed to courses) from Commonwealth support that has not been exercised.¹⁸

24. Consistent with the Bradley report recommendation for a national regulator, the Government created the Tertiary Education Quality and Standards Agency (TEQSA). It enforced the Higher Education Standards Framework, which is delegated legislation made by the minister for education on advice from a Higher Education Standards Panel, which he or she appoints. In the end, this aspect of the reform package was probably the most contentious for universities. It made their very existence contingent in a way that it had not been before. Rather than being universities in perpetuity, under the TEQSA regime they had to apply periodically for re-registration. Strict standards suddenly applied to areas where universities had enjoyed institutional discretion. Even where the standards merely codified normal practice, the TEQSA regime introduced compliance costs to prove that the standards were being met.

25. Something like TEQSA would probably have emerged with or without the demand-driven system. Through agreement between the states and the national government, higher education regulation was already becoming more similar around the country. However, multi-state providers still complained about costly duplicate processes, and some states were accused of not properly monitoring higher education providers. Arguably, universities faced too little

¹⁸ See chapter 7 of Norton, *Keep the Caps Off! Student Access and Choice in Higher Education* (Grattan Institute, 2013).

scrutiny of their activities. A High Court case in 2006 had interpreted the Constitution in a way that gave the national government power to regulate universities and other higher education providers as corporations, overcoming the lack of a direct educational power that had previously limited its authority (funding had occurred under another power allowing the government to provide 'benefits to students'). With this change in legislative potential, the national government would almost certainly have eventually moved to take over regulatory responsibility.

26. Plans for a demand-driven system, however, probably sped up the introduction of stricter standards and quality regulation. Concerns about falling 'standards' almost invariably go with a major expansion in student numbers, as turned out to be the case with the demand-driven system. Cautionary voices warn that 'dodgy providers' will enter the system if entry becomes easier or more financially attractive, at a potential cost to students and the international reputation of Australian higher education. The recommendation of the Bradley report to tighten up quality regulation, and the acceptance of that recommendation by the Government, were aimed at both potential problems and any perception issues associated with a demand-driven system.

27. The Government also accepted, with some minor modification, the Bradley report's recommendation to introduce targets into the system. While the 40 per cent attainment target had no specific policy support other than the demand-driven system

itself, the goal of increasing the share of domestic undergraduates from low SES backgrounds from 15 to 20 per cent was to be pushed along by several policy measures. For universities, these included funding for outreach programmes and financial rewards for reaching institution-level targets. The targets were set out in ‘compacts’ between each university and the government. The compacts were a recent change that had been particularly supported by the then minister for research, Senator Kim Carr. Although documents called compacts were new, they were an example of how old ways of doing things could reinvent themselves. While the broad thrust of the Bradley recommendations and the Government’s response was to move to a more rules-based system, the compacts represented the old system of deals based on government discretion.

University and student reactions to the demand-driven system

28. Although the demand-driven system did not formally start until 2012, enrolment growth started in 2009, as seen in Table 1 (overleaf). That year universities became eligible for full funding – a government subsidy called a ‘Commonwealth contribution’ plus the student contribution for students enrolled up to 5 per cent more than their original funding agreement target. Universities could retain student contributions for enrolments above the 5 per cent point. As part of the phase-in to demand-driven funding, in 2010 and 2011 universities were fully funded for enrolments up to 10 per cent more

than their original funding agreement amount. By 2011, seven of the 37 public universities had enrolments that were 20 per cent or more above their original target, and the system as a whole was 13 per cent above the target. Universities behaved as if the demand-driven system was in place before it had started – indeed, before it had been legislated for. In the first two years of the demand-driven system’s operation, annual bachelor-enrolment growth rates exceeded 5 per cent.

Table 1: Number of domestic bachelor student commencements and enrolments, public universities 2002-12

Total	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Commencements (000s)	159	159	166	167	170	170	183	194	200	220	230
Enrolment (000s)	513	509	509	514	523	527	548	573	592	625	659
Enrolment growth (%)	-0.1	-0.7	0.0	1.0	1.8	0.7	3.9	4.6	3.3	5.5	5.5

Source: Department of Education

29. This strong growth in student numbers means that it is quite likely that Australia will achieve the original Bradley goal of 40 per cent higher education attainment in the 25-34 year old age group. Their attainment was 32 per cent when the target was announced and 35 per cent in 2013.¹⁹ With new

¹⁹ ABS, *Education and Work, Cat. 6227.0* (Australian Bureau of Statistics, 2013), table 8.

enrolments skewed to the 17-24 year old age group and mostly yet to graduate, attainment is trending up before the demand-driven system's full effects are felt. Australia's skilled migration programme also contributes to overall population education levels.

30. Enrolment growth has contributed to increased higher education participation from low SES groups. Their numbers have increased by more than 5 per cent a year since 2009, above the general growth rate seen in Table 1.²⁰ Some simultaneous changes to student income support may have contributed to this result, with demand increasing most strongly from low SES applicants.²¹ Increased student places were also critical, as Australia has the common international pattern of weaker school performance by low SES students. With universities rationing places according to prior academic achievement, limiting the number of student places inevitably disproportionately affects low SES students.

31. In Australia, most people applying to university do so through state-based tertiary admissions centres. For a small fee, they can apply for multiple courses simultaneously in order of their preference. If applicants do not receive an offer for their

²⁰ D. Kemp and Norton, *Review of the Demand Driven System: Final Report* (Department of Education, 2014), pp.37-40.

²¹ DIICCS RTE, *The Demand-Driven System: Undergraduate Applications and Offers, February 2013* (Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education, 2013), p. 7. The income support changes included making it easier for students to pass a parental income test, and introducing twice-yearly lump sum payments that increased the financial value of student welfare benefits.

first-preference course, they are automatically considered for the second-preference course, and so on until they receive an offer or their list of preferences is exhausted. While this is still the dominant means of applying for higher education, applications direct to universities are increasingly common. Direct applications were up 30 per cent between 2010 and 2013, compared to only 3 per cent for tertiary admission centre applications (the same person can use both methods).

32. There are no detailed studies of the direct application trend, but it could be partly caused by the demand-driven system. Some universities encourage applicants to bypass the tertiary admission centres by promising early offers of a place, before the main round of offers via tertiary admission centres. These arrangements increase certainty for both parties. There are also increasing numbers of students being admitted based on prior higher or vocational education.²² In some cases, these applicants have firm commitments that they will be admitted if they meet minimum entry requirements. The application is more confirmation of an intention to take up their promised place than a request for selection. There is no need for the tertiary admission centre middleman.

33. In contrast, the tertiary admissions centre applications assume a competitive process in which entry requirements are not fully known at the time of application. School leavers, for example, are typically admitted based partly or wholly on an

²² Kemp and Norton, *Review of the Demand Driven System: Final Report*, p.15.

academic rank in their age cohort, as determined by their school results. The minimum Australian Tertiary Admission Rank (ATAR) for many courses varies from year to year, depending on how many places are on offer and the academic strength of the applicant pool. The required ATAR is not known by applicants until the offers go out. But as the scarcity of places declines under the demand-driven system, there is less need for the rationing and risk management services the tertiary admissions centres provide to universities and students. This suggests that direct applications will continue to grow as a share of the total.

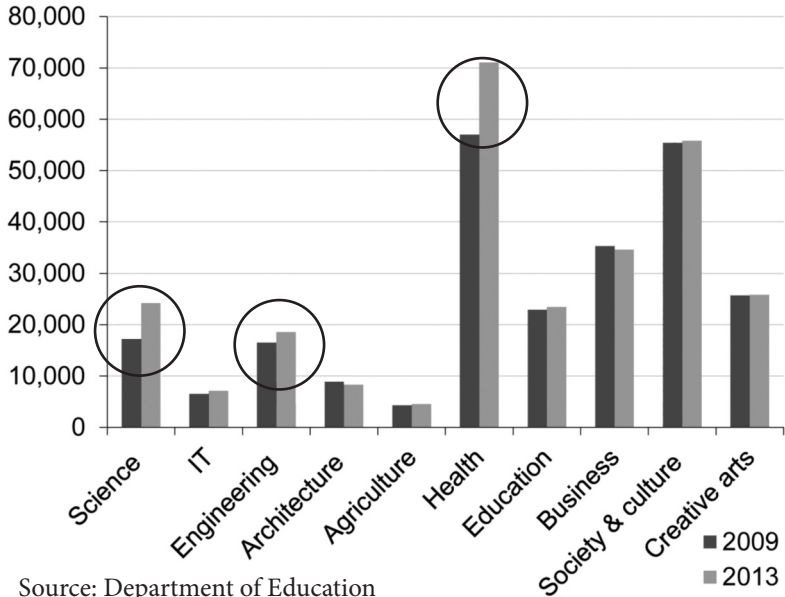
34. Among tertiary admission centre applications, the largest growth in demand has been in science and health courses, with some growth in engineering as well. Other disciplines showed small changes or stability, as seen in Figure 1 (page 24). The growth in health and engineering was readily explicable, as these had been areas of skills shortage in the Australian labour market.²³ Science courses had been promoted by government officials and reduced student contributions from 2009 to 2012. However, there was never any labour market evidence of shortages of people with undergraduate science qualifications, and employment outcomes for recent science graduates have been poor.²⁴

35. Enrolment growth under the demand-driven system has been more spread across disciplines than growth in applications, as seen in Figure 2 (on page 25). This is partly because

²³ Ibid., pp.23-25.

²⁴ Ibid., pp.28-29.

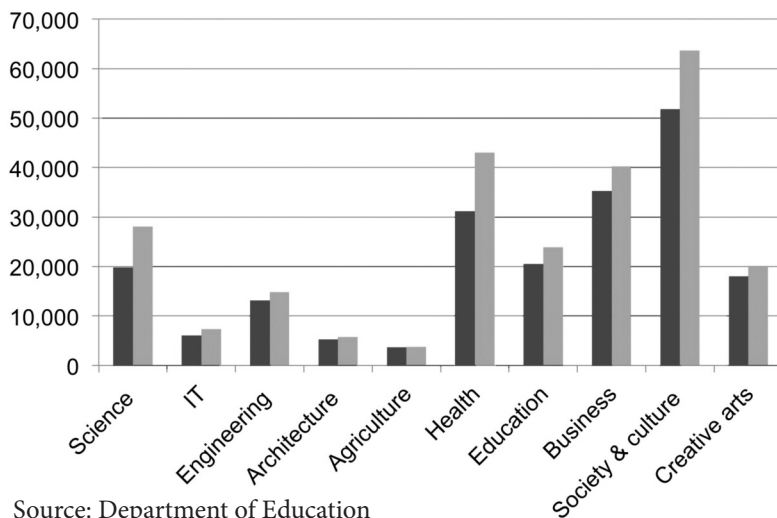
Figure 1: Demand for higher education by field of education, tertiary admissions centres, 2009-13



applicants have a better chance of receiving an offer in their desired field of education under the demand-driven system than they did before.²⁵ As supply and demand move closer to equilibrium, we may see a stronger relationship between movements in demand and supply. While applicants now have a better chance of studying in their preferred field, they are only slightly more likely to receive an offer in their first-preference

²⁵ Ibid., p.46.

Figure 2: Commencing undergraduate students by discipline, 2009-13



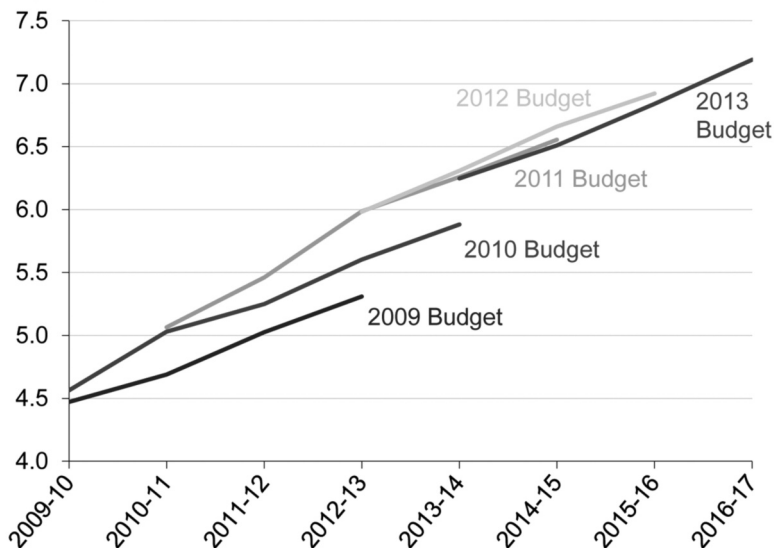
choice: up 2 percentage points for school leavers and 3 per percentage points for others between 2010 and 2013. This may be due to increasing numbers of low-ATAR applicants who have realistic prospects of admission to only a limited number of courses, but incur no additional cost for putting an aspirational preference first on their list. Nevertheless, there are limits to how far this indicator can improve. Some applicants are always going to be rejected as unsuitable for their preferred course, and most universities have finite numbers of places. For mission and other reasons, they will not expand indefinitely simply because there is demand for their courses.

The demand-driven system hits political trouble

36. Rapid growth in student numbers under the demand-driven system caused government expenditure to increase significantly. Figure 3 shows how successive Budgets underestimated the demand-driven system's cost, with major upwards revisions from year to year. In 2013 these spending increases collided with the Australian Government's deterio-

Figure 3: Estimated cost of demand-driven system, 2009-10 to 2013-14 Budgets

Budget projections, \$bn



Source: Higher education portfolio Budget papers, various years

Note: This shows the cost of the Commonwealth Grant Scheme, which finances Commonwealth contributions.

rating fiscal position. In April that year it announced a range of cuts, including an 'efficiency dividend' on the Commonwealth Grant Scheme which funds the demand-driven system.²⁶

37. For universities, the cuts were not very large – 2 per cent in 2014 and 1.25 per cent in 2015 – but they helped stir political opposition to the demand-driven system. Some universities thought that it would be better to focus expenditure on a smaller number of students, encouraged by Senator Kim Carr, who by then had become the higher education minister. Coming from the left of the Labor Party, Carr was not someone who would normally find a demand-driven system ideologically attractive. He said he would consider budget neutral changes to the original cuts.²⁷

38. Criticism of the demand-driven system focused on the idea that it was reducing 'standards', especially in making it easier for students to get into higher education. Certainly the minimum ATAR required for admission had declined in some courses. When tertiary admission centre university offers go out each January, media stories invariably focus on very low ATAR courses. The Group of Eight, a lobby group representing the leading research universities, called for a minimum

²⁶ C. Emerson, *Statement on Higher Education* (Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education, 2013).

²⁷ D. Shanahan, 'Drop in University Places to Pay for Gonski', *The Australian*, 20 July 2013. Due to political turmoil in the previous Labor Government, there were four higher education ministers in less than a year.

ATAR of 60, an idea endorsed by an editorial in *The Australian* newspaper.²⁸

39. While in Opposition, the Liberal Party had broadly supported the demand-driven system. Its leader, Tony Abbott, attended a university conference in February 2013 and said that a period of ‘relative policy stability’, including the demand-driven system, was what universities now needed.²⁹ So it was a surprise that within days of Tony Abbott’s new Government being formed in September 2013 his education minister, Christopher Pyne, raised very similar concerns about the demand-driven system as his Labor predecessor. He was reported as being worried that quality was being affected, and promised a review of the demand-driven system.³⁰

Review of the demand-driven system

40. About six weeks after the minister signalled a likely review, it was announced. David Kemp and I were appointed as co-reviewers. The choice of reviewers and the terms of reference suggested that the government was not interested in abolishing the demand-driven system. However it did want to check on the new system’s performance against its original

²⁸ Norton, *Keep the Caps Off! Student Access and Choice in Higher Education*, p.4

²⁹ T. Abbott, ‘Address to Universities Australia Higher Education Conference’, <https://www.liberal.org.au/latest-news/2013/02/28/tony-abbotts-address-universities-australia-higher-education-conference>, 28 February 2013.

³⁰ D. Hurst and J. Tovey, ‘Christopher Pyne Reveals University Shake-Up’, *The Sydney Morning Herald*, 25 September 2013.

objectives, evaluate the quality criticisms that had been made, re-consider the exclusion of sub-bachelor and post-graduate courses, and examine whether the reforms had encouraged innovation and competition.³¹

41. The review was early in the demand-driven system's operation. Only one year of detailed enrolment data was available since the system's official start, and so the review had to assume that the rapid enrolment increases in the 2009 to 2011 period were a good guide to behaviour in an uncapped system. TEQSA had been in operation for two years and had been subject to its own separate review.³²

Student numbers

42. As noted above, the system was clearly trending in the right direction to meet its participation and access goals. The widespread nature of enrolment growth was striking. It was across all socio-economic groups, across country and city, across all university types and the vast majority of disciplines. The rate of expansion differed within these categories, but there were few of the downward movements that might have soured views of the new system among interest groups. Most submissions to the demand-driven review supported its retention, and nearly half included ideas for its extension to new areas.

³¹ Kemp and Norton, *Review of the Demand Driven System: Final Report*, p.81.

³² K. Lee Dow and V. Braithwaite, *Review of Higher Education Regulation Report* (Australian Government, 2013).

43. The Bradley committee's decision to support an uncapped demand-driven system worked politically in a way that a capped scholarship/voucher scheme would not have. A centralised and therefore politicised system of distributing scholarships would inevitably have created conflict over who should receive a funding entitlement. Depending on how many scholarships were available, it could have created competition between universities in which there had to be winners and losers. The timing of the introduction of the demand-driven system was also fortunate. There had been periods in the previous 20 years in which the number of young people finishing school had been stable or in decline. This would have made it difficult for all universities and disciplines to improve their position in a demand-driven system. As it turned out for the new policy, the school leaver population steadily increased from 2008, expanding the pool of potential new students.

Pricing of student places

44. The 2005 reforms had, as noted earlier, created the per-student place funding rates necessary for a demand-driven system. However, the system of setting the funding rates had not been reformed. They were based on a university expenditure study published in the early 1990s, as modified since by occasional changes to public funding levels and the 2005 increase in student contributions. After announcing the demand-driven system, the Government commissioned a

review of funding.³³ However it did not accept the review's recommendations, and by the time the Labor Government left office in 2013 it had not made any major changes to how student places were funded.

45. In the quasi-market of the demand-driven system, the funding rate is the price universities can charge. If the price is too low, universities will lack an incentive to supply student places. A study of university costs conducted for the funding review provided mixed evidence on the relationship between funding rates and costs, but in most cases found that if only the costs of teaching were included the existing funding rates were sufficient.³⁴ This is also the most obvious conclusion to draw from the enthusiastic response to the lifting of controls on student numbers. Universities would not have expanded enrolments if they were losing money on them, and published financial statements are not showing negative effects from the increased student intake.³⁵ However, more detailed discipline-level examination of demand and supply suggested that there may be issues for some engineering and health-related courses.³⁶ Our review recommended that funding rates for these courses be reviewed. Despite only a

³³ J Lomax-Smith, L Watson, and B Webster, *Higher Education Base Funding Review, Final Report* (Department of Education, Employment and Workplace Relations, 2011).

³⁴ Deloitte Access Economics, *Higher Education Teaching and Learning Costs* (Department of Education, Employment and Workplace Relations, 2011).

³⁵ Department of Education, *Finance 2012: Financial Reports of Higher Education Providers* (Department of Education, 2013).

³⁶ Kemp and Norton, *Review of the Demand Driven System: Final Report*, p.73.

few problems to date, the absence of any mechanism for routinely adjusting funding rates in light of cost changes is a weakness in the demand-driven system.

46. Another potential weakness flowing from the pricing system is the potential for trade-offs between domestic and international students. Typically, universities earn more from an international student than a domestic student. Under the old system, the number of domestic student places was effectively determined by regulation, and any international student enrolments were on top of the domestic quota. Under the demand-driven system, a university could choose to take the more lucrative international students. The enrolment trends described above show no evidence of this at the aggregate enrolment level. Timing may have helped. The long international student boom finally ended in the years leading up the demand-driven system, making it harder to find additional international enrolments. In some universities, fewer international students than expected may have left spare capacity that was then filled with domestic students. Nevertheless, large revenue differences between domestic and international students make domestic applicants vulnerable.

Quality of the student intake

47. School leavers admitted on low ATARs remain a very low proportion of enrolments. Less than 2.5 per cent of the 2012 bachelor degree intake had ATARs below 60, meaning that they were in the lower 60 per cent of their age cohort by academic

achievement. However, their numbers have increased substantially from a low base and are likely to continue doing so.³⁷

48. Students entering bachelor degrees on lower ATARs are clearly at substantially increased risk of not completing a qualification.³⁸ In the demand-driven review, David Kemp and I did not think this was sufficient to impose a minimum ATAR of 60, as had been proposed by the Group of Eight. This would deprive half or more of these students of a potentially life-transforming educational opportunity. On the other hand, if there were measures that could be taken to reduce non-completion rates these should be taken.

49. In evidence to the review, it seemed the most obvious way of improving the prospects of lower ATAR students was for them not to start in a bachelor degree. Already, significant numbers were coming to higher education through a 'pathway college'. These colleges offer higher education diploma courses usually based on the first year of a target public university bachelor degree course. Teaching methods are more intensive than at university, helping to build the study skills needed for success in higher education. Students who have been to pathway colleges tend to do better at university than would have been expected given their original school results.³⁹

³⁷ Ibid., p. 15; Department of Education, *Undergraduate Applications, Offers and Acceptances, February 2014* (Department of Education, 2014), p.11.

³⁸ Department of Education, *Completion Rates of Domestic Bachelor Students: A Cohort Analysis* (Department of Education, 2014).

³⁹ Kemp and Norton, *Review of the Demand Driven System: Final Report*, pp.18-19.

50. There are some pathway colleges within the publicly-funded university system, operating with a college brand of their parent university (for example, Swinburne University operates Swinburne College). But because these colleges teach sub-bachelor degrees the qualification is outside the demand-driven system, even when the institution is not. This limits their scope for expansion. Most pathway colleges are privately operated, putting both the higher education provider and the qualification outside the demand-driven system. While there are no quantity constraints on private higher education providers, without tuition subsidies they are relatively expensive. It is cheaper for a student to enrol in a public university bachelor degree course.

51. The desirability of steering lower ATAR students into more appropriate courses was one reason why the demand-driven review recommended bringing both sub-bachelor courses and non-university higher education providers into the demand-driven system. The latter issue is discussed in more detail below.

Quality of teaching

52. Although quality of teaching was one argument given for a demand-driven system, a rapid expansion in student numbers could stretch teaching resources. To test for this, the demand-driven review looked at national student survey results on student satisfaction with teaching, with particular attention to the fastest growing universities. This did not find

any evidence of either problems or unusual improvements. The evidence to 2012 was of the same slow but steady improvement that had been observed since the second half of the 1990s.⁴⁰ However as this survey was of completing students, arguably it was too early to discern significant effects attributable to the demand-driven system.

53. The Australian Government has funded a new survey of first and later year students, the University Experience Survey (UES). Methodological changes between the 2012 and 2013 surveys mean that comparisons should only be made cautiously. However, on most teaching-related questions student satisfaction declined between the two surveys.⁴¹ The UES will need to be monitored to see whether there is a real trend here or whether the apparent decline is a by-product of differences between the surveys.

Innovation

54. The inclusion of 'innovation' in the terms of reference signalled an interest in whether the demand-driven system was promoting new educational products and processes. The review identified a range of recent teaching-related innovations, while noting that it was hard to know whether the demand-driven system had influenced their introduction.⁴² It was more likely that

⁴⁰ Ibid., p.10.

⁴¹ Graduate Careers Australia/Social Research Centre, *2013 University Experience Survey National Report* (2014), p.28.

⁴² Kemp and Norton, *Review of the Demand Driven System: Final Report*, pp.11-12.

a rapid increase in off-campus and presumably online enrolment was related to the uncapping of student places.⁴³ While in recent years online educational technology has improved and public awareness of online education has increased, the old funding system put constraints on meeting increased demand. Unless universities were awarded new places through the bureaucratic allocation system, new online courses required reducing student places in on-campus courses. Few universities wanted to do this, and so the removal of constraints on student numbers created the opportunity for online growth.

55. Despite the government not accepting the Bradley report recommendation to bring new higher education providers into the demand-driven system, some public universities found resourceful ways to do just that. For example, they arranged for other organisations to deliver their funded student places and degrees. Often this involved technical and further education institutes (TAFE), which were vocational education colleges that had expanded into higher education.⁴⁴ In offering university courses through franchise arrangements,

⁴³ Ibid., p.47.

⁴⁴ The Australian post-secondary system is divided into 'vocational' and 'higher' education. The Australian Qualifications Framework sets out the meaning of different qualifications (AQF, *Australian Qualifications Framework, Second Edition*, 2013). Diploma and advanced diploma qualifications can be taught in either sector, but in the vocational sector they are oriented towards teaching specific competencies, while in the higher education sector they are more flexible and oriented around building theoretical knowledge and cognitive skills. The two sectors have very different regulatory and funding histories, but around 80 institutions operate in both vocational and higher education. The AQF qualifications pathways policy requires that education providers explain how students can move between qualifications, and many providers actively promote articulation arrangements.

TAFEs could take advantage of the university brands, while the universities could expand into new markets without the costs and risks of new campuses. Swinburne University created a new joint venture, Swinburne Online, with SEEK Ltd, a large stock-market listed job search company. SEEK had experience in higher education through another subsidiary but Swinburne Online itself is not a registered higher education provider. Regulation flows principally from the awarding of degrees, and so Swinburne Online uses Swinburne University's registration. After starting in early 2012, Swinburne Online had 5,000 students by late 2013.

Non-university higher education providers and private universities

56. While the collaborations with TAFEs and SEEK show that the demand-driven system could drive innovative business arrangements, they drew further attention to inconsistencies in how public subsidies are allocated. The TAFEs also award their own higher education degrees, but generally students in these courses pay full fees with no subsidy, while students in the franchised degrees received subsidies.⁴⁵ Students in other non-university higher education providers also had to forgo public subsidy and pay full fees. There are around 130 of these providers registered with TEQSA and three private universities. Not all of them are included in the published enrolment statistics, but those that are had nearly 100,000

⁴⁵ Through special arrangements with the government, there are some allocated higher education student places in TAFEs.

students in 2013. This compares to 1.2 million students in the public universities.

57. A general theme of the demand-driven review was that the higher education system should be based on rules and that those rules should be applied consistently. Although higher education providers and students do not need to have the same entitlements, differences should relate back to clear policy aims and objective facts about the providers and students. Despite the improvements brought about by the first iteration of the demand-driven system, it did not meet this standard. It still had many features that reflected historical circumstances and special deals.

58. Other than their histories, there are no clear dividing lines between institutions and students that are publicly funded and those that are not. They award degrees with the same legal status. Their students do not have radically different social backgrounds. The proportion of undergraduates from low socioeconomic background is only slightly higher (17 per cent) in the public university system than outside it (14 per cent). Public universities own their own non-university colleges, have pathway arrangements from non-university colleges, and as noted above franchise their degrees to them. Even a public/private origins split does not explain the current system, as the TAFEs – like most of the universities – are based on state government legislation, while the Australian Catholic University that regards itself as a public university is technically not a government institution at all.

59. As from 2012 both quality and funding were functions of national government, the time had come to integrate the two. The demand-driven review report argued that in future approval by TEQSA should establish basic eligibility for public funding, although the government could apply consistent conditions for full entry into the demand-driven system. Examples of conditions include participation in national student surveys and an information website for prospective students. The Government has accepted this recommendation. While the details of how non-university higher education providers will enter the system are still being worked out, it will include involvement in surveys and a new website, Quality Indicators for Learning and Teaching (QUILT).

60. Opposition to extending the system focuses principally on claims of quality issues in the non-university sector. Opponents of system extension have not, in my view or that of previous reviewers of higher education policy, demonstrated systemic quality problems in the non-university sector. Nor have they shown that limiting funding to the historic public universities guards against poor quality. Indeed, the unsatisfactory teaching performance of public universities contributed to pressure to open up the funding system. The relative emphasis on teaching in higher education providers outside the public university system has contributed to their market sustainability, despite the financial disadvantages their students face.

61. Given the overall design of the system, public funding is not usually the right point at which to deal with quality issues: if a

provider is not meeting minimum standards it should not be awarding Australian higher education qualifications at all. The strongest line of criticism of opening up the higher education system is that the regulator may not be able to cope. The current government has been criticised for proposing a significant reduction in TEQSA's funding. Following on from a review, TEQSA is being focused on policing minimum standards rather than examining quality more broadly, and using fewer resources on extensive scrutiny of low-risk universities. However, the planned 40 per cent cut in funding has prompted questions about how this fits with a likely increase in TEQSA's workload.⁴⁶ Extension of the demand-driven system is likely to lead to more education providers seeking accreditation, and more courses being put forward for the regulator's approval.

62. One problem in the American for-profit higher education industry has been the recruitment of students who have poor prospects of completion. As noted above, there are grounds for some concern about completions in the Australian public universities – although this recruitment is motivated by access and equity rather than profit concerns, from the student's perspective it is outcomes rather than provider intentions that matter. The policy challenge here is to strike the right balance between giving opportunities to people who have often faced social and educational disadvantage, and limiting the number of people who leave higher education without a qualification.

⁴⁶ See for example the dissenting Labor Senators section in The Senate, *Tertiary Education Quality and Standards Agency Amendment Bill 2014* (Education and Employment Legislation Committee, 2014).

63. The Australian system already has measures in place that are relevant to this issue. As part of the 2012 standards regime, all higher education providers must ensure that students have adequate prior knowledge and skills to complete their course, and to have appropriate mechanisms for identifying and supporting students at risk of unsatisfactory progress.⁴⁷ The growing use of learning analytics software may help with both these tasks.⁴⁸ TEQSA monitors attrition rates annually outside periodic formal reviews of providers and courses. High attrition could lead to conditions being attached to higher education provider registration, and ultimately lead to deregistration.⁴⁹ These requirements are independent of funding arrangements.

64. A longstanding feature of Australia's funding system is that higher education providers are not paid Commonwealth subsidies or HELP loans unless students stay enrolled to a census date that must be at least 20 per cent through the semester. Students who drop out quickly are not profitable. A system of instalment payments at other milestones through the semester would further sharpen the incentives. England has managed three payment points, and that may be an example for Australia.⁵⁰

⁴⁷ DIICCS RTE, *Higher Education Standards Framework (Threshold Standards) 2011* (Department of Industry, Innovation, Science, Research and Tertiary Education, 2013). Provider course accreditation standards 3.1 and 4.4.

⁴⁸ G. Siemens, S. Dawson, and G. Lynch, *Improving the Productivity of the Higher Education Sector: Policy and Strategy for Systems-Level Development of Learning Analytics* (Office for Learning and Teaching/Society for Learning Analytics Research, 2014).

⁴⁹ TEQSA, *Teqsa's Risk Assessment Framework, Version 2.0* (Tertiary Education Quality and Standards Agency, 2014).

⁵⁰ Hackett, *A comparison of higher education funding in England and Australia: what can we learn?*, p.23.

65. The demand-driven review report also recommended that students be given more information about the risks of higher education as well as the benefits. While attrition rates for different groups of students are occasionally published in government documents, there is no easy way for prospective students to find this information. As higher education becomes an option for students with lower ATARs, there needs to be more information about the relative risks and benefits of vocational compared to higher education. While on average people with higher education qualifications earn more than vocational education graduates, some individuals are likely to be better off pursuing vocational education options.

The 2014 Budget reforms

66. As noted in previous sections, the Government accepted most of the demand-driven review report's key recommendations.⁵¹ The review had included 'fiscal sustainability' among its terms of reference, which the review panel read as requiring offsetting savings to finance any new expenditure that it recommended.

67. One suggestion included in the demand-driven review report was to fund system expansion by reducing per student Commonwealth contributions. Effectively, the same amount

⁵¹ Commonwealth of Australia, *Budget 2014-15: Higher Education* (Department of Education, 2014); Department of Education, *Higher Education and Research Budget Information* (Department of Education), <https://education.gov.au/higher-education-and-research-budget-information>.

of money could be spread over a larger number of people. Politically, it would have been easier to secure support for reform through a 'no losers' policy. But that was not likely to occur while cuts were being implemented across most areas of government spending. Although reducing subsidies would be contentious, assuming budget limitations the idea is hard to criticise on fairness grounds: it treats similar students in similar ways, rather than some paying full fees while others receive subsidies.

68. In the event, the Government announced larger cuts than were needed to expand the higher education system to new students and higher education providers. On average, tuition subsidies would be reduced by 20 per cent, but some disciplines were cut by more while others enjoyed increases. The funding clusters had been rationalised into new funding tiers, with more disciplines receiving the same subsidy levels. One implication of reduced subsidies is that the price gaps between public universities and other higher education providers will narrow, even without the latter entering the demand-driven system.

69. The Government also decided that students at non-university higher education providers should receive lower subsidy rates.⁵² The argument for this is that universities are expected to do research, while other providers

⁵² Pyne, 'Higher Education Symposium 2014: Australian Council for Private Education and Training', in 22 May (<http://ministers.education.gov.au/pyne/higher-education-symposium-2014-australian-council-private-education-and-training-acpet>, 2014).

are not.⁵³ Arguably, universities need a stronger funding link between teaching and research. With past research performance driving research funding, the money does not necessarily go to the disciplines popular with students. The weak connection between enrolments and research funding strains the capacity of universities to employ academics as teachers and researchers. Also, growth in higher education funded at lower cost through teaching-only providers would be a good outcome for a financially-constrained government.

70. Despite the appeal of these arguments, the demand-driven review report did not recommend a lower funding rate. Without fee deregulation, a lower Commonwealth contribution could leave the total funding rate per student too low to attract many additional higher education providers into the demand-driven system. While most non-university higher education providers are not research institutions, they typically have more labour intensive teaching methods than the universities. It would be very unfortunate if to join the demand-driven system they imitated the large classes used by public universities. A reform intended to foster institutional diversity could end up diminishing it.

71. The government's reforms as announced would not put institutional diversity at risk. In a bolder move than expected given pre-election statements, they decided that they would no longer set maximum student contributions. In effect, fees would be

⁵³ However, the legal requirement only applies to three broad fields of education, not every field taught: DIICCSRTE, *Higher Education Standards Framework (Threshold Standards) 2011*.

deregulated.⁵⁴ If this proposal passes the Parliament, it will mean more higher education providers would enter the demand-driven system than envisaged by the demand-driven review report.

72. Deregulation of fees removes some weaknesses in the demand-driven system. At the discipline level, universities could use student charges to avoid under-supply caused by pricing issues. It also removes regulatory causes of international students being more lucrative than domestic students, although there may still be market reasons for Australian students bringing in less revenue (in markets where both groups can be charged full fees, such as postgraduate courses, domestic students are usually charged less).

73. The Government also decided to reduce a major cost in the Higher Education Loan Program (HELP). Since its start as HECS in 1989, outstanding student debt had been indexed according to the Consumer Price Index. With inflation targeting by the Reserve Bank of Australia, this has typically been around 2.5 per cent per year. The Government decided instead to index at its own 10 year bond rate, capped at 6 per cent a year. Effectively, it would transfer much of the interest cost of running the student loan scheme to HELP debtors.

⁵⁴ The government has said it will preserve an existing legal requirement that student contributions not exceed the fees charged to full-fee students. This rule is unlikely to have practical significance. A Grattan Institute analysis of fees for courses that have no government supported students (many postgraduate courses and most courses outside the public universities) found no cases where domestic students were charged more than international students, despite there being no legal requirement for this in full-fee courses. Also, universities can increase international student fees if they want to charge domestic students more.

Conclusion

74. It has taken decades for the idea of demand-driven funding to work its way into policy. While I believe delay has disadvantaged Australian higher education overall, there have been some advantages. It gave the non-university higher education sector time to mature, so that opening the system was not a great leap into the unknown. There are now many higher education providers outside the public system that have long histories of re-accreditation and successful courses. Developments in Australian constitutional law created the opportunity to link accreditation and funding, reducing the chance of a weak regulatory regime letting unscrupulous providers into the public funding system.

75. The introduction of the demand-driven system in 2012 without fee deregulation, while creating some policy risks, reduced political opposition to reform. Because early reform proposals had linked vouchers and fees, the two had merged in the minds of some. By 2013, student groups that had traditionally opposed demand-driven funding were broadly in favour. The fortuitous timing of the demand-driven system being introduced during a period of increasing demand alleviated the anxieties of some universities. While the demand-driven review report identified some problems with the new system's operation, it concluded that it was clearly better than its predecessor.

76. While a demand-driven system is not inherently linked to fee deregulation, it does lessen some concerns about removing constraints on prices. Deregulating fees but not the

allocation of places is a recipe for inflation, which the English experience in 2012 seems to confirm.⁵⁵ With a demand-driven system already in place in Australia, there should be a broader range of fees than was observed in England.

77. Fee deregulation, however, brings with it new policy and political problems. While there are features of the Australian loan scheme that may protect it from some costs facing the English student loan scheme, there is no doubt that more student debt means more eventual student bad debt.⁵⁶ The English experience is a warning to Australia in this regard. There are reasonable questions as to whether a no-questions-asked loan scheme is compatible with a system in which higher education providers can enrol as many students as they like at whatever fees non-credit constrained students will pay.

78. Fee deregulation has also triggered a political storm in Australia. With the government not controlling the Senate, the full reform package as announced is unlikely to receive parliamentary support. If the Labor Party and the Greens oppose the measures, the government will need to win the support of idiosyncratic minor party senators. It is possible that controversies over fees and interest rates will drag other aspects of the reform package down with them, leaving the 2012 reforms as an incomplete public policy experiment. A full demand-driven funding system has never been closer to reality, but it still has a long way to go.

⁵⁵ Hillman, 'Focus on quality as UK lifts fees', *The Australian*, 2 July 2014.

⁵⁶ Hackett, *A comparison of higher education funding in England and Australia: what can we learn?*, pp. 27-28.

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