Dear Dr Kemp,

**Demand driven funding review**

The University of Sydney is pleased to provide the attached submission to the review of the demand driven system to support and complement the submission made by the Group of Eight.

There is one point that our submission does not address in detail that I would like to stress. I firmly believe that if the Government can find a way to reduce the extent to which Australia’s universities must cross-subsidise teaching in different disciplines, and from teaching to research, we would be in a much better position to provide students from disadvantaged backgrounds with financial and other forms of support. The demand driven reforms have had a modest positive impact on overall levels of participation by students from low SES, Aboriginal and Torres Strait Islander, and rural and remote backgrounds. While we have made some progress on these fronts, the relative high costs of living in Sydney, particularly for students who need to move away from home to study, remains a significant barrier to their enrolment with metropolitan-based universities. If we can find ways to unlock funds to provide better income support arrangements, and to fund targeted academic and pastoral support, we believe there is great scope to expand access for students from these backgrounds.

Additionally in my capacity as Universities Australia’s Lead Vice-Chancellor Health Professions Education, and Chair of the Universities Australia Health Professions Education Standing Group (HPESG), I would like to extend an invitation for you and/or Mr Norton to meet with members of the group by teleconference or face-to-face in January to discuss how the demand driven funding and other reforms are affecting the delivery of education and training in the health disciplines. The UA HPESG was established by Universities Australia in 2012 to enable the sector to engage more effectively with governments and other stakeholders about issues of mutual interest in relation to educating Australia’s future health workforce. The group comprises representatives of all major health deans’ groups, as well as representatives of the UA Deputy Vice-Chancellor Academic and International groups.

We trust our input is helpful and look forward to discussing these and related issues with your and Mr Norton at an appropriate time.

Yours sincerely

(signature removed for electronic distribution)

Michael Spence

**Appendix**

*University of Sydney submission to the review of the demand driven system, December 2013*
University of Sydney submission to the review of the demand driven funding system, December 2013

Summary

This submission has been prepared to support and complement the Group of Eight’s (Go8) detailed submission, which we commend to the Review. Our submission makes the following recommendations, and provides background information and analysis in support each:

1. Articulate coherent policy principles to guide reform to the regulation and funding of Australia’s higher education system.

2. Remove or minimise the need for cross-subsidies between disciplines and from teaching to research.

3. Ensure the higher education funding system is financially sustainable, and capable of supporting quality education and research over the long term.

4. Use COAG processes and university funding agreement negotiations to ensure that enrolment growth in disciplines with compulsory work-based training requirements aligns with the availability of training places in each jurisdiction.

5. Consider adopting our proposed model for the future allocation of postgraduate Commonwealth supported places, if gaps between funding and actual costs for teaching and research cannot be addressed systematically in the short term.

The review of the demand driven system represents a welcome opportunity to secure the future quality, fiscal sustainability and international competitiveness of Australia’s higher education sector. The demand driven reforms have delivered some welcome benefits for the sector and University of Sydney. They have, for example, contributed to an expansion and widening of participation in higher education, and as a result injected substantial additional funding into the sector overall, though not on a per student basis. The reforms have already provided hundreds of thousands of extra students with the opportunity to improve their lives by undertaking university level studies that may not have been open to them under the previous arrangements. The reforms have stimulated increased competition between universities for students, reduced some red tape and regulation, and given universities more flexibility over their delivery of bachelor level programs.

The changes have also come with some significant costs to the Australian taxpayer. They have contributed to policy inconsistency and complexity at different levels of the post school education system. The higher than expected cost of the changes has resulted in the pursuit of offsetting savings measures from other funding lines such as research and infrastructure, with differential impacts on providers and potential long term consequences for quality, the global rankings performance of Australia’s universities, and the strength of Australia’s international education exports. The demand driven reforms have also produced some unforeseen consequences, particularly in the health disciplines and in teacher education programs, where in NSW at least the rapid growth in enrolments has put pressure on the availability, quality and cost of compulsory work-based training opportunities for students.

We note that Parts 1 and 2 of the Go8 submission contain substantial data and analysis relevant to the Review’s terms of reference. Perhaps most significant in terms of this Review’s closing terms of reference, is the Go8’s predicted levels of domestic student enrolment growth over the next 15 years based on ABS demographic data. If the Go8 is correct that the sector will need to accommodate a further 560,000 domestic students by 2030 this must raise serious questions about the future cost of sustaining the demand driven system for the Australian taxpayer, and about the capacity of the system as currently structured to sustain a higher education and research sector of the standard that Australia will need if its economy is to remain strong and competitive in the Asian Century.
Recommendation 1: Articulate coherent policy principles to guide reform of the regulation and funding of Australia’s higher education system.

Our sense is that when the demand driven reforms were introduced, insufficient consideration was given to the likely flow-on impacts for other parts of Australia’s education and innovation system, including for the VET sector and for university research. We feel it will be critical that the review take a holistic approach, which recognises that the funding of bachelor level programs in universities represents but one part of a complex post school system of education, research and research training, comprised of numerous interlinked and interdependent parts. Changes to one part of the system inevitably affect many others, and the review will make an important contribution if it sees the connections and puts Australia on a path towards the achievement of a coherent regulatory and funding framework for its entire post school education system.

Part 2 of the Group of Eight (Go8) submissions includes an integrated set of policy principles developed by member universities. We believe that these mutually reinforcing principles of opportunity, fairness and choice in respect of student participation, and of quality, financial sustainability, structural diversity and institutional flexibility in respect of higher education provision, offer a sound framework against which to assess the effectiveness and appropriateness of the current system, and upon which to build a much stronger system. We encourage the Review to respond to their terms of reference by articulating a coherent set of policy principles to guide future reform of Australia’s higher education system. In the absence of such principles it will be difficult for those with an interest in the sector to assess the merits of any proposals for change, compared to continuing with the status quo.

Recommendation 2: Remove or minimise the need for cross-subsidies between disciplines and from teaching to research.

The Base Funding Review of 2011 warned of the risks, under a demand driven system for bachelor degrees, of failing to address the gap that exists in many disciplines between base funding and the actual costs of delivery incurred by providers. Following a comprehensive costing exercise in which we participated, that Review found the following disciplines to be underfunded: accounting, administration, economics, commerce, medicine, veterinary science, agriculture, dentistry, visual and performing arts. The University of Sydney is perhaps in the unique position of offering courses in all of these areas. We are only able to sustain these programs, and our research enterprise for that matter, through a complex web of cross-subsidisation between profitable and loss-making activities.

The Base Funding Review also concluded that base funding included a ‘base research’ component and recommended that consideration be given to allocating this component according to each provider’s research output, as opposed to student load, and to removing this element from the funding provided to non-university providers. While questions remain about the proportion of base funding that may legitimately be claimed as a base research component, the fact remains that under current funding arrangements all providers participating in the Commonwealth Grants Scheme, receive this research component, regardless of the extent to which they are actually engaged in research. As the Go8 demonstrates in some detail in its submission, the situation is fiscally and strategically wasteful in an environment of recognised underfunding for nationally competitive research grants. For these reason we see considerable merit in a way being found to excise a fair base

---

1 J. Lomax-Smith et al, *Final Report, Base Funding Review*, p.xv: “The Panel places a high priority on increasing the funding to those disciplines that are demonstrably underfunded. The Panel believes that in the context of a student demand driven system it is essential to have funding more closely aligned with costs. The current funding differentials are inaccurate and require too much cross-subsidisation. Unless this is resolved, as a matter of some urgency, the demand driven system will be inefficient and lead to unintended consequences.”
research component from the base funding of all higher education providers, and reallocating this element through the performance-based Research Block Grant Scheme.

By deregulating domestic bachelor level enrolments (except for medicine), but controlling prices through regulation, the demand driven system has provided financial incentives for universities to enrol Commonwealth supported students only in bachelor level courses in fields where base funding meets or exceeds the costs of delivery. We encourage the review to examine patterns in the enrolment trends and the establishment of new sub-bachelor, bachelor and postgraduate programs since 2010. We anticipate that it will find that different types of institutions have behaved quite rationally in response to the financial incentives, cuts and regulatory drivers they have faced.

We recognise there is no easy solution to the problem of enabling universities to recover the actual costs of their education and reasonable research activities. Until these issues are addressed, however, we have little doubt that Australia’s higher education system will continue to fall short of reaching its full potential. Over time, the international competitiveness of the system as a whole, and of its leading institutions, is likely to decline if these structural weaknesses in the funding system are left unaddressed.

On the other hand, if a solution can be found that allows providers to meet their varying actual costs in a way that is fair to the taxpayer and students, by accurately reflecting the lifetime relative public and private benefits, discipline by discipline, and which removes or greatly reduces the need for subsidies between disciplines and from teaching to research, the system should be brought back into equilibrium. As a result:

- the cost of the system to the taxpayer should become more predictable and sustainable over time;
- competition between providers based on price, quality and value should drive innovation and diversification;
- students should have greater choice and the system should be more responsive to their needs;
- workforces shortages in underfunded fields of national significance should be addressed over time – providing there is sufficient demand from students; and
- the current problems restricting the allocation of postgraduate CSPs should fall away, as institutions would be driven to offer programs at different AQF levels primarily for pedagogical and/or professional reasons, and in response to levels student demand.

Of course, under any scenario that involved increases in student contributions, the maintenance of an income-contingent loan scheme for domestic student fees will be vital to ensure that there remains no upfront financial barrier to participation. There will also be a need for strengthened means tested student income support arrangements to ensure that all students can meet their reasonable living costs while studying. Under a more coherent funding and regulatory system, under which total funding per student is allowed to more accurately reflect providers’ differential costs, we believe that universities such as Sydney be better placed to provide scholarships and other forms of assistance to improve the access and success of students from low SES backgrounds, Aboriginal and Torres Strait Islander students, and students from rural and regional areas.

Recommendation 3: Ensure the higher education funding system is financially sustainable, and capable of supporting quality education and research over the long term.

As the Review’s terms of reference note, the demand driven reforms have already contributed to large increases in CSPs (577,000 in 2013 compared to 469,000 in 2009) and correspondingly even larger increases in student enrolments. As a result, according to the Go8’s analysis, the cost of the Commonwealth Grant Scheme has increased by 43 percent over the past four years, while revised Treasury estimates suggest that the actual costs in 2012-13 will again be much higher ($800 million) than the estimate provided in the 2012-13 budget. The Go8 submission also includes projections based on Australian Bureau of Statistics demographic
modelling and trends in higher education participation rates, which suggest that the Australian higher education system will need to accommodate at least a further 560,000 students by 2030, alongside further stronger growth in international student numbers.

We understand that the Government has data suggesting that the rate of enrolment growth in 2014 and over the next few years will slow or plateau. Nevertheless, if the Go8’s long term growth projections are accurate, they should raise serious questions about the long term fiscal sustainability of the entire higher education system under a continuation of current policy settings. We are particularly concerned that if left unchecked, the ballooning cost of the demand-driven reforms will restrict the capacity of future governments to address base funding shortfalls per student and make it more likely that further damaging offsetting savings will be imposed through cuts to research, infrastructure and other programs. We fear that the costs will also reduce the capacity of future governments to make new investments in the research and research training capacity that largely drives the performance our universities in the global rankings, which is in turn important to sustaining Australia’s international education exports.

Recommendation 4: Use COAG processes and university funding agreement negotiations to ensure that enrolment growth in disciplines with compulsory work-based training requirements aligns with the availability of training places in each jurisdiction.

Implementation of the core element of the demand-driven reforms - the lifting of CSP enrolment caps for bachelor programs other than medicine - has been administratively effective. This is not surprising given that there is little involved in administering the system other than collecting enrolment data from institutions and distributing payments. Significant implementation problems have arisen in the following key areas.

We have observed implementation problems in relation to the question of how best to ensure that the higher education system delivers graduates in appropriate numbers, and with the skills and qualifications needed in different sectors of the economy. We appreciate that it is very difficult for governments to get such planning right, and that seeking to ‘manage’ the system in this way is at odds with the deregulatory principles that underpinned the demand driven reforms. Nevertheless, we believe that the Commonwealth should at least do more to ensure that enrolment growth nationally and in different states and territories, has regard for the capacity of economy to provide students with the work-based training that is compulsory in many fields, as well as for the capacity of economy to absorb graduates in specific fields in the short term.

Much of the enrolment growth arising from the demand driven reforms has been in the health and teacher education disciplines. This is where the resulting pressure on the availability of work-based professional placements has been particularly acute. The mismatch between demand for places and their availability, budget pressures in the public health system in NSW at least, and other reforms such as shifts to activity-based funding for all services in the public health system nationally, are combining to see health services in some jurisdictions imposing, or seeking to impose, daily student placement fees on universities. While opportunities exist to expand placements in private sector settings, financial constraints mean that this is generally only possible when dedicated funding for growth is obtained from alternatives sources.

While the University itself does not have access to robust data demonstrating the trends in the health fields, anecdotally we are hearing reports from our faculties and schools of graduates in fields such as nursing and various allied health fields being unable to find work directly in their chosen discipline. Meanwhile, the Commonwealth continues to allocate additional postgraduate CSPs in these and other areas through a process that lacks transparency. While HWA predicts major shortfalls in the fields such as Nursing by 2025, the irony is that at present the health system does not appear to have the capacity absorb the increased numbers of graduates, with the risk that the Commonwealth’s substantial investment in their education through the CGS scheme and income support will be lost to the health system.
We see potential for future growth in enrolments in the health disciplines, in teacher education programs, and potentially other fields, to be managed more strategically by the Commonwealth, without putting an end to the demand-driven funding system. The mechanisms for achieving this are now in place, through the funding agreement negotiations, informed by the improving data and projections held by the Commonwealth Department of Education, Health Workforce Australia (HWA), The Australian Workplace Productivity Agency (AWPA), the Australian Health Practitioner Regulation Agency (AHPRA) and state and territory health and education departments.

Recommendation 5: Consider adopting our proposed model for the future allocation of postgraduate Commonwealth supported places, if gaps between funding and actual costs for teaching and research cannot be addressed systematically in the short term.

As discussed above, most of the problems that have arisen with the allocation of postgraduate CSPs should fall away if the Government could find a fair way to address base funding shortfalls between disciplines and to research. By removing or reducing the need for internal cross-subsidisation, the need for providers to locate offerings at different levels on the AQF to make them more financially sustainable should reduce. Decisions about the level at which to locate an existing or new offering should then be based more soundly on pedagogical considerations, domestic and international trends in the field, and anticipated levels of student demand.

Nevertheless, in the event that it proves impossible for Government to find a way to address the underlying base funding/cross-subsidisation issues, it will be vital to establish a more transparent and effective way of managing postgraduate CSP allocations. This will also need to happen quickly as the current uncertainty is seriously affecting the ability of all higher education providers to plan and respond efficiently to developments in the market. For example, in our case we have had a proposal before the Department for two years seeking an allocation of postgraduate CSP places for our new Doctor of Veterinary Medicine, while at the same time, permanently removing from our offerings the current undergraduate Bachelor of Veterinary Science – a cost neutral arrangement for the Government. We understand that a number of other universities have made similar proposals in response to domestic and international developments in the way that education is being provided in this profession.

We gave considerable thought in 2011 to how the postgraduate CSP allocation dilemma arising from the demand driven system might be addressed, providing a detailed submission in response to a consultation paper released by the former Government. We believe the model we put forward then remains relevant today and has the potential to be attractive to the Government and all providers because of its relative transparency, fairness and flexibility. In summary, the core elements of our proposal were:

1. Each university would nominate those fields where it wishes to stay fully within the demand-driven system and those where it wishes to ‘cap and trade’ places between bachelor and postgraduate coursework level courses.
2. In recognition that many, but not all, universities have existing allocations of discretionary postgraduate CSPs, each university would receive a fixed allocation of postgraduate CSP to be used completely at its discretion.
3. Each university would negotiate a three year funding agreement for its allocation of ‘cap and trade’ CSPs through the enhanced negotiation process outlined above, taking account of the availability and quality of work-based training places in disciplines where these are a compulsory requirement of the award.

4. Each university’s total CSP funding each year would then be the sum of its funding ‘envelope’ from its ‘cap and trade’ fields and payments derived from its student load in fields where it chooses to remain in the demand-driven system.

5. In those fields where a university elects to ‘cap and trade’, an over-enrolment buffer (say 5 to 7 per cent) would be allowed for both bachelor and postgraduate coursework load.

6. The Government would continue to allocate additional postgraduate places to providers based on an assessment of skills shortages or national significance, with new places allocated transparently through competitive processes or as part of the funding agreement negotiations.

We acknowledge that a return to fixed ‘envelope’ funding may provide institutions with more funding certainty and potentially more internal flexibility over the distribution of places with Government approval. However, in an environment where base funding falls well short of actual costs in so many of the disciplines we offer (medicine, dentistry, veterinary science, agriculture, music etc), we are concerned that a return to envelope funding would leave us with no flexibility to grow revenues by increasing enrolments in our undergraduate generalist programs.

Related to these CSP allocation issues, we encourage the Review to familiarise itself with arrangements the former Department of Innovation has reportedly entered into with at least one university to allow Commonwealth Grant Scheme (CGS) funding in some disciplines to be combined with Research Training Scheme (RTS) funding to support the delivery of a two year masters by research degree. While we fully support efforts to enhance pathways to postgraduate research degrees for students (and potentially a national shift away from honours to 3+2+3 pathway from undergraduate study through to completion of a PhD, if the disciplines support such a move) the development and implementation of such policies needs to occur transparently and be applied fairly to all providers.

While the market and issues relevant to the allocation sub-bachelor places are different, we believe that a similarly transparent and consistent approach to their allocation is required. Arguably, with entry standards for bachelor programs falling considerably as a result of the demand driven reforms, there is a need for more flexibility at the sub bachelor level, to allow providers to ensure that students enter higher level courses equipped with the skills and knowledge necessary to succeed.

December 2013