



Three lessons from a decade of higher education policy stalemate

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Preface

This paper addresses one significant part of the debate about the development of higher education policy, that which relates to the education and training function of our universities and higher education providers, centred around the funding of undergraduate places. The social and economic implications of the policy settings in this domain are critically important and the debate has a fierce, if rather stilted, focus at present.

I do not want, however, to underplay the importance of the higher education sector as a contributor also to social and economic progress, through its research endeavours and its international activities. This includes both the sector's growing importance as a major and successful Australian export industry, bringing students from the region to Australia, and as partners in both research and innovation domestically and internationally.

There are a host of policy issues with governments and strategy issues for the institutions themselves in these other areas. These warrant serious thought and earnest discussion also, so that our higher education sector can optimise its role as a contributor to an outward facing, knowledge-based, export-oriented economy and society.

It is indeed important that policy solutions in one domain (eg research policy or international engagement) do not hamper best outcomes in another (eg in the capability of the sector to educate our workforce and our community).

All of that said, this paper consciously chooses to focus on policy and strategy questions that relate to the education function of our higher education sector, and the frustrated attempts at reform of this space over the last ten years. A later paper may tackle the research policy and international engagement questions.

It would be easy to dismiss the disharmony as the result of recent poor policy decisions from government or the usual cussedness on the part of the sector recurring at just the wrong point in the realpolitik of Canberra. Or one might point to disastrous decisions going back to my own time, all of which no doubt set the scene for the current unravelling.

In this paper I want to search for an explanation of what has gone wrong, not to cleanse my soul or those of the ministers I served, but to see if there might be clues about how to go forward from the current stalemate in higher education policy. I want to suggest that the disruption we are seeing is not a result of some arbitrary outbreak of bad on the part of otherwise sensible parties.

We need to identify why the big reform pitches from the governments of the last ten years now lie in abeyance. We need some clues for ways forward that these lessons might offer.

This is even more pressing at a time when the privileged position of universities is itself under question and universities are facing significant disruption. In fact, we need to ask the extent to which even the seemingly radical reform agendas of the last ten years, went far enough to address disruptive change already underway in the world that our universities must serve?

The lesson we take from ten years of failed reform could be that we all missed the urgency, looked in the wrong direction or did not take the lessons ourselves that we preach to the community. In a world where every other industry is being turned over and detached from its verities, why do universities get only to discuss the amount of funding they receive from taxpayers for a product basically taken as a given?

Introduction

Everyone has had the experience of watching two friends become estranged; talking past each other, each ending up spitting with rage at the stupidity the other is showing. It is all the more painful when it comes after the best part of ten years mostly getting along.

As someone highly implicated in the relationship between universities and governments (of both Labor and Coalition hue), the current nadir in relations between the university sector and government is just like this. "Oh really! I know you both. You can do so much better!"

What did we learn from the last ten years?

In a short paper it is only possible to go to the high points, not all the twists and turns. There were three broad phases:

The Bradley – Gillard period that opened up the funding system with demand driven allocations of undergraduate places

The Pyne period which attempted to deregulate the system further – letting more qualifications and providers in to the demand driven system and deregulating fees

The current situation, with savings options foiled in the Senate and then different cuts implemented in the last Mid-Year Economic and Fiscal Outlook (MYEFO), released in December 2017

Thanks to my Nous Group colleague Cameron Barnes for his assistance with this paper.

(i) Demand driven funding in the Bradley-Gillard Period

The demand driven funding moment was a continuation of a history that goes a long way back. Both sides of politics claim some credit. It includes Menzies' expansion of funding for universities; the Whitlam free university reforms; and the Dawkins reforms that drew more providers into the system and made the funding system more fiscally sustainable through income contingent loans.

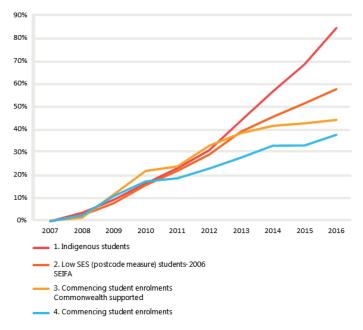
When my generation went to university in the 1970s it was a minority experience – around 10% of young people went and most of these had parents who had also gone. Now, something approaching 40% of young people go to university.

This 40% figure was an explicit target of the Gillard reforms, which sought to normalise and extend the generational transformation, opening up the funding of undergraduate places to accommodate as many students as universities chose to admit. This has a number of effects.

First there was an equity impact. Accelerated growth in funded places from 2007 to 2010 (in fact pre-empting full implementation of the demand driven system) produced growth in the enrolment of students from both Indigenous and low socio-economic backgrounds which exceeded even the overall growth level. Figure 1 below, demonstrates this effect.

Figure 1 – The rapid rise in Low SES and Indigenous student numbers

Number of commencing student enrolments by equity group (% change from 2007)



Source: Commonwealth Department of Education and Training, 'Selected Higher Education Statistics – Time Series Data 2016', 25 October 2016

Second, the reforms had an economic narrative, in two respects:

- Minister Gillard herself had a macroeconomic 'productivity agenda' framing, which united her massive labour market portfolio and her early work across the education field with the states and territories.
- I would argue she also had a microeconomic intent. It was clear that part of the agenda was to promote competition and differentiation among universities, each spurred by the urgency to enrol students, funding for whom was now to be untied from any one of them.

Regardless of the policy rationale, the system did grow, faster than the bureaucrats had estimated. Economic departments in Canberra looked on in alarm as education officials advised them of ever larger amounts of provision that needed to be loaded into the forward estimates at each of a series of Budget revisions.

(ii) Deregulation stage two

When the government changed in 2013, Labor had already had one go at constraining this rate of growth (as well as funding its Gonski schools package) with an indexation pause that failed in the Senate. It was widely expected that the new Coalition government would make cuts of its own, possibly ending the demand driven system or changing the proportion of costs repaid by students under the loans scheme.

Instead, the 2014 Budget included a package which took deregulation further. While it did shift more of the loan repayment share back onto students, it also included:

- letting more (sub bachelor) qualifications into the demand driven system, as well as funding non-university higher education providers as part of the demand driven system
- cutting the value of the CGS grant and deregulating undergraduate fees. Universities could choose to increase their fees beyond what would be needed to cover the reduced CGS subsidy, generating untied cash for their own priorities.

While the university organisations and all but one university formally supported the package, it faced policy headwinds:

- The package allowed universities to set their own fees, when the heavily discounted interest rates in HECS mean students are not very responsive to price signals. A later discussion about correcting for this "externality" with a set of funding tapers was too late in the process to get traction.
- The original package also included increasing the interest on university debts, for the first time to a real rate, which would create greater price elasticity but was itself also a significant change, arguably disadvantageous to women.

If policy elements faced headwinds, it provoked a political hurricane! It is a matter of history now that this package was voted down twice in the Senate. The Opposition and tertiary education unions ran an effective campaign, with the deadly line tying the Government's package to "\$100,000 degrees."

While the \$100,000 tag was an overstatement, it was potent. The published polling data shows the impact. Drowned out initially by other 2014 Budget decisions, fee deregulation eventually became an issue of popular concern off the back of cut-through clarity of the "\$100,000 degree" message.²

As subsequent developments demonstrate, selling any fee increase is difficult in this area of public administration. An unregulated one that was part of a package which might sharpen university behaviour was even harder to sell than a regulated one that would probably not.

(iii) Recent developments

A new minister faced a Senate that had twice voted down his predecessor's package, the user-friendly bits of which (the extra qualifications and additional providers) had never cut through over the noise of "\$100,000 degrees". He had to defuse a politically toxic situation while still answering to Finance's unresolved concerns about runaway expenditure.

Predictably Minister Birmingham brought forward a savings package with less policy and political ambition. It had some additional performance contingency in funding – notably a nonmarket mechanism. It increased repayment liabilities for students by a regulated amount – also eschewing market policy. These also failed to pass the Senate, this time opposed by the sector as well as the Opposition and the tertiary education unions.

We know what happened next. The minister implemented a range of savings measures that did not require the Senate's approval, in the 2017 Mid-Year Economic and Fiscal Outlook (MYEFO) statement. At the centre of these is the enactment, for the first time, of a clause built into the Funding Agreements with Universities, allowing the Government to cap total grant spend per university.

Since the implementation of the demand driven system, it has been understood as a kind of emergency brake. If the uncapping of demand led to too great a fiscal burden, government can always pull on the emergency brake and cap the grants.

The effect is a pause in funding growth, but with only a partial indexation to be reintroduced in 2020. There are a number of problems for the sector with the implications. These have been critiqued elsewhere – see Mark Warburton's piece in the Conversation³. The bottom line is that by 2020 it will be very expensive for any minister to reinflate the demand driven approach.

Universities and government relations hit a low point around last MYEFO. The summer passed and relations do not seem to be passing this low and universities and government are again engaged in negotiating agreements on load, funding and all the related details.

University government relations staff are occupied again planning their annual trudge to Canberra to negotiate exceptions, carve outs and special deals over places and grants with the Department.

Having been one of the participants, I would observe that there is a comfort and the semblance of productive work for bureaucrats on both sides of these annual negotiations. They are not, however, enlivened by innovation, with students front of mind in the offerings of universities. The fundamental issues remain unresolved.

You might be tempted to sum up our collective adventure of the last ten years as a failure. I am not going to say any of the negative analysis is wrong but do want to suggest two things.

- There is much the sector can do to restart the policy conversation itself.
- 2. There are parts of what ministers and the sector were trying to achieve in the now stalled reform agendas of the last ten years that should still inform the restart.

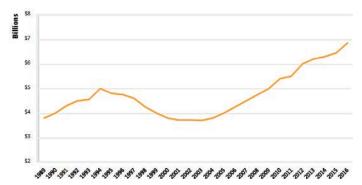
Let's start by considering what went wrong. How did we end up here?

My first suggestion is that, while the mutual focus on the money is understandable, it is alienating to the people to whom any reform must be sold. The discussion inevitably absorbs enormous amounts of attention from both parties in the discussion – government and university leaders. Education ministers face strong internal pressure over outlays and universities are always desperate that funds available for their own priorities are under threat.

Public outlays on higher education have increased inexorably over time. Yet, for a cash rich sector, the rarest commodity in universities seems to be discretionary spend. Ministers have to worry about the outlays, especially before the twice yearly accounting to their colleagues in Budget Cabinet! Yet Vice Chancellors are obsessed with how little of the funds they actually have any control over.

Figure 2 – The inexorable rise in public outlays on higher education

Commonwealth Grant Scheme Funding 1989/90 - 2016/17 \$billion (adjusted to \$2015)



Notes: Operating grant figures are used prior to 2005, less HECS charges and research funding subsequently distributed spearately. Adjusted using CPI with 2015 as the base year and a projected inflation rate from 2017 of 2%. Figures from 2018 onwards based on budget estimes. Source: Grattan Institure, Mapping Australian Higher Education 2016, data provided by the Department of Education and Training; Commonwealth Portfolio Budget Statements.

A Fairfax Ipsos Poll in November 2014, after "\$100,000 degrees" had gotten traction, indicated that nearly two-thirds of Australians were opposed to fee deregulation.

³ https://theconversation.com/universities-get-an-unsustainable-policy-for-christmas-89307

The problems with this focus on funding are many.

First, it locks government and university leaders in a dyadic and closed conversation, to which students, employers and communities become spectators at best. An analogy is the proportion of health policy time spent on health financing questions, when the actual health of the community is actually not sensibly reduced to financing questions.

So, just as the population comes to view health insurers, health bureaucracies and the medical unions with suspicion, they come to suspect that universities and Government are self-serving, not focussed on them. Energy companies are another analogy, Telcos another. This train of thought should be disquieting to the university sector.

Second, the neatness and bureaucratic logic of any solution becomes an end in itself. This forces a kind of state-sanctioned uniformity on educational provision, at a time when we have a great deal to gain from higher education providers offering more choice rather than less.

Third, locking down the conversation with the same old participants, focussed on the same problems, will likely get the same old answers, or at best new rehearsals of ideas which have previously failed, or failed to get traction.

This is dangerous in terms of finding solutions to known problems. Bad enough. Worse, it has no hope of answering as yet unknown problems, the genuinely disruptive possibilities. Arguing over parameters of the Commonwealth Grant Scheme rules or the loans system will not throw up solutions to these.

Who should universities talk to if they want to get ahead of the really disruptive possibilities? Will adding the potency of blockchain technology to wider adoption of micro credentialing and new online learning technologies be the final straw for the monopoly enjoyed on credentialing professionals for their careers? Or might it be major corporations declaring they will employ people on these new cyber records, or just set up in competition and educate them in-house?

Government bureaucrats and politicians are not the first people to come to my mind to answer these challenges! Employers and young people seem more likely to have something interesting to say. Of course, we need to note here that they already engaging in these "disruptions", only some of it in collaboration with universities.

How did these dangers play out in the debates of the last ten years?

First, proponents of each big reform proposal failed to sell them to the community beyond the higher education "beltway". Demand driven funding is built on the trend toward mass participation that obviously favours the mass of people. Yet, approaching a decade since its introduction, we still see the virtue of mass participation contested. Heavens, ATARs as low as 50?⁴

Neither government nor the sector have decisively won an argument that something approaching a half of young people going to university is not only desirable but essential for a modern economy. Part of the reason for this could be a residual elitism,

including within the universities, and among university educated families. Part could also be a suspicion among families with little previous university exposure as to what benefit young working class people will really get in return for the debt?

The Pyne reform package had a similar fate. The entire debate reduced quickly to the fees questions. Out there are lots of people, from large numbers of families, across multiple industries and regions, who have gained a useful leg up into a profession or business from a TAFE or private college degree or diploma – in nursing, creative industries, social work, aged care, infotech or business. None of the offer of new funding to this sector was heard. Those "middle" Australians were left out of the conversation.

Then, when the families of Australia watched Australian Vice Chancellors back the fee deregulation proposal from the new Coalition government, my bet is they dismissed the sector's support as self-serving. They probably thought the universities had their own designs on the extra fees their kids would pay. They didn't believe the extra fees were about better training for their kids.

Inside the beltway we know about the research arms race, the almost preposterous research funding system, and the need for a solution. Outside the beltway, parents suspected the unis wanted their kids' money for something other than their kids' benefit. They strongly suspect that universities have not really connected with their kin.

Is it possible that part of the reason for this is that university people are not entirely comfortable with either more qualifications or more providers attracting public funding? Both involve imaginatively engaging with the interests of parts of Australia other than the professional families and suburbs from which, by and large, university people hail.

Successfully selling reforms the universities have backed over the last ten years depends on selling the benefit of opening up the system to other people's children and owning that, in response, the product itself needs to evolve. The irony of course is that this has been happening at pace since the 1980s. It is almost as if university people find it hard to reconcile the discordance between the institutions we ourselves attended as students, and the more inclusive ones emerging, oh so slowly, today.

Universities need to be in the most functional relationship with government and regulators to navigate change. The more positive day to day business engagement emerging this new year between government and the universities is welcome to both. These are the necessary conditions of doing business. However, even more importantly, universities need relationships of trust, integrity and mutuality with employers, industry, communities, and students and their families and communities. This approaches a sufficient basis to sell change.

The danger is not only what happened to the Gillard and Pyne reforms, both now in abeyance because the benefits were drowned out by insider financing debates. The danger is that the sector is still not well placed to define and sell change it proposes to make to engage outsiders to the debate with governments.

ATARs as low as 50 of course follow from nearly half of young people going to university, given ATAR is a scaling not a marking system.

So, how do we get out of this mess?

I have three suggestions for the university sector.

(i) Get outside the beltway

A significant driver of both the Gillard and Pyne reforms was to use competition to force universities to think carefully about their distinct value proposition to their students and to their communities. Even with the demand driven system in abeyance and fee deregulation defeated, there is much to gain in a focus by each institution on its own priorities and on aligning its business model to those.

As we have suggested already, it would be a mistake for both the sector and government if the old model of annual insider negotiations over funding agreements, profiles and sub-bachelor place quotas endured again as the entirety of the discussion. It may be comfortable but that is a co-dependent comfort that leaves universities flat footed with their real constituents and ministers equally unprepared with their economic portfolio colleagues.

In terms the community understands, which relate to middle Australia's priorities – good jobs, decent services, growing businesses, community harmony and safety – universities need to articulate convincing reasons why it is important for something approaching a half of young people to get a higher education.

This then requires change in the sector to respond to what the community want. It is not an argument over which any of us can assume universities have some right to their privileged place. There is, however, every reason to want great answers to be found and to be articulated with clarion strength.

In her address to the 2018 Universities Australia conference Shadow Education Minister Plibersek promised that a re-elected Labor Government would reintroduce the demand driven system. This would obviously require a significant fiscal challenge. But importantly, she also underscored her expectation of significant modernisation.

"The rapid pace of change will have transformed the way we work and live, with mega trends like the internet of things, automation, and robotics all impacting us in ways we can't imagine."

"If we are to be prepared for this future, we can't simply rely on the structures or the thinking of the past." ⁵

In the current Government's recent MYEFO savings there was also buried a commitment from the current Minister to re-examine two sets of standards, the so-called Provider Category Standards and the Australian Qualifications Framework. This too is an invitation to the sector to re-engage in questions about how the sector plays a constructive role in redefining what post school education looks like in a rapidly changing world.

(ii) Engage beyond the club – the "tertiary" question

If convincing middle Australia requires articulating real benefits, it also requires embracing the range of educational choices that go beyond universities.

There is a set of policy questions that start by mapping the arbitrary nature of the relationships between the financing and regulation of the Vocational Education and Training (VET) sector; the university sector; and the non-university higher education providers (that most awful acronym– NUHEPs).

Starting with the proposition that a modern, resilient and cohesive economy will require harnessing all of the potential in these sectors, the BCA Future Proof paper proposes a unified funding structure.⁶ The general response of the university sector has been to acknowledge the question the BCA paper takes on but to dismiss its solution. The argument is that ignoring substantive differences in operations between the sectors in the search for a neat funding coherence, is likely less to eliminate inequity than to force even more convergence in delivery.⁷

However, the questions will not go away and a credible answer to what needs the post school education system in Australia must now address will involve re-examining all parts of post school. We need to chart a future where learners, young and old, can make effective choices. The universities have effective sectoral dominance now, even more so after the decade the VET system has had. It is not a time to defend that privilege but to constructively rethink what is offered for the great bulk of post school students with ATARs between 50 and 90.

Universities have a chance to re-engage in a set of important educational questions about what is in the interests of Australian learners. Previously options to revise the Category Standards, which might allow for non-research based universities, polytechnic universities or other new categories, have been stopped for political reasons. They arose in the middle of other debates and couldn't be "handled". That suited those in the sector who sensed the danger of opening up membership of the university club.

There no doubt is risk in any watering down of the protected term "university", however, there is also real danger in presuming its indefinite dominance and stability. The challenge this time is to take on the questions in a way that is focussed on the much bigger group of students now in the system, seeking more variety of outcomes. Could the sequelae to celebrating mass participation kicked along by the Dawkins reforms be reconsidering the integration element of that agenda, 30 years on.

http://www.tanyaplibersek.com/speech_universities_australia_conference 1 March 2018

Business Council of Australia, Future-Proof: Protecting Australians Through Education and Skills, October 2017, available at http://www.bca.com.au/publications/future-proof-protecting-australians-through-education-and-skills.

⁷ Universities Australia, 'Submission in Response to 'Future Proof', January 2018, available at < https://www.universitiesaustralia.edu.au/Media-and-Events/submissions-and-reports/Submission-in-response-to--Future-Proof; Innovative Research Universities, Future-proof, The BCA case for a coherent secondary and tertiary education system – IRU response, January 2018, available at < https://www.iru.edu.au/policy_submissions/future-proof-bca-case-coherent-secondary-tertiary-education-system-iru-response/>.

Universities could ask what is to be learnt from the best of work-based learning in the VET system. Or how efficiently could university teaching be organised in a way that puts a complete focus on student outcomes and experience, as many of the NUHEPs will tell you is their mission and pleasure?

The VET system will eventually benefit from examining the continued salience and appropriateness of a 1980s "competency" based framework. Their Diploma and Advanced Diploma graduates will work in some of the most technical and fast moving businesses in Australia. Universities could equally ask if their supposedly superior "Higher Education Diplomas", with curriculum and independent assessment, really give graduates all they deserve in the labour markets for which they claim to be designed?

Whoever is in government will eventually have to come to funding questions and at that moment the various sectors will have to engage in that question. In the meantime there is a serious job of educational policy work to be done and a huge gain in connection with middle Australia to be won or lost.

Timing is key here. Are the disruptions to the central place of university education coming at some undefined future time or are they already underway? Within the sector people tend to frame the disruption as coming. When will micro credentialing and big corporations training their own diminish the undoubted superiority of our model? However, in two generations we have massively expanded who goes to university, without really reinventing what universities, TAFEs, wider VET and NUHEPs offer. Maybe that was the disruption?

There is a possibility that Gillard's reforms did not (at this point anyway) stick and Pyne's did not get traction because the world had already moved past what we offer to the bulk of consumers. The disruption may be less about a failure in the policy dialogue but rather a failure to reimagine what the fast changing economy and society wants from post school education. We all talked about funding while the consumers watched VET stall and universities only uncomfortably engage with their new mass audience.

The current Minister's reviews and the alternative Minister's warning about reliance on the structures of the past both seem like urgent opportunities.

(iii) Make life easier for Education ministers

Finally, it is important to realise that the fiscal pressure on ministers is serious and will not go away. The university sector is not out of those woods. It is also dangerous to the sector when serious reform provokes a world of political pain for the minister and government of the day.

There are two imperatives here:

Fiscal responsibility

It is unlikely that the Government, Minister and Department consider the current policy settings to be sustainable in the long term. To date, universities have spent considerable energy expressing their frustration at this in the media, leading to a public tit-for-tat which compromised the ability of either side to work through the current impasse.

However, there is also an opportunity here. Why would the Government not now welcome alternative suggestions from the sector on how to continue expansion in a fiscally sustainable way? If the sector cannot take up this opportunity, governments will continue to pursue ad-hoc savings measures and imperfect funding arrangements which create misaligned incentives.

The Opposition has attacked the MYEFO savings as it did the savings in the first Birmingham package. The sector's first response to the 2014 Pyne package was to express shock that it included savings as well as fee deregulation. This was only a year after the sector and Senate rejected a Labor minister's indexation pause in 2013.

It is not (ever) a bad time to consider fairer and more efficient ways to make savings, measures that are less prone to distort investment, institutional or individual decision making. Whoever occupies the Treasury benches after the next election (and indeed until then) will be grappling with fiscal as well as policy issues.

Political saleability

Neither side is feeling particularly bold. Two grand reformist visions have not left the political case for big picture reform looking very attractive politically. Contest politics has paid off. Those dynamics will not change overnight and yet the world moves on in ways that carry real dangers for the sector.

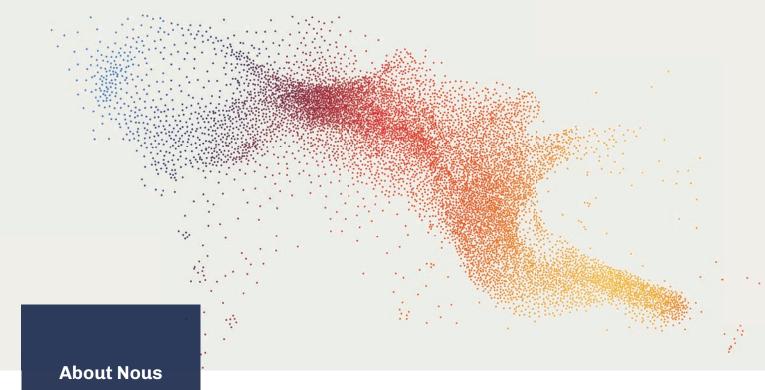
As we move toward the next election, universities need to develop policy proposals which the major parties will consider to be politically saleable, or even better, politically advantageous. This is not an easy challenge, but will be made easier by the sector reaching out to engage middle Australia in a meaningful way. If the sector succeeds in this task, its work selling policy reform to government is already halfway there.

Next steps

In this paper I have suggested that the most important next steps involve engagement to the world of students, their families and employers. It involves rethinking the shape of post school education, together with the other post school sectors.

It requires engaging with employers who are otherwise a risk of bypassing education providers that do not or will not keep pace with their aspirations. It means recognising large swathes of the young population might go with those disrupted options, unless the wider education sector can do better.

If the sector connects to the changing aspirations of its consumer base, its added gain will be real traction to help government sell both real and fiscally sustainable reform. The sector has the potential to be co-author of its future, not victim to events.



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