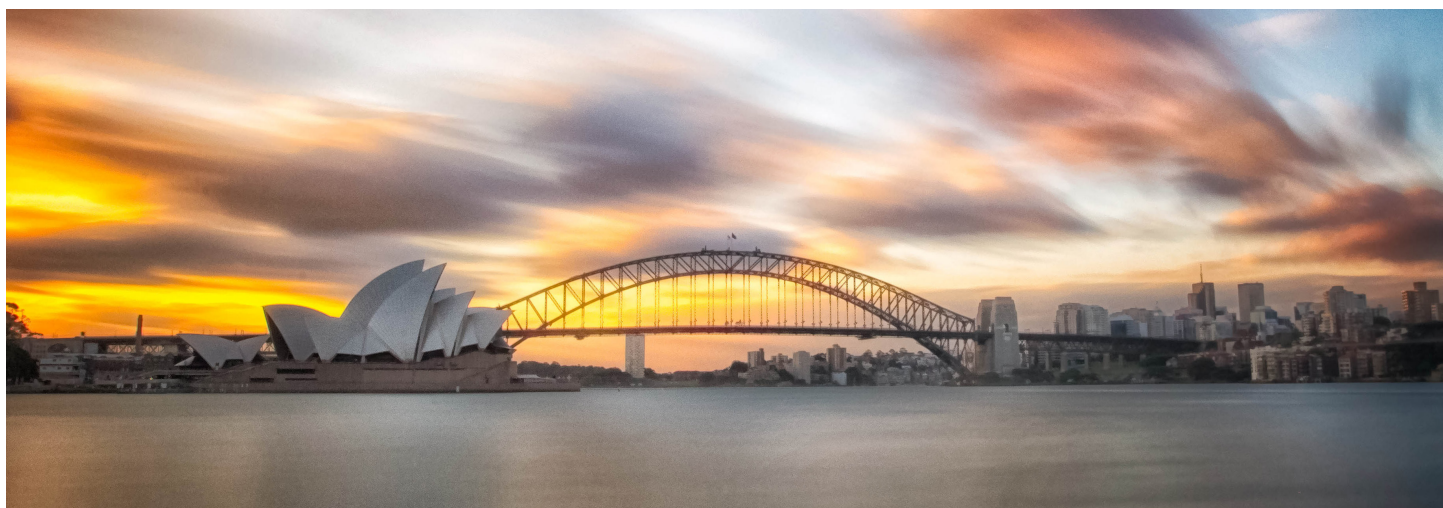


Help from Down Under?

**A comparison of higher education funding
in England and Australia**



Higher Education Policy Institute



UNIVERSITY ALLIANCE

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University Alliance brings together leading global universities for science, technology, design and the professions to tackle the big issues facing universities, people and the economy.

Our aim is to help build a strong future for UK universities by creating a constructive and positive space for debate and new ideas.

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Executive Summary and lessons to learn for both England and Australia

1. About two years ago I began an academic study to compare and contrast the design of the student loan systems in Australia and England. Following the introduction of £9,000 fees and with growing concerns about the high levels of non-repayment of loans in England (up to 45% now according to the Government) I soon realised the huge potential to apply some of the findings. Hopefully this HEPI report will prove a timely contribution to the important debate about the future of higher education funding and student finance in England and possibly in Australia as well.
2. The report identifies a number of lessons we can learn from our Australian cousins (and a few the other way but I shall leave those for the full report to describe). Nobody is suggesting the Australian system is perfect, or somehow 'better' than the English funding model, but there are a number of lessons we can take from the Australian system; particularly addressing the high and growing cost of non-repayment of student loans and the lack of fee loan access for postgraduate students and two thirds of part-time students in England.
3. The report goes into much more detail but in very brief terms, the most interesting observations are as follows.
4. **First**, the Australian system operates a much lower level of non-repayment of student loans. Public subsidy of loans is just 25% in Australia (and this includes an interest-rate subsidy alongside non-repayment) compared to the UK's 45%. The Australian graduate repayment system has a high earning threshold for repayment (like English system) and a progressive, income-contingent repayment system (like England) but once the graduate crosses the earning threshold the monthly repayments are higher. Australian graduates make higher repayments to achieve a much shorter repayment period; just 8.4 years on average compared to over 26 years for English graduates. This has a significant impact on bringing the rate of non-repayment down in the Australian system. It also ensures that the vast majority of Australian graduates pay off their student loan before the age of 30 when, typically, they will be starting to buy houses, get married and /or have children.
5. The obvious lesson for us in England is that loan design matters; particularly the graduate repayment system. There has been a lot of attention of future graduate wages increasing the 45% non-repayment of loans (or 'RAB') in England but perhaps we should also look at a loan design that asks only £7.50 a week from someone earning £25,000 a year. At this rate, no-one should be surprised that it takes over 26 years to pay back and that over 60% of students will never repay their loan in full.
6. **Second**, the Australian system includes a loan design called FEE-HELP. The undergraduate FEE-HELP loan carries a 25% surcharge that gets added to the loan and, in effect, creates a student loan where the cost of non-repayment of loans is zero. This is a relatively small part of the Australian system but provides an excellent proof of concept that is possible to operate a student loan that does not carry public subsidy. This is worth repeating. The undergraduate FEE-HELP loan proves that it is possible to operate a non-subsidised student loan.
7. **Third**, unlike in England where postgraduate students and two thirds of part-time students cannot access a loan to help with the cost of their fee, FEE-HELP in Australia ensures that virtually all students can access a fee loan that is repaid after graduation. And it gets even better. Given the relatively low level of loan subsidy, they are able to offer a lifetime loan allocation (around \$100,000) giving everyone maximum flexibility and choice to enable them to up-skill and re-train in support of a diverse and rapidly evolving job market. Given the huge cost of non-repayment of student loans in England, we are only able to offer fee loans to first-time undergraduate students – one hit and you're done.

8. **Fourth**, the Australian's called it a Higher Education Loan Programme – HELP – and developed public discourse based on the Government providing help for students to cover the cost of studying. In the UK, we used terms like 'fees' and 'debt' and wondered why students protested in the streets.
9. Of equal significance, Australia chose to go with three fee bands rather than one fee maximum, alongside published bands of 'core funding' by subject. In other words, every student knows both what their contribution and the Government's contribution is towards the cost of their course. These funding levels are understood in the public mind-set, engendering a sense of social contract based on the shared contribution of costs. There are obvious lessons for us to learn around both language and transparency in a system where our Government now puts the vast majority of public funding for higher education into invisible loan subsidy.
10. The report finds a few more 'lessons' for the English system in Australia's recent experience, for example in their recent 'demand-led' policy and their regulation of Alternative Providers. Both are highly relevant to current policy in England following the autumn statement in 2013 that announced the removal of student number controls from 2015-16 and the growth of alternative providers; they make for interesting reading and are covered in detail in the report.
11. Given the central importance of higher education to any modern, global economy, these are big issues for our Government or any future government to get right and will undoubtedly form part of the election debate. Public and political discourse will focus on £9,000 fees, student debt and the 45% non-repayment of student loans but hopefully this report will contribute to the wider debate. A well-designed higher education and student finance system will be critical to the future of our economic and social prosperity as a nation; anything we can do to contribute to that is at the heart of the purpose of both the Higher Education Policy Institute and University Alliance. Further proposals for a future funding system will be published by University Alliance in June as part of our uni_funding work.

Lessons to learn

- i. Evidence would suggest that a 50:50 balance of public: private contribution may achieve something close to optimum economic efficiency. Even the best evidence, however, includes a considerable amount of judgement, which means this figure should only be a rough guide at best.
- ii. If England is concerned about the upfront cost of studying for postgraduate and many part-time or second chance students, Australia is an excellent place to start looking. They have been able to provide financial support for these students at minimal cost to Government; for undergraduate students that cannot access publicly subsidised places, a loan is available at virtually zero cost to Government.
- iii. It is actually the English system that is closer to achieving the optimum level of 50:50 public: private share of contribution overall. The lack of transparency in the English system, however, means that there is almost zero public awareness of this balance of contribution, with most students assuming they are paying the full cost of their studies at £9,000.
- iv. The important lesson here for those in Australia who are looking to liberalise fees for the purpose of raising funding to universities is that the trebling of fees to £9,000 in England did not bring in much additional resource to English universities overall – and brought reductions for some. The English experience suggests that any increase in the cost of public loan subsidy is likely to result in a matched reduction in core public funding for teaching. The Australian HECS-HELP fee loan carries a Government subsidy, so the same logic is likely to apply. Those in Australia who are seeking to raise or fully liberalise the fee level should be wary of the consequence for their base funding.
- v. Given public reaction to £9,000 fees in England, including student riots, the lesson here for England might be that direct funding for teaching is a more transparent method of public investment in HE that can more easily facilitate a social contract based on a practical demonstration of shared investment.
- vi. The Australian model of a lifetime loan allocation for their FEE-HELP loan system is an important and progressive step towards a more flexible, market-driven system that England should learn from.
- vii. Given the Government's commitment to increasing market forces in higher education in England, it is helpful to observe the Australian system in this regard. The Australian system benefits from operating publicly-supported higher education alongside a more marketised system that carries little or no public subsidy; and yet still offers fee loans to nearly all students.
- viii. For England, possibly the most important lessons can be learnt from the undergraduate FEE-HELP loan design in particular; a Government fee loan system that carries little or no public subsidy. And for Australia, some considerations about the benefits of a funding system that is more responsive to retention.
- ix. For English observers that are concerned about the 45% public subsidy on student loans, a vital lesson is that it is not better employment prospects that are allowing Australian graduates to pay back their loans faster (8 years on average, compared to our 26 year); it is lower debt levels and a better designed repayment system – something England needs to learn from.
- x. The Australian system is distinct in having a tougher, shorter repayment period once over the earnings threshold. For most graduates, this means an effective – and still affordable - means of getting their loan paid off in full before they reach 30. It also means a lower level of public subsidy (or RAB) on student loans for the Government.

- xi. FEE-HELP loans have enabled the Australian Government to do two really important things that the English system is not able to afford: first, offer a fee loan to every student and second, offer a lifetime loan allocation; allowing students to re-enter the system and re-train throughout their career. This has to be the primary lesson to learn from the Australian system for England.
- xii. The English system already has levers in place to manage quality (funding on the basis of completion, robust retention measures, co-regulation of standards and student information) and price (fee controls). The lesson for England to learn is that a non-subsidised Government fee loan could facilitate the expansion of new providers and new types of provision without carrying considerable public subsidy. A FEE-HELP type approach would considerably reduce the risk to the public purse, whilst enabling for-profit providers to grow.
- xiii. The lesson for England here is that transparency matters in the funding system – particularly if you aim to build a social contract on the idea of a shared contribution towards the cost of gaining a degree.
- xiv. The lesson for England here is that language matters in the funding system – particularly if you aim to build a social contract on the idea of a shared contribution towards the cost of gaining a degree.
- xv. The problem, and the salient lesson for England as well as the Australian HE system, is that the minimum threshold for entry to the market for new providers was set far too low. A regulator cannot be expected to regulate thousands of providers that are flooding into a new market where the doors are wide open. Many of the states staggered payments to providers on the basis of retention but this did not help. The really important lesson for England is that it is far more important to establish and enforce appropriate minimum standards for entry into the market when managing a growing and diversifying market.
- xvi. This is where the Australian model of TEQSA has something to offer the English system. As a national regulatory body, TEQSA has regulatory responsibility for all HE providers, public or private, receiving public funding or otherwise.
- xvii. Furthermore, TEQSA is responsible for establishing and maintaining a National Register of Higher Education Providers. Given recent student visa scandals with private providers – often English language providers – a National Register of HE Providers could be helpful in making more sensible visa rules. For example, England could return to an automatic two year right to stay and work for all graduates from those institutions on the National Register of HE Providers. This would put England back in line with Australia, Canada and other international competitors rather than the complicated and off-putting system we have at present.
- xviii. In an English system that is about to experience further growth, TEQSA provides a useful example of a national regulator that has proportionate regulatory engagement with all HE providers, whether receiving public funding, fee loans or otherwise. TEQSA take a differentiated, risk-based approach rather than a ‘level playing field’ approach. Australia also looks to the original providers / accrediting body directly to uphold standards at franchise providers or face sanction itself – an important lesson for England with the rampant growth of franchise providers. This is a model that HEFCE could adopt without, necessarily, having to change the position or co-regulatory function of QAA but it would require changes to primary legislation.
- xix. From the Australian perspective, perhaps there is something for Australia to learn from the UK’s approach to co-regulation of standards – a method that seems to be a little more harmonious but, so far, equally effective at ensuring standards and protecting students.

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Chapter 1: Why make this comparison?

12. First, why bother comparing the English and Australian higher education funding systems? Well, beyond this being just an intellectual exercise, there are some really interesting policy changes recently on both sides that warrant closer investigation and may even allow practical application. Just as those involved in Australian higher education (HE) have been keen to observe what lessons they can learn from England's trebling of undergraduate fees to £9,000 (a major acceleration of previous trends), it is helpful for us to examine the Australian system to learn lessons from their recent 'demand driven' policy where they lifted the cap on places. In addition the Australian system is notable for their remarkable achievement of designing a Government loan system (undergraduate FEE-HELP) that carries virtually no public subsidy and is available to those students who cannot access subsidised places with subsidised fee loans. Given the calls in Australia to liberalise the fee cap recently and, in England, the Coalition's historic announcement to remove student number controls (SNC) alongside our rising fee subsidy charge, it is important we take a very close look.
13. Second: is such a comparison valid? My answer would be a resounding 'yes' – more so than any other system I have ever looked at in comparison to the English system. Both Australia and England have a mass higher education system (Trow M. , 1974), based on similar waves of expansion since the 1950s (Wheelahon, 2010). These two countries also have a broadly similar balance of public and private contribution with similar funding structures, quality assurance frameworks and participation rates (see Chapter 2). The Australians might have, just, beaten us in introducing income contingent loans in 1989 but our fee and loan systems have been developed almost in parallel over the past 20 years or so. Even the academic architecture supporting both systems developed almost in parallel thanks in large part to Professor Nicholas Barr at the LSE in London¹ and Professor Bruce Chapman at the ANU in Canberra².
14. The case for comparing England and Australia has already been established in academic literature by Nicholas Barr and others (Barr, 1998). These comparisons, however, need to be undertaken with a great deal of care. Context is everything. Alongside the difference in size, population (Australia's landmass is similar to the US but it's population is just 42% of the UK's) and let's not forget climate, the two countries have also had very different experiences of the global recession; a huge mining boom and major, early Government stimulus has largely protected the Australian economy whilst England has been experiencing an 'era of austerity'. Any comparison of the costs or attitudes towards HE, need to be undertaken in this context.
15. Third: am I the right person to be doing this? Well, I am a (relative) expert in the English higher education system – particularly the funding system – and it is from this biased perspective that I will offer some observations and comparisons. I have been able to identify lessons on both sides that could possibly address some topical issues in the respective countries. Any factual references to the Australian system have been checked by bona fide Australians and for that I am hugely grateful. Any analysis based on these observations is my own and I take full responsibility for where I may have inadvertently gone awry. This paper is written primarily for an English audience and, whilst I shall certainly identify some areas where we can learn from our Australian cousins, I have tried to be very careful in proffering any lessons for Australian higher education experts to learn from our system.

¹ Professor Nicholas Barr's publications on income contingent loans and the student finance system are listed here: Some of the best examples include (Barr N., 1989, 2001, 2004, 2005, 2010) and (Barr & Crawford, 2007).

² Professor Bruce Chapman's recent publications and current research areas, including the application of ICLs to other countries are listed here: crawford.anu.edu.au/people/academic/bruce-chapman?tb=publication
Excellent examples of Chapman's work on ICLs include (Chapman & Ryan, 2002) and (Chapman, 2004).

Chapter 2: Funding - flows of public and private investment

16. With England and Australia both firmly in the category of mass higher education, the question of how to finance higher education is both an important and highly politicised debate. With around 40% of the young population now gaining a higher education qualification in both countries³, both the timescale of expansion and the underlying method of financing the system through the introduction of income-contingent loans have been sufficiently similar to enable meaningful comparison of the English and Australian systems, whilst being sufficiently different to learn lessons from such a comparison, as demonstrated by previous studies (Barr, 1998).
17. This report assumes that it is good for the higher education system to expand for three purposes: increasing future economic output (OECD, 2012); to meet growing demand for higher education (Johnston & Barr, 2013); and to widen access to higher education. Although this view is by no means universally accepted (Wolf, 2001) it is widely recognised that “knowledge-based economies require high levels of human capital, which influences a large number of economic outcomes and boosts long-term productivity” (Armstrong & Batten, 2011).

What is the optimum balance of public: private contribution to HE?

18. In examining the flows of private and public funding in both countries, it is important to first consider whether there is an optimum balance of public: private contribution that both countries should be aiming for. It is widely recognised that there are considerable private and public benefits to higher education. The question of what the balance of contribution should be in an ideal system to match the balance of private and public benefit is an almost impossible question to answer, although many have tried. The difficulty is primarily because of the complexity of attempting to estimate the public benefit – although the private benefit carries its own complexities such as the considerable variation underlying average figures.
19. Private rates of return have been researched extensively (see (Chevalier et al. 2002) for an excellent summary of the literature in this area) and have received a great deal of attention in both countries because of their use in justifying increased private contribution through higher deferred fee payments. Andrew Norton at the Grattan Institute has published extensively from the Australian perspective. The estimation of the social benefits of higher education have, historically, been much harder to quantify; particularly the non-market benefits.

A public good or service is “neither rivalrous in consumption, nor excludable in ownership, and is available to all. [...] one of the largest social benefits unique to higher education is from the wider diffusion of new knowledge.

It is the omission of the non-market benefits that causes standard narrow social rate of return estimates to be most seriously understated.”

(McMahon 2009)

20. As human capital theory and endogenous growth theory have achieved major advances, so has the analysis of the social benefits or social returns to higher education. Based on international comparisons of data across OECD countries, (Schleicher 2010) has found that the UK Government benefits to the tune of \$95,000 (US) per graduate, just in increased tax and social contributions. He found that the public long-term gains in higher education are almost 3

³ In 2012 in Australia, 36.8% of 25 to 34 year olds had a degree or higher qualification (Norton, 2013). In 2012 in England, the participation rate of 18-21 year olds was 40% and for 18-30 year olds was 49% (BIS, 2013a).

times the size of the investment in the UK. This is still likely to include an underestimate of the non-market benefits.

21. Critical studies were built on by McMahon (McMahon 2009) in a comprehensive and up-to-date consideration of the private and social benefits of higher education. McMahon found total externalities of higher education to be around 52% of total benefits, both market and non-market.

The estimate that social benefit externalities constitute about 52% of the total benefits of higher education is an approximate guide to how far the privatisation of higher education should proceed before public investment falls below the level conducive to optimum efficiency.

22. To be clear, this is not a social rate of return – rather an estimate of the per cent of the total benefits that are social benefit externalities. 52% is, therefore “an estimate of the per cent of the total investment in higher education that needs to be publicly financed if economic efficiency is to be achieved” (McMahon 2009).

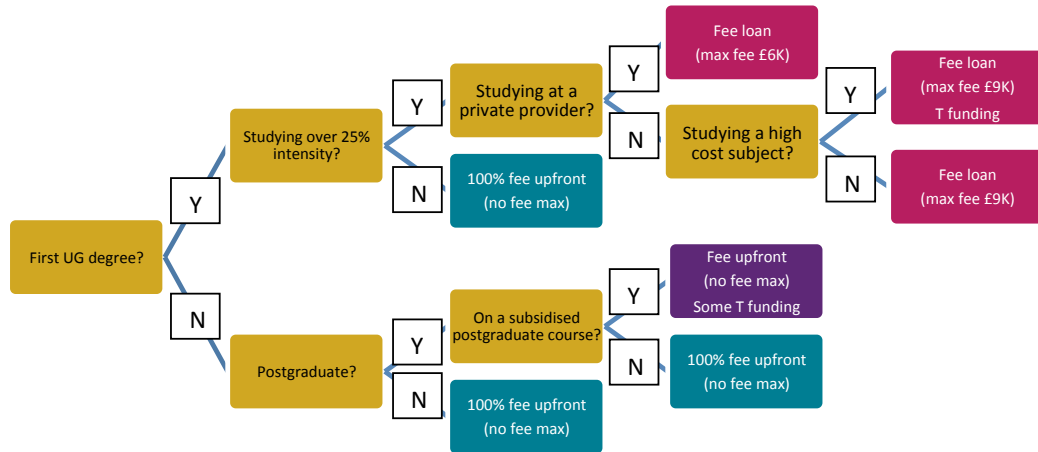
i. Evidence would suggest that a 50:50 balance of public: private contribution may achieve something close to optimum economic efficiency. Even the best evidence, however, includes a considerable amount of judgement, which means this figure should only be a rough guide at best.

Flows of public and private investment: the students' perspective

23. This section focuses on the flow of public and private investment in higher education for different parts of the sector / different types of students in England and Australia.
24. In both systems there are a couple of major lines in the sand based on types of students and the type of public funding students will attract and the student support they can access. These have consequences for students, as well as for the flow of both public and private investment in HE.
25. Figures 1 and 2 below describe the allocation of funding from the perspective of the student in England and Australia respectively. In England (Figure 1) the primary distinction in the allocation of public funding (including access to publicly subsidised fee loans) is whether you are a first time undergraduate entrant; i.e. whether this is your first degree. If yes, (approximately 95% of all full-time undergraduates and 33% of all part-time undergraduates⁴), you will have access to a fee loan and your university will receive direct funding if you are on a high-cost course and (a much lesser amount) if you are from a low-income background. If, however, you are re-training in a different area, studying at less than 0.25 full-time equivalent (FTE), or a postgraduate student you do not qualify for a fee loan and your university is much less likely to receive any direct funding for the cost of your course, meaning you are likely to be on a full fee programme where you have to pay 100% of the price of the course upfront (shown in dark blue).

⁴ For part-time students there is a second qualifying criteria in that you have to be studying at an intensity or workload of more than 25% of a full-time equivalent to qualify for a fee loan

Figure 1: English criteria for accessing fee loans and public funding⁵



26. To be clear, for students in England, if you do not qualify for a Government subsidised fee loan (all students in dark blue or purple in Figure 1 above), you have to pay the fee upfront in full. In most cases, this will be the full cost of the programme.
27. Figure 2 below shows the Australian system. The major contrast from the student perspective is that HELP – the Higher Education Loan Programme – is extended to all students.
28. If you qualify for a Government subsidised place in Australia (one that receives direct Government funding for teaching, referred to as ‘base funding’ or ‘commonwealth funding’ – the same as HEFCE teaching funding in England) you can also access a subsidised loan, called a HECS-HELP loan. This applies to most undergraduate students and 40% of postgraduate students.
29. If you don’t qualify for HECS-HELP you can, in nearly all cases, access a FEE-HELP loan instead. FEE-HELP is a Government-administered fee loan that is split into two types – undergraduate (UG) and postgraduate (PG). All loans, HECS-HELP and FEE-HELP, have the same terms and conditions of repayment (income contingent after graduation, collected through the tax system) but undergraduate FEE-HELP carries a surcharge of 25%, which, broadly speaking, covers the Government’s cost of borrowing and any non-repayment across the cohort. The Government does not, however, impose a surcharge for underwriting and administering the loan. There is no surcharge for postgraduate FEE-HELP loans, which means they continue to be subsidised.
30. FEE-HELP is a universal entitlement: it is available to all domestic students enrolled in approved higher education providers, regardless of level of qualification or previous qualifications, up to a lifetime maximum of around \$96,000⁶ (around £56,000).
31. The outcome is that undergraduate FEE-HELP in Australia is a Government loan system that carries virtually no public subsidy. It allows Government backed fee loans to be extended to all

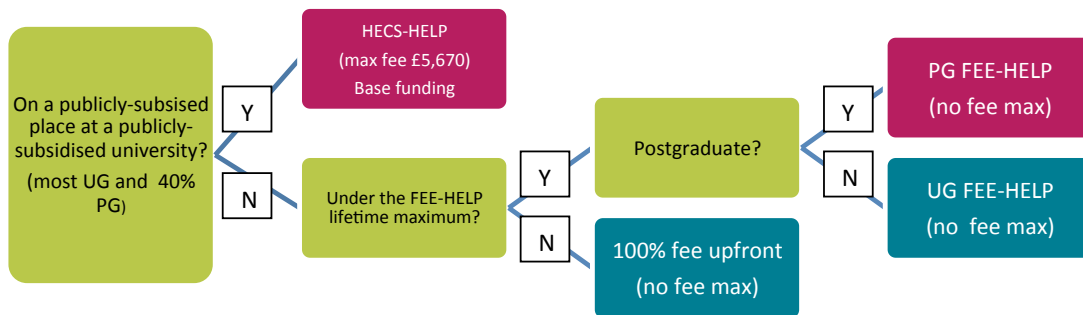
⁵ Figures 1 and 2 apply to all home and EU students. They exclude international student who pay 100% upfront fee in both countries and attract no public investment. Post-graduate research students are also excluded.

⁶ This is slightly higher (£70,000) for students in medicine, dentistry or veterinary science programmes.

students with repayments on an income-contingent basis. This is a really significant part of the Australian loan design that the UK can learn from.

32. For a more detailed explanation of HECS-HELP and FEE-HELP, please see Chapter 4 on loan design.

Figure 2: Australian criteria for accessing types of fee loans and public funding

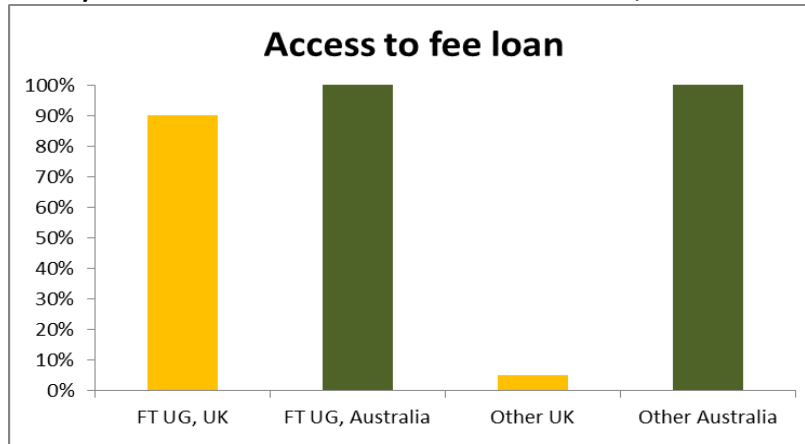


From the student's perspective, what does this mean

33. Figure 3 shows that from the student perspective, the major difference is that in Australia, virtually every student will be able to access a Government fee loan (either subsidised or not) that is repaid on an income-contingent basis. The only students that could not access a loan would be those that had reached their FEE-HELP lifetime maximum loan allowance of \$96,000. In England, however, Government fee loans are limited to particular groups of students. This is because there is only one type of Government fee loan in England and it carries a significant subsidy and therefore has to be rationed. England has prioritised first-time undergraduate students at this time. The consequence has been growing pressure on postgraduates, some part-time and mature entrants and those seeking to re-train (known as ELQ⁷ students) who cannot access a public loan.

⁷ Equivalent or Lower Qualification. ELQ students are undertaking a higher education qualification that is at an equivalent or lower level to one already held – e.g. those seeking to re-train in another area.

Figure 3: nearly all students in Australia have access to a fee loan, in contrast to England



34. Given that upfront cost is detrimental to access to HE for those from a poor background (IFS, 2010), England should be experiencing lower participation from non-traditional entrants into postgraduate and non-subsidised undergraduate places, whereas Australia should not be experiencing these issues.
35. The experience in England is a complicated one. We know that applications from students from poor backgrounds have actually increased despite an increase to a £9,000 fee but this is just amongst young, full-time, first time undergraduate entrants – i.e. those students who can access a Government subsidised fee loan. Whilst this is an important validation of the ability to increase fees without damaging access by the method of income-contingent fee loans, this does not reflect the other parts of the system where students do not have access to these loans.
36. For postgraduate students, the picture is complicated for a number of reasons. First and foremost, we are yet to see any student graduate from the new £9,000 system that started in September 2012 entry. Whilst we can speculate about the behaviour of students carrying an increased fee loan, we do not know with certainty how these graduates will behave. Second, we are used to a postgraduate market in which students have to pay the fee upfront – usually for a 1 year postgraduate taught degree. And whilst postgraduate fees have gone up slightly since 2012⁸, they have certainly not trebled and are unlikely to suddenly do so in 2015 when the first year of 2012 students graduate. In some ways, therefore, the market for postgraduates is unlikely to experience a sudden shock in 2015.
37. Thirdly, we are only at the early stages of developing credible measures of deprivation for postgraduate students and therefore it is difficult to know the impact of these changes on access to postgraduate education for certain. A recent study by Dr Paul Wakeling (Wakeling, 2013) looked at the factors associated with transition to postgraduate study. It looked at subject, geographical location, financial and demographic factors for UK and EU domiciled graduates only. What evidence exists on progression to postgraduate study suggests that those with greater financial resources are more likely to gain a postgraduate qualification and that holders of these qualifications have continued to benefit from an earnings premium over time. This raises serious questions about social mobility. The study finds slight disparity between students in different socio economic groups and significant disparities between different ethnic backgrounds. Regardless of background there was little differentiation in how

⁸ The 2013-14 average fee for UK or EU students on taught postgraduate courses rose by 7 per cent on the previous year at universities that also provided data for 2012-13. International and postgraduate student fee survey, 2013, Times Higher Education.

students paid for their postgraduate study – with 80% of students financing their degree privately.

38. At this stage, one can only speculate about the 2012 cohort of entrants that will graduate in 2015 and about likelihood of a student from a poor background carrying high levels of debt on graduation being able to pay the upfront cost (or take out a private loan) for a postgraduate qualification. Given existing access issues for postgraduate students and reduced availability of Government supported career development loans from banks in England, it could be argued that there is likely to be even more underinvestment in taught postgraduate from 2015 but this would be difficult to demonstrate beyond doubt.
39. Australia has removed the risk of upfront costs reducing applications from poorer students by ensuring that all postgraduate students can access a fee loan. Except for those who are seriously debt averse, we know this will remove the obstacle of upfront cost and affordability – still the main barrier to access to some forms of HE in England.
40. For part-time and mature students who cannot access a fee-loan because they are either studying at a low intensity or are re-training when they already hold a degree qualification or higher, the picture does not look good. We know there was a 40% drop in part-time entrants in England over just two years from 2011-13 (UUK, 2013c). Whilst this snap shot is by no means the whole picture (for example, much of this drop happened the year before higher fees were introduced in 2012), it is difficult to deny that higher fees, where combined with restricted access to fee loans, have reduced participation amongst some of the most non-traditional and hard to reach students. How much of this was due to poor information or other supply and demand factors (e.g. economic downturn in England) is almost impossible to ascertain but the outcome is irrefutable.
41. Again, the Australian system avoids these issues by offering a lifetime loan allocation through FEE-HELP. I am not suggesting the Australian system has no access issues. People from low socio economic status backgrounds, Indigenous Australians and students from rural and isolated areas remain seriously under-represented in higher education, but these access issues do not stem from a lack of access to financial support to cover the upfront cost of studying.

ii. If England is concerned about the upfront cost of studying for postgraduate and many part-time or second chance students, Australia is an excellent place to start looking. They have been able to provide financial support for these students at minimal cost to Government; for undergraduate students that cannot access publicly subsidised places, a loan is available at virtually zero cost to Government.

Flows of public and private investment: the Government's perspective

42. It is important to recognise that whilst the difference in access to fee loans between the two systems is significant for the student, it makes very little difference to the flow or balance of private / public investment from the Government's perspective. This is because the FEE-HELP system in Australia carries minimal public subsidy (see Chapter 4 for more detail on loan design).
43. From the Government's perspective, there are five main types of investment that need considering; two private and three public. They are as follows:

1. **Private investment, fee loan** – this refers to the loan repayments made by graduates through the tax system. It is the percentage of the fee loan that will be repaid within 30 years. In both systems, fee loans that will be repaid sit on the books as a long-term asset due to similar accrual accounting methods used in both countries (Champoux, 2006).
2. **Private investment, direct fee** – the upfront payment of a fee directly to the university by those who cannot access a fee loan.
3. **Fee loan subsidy** – this refer to the subsidy on fee loans that arises from the cost of borrowing including non-repayment (for various reasons) and, in Australia’s case, interest rate subsidy. In England, the loan subsidy or ‘RAB charge’⁹ is now estimated at 45% even without an interest rate subsidy¹⁰. Generous terms and conditions for repayment alongside high loan value have seen the RAB charge rise significantly under the new system. In Australia, HECS-HELP carries a subsidy of around 25%, which includes an interest rate subsidy. On the FEE-HELP side the subsidy is virtually zero for undergraduates (because of the surcharge) and around 25% for postgraduates.
4. **Direct Government funding for teaching** – in Australia, this is called ‘base funding’ or Commonwealth funding and accounts for an average of 60% of course cost alongside a subsidised student contribution (HECS-HELP) but with the proportion varying considerably by subject. Most undergraduates are on these subsidised or commonwealth places, as are 40% of postgraduate students. Other programmes do not receive base funding (similar to England). In England the £9,000 fee has entirely replaced direct funding for teaching (HEFCE ‘T’) on most undergraduate programmes. High cost subjects (over £9,000) receive funding, as do some postgraduate courses, although the latter is being reduced over time. In England there is also a Student Opportunity Fund (similar to a pupil premium) that goes some way towards the additional cost of supporting non-traditional students to succeed, including into employment.
5. **Direct Government funding for capital** – investment in teaching capital is an essential part of both maintaining and improving facilities designed to support learning in universities. Before 2012, the English and Australian Governments provided direct investment for capital as a separate strand alongside teaching funding. As part of the reforms in 2012-13, England stopped providing this funding – or more accurately, as with direct funding for teaching, this was re-directed into higher loan subsidy. The intention was for universities to invest in capital from fee income, which they are doing. Interestingly, England has just announced a new, small pot of teaching capital funds that will be distributed on a formula basis – a creep back towards the old system perhaps.

44. From the perspective of the university, all streams of funding come from the Government, not the student, with the exception of upfront fees paid (number 2). In the case of English fee loans, the money goes through the Student Loan Company (SLC) to the university.

England: What did £9,000 fees do to the balance of private: public investment?

45. Figure 4 shows how the flow of public and private investment shifted for first time undergraduates in England after the 2012 reforms that introduced a £9,000 fee.
46. You can see from Figure 4 that the balance of private: investment in teaching (shown in blue: red respectively) in HE shifted from around 35:65 to nearer 50:50 under the new system of £9,000 fees – the optimum balance of public: private contribution according to experts (McMahon, 2009). This was undoubtedly ‘a substantial shift in the incidence of the cost of

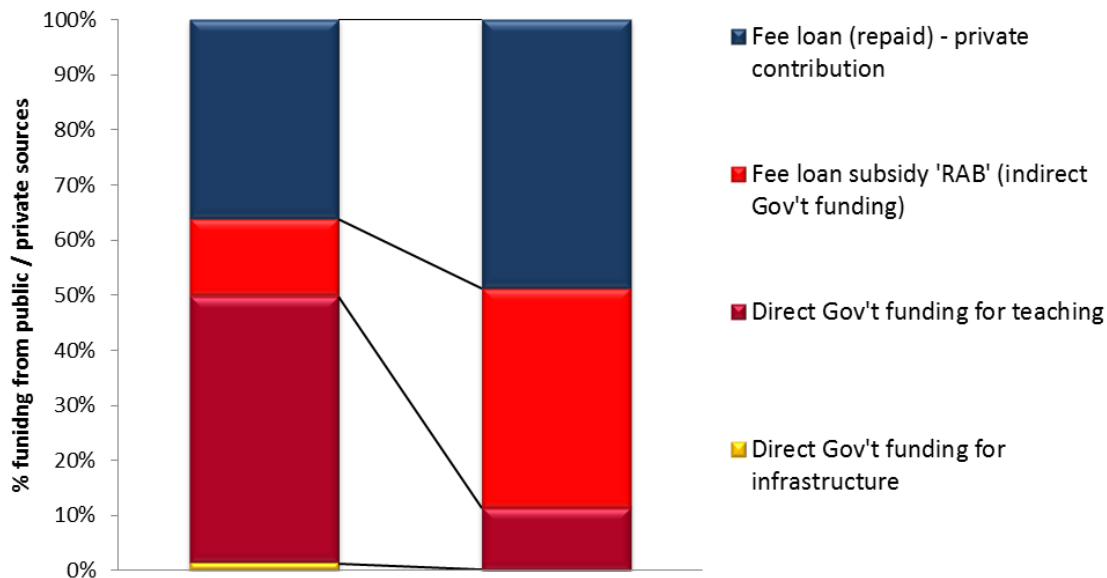
⁹ Resource Accounting and Budgeting charge, based on the use of accrual accounting methods.

¹⁰ House of Commons, March 2014

www.publications.parliament.uk/pa/cm201314/cmhansrd/cm140320/text/140320w0002.htm#140320w0002.htm_wqn21

higher education away from the public sector and towards the private sector' (Chowdry, Dearden, Goodman, & Wenchao, 2012) but perhaps not as significant as most people think. The fact that a 50:50 balance of contribution remains in the system overall would likely surprise most students, parents and public commentators on the reforms who presumed a £9,000 fee meant that student were paying 100% of costs.

Figure 4: What happened when £9,000 fees were introduced



Notes:

- 1) Figures are based on all full-time undergraduates in pre-2012 and all first time undergraduate students (FTE) in £9,000 system (this applies to approx. 95% of all full-time undergraduates and 30% of part-time undergraduates). The post 2012 system changed to allow 1/3 of part-time undergraduates to access fee loans – those doing their first degree and studying over 0.25 work load.
 - 2) These figures are based on 100% uptake of fee loans – they do not take account of those choosing to pay their fees upfront. Our best understanding is that this is a small proportion of students and the percentage paying upfront has not changed significantly in the new system compared to pre-2012 figures.
 - 3) £9,000 system calculations are based on projections for 2015-16 when three years of students will be in the system. Based on 2012-13 student numbers. Based on an average fee of £8,425, which is the average fee after fee waiver in 2014-15 (OFFA, 2013).
 - 4) Figures based on a 28% RAB charge in the pre-2012 system (BIS, 2012) and 45% RAB charge in the £9,000 system (House of Commons, March 2014 www.publications.parliament.uk/pa/cm201314/cmhansrd/cm140320/text/140320w0002.htm#140320w0002.htm_wqn21)
- Sources: Higher Education Statistics Agency (HESA) figures for student numbers. HEFCE figures for public funding (HEFCE, 2013).

47. The lack of understanding of the new system is largely due to the fact that the considerable fee loan subsidy is not well understood. The subsidy on fee loans are largely invisible to the 'user' in the system, which means the public investment is invisible also. The high 'sticker price' of £9,000 leads most students to assume they are paying the full cost of their course and, in turn, we are seeing their behaviour and 'customer demands' shifting to reflect this. Whilst it is good to give students more of a say in a higher education system based on co-production of learning, the lack of transparency in the system is unhelpful. The idea of a social contract between the student, university and Government has largely been lost – and this is despite a 50:50 share of costs. Perhaps this is just a PR issue and potentially resolvable but there is something significant about the invisible nature of loan subsidies that is fundamentally at odds with a more transparent funding system.

iii. It is actually the English system that is closer to achieving the optimum level of 50:50 public: private share of contribution overall. The lack of transparency in the English system, however, means that there is almost zero public awareness of this balance of contribution, with most students assuming they are paying the full cost of their studies at £9,000.

48. The second thing to notice from Figure 4 is the massive shift within the streams of public investment (shown in shades of red). You can see clearly how direct funding for teaching has been almost entirely substituted by loan subsidy, with some held back for high cost subjects and high cost students (through the SOF fund). You can also see that capital funding for teaching was removed. Higher fees were matched by cuts in direct funding for teaching (100% in most subjects), which meant that universities did not see a significant rise in funding or resource.
49. What Figure 4 does not show you, because it is based on percentages, is the total resource going to universities as a whole. Despite the trebling of fees to £9,000, the total resource going to universities only slightly increased in 2012-13. It is projected to continue to increase gradually over time in line with previous increases, largely driven by an expanding student population (UUK, 2013b, Figure 2.4). The English university sector as a whole did, however, avoid any serious decline in resource during a time when other non-protected areas were being cut. Individual universities experienced significant cuts in funding due to policy interventions¹¹ but overall levels of funding were successfully protected whilst delivering a saving to the public purse.
50. Transferring public investment from core teaching funding to loan subsidy does, in theory, allow greater total resources to flow into the system overall. Again, however, the English experience teaches us that you cannot assume that any savings derived from transfer of funds between direct public investment and loan subsidy will flow to the universities rather than make up savings for Government. This is inevitably a political decision about whether any savings go to increase the HE budget or to other Government priorities, including just budget saving or deficit reduction in England.

iv. The important lesson here for those in Australia who are looking to liberalise fees for the purpose of raising funding to universities is that the trebling of fees to £9,000 in England did not bring in much additional resource to English universities overall – and brought reductions for some. The Australian HECS-HELP fee loan carries a Government subsidy, so the same logic is likely to apply. The English experience suggests that any increase in the cost of public loan subsidy is likely to result in a matched reduction in core public funding for teaching. Those in Australia who are seeking to raise or fully liberalise the fee level should be wary of the consequence for their base funding.

How does the private: public balance of investment compare?

51. Figure 5 shows that overall, the balance of private: public investment in HE across the two systems is not that different even with much higher fees in England. For first time undergraduate students in England, the private contribution is around 50% (shown in blue),

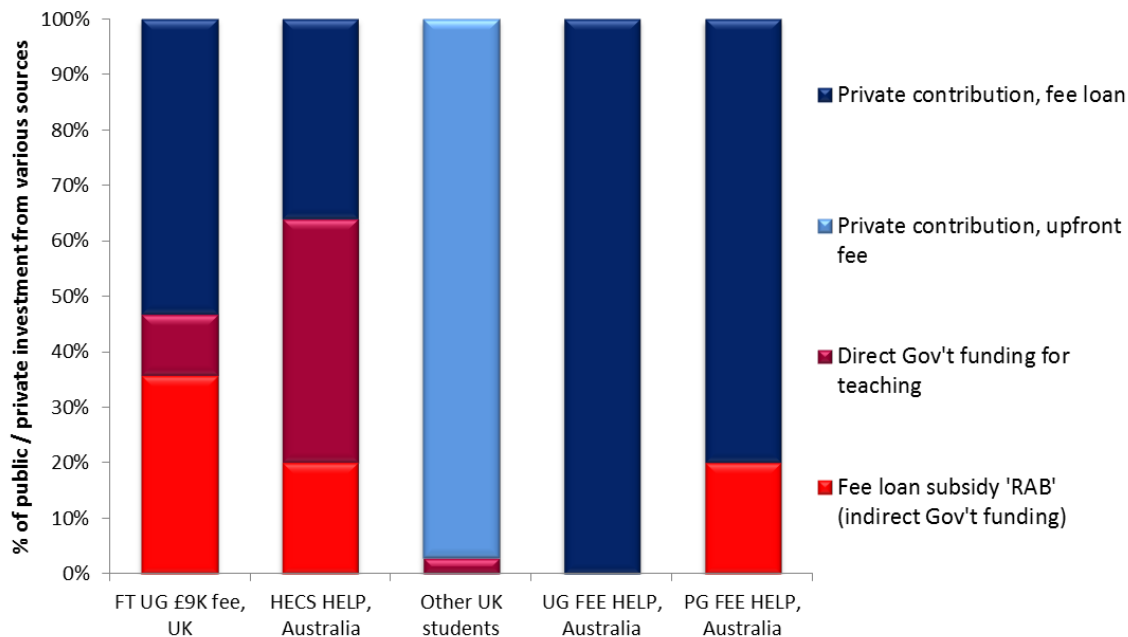
¹¹ Namely 'Core and Margin' and 'AAB'. See HEPI reports on the impact of 2012 reforms for further explanation of the impact of these policies.

whereas in Australia, for those who are on state-supported places (including a subsidised HECS-HELP loan), the private contribution is around 35% overall. It is the difference in type of public investment that is perhaps more interesting.

52. For Australia, if you take just the private contribution (blue) and direct funding for teaching (mauve), the balance of investment is about 40:60 respectively. There is then a relatively moderate subsidy of loans (public investment shown in red) of around 25%. By contrast England channels just 10% of overall investment through direct funding for teaching choosing to invest it via loan subsidy instead. The result is that the vast majority of funding flows via the student, with a high 'sticker price' of £9,000 that carries a heavy loan subsidy. Whilst the subsidy is highly progressive, it is certainly much less transparent than the Australian approach where there is a stronger sense of social contract and understanding of shared investment from the individual and Government.

v. Given public reaction to £9,000 fees in England, including student riots, the lesson here for England might be that direct funding for teaching is a more transparent method of public investment in HE that can more easily facilitate a social contract based on a practical demonstration of shared investment.

Figure 5: balance of public: private investment very similar across system



Notes:

- 1) Figures are based on same estimates and sources as Figure 4 for the English £9,000 system students (first column).
- 2) Figures for 'other UK students' are based post-graduates and 2/3 of part-time students. Public investment and fee income from (HEFCE, 2013).
- 3) Australia figures based on (Norton, 2013) and information from DIISRTE, now the Department of Education.
- 4) HECS-HELP, Australia refers to students on state-supported programmes; this is most undergraduates and 40% of postgraduates
- 5) UG FEE-HELP, Australia refers to undergraduate FEE-HELP that carries virtually no fee loan subsidy.
- 6) PG FEE-HELP, Australia refers to postgraduate FEE-HELP (available to the 60% of postgraduate students not on state-supported programmes) that does carry a modest subsidy. The overall subsidy for all loans is around 25% so we have estimated a slightly lower subsidy of 20% for postgraduate loans based on their higher earnings.

53. The other, really interesting observation from Figure 5 relates to the second two bars – the balance of public: private investment for students who don't attract public fee loans in England and don't attract subsidised HECS-HELP loans in Australia. What is fascinating is that in both systems, the balance of contribution is remarkably similar. Both countries have created significant parts of the HE system that carry virtually no public investment. This is an important (and often under recognised) part of any HE market where public investment is selectively invested in priority areas. It has the advantage of creating a genuine market in part of the HE system – in both countries this part of the HE system has no fee control or number control. It is a genuine market that operates successfully.

54. The big difference of course, is that Australia has achieved this whilst still offering a FEE-HELP loan to every student in this part of the system. In England, there is a much bigger divide between these two systems from the perspective of the student because if you're on this side of the system you cannot access a fee loan – you've got to find the money to cover the upfront cost of learning yourself. This opportunity for England to learn from Australia has already been mentioned.

The structure of the Australian system in more detail

55. In 2005, following the Crossroads Review, the Australian Government increased fees by 25%. HECS-HELP maximums have now reached \$6,044 - \$10,085 in 2014 (around £3,500 to £5,850),

depending on course (around 40% of the cost of provision across the system as a whole but with significant variation by subject). These HECS-HELP maximums apply to both undergraduate and the 40% of postgraduate courses that receive state-support. They also made a really important, and in my view very intelligent, change to the student finance system. Alongside the mainstream publicly-subsidised system that we would recognise with fee caps, student number controls, high levels of regulation and with HECS-HELP loans (subsidised fee loans repaid on an income-contingent basis), they introduced FEE-HELP to ensure that fee loans were available right across the HE system. In the more marketised system there are no fee caps and no student number controls (similar to the English market for postgraduate and most part-time students) but there are fee loans. Undergraduate FEE-HELP loans carry a 25% surcharge that, in effect, covers the cost of loan subsidy and non-repayment to Government. In effect, undergraduate FEE-HELP is a Government-backed income-contingent loan system that carries virtually no public subsidy.

56. The other really significant change facilitated by creating a non-subsidised FEE-HELP loan was to introduce a lifetime loan allocation to support re-skilling and lifelong learning. Given what we know about the way people are working now (Hackett, Shutt, & Maclachlan, 2013), and will work in the future, this has to be a progressive step forward for their higher education system.

vi. The Australian model of a lifetime loan allocation for their FEE-HELP loan system is an important and progressive step towards a more flexible, market-driven system that England should learn from.

57. Over the first 4 years or so, the more marketised FEE-HELP system developed alongside the mainstream HECS-HELP system to absorb excess demand for UG (as well as delivering the majority of PG) to a position where in 2011, around 10% of undergraduates had FEE-HELP rather than HECS-HELP loans enabling increased undergraduate enrolment at virtually zero cost to Government. In 2012, the Australian Government removed controls on student numbers in the subsidised HECS-HELP side which, unsurprisingly, saw much faster growth of student enrolment in the mainstream, subsidised system at the expense of undergraduate FEE-HELP enrolments. The pros and cons of adopting this 'demand driven' policy will be considered later but the principle and structure of the 2005 system was established and tested and England can learn important lessons from this.

vii. Given the Government's commitment to increasing market forces in higher education in England, it is helpful to observe the Australian system in this regard. The Australian system benefits from operating publicly-supported higher education alongside a more marketised system that carries little or no public subsidy; and yet still offers fee loans to nearly all students.

58. There were some issues that arose under this system before 2012 when 'demand driven' was introduced fully, however, that should be carefully considered. One major concern was with the allocation of limited, subsidised HECS-HELP places. It sounds great that excess demand can be soaked up on the FEE-HELP side but in reality, universities still had to make the same difficult choice about how to ration the publicly-subsidised places before number controls

were fully removed in 2012. Given that the stubborn correlation between family background and attainment at school level is just as prevalent in Australia as it is in England, a purely meritocratic approach based on ATAR entry score would have resulted in students from the most affluent backgrounds taking up the vast majority of subsidised places, which seems far from ideal. Of course a FEE-HELP place is better than an offer of no place at all in a world where public investment has to be limited at some point but it is not clear that past academic record alone was going to provide the most effective rationing of public investment. Before this could really be tested, the Government announced a 'demand driven' approach that would remove the cap on subsidised HECS-HELP places. Nevertheless, these observations remain challenging for anyone proposing that a FEE-HELP style model could be used to soak up excess demand for university places. Not unresolvable but challenging.

Chapter 3: Public vs private universities in the two systems

59. The increase in alternative providers of higher education is an important component of a healthy, diverse system that is constantly adapting to meet the changing needs of an evolving labour market and society. Historically, the two systems have distinguished between 'public' and 'private' institutions in similar ways, based on the principle that private for-profit universities should not receive public investment. The introduction of fee loans – or more importantly fee loans that carry public subsidy – alongside the diversification of providers, including the growth of private for-profit providers, has made this issue more complicated in both countries.
60. Before looking at this issue further, we need to remind ourselves that all 'public' universities are actually autonomous, private, charitable organisations that receive public income. They are often referred to as 'public' institutions because of their long-standing commitment to delivering, and having concern for, the 'public good'. The success of both the English and Australian university systems are in large part predicated on the institutional autonomy of our universities so it is important to remember this detail.
61. There is also an important distinction to make between private not-for-profit and the rise of the new for-profit institutions in the higher education market. The former have existed, albeit on a limited basis, for a long time in the UK and may indeed have elements of the 'public good' in their objectives. By contrast, for-profit universities are, by definition, driven by delivering a profitable product to market and are very unlikely to be concerned about the wider public good. For-profit universities will no doubt gain a growing share of the higher education market in both countries in future years. The question I would like to examine is how well the funding and regulatory systems in England and Australia are able to manage the growth of for-profit providers in a way that maximises the positives (choice, diversity, quality) and minimises the risks (fraudulent or exploitative providers, low-quality provision, high dropout). There are lessons to be learnt from both systems.

Treatment of for-profit providers in the English and Australian systems

62. Historically, the Higher Education Funding Council for England (HEFCE) has been explicit in constraining HE funding to ensure that public investment in higher education does not go to for-profit providers. The 2012 reforms and the introduction of £9,000 fees have shifted the landscape for for-profit providers. Alternative providers (APs) currently have a lower tuition loan cap of £6,000. When you consider that these fee loans carry a significant public subsidy, this is a major shift in the flow of public investment in HE in England.
63. The shift of funding away from direct public investment in teaching toward fee loan subsidy has resulted in a (perhaps) unintended redirection of public subsidy into for-profit providers at present. Possibly due to the very small numbers involved or the lack of awareness about the public subsidy of fee loans, this has not registered in public debate so far but it does, and still could, raise some interesting issues. Because the Australian model provides the option of an undergraduate FEE-HELP loan that carries almost no subsidy, it offers an obvious solution to this issue whereby students at for-profit providers have access to FEE-HELP but not to subsidised HECS-HELP loans.
64. The Australian approach carries obvious lessons for England in providing clarity of allocation of public investment whilst still providing fee loans to all students. It is interesting to recognise, however, that there is growing pressure from for-profit providers in Australia to allow their students access to the subsidised HECS-HELP loans. It is, therefore, possible that Australia might move closer to the English system on this issue rather than the other way around. The

public-political discourse on this issue is likely to decide the outcome in both countries, although England doesn't have an alternative loan offer as things stand at present.

Funding on the basis of retention

65. One string in the bow of the English system that the Australians might do well to consider is a funding system that is more responsive to retention. In England's pre-2012 funding system, the HEFCE funding methodology ensured that funding was on the basis of completion of that year of study, with adjustments made for any students that dropped out throughout the year. Whilst this had to be changed with a shift to fee-based funding, England sensibly preserved the principle and ensured that fee loans are paid to universities at three points throughout the year – allowing funding to be withheld for any students that have dropped out. By contrast, in Australia, funding – base funding and fee loan income – is received in one instalment. More precisely, funding is received on the basis of those students who remain enrolled at the census date, which is no more than 20% of the way through the unit. The Australian Government does adjust base funding according to information collected on the census date. Nevertheless there is considerable scope to increase the responsiveness of funding to retention in Australia.
66. England has a hard-wired disincentive for fraudulent activity by rogue providers. Whilst this has not been a major issue in the Australian higher education system recently, it has been a concern in the further education (FE) or VET (vocational education and training) sector with the unwelcome activity of some rogue RTOs (Registered Training Organisations). Funding on the basis of retention also provides more options for managing rising rates of non-completion or drop-out – something that might be more relevant to the Australian HE sector in an era of 'demand driven' expansion with declining ATAR¹² entry scores perhaps.

viii. For England, possibly the most important lessons can be learnt from the undergraduate FEE-HELP loan design in particular; a Government fee loan system that carries little or no public subsidy. And for Australia, some considerations about the benefits of a funding system that is more responsive to retention.

¹² Australian Tertiary Admission Rank (ATAR). The ATAR is a percentile score up to 99.95 which denotes a student's rank relative to their peers in their final school assessment.

Chapter: Design of fee loans

“An important principle of a well-designed loan system is that the loan is repaid, in full, by the majority of borrowers” Nicholas Barr, 2013.

67. Arguably, this principle has been forgotten, at least by England. One of the motivating factors of undertaking this study was to get to the bottom of something that puzzled me – why is it that the Australian Government and officials and even their Treasury are so relaxed about the amount of fee loans going out in an expanding system? They are certainly not relaxed about the growing cost of ‘base funding’ or Commonwealth funding (direct funding for teaching) so why are they so relaxed about loans? In the context of growing concerns about the escalating subsidy of fee loans (or ‘RAB charge’) in England, you can understand why this was of particular interest. It is in large part related to the overall system design already described in Chapter 2 but it is also related to the loan design in Australia, which we shall look at in detail in this section.
68. As well as his first principle about full repayment in the quote above, Nicholas Barr has also argued that a well-designed loan system should protect low earners and achieve progressive repayments on an income-contingent basis. Whilst both systems achieve well on these counts, they do much less well on the first principle of full repayment by most borrowers.
69. This principle of full repayment is therefore an important challenge for the design of the fee loan system in both countries but perhaps more so in England where public subsidy is close to 45%¹³, the average repayment period is over 26 years and where over 60% of graduates are predicted to benefit from the write off of loans after 30 years. In Australia, HECS-HELP loans do carry a public subsidy but it is a much lower figure of around 25% (similar to the 28% RAB charge of the pre-2012 English system) with an average repayment period of just 8 years. FEE-HELP loans stand out as passing this repayment test for a well-designed loan system – they get paid back in full by the cohort as a whole (if not every individual). Undergraduate FEE-HELP loans carry virtually no public subsidy due to the surcharge added on graduation and also carry a relatively short repayment period despite maintaining a high earning threshold and progressive repayment structure.
70. Understanding how differences in the design of the loan and repayment systems create these different outcomes deserves further investigation but, first, let us consider what we mean by an income-contingent loan.

Understanding income contingent loans

71. In a small higher education (HE) system it is feasible, albeit highly regressive, for the government, in other words the taxpayer, to fund higher education in full (Barr, 2010). In countries like England and Australia, however, where there is mass higher education alongside a political consensus to limit tax increases, it is necessary to bring in private finance of some sort. Assuming most governments would share the broad objectives of seeking to improve quality, access, expansion and control of public expenditure, there are two big questions for any government about higher education: how to bring in private investment and; how to distribute the remaining, significant public investment to best achieve these objectives.
72. Income-contingent loans (ICLs) are a method of bringing private finance into higher education and, therefore, relate primarily to the first question but the loan design will have implications

¹³ House of Commons, March 2014
www.publications.parliament.uk/pa/cm201314/cmhansrd/cm140320/text/140320w0002.htm#140320w0002.htm_wqn21

for the second. ICLs facilitate private contribution without requiring upfront payment, providing a mechanism for consumption smoothing whilst protecting access to HE. ICLs also solve the difficult question of how to facilitate loans for human capital formation given the obvious lack of physical collateral (Freedman, 1955) (Barr N. , 2001) (Chapman, 2004). In effect, the Government offers the student an upfront loan to cover the cost of a 'fee' or 'contribution' and, in the case of England, an additional loan to help with living costs, which the graduate then starts to repay as a percentage of their salary once they cross a specified earnings threshold. In both countries, this repayment is automatically deducted from the graduate's salary through the central system for income tax payments.

73. As well as establishing the feasibility and suitability of income contingent loans in higher education in the first place (Barr, 1989), (Barr, 2001), (Chapman, 2011), Barr and Chapman have also debated the case for real interest rates (Barr & Johnston, 2010), (Chapman, 2011), (Johnston & Barr, 2013). They have also both examined other applications for income-contingent loans – either in different countries (Barr, et al., 2009) (Armstrong & Chapman, 2011) (Chapman & Sinning, 2011) or, in Chapman's case, different public policy areas such as extended parental leave (Chapman & Hunter, 2009) (Chapman & Higgins, 2009) (Chapman, Higgins, & Withers, 2009).
74. The main benefits of an income contingent loan system are:
- Everyone can afford HE at point of entry (discarding issues of living cost)
 - Government carries the financial risk, not the individual – i.e. low earners are protected
 - The impact on demand for HE of any fee increase will necessarily be muted because of the nature of ICLs – designed to minimise the effect of upfront 'fee' level on demand for HE
75. International research has repeatedly demonstrated a relatively low price elasticity of demand for higher education (Dynarski, 1994) although it is important to recognise that 'students from more disadvantaged backgrounds are more sensitive to net price changes' (Santiago, 2008). IFS has demonstrated that "increasing fees without increasing loans and/or grants by the same value or more will result in a negative impact on participation" (IFS, 2010). Income contingent fee loans are therefore essential to ensuring that an increase in fees does not flatten demand over time – particularly for students from low-participation backgrounds. For a more in depth review of these issues and consideration of this research, please see the University Alliance report 'The impact of fees; a review of the evidence' (Aston & Shutt, 2010).
76. This chapter does not compare the extent to which ICLs have facilitated a 'market' in HE based on fees – precisely because they are designed to flatten the effect of fees on demand, this is not a particularly illuminating question to apply to ICLs. This chapter will not look at the impact of ICLs on 'choice' – again because ICLs are specifically designed to enable individuals to afford any course up front and any career choice after graduating because the income contingent nature protects low earners. Whether individuals are making rational choices is more about the question of information, advice and guidance about how ICLs work rather than the mechanism itself. The dependence of the success of ICLs on good understanding of how they work is something that justifies further investigation or separate research.
77. Income-contingent loans have been chosen by both countries as a mechanism for increasing private investment in HE. The particular design of the loan and repayment system has varied across the two countries and across different Governments. These differences allow us to observe the impact of design changes.

The Australian loan systems in detail: understanding HECS-HELP and FEE-HELP

78. Figure 6 below gives a summary of both HECS-HELP and FEE-HELP in comparison to the English system. HECS-HELP is the subsidised fee loan available to most undergraduate students and 40% of postgraduates in Australia. There are HECS-HELP maximums or controls because this is part of the mainstream, subsidised system and these courses / students also attract 'base funding' – which is direct funding for teaching (see Figure 5). There are three HECS-HELP maximum levels between \$6,044 and \$10,085 (about £3,505 to £5,849) depending on course (see Chapter 6 for more detail and Annex 1 for a full list of contributions by subject). The ratio of HECS-HELP to base funding, currently stands at about 40:60 overall but varies significantly by subject (see Figure 7). The level of base funding and HECS-HELP is the same for both undergraduate and the 40% of postgraduate courses that attract state support, based on subject.
79. FEE-HELP is a Government loan available to any student that cannot access a subsidised place which comes with a subsidised HECS-HELP loan, whether at undergraduate or postgraduate level. In 2012-13 around 75,000, 17% of all places, were FEE-HELP places (undergraduate and postgraduate); a significant proportion of the overall system¹⁴. The fee charged by the HE provider is not limited and will usually cover 100% of cost (fees are set according to both cost and market value). There is a lifetime loan allocation of \$96,000 (about £56,000) to allow students to re-train and re-skill throughout their lifetime.
80. FEE-HELP is slightly different for postgraduate and undergraduate students. Undergraduate FEE-HELP loans carry a surcharge of 25% (not for postgraduate FEE-HELP). The surcharge gets added to the total loan value. In effect, this covers the Government's cost of borrowing and any non-repayment and means that the loan is virtually non-subsidised. This has created a fee loan system, with a lifetime loan allocation, that carries virtually no cost to Government. Undergraduate FEE-HELP is proof that a non-subsidised Government loan system is achievable.
81. Income contingent loans for postgraduates were first introduced in 2002 as the Postgraduate Education Loans Scheme (PELS). They were the first extension of income contingent loans to full fee paying places, though restricted to public universities at that time, and so the Government didn't impose a loan fee. Postgraduate FEE-HELP replaced PELS in 2005. Access was extended to students at alternative providers but the policy of subsidising postgraduate loans (or not applying a surcharge to these loans) continued.

¹⁴ www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1314/QG/HELP

Figure 6: comparison of loan design and outcomes for England and Australia

	English fee loan	HECS-HELP	FEE-HELP
LOAN			
Max loan value (1 year)	£9,000	£3,500 - £5,850 (3 bands by subject)	£56,000 (lifetime maximum)
Average debt on graduate (1)	£36,870	£16,000	£16,000
REPAYMENT			
Earning threshold	£21,000	£30,000	
Repayment rate once over earning threshold	9% of earnings over £21,000	4% - 8% of total earnings	
Interest rate	Progressive, up to 3% above inflation	Zero real interest rate (inflation only)	
Surcharge	0	0	25% (UG only)
OUTCOME			
Loan subsidy (RAB)	45% (2)	25%	25% (PG), 0% (UG)
Average repayment period	26 years+ (3)	8.4 years (4)	
Benefit from 30 year write-off	60% (3)	write-off at death	

Notes:

- 1) English figures are based on an average fee of £8,450 per year (OFFA, 2013) and include average maintenance loan of £3,840 per year www.parliament.uk/briefing-papers/sn01079.pdf Australian figures are based on information from the Australian Government (see footnote 14) but does not distinguish between HECS-HELP and FEE-HELP figures. There is no maintenance loan equivalent in Australia as their student support system is run through our DWP equivalent.
- 2) House of Commons, March 2014 - www.publications.parliament.uk/pa/cm201314/cmhansrd/cm140320/text/140320w0002.htm#140320w0002.htm_wqn21
- 3) Institute for Fiscal Studies (IFS), UK.
- 4) Australian Government information, see footnote 14.

82. There is a single repayment system for both HECS-HELP and FEE-HELP that does not vary by loan type. Similar to England, there is a high earnings threshold for repayments of \$51,309¹⁵ in 2013-14 (this converts to just under £30,000 but in terms of both average graduate salaries and purchasing power this is similar to England's £21,000 threshold).

83. The repayment system above this threshold does vary considerably, however, and in large part explains the different repayment outcomes overall between the two systems. As shown in Figure 6, once you cross the \$51,309 earnings threshold you pay a % of your total earnings, rather than the 9% of earnings above the threshold that English graduates pay. Australian graduates pay between 4% and 8% of their total earnings once they are over the threshold. In effect, Australian graduates make larger contributions once they cross the earnings threshold and pay back much faster as a result.

¹⁵ www.ato.gov.au/Rates/HELP-repayment-thresholds-and-rates/

84. As an example, a graduate earning £30,000 in Australia would pay £125 a month compared to just £67.30 in England. These higher repayment rates, alongside a lower overall debt value and no real interest rate, explain why an Australian student will pay off their loan in an average of 8.4 years compared to 26 years in England.
85. The Australian system is equally progressive across the system as a whole but tougher on those just above the threshold in order to achieve shorter repayment terms. Arguably, at just £7.50 a week contributions on earnings of £25,000, English graduates could afford to pay more to reduce their loan value faster but that is ultimately a political judgement.

ix. For English observers that are concerned about the 45% public subsidy on student loans, a vital lesson is that it is not better employment prospects that are allowing Australian graduates to pay back their loans faster (8 years on average, compared to our 26 year); it is lower debt levels and a better designed repayment system – something England needs to learn from.

x. The Australian system is distinct in having a tougher, shorter repayment period once over the earnings threshold. For most graduates, this means an effective – and still affordable - means of getting their loan paid off in full before they reach 30. It also means a lower level of public subsidy (or RAB) on student loans for the Government.

So what does this mean for the outcomes of the loan system?

86. Figure 6 lists the four factors in the design of a loan system: earnings threshold for repayment; repayment rate over earnings threshold; interest rate; and surcharge. Alongside the total debt value of the graduate, it is these factors that affect the outcome of the loan design for both graduates (for repayments) and Government (for subsidies / cost).
87. In England, it is the combination of a high debt value alongside a relatively high earnings threshold and low contribution requirements over the earnings threshold that result in the long average repayment period of 26 years and high subsidy cost to Government (45% RAB charge) as shown in Figure 6. The real interest rate is a progressive tool for gaining higher repayment from high earners but, in combination with other factors, is not enough to significantly reduce the Government subsidy. With over 60% of graduates benefiting from the 30-year write-off of debt, this is not surprising.
88. By contrast, Australia has a zero real interest rate and manages a much faster 8 year average repayment period. This is a result of much lower overall debt profiles on graduation alongside higher repayments for graduates once they cross the earnings threshold. Interestingly, the earnings threshold is equally high compared to England – higher in fact – but payments of 4% - 8% of total earnings once you are over the threshold result in much higher contributions for nearly all than the English method of 9% of earnings above the threshold.
89. The undergraduate FEE-HELP part of the system then adds a 25% surcharge on loans, which means there is virtually no public subsidy on these loans. In a system where, before 2012, any excess demand was taken up on the FEE-HELP side and these students carried zero public investment from base funding and almost zero subsidy on loans, you can start to see why their Government is much more relaxed about loans going out. With 100% of loan value for non-subsidised FEE-HELP loans sitting on Government books as an asset thanks to accrual

accounting method (the same accounting method as used in England) and a much shorter average repayment period compared to England, the picture becomes even clearer.

90. The removal of number controls in 2012 has confused this picture slightly but not entirely. Given that HECS-HELP loans carry a relatively modest subsidy of around 25%, the Government is still more concerned about the increased cost of base funding (60% of course cost) than about the loan debt.

xi. FEE-HELP loans have enabled the Australian Government to do two really important things that the English system is not able to afford: first, offer a fee loan to every student and second, offer a lifetime loan allocation; allowing students to re-enter the system and re-train throughout their career. This has to be the primary lesson to learn from the Australian system for England.

Chapter 5: Student number controls

Understanding 'demand driven' policy in Australia

91. This chapter provides the opportunity for a closer look at what has happened in Australia since their student number cap for subsidised HECS-HELP entrants was removed in 2012. In very crude terms their recent 'demand driven' policy resulted in a massive explosion of university enrolments. There was a 23% growth in this part of the system in the four years from 2009-2013. This started before 2012 because the Government relaxed caps and providers started to expand in anticipation of the change. This is an impressive level of expansion, particularly when you consider that participation rates were by no means low before they lifted the cap. Expansion has started to plateau since 2013-14, as you would expect, due to unmet demand being exhausted and the balance of supply and demand coming into closer equilibrium.
92. One of the stated aims of the policy was to improve access for non-traditional students, including those from rural communities. On these grounds, the policy has been of mixed success. While the proportion of Indigenous Australian students has increased markedly, the proportion of students from low socio economic status backgrounds has increased measurably but modestly, and the proportions from rural and isolated backgrounds have continued their 15-year fall. Certainly there are those in Australia that sign up to the stubbornly persistent opinion that 'more equals worse' but the majority opinion seems to be that this growth has been positive for Australia. The questions it has raised, quite rightly, relate to quality and outcomes (particularly employment outcomes) for students. There are appropriate questions that warrant close investigation – particularly when we know that the average entry score of university entrants has fallen to accommodate this expansion.
93. Another legitimate issue is the financing of such expansion. This particular expansion has come at significant cost to the Federal Government in base funding, which is direct Government funding for teaching. The cost has been estimated to be as high as \$4bn Australian dollars (about £2.3bn) – way above any anticipated projections. Again, there is little mention of the additional loan cost in Australia – even though these are HECS-HELP loans that carry a modest public subsidy – but we now have a better understanding of why that is (see Chapter 4). No doubt the Government was keen to introduce more 'market forces' into HE but hadn't quite anticipated how the regulated, subsidised, quasi-market might react; a debate that is very much alive in England. With price controls still in place there was a surge in enrolments, including possible substitution from FE at the sub-bachelor level, and the big questions in Australia are now about quality and retention. A new conservative Coalition Government was elected in September 2013 with an election promise of keeping the cap off but this promise is being tested.
94. So the Australian example might suggest that England would have to weigh up improved access against questions of quality and outcomes for students alongside increased cost? Well, increased cost is inevitable in the English system when it comes to growth of undergraduates who can access a fee loan but apparently this will be covered by the sale of historic loan books. I shall choose not to get distracted by this issue because there are some more interesting insights to be gained on the other side of the picture – quality, standards and the student experience.

Why England might fare differently following the removal of number controls in 2015-16

95. There are a few small but significant differences in the English model that might mean the English experience of quality and student outcomes will not be identical to that of its Australian cousins in recent years, since adopting a 'demand driven' policy for subsidised HECS-HELP students.
96. First, and most importantly, the English system still funds on the basis of retention. The Australian system does make adjustments for any changes in student numbers at the census date but it is slightly less responsive to retention / drop out throughout the year – as mentioned in Chapter 3. In the post-2012 £9,000 fee system in England, the fee loan that goes to the university via the Student Loan Company (SLC) is distributed at three points across the year. If the student has dropped out at any point during that year, the university stops receiving funding for that student.
97. This creates a significant difference in incentives and disincentives for providers in the system. The English principle of funding based on retention creates a strong incentive for institutions to be even more concerned about the success of their students. Of course the vast majority of Australian universities share this concern without the need for funding incentives but there are always those willing to exploit an opportunity if one opens up. The English system creates a strong disincentive for rogue providers to set up, receive funding, and then close down or let down their student in a way that the Australian system does not. The Australian system has high 'minimum standard thresholds' for entry to the market for new providers but it is less able to control the behaviour of existing providers in quite the same way as England can with staggered funding points throughout the year.
98. Secondly, England has an established track record of regulating standards by co-regulation between the universities themselves and the Quality Assurance Agency (QAA) as well as monitoring and bench-marking retention rates through the HEFCE Performance Indicators. England also has better (although by no means perfect) student information thanks to recent developments with the National Student Survey (NSS) and now the Key Information Set (KIS). These give the Government in England more tools to protect both students and standards in an expanding system.
99. Thirdly, the £9,000 fee is considerably higher than any fees for further education level qualifications at FE colleges, which means that the substitution effect (students undertaking HE qualifications that otherwise would have taken FE qualifications) would be much less likely to happen. High sticker prices, even with fee loans available, mean that the removal of student number controls is much less likely to persuade anyone considering FE in England to undertake an HE qualification as an alternative.
100. Together, these three factors mean that the English experience is unlikely to have the same experience of 23% growth over four years when student number controls are removed in 2015-16. The wild card, however, is the recent growth of provision by for-profit providers, particularly at sub-degree level (or 'sub-bachelor'), whose students can now access subsidised fee loans (up to £6,000) following the 2012 reforms. Depending on the treatment of these providers in a relatively untested market, there may well be a very rapid expansion of growth in this area at cost to Government through subsidised fee loans. The level of this possible growth is hard to project at this point but it could be a very high percentage increase from a relatively low base. A lot will depend, therefore, on the treatment of new providers – those without degree awarding powers – that are offering sub-degree qualifications. These are likely to be offering qualifications to small numbers of student but cumulatively could start to become significant (similar to Australian RTOs). For the alternative providers that will benefit

from the removal of student number controls¹⁶, the rate of growth could be very high. Based on the current funding system in England, this will come with significant public cost in terms of loan subsidy unless a non-subsidised fee loan (using the model of the Australian undergraduate FEE-HELP loan) can be established in this part of the system before 2015-16, or very shortly after.

101. In an ideal world, you would not choose to put tough number controls on new providers because this goes against the principle of increased marketisation of the HE system, where choice and diversity is thought to improve quality and reduce price. The risk, of course, is that the opposite happens – that quality is harder to regulate, price actually increases and all of this happens at cost to the public purse because fee loans are carrying a public subsidy. Without wanting to explore the likelihood of either option in any depth I would just observe that the Australian model of a non-subsidised undergraduate FEE-HELP loans seems to provide options that would massively reduce the risk to the public purse.

xii. The English system already has levers in place to manage quality (funding on the basis of completion, robust retention measures, co-regulation of standards and student information) and price (fee controls). The lesson for England to learn is that a non-subsidised Government fee loan could facilitate the expansion of new providers and new types of provision without carrying considerable public subsidy. A FEE-HELP type approach would considerably reduce the risk to the public purse, whilst enabling for-profit providers to grow.

¹⁶ A growing issue in the English HE system is that, due to the lack of an HE Bill following the 2012 reforms, new for-profit providers currently do *not* have their numbers controlled in the way that established universities do. It is intended that in 2014-15 student number controls will start to apply to these providers. After 2015-16, the Government has said they will 'replicate, as far as possible, for alternative providers, the arrangements for HEFCE funded institutions [i.e. the removal of number controls] but will retain controls for high risk providers.' HEFCE grant letter from BIS, February 2014 www.hefce.ac.uk/news/newsarchive/2014/news85409.html

Chapter 6: Fee variation, transparency and language

Fee variation

102. Figure 7 below looks at the different sources of public and private investment, including different fee levels by subject in Australia, for humanities and medical degrees (first degree, undergraduate courses). This breakdown allows us to draw some interesting comparisons between the two countries – not just the balance of public and private contributions but the overall levels of resource by subject and, with particular importance in this section, the relative transparency (or lack) of the two systems.
103. If we start by comparing the total resource for humanities subjects and medicine in the two countries, the figures are remarkably similar for medicine at around £18,000 but vary a little more for humanities; just under £7,000 in Australia compared to just under £8,000 in England.
104. If we compare this to the average fee for these subjects in both counties, you will notice two things: first that the average fee in England is actually higher than the total resource received by the university for teaching this subject; second that the fee varies by subject in Australia where it does not in England. Indeed, the reason the English system provides a slightly higher unit of resource for humanities is because of a flat fee structure compared to the Australian system that varies fee maximum by subject.

Figure 7: Comparison of public: private contribution between England and Australia (in GBP) for Humanities and Medical degrees (first degree, undergraduate courses)

		Humanities		Medical	
		England (a)	Australia (f)	England	Australia
Private contribution	Max fee level	£9,000	£3,505 (g)	£9,000	£5,849
	Average fee	£8,425 (b)	£3,505	£8,425	£5,849
	Average actual contribution	£5,055 (c)	£2,630 (h)	£5,055	£4,385
Public contribution	Direct funding	£0 (d)	£3,143 (g)	£10,000 (i)	£12,338
	Loan subsidy	£3,370 (c)	£875	£3,370	£1,464
	Total public contribution	£3,370	£4,018	£13,370	£13,802
Total resource		£7,925 (e)	£6,650	£17,925 (e)	£18,187
Private contribution as a % of total funding		64%	40%	28%	24%

Notes:

- 1) Figures based on new regime students entering in 12-13.
- 2) Average fee minus fee waiver (OFFA, 2013).
- 3) Based on 2013 estimates of 40% subsidy, this has since increased further to 45% in 2014.
- 4) The post-2012 system provides no direct public funding for teaching for humanities subjects.
- 5) Average fee, plus direct funding, minus 20% of fee income over £6,000 (£500), which is around the average spend of HEIs on direct student support (bursaries) (OFFA, 2013)
- 6) Based on HECS-HELP system of publicly-subsidised HE. Conversion rate of \$1AUD :£0.58GBP.
- 7) 2013 figures for HECS maximum and Commonwealth contribution, DIISRTE.
- 8) Based on estimate of 25% loan subsidy. Data not available to allow variation by subject.
- 9) Funding for high cost subjects plus share of other direct funding (see (d)) (HEFCE, 2013) .

105. The first observation - that the total resource a university receives for a humanities student in England (£7,925) is actually lower than the average fee for that subject (£8,425) - is because, on average, English universities spend £500 of fee income per student on improving access, including providing bursaries, for the most hard to reach students. Whilst this benefits the student cohort as a whole, it is not resource for teaching.

106. The second observation is that fees (or HECS maximums) vary by subject in Australia. Figure 8 shows fee variation in Australia in more detail. The three levels of HECS maximums (a fee for comparative purposes) are £3,505, £4,995 and £5,849, depending on your subject. The HECS maximum is set partly by subject cost but also by market value – this is demonstrated by the fact that both medicine and veterinary sciences (both high cost subjects) sit alongside law, economics and accountancy (all high market value subjects) in the highest fee band. There are then eight public funding levels that vary to achieve a particular level of total resource for each subject in university funding. Annex 1 gives a full list of HECS or fee maximums and core public funding, referred to as base funding, by subject.

Figure 8: Australian HECS or fee maximums by subject (summary)

Subject groups	HECS maximum
Medicine, veterinary science, dentistry, law, economics, accounting	£5,849
Science, engineering, allied health, agriculture	£4,995
Education, nursing, humanities, maths, computing, art and design, social studies, languages, performing arts	£3,505

Transparency

107. Possibly the more surprising observation for English humanities students would be that their average contribution is *only* 64% of total resource. The high sticker price close to £9,000 means that most students, parents and commentators would be surprised to realise that the average private contribution of English students is actually only just over £5,000 because of the high public subsidies that apply to fee loans.

108. This highlights a significant problem with the transparency of the English system post 2012. It could be characterised as the worst of both worlds where the Government is still putting nearly 45% of all investment into humanities subjects through generous loan subsidies but is getting absolutely no credit for doing so – quite the opposite in fact. Equally, students are convinced that they are paying the full cost of their degree, which is far from the truth of the matter for the cohort as a whole.

109. Other interesting observations that Table 7 allows, is the fact that for medicine, the actual fee contribution (not the sticker price but the average contribution when you discount subsidies) is very similar between the two countries - £5,000 in England compared to £4,385 in Australia. The public contribution to medicine is even closer at £13,370 and £13,802 in England and Australia respectively.

110. For humanities, again it is really interesting to observe that the public contribution is very similar at £3,370 in England and £4,018 in Australia. Total resource for humanities is slightly higher in England given the flat fee structure. This is particularly important to recognise in light of reaction to the 2012 reforms in England from those in the humanities as well as many public commentators. It was widely reported that the Government was removing all funding for the humanities.

111. This is an excellent illustration of the problem the English Government has with transparency of its chosen approach to move public investment away from direct funding for teaching and into fee subsidy. Yes, it is true that there is no longer direct funding for teaching in the humanities in England but public investment remains significant. Public investment in the humanities is not far off that in Australia where there is still direct public funding for humanities teaching; and overall resource for the humanities is actually higher in England than Australia.

112. The problem the Government has in England is that fee subsidies are not well understood – they are not transparent. The result is that students think they are paying the full cost of humanities subjects and that Government are lambasted for pulling out all public investment in the humanities – neither is true. Transparency, however, is a very real issue.

xiii. The lesson for England here is that transparency matters in the funding system – particularly if you aim to build a social contract on the idea of a shared contribution towards the cost of gaining a degree.

Language

113. Related to the issue of transparency, is the importance of the language used to describe the financial system for students and parents. It is notable that Australia uses the language of HELP – the Higher Education Loan Programme – and the public understanding of this system, broadly speaking, is that this is about the Government providing ‘help’ for students to meet the cost of studying at the point of purchase. HECS fees are called student contributions and direct funding is called the Commonwealth contribution in official documents. In England, we are still using the language of ‘fees’ and ‘fee loans’ to describe exactly the same thing and we wonder why we get students rioting and public discourse dominated by a debate of ‘fees’ and ‘debt’.

114. The Australians got this right from the start. While we were establishing the language of ‘fees’ and then ‘top-up fees’ the Australians were establishing the language of the Higher Education Contribution Scheme or ‘HECS’ in the public mind-set. The idea of HECS was that graduates made a contribution towards the cost of gaining a degree. This has since evolved in Australia to HECS-HELP and FEE-HELP – a shared language that is built on graduate contribution and Government help to finance the upfront cost of your studies. Meanwhile, England was battling against public misconception of the upfront cost fees and burdensome graduate debt. It is a fascinating contrast when you realise that before 2012, these were almost identical systems with almost identical levels of graduate contribution and Government support.

115. Of course, public reaction in 2012 was also to do with England trebling the graduate contribution or ‘fee’ from £3,000 to £9,000 and also to do with the lack of transparency in the system due to high loan subsidies (a Government contribution) that go un-noticed and unrecognised, but surely we would have stood a better chance of students understanding that this is about a shared cost with both public and private contributions if we’d have used different language to describe the finance system. A graduate contribution scheme, higher education contribution scheme (HECS) or a Government HELP scheme (higher education loan programme) would surely have helped students to understand that they would only be asked to make a contribution towards the cost of their degree after they had graduated and were earning.

xiv. The lesson for England here is that language matters in the funding system – particularly if you aim to build a social contract on the idea of a shared contribution towards the cost of gaining a degree.

Chapter 7: Regulation

116. A chapter on regulation you ask? Well regulation may have a reputation for being dull and incredibly complicated but actually there are some informative comparisons to be drawn between the two countries – particularly in handling new providers and new entrants to the market, which is highly relevant to both systems as they expand and diversify.

RTOs and the VET sector in Australia – what not to do

117. Whilst I believe that more doesn't mean worse when it comes to higher education, it is also true that more doesn't necessarily mean better. It is actually the FE or VET (vocational education and training) system in Australia that can teach us some salient lessons about the influx of new providers into the market – particularly in contrast to the experience in their HE sector. The HE sector in Australia has seen relatively gradual and highly successful growth of the private providers into their system, particularly since 2005 when the FEE-HELP system started (although many were actually established well before 2005, their enrolments of domestic students expanded greatly from 2005 when their students were given access to FEE-HELP). There are 173 registered higher education institutions (HEIs) in Australia, which includes 40 universities (3 of which are small, private, not for profit). Of the 133 HEIs that are not universities, 90 are approved to receive FEE-HELP loans for their students. These 133 alternative higher education providers account for around 10% of enrolments in Australia. Of course these alternative providers (some for-profit and some not) are a mixed bag in terms of scale and quality but on the whole, these private providers have a good reputation for providing specialist, high quality higher education qualifications.

118. By contrast, the vocational education and training (VET) system in Australia opened up to Registered Training Organisations (RTOs) around the same time and has experienced an explosion, so that there are now about 5,000 VET providers. There are approximately 3,800 private providers, with the remainder including some schools, universities, community education providers, and industry and professional bodies, all of which are mostly small. Unlike higher education where institutions have to have the delivery of HE as their main purpose, VET institutions do not have this requirement. Many RTOs are credible and reputable not-for-profit training providers but thousands are 'car boot' providers that register between a handful and thousands of students, get paid thousands (sometimes millions) of dollars from the State Government in fee loan funding for the students and then either close down shortly after or fail their students. The level of reported fraud and student non-completion is astonishingly high. Some have argued that poor quality programmes, delivered in a fraction of the standard time, with terrible employment outcomes is just as big a problem as fraud, even though providers are officially sticking within the rules.

119. The FE regulator has an almost impossible job due to the sheer scale of thousands of tiny new providers that they cannot possibly keep on top of. The numbers are eye watering: over 5,000 RTOs, but the biggest 100 (that is 2% of providers) deliver almost 80% of teaching hours. In other words, 98% of all providers are delivering just 20% of all teaching¹⁷. It is the much maligned and misunderstood Tertiary and Further Education (TAFE) Colleges (59 in all) that have steadily lost student numbers (or teaching hours) thanks to the opening of the market to private providers. As well as dramatically losing their market share, they have had their budgets slashed as well. Commentators in Australia have argued that the FE Regulator is shutting down disreputable RTOs as fast as it can but a handful of new ones are popping up for every one they are able to close.

¹⁷ www.lhmartinstitute.edu.au/insights-blog/2012/06/89-vet-has-too-many-qualifications-and-is-too-complex

xv. The problem, and the salient lesson for England as well as the Australian HE system, is that the minimum threshold for entry to the market for new providers was set far too low. A regulator cannot be expected to regulate thousands of providers that are flooding into a new market where the doors are wide open. Many of the states staggered payments to providers on the basis of retention but this did not help. The really important lesson for England is that it is far more important to establish and enforce appropriate minimum standards for entry into the market when managing a growing and diversifying market.

Alternative providers in England – more than you might think

120. In 2012 (before fee changes) the department for Business Innovation and Skills (BIS) commissioned a report to provide a comprehensive picture of provision by privately funded Higher Education Institutions (HEIs) operating in UK higher education (BIS, 2013b) – some of the findings were quite surprising to the UK higher education sector because so much of this activity had gone un-recorded, un-regulated and largely un-noticed.
121. In 2012 there were 163 registered higher education institutions in the UK (UUK, 2013a), of which around 110 had university title.
122. The BIS research identified a total of 674 alternative providers. These were named, privately funded HEIs with over 160,000 students in total, including just under 80,000 UK domiciled students, although these were minimum estimates. 27 of the 674 providers identified were lead representatives of larger provider groups, often with multiple campuses or subsidiary colleges. The majority operate as for-profit organisations and were very newly established, with a large proportion catering to small numbers of students – 84% of providers had fewer than 100 students.
123. The biggest difference post-2012 is that alternative providers could receive fee loans for their students up to a £6,000 limit per student. To do so, these providers had to register with BIS / HEFCE, work with QAA and provide data returns. Two things have happened since 2012 as a result: the small number of large, longer established private providers have come closer into the regulated sector and a significant number of brand new, small providers have started providing qualifications (usually sub-degree level) that are accredited by a for-profit organisation that is an accrediting body only – not a provider itself.
124. This increased diversity in the market is most likely a positive thing but the lack of readiness for any one body to regulate a changing environment is concerning. The lack of an HE Bill following the 2012 reforms means that there is no single body with regulatory responsibility for the entire sector. HEFCE has always had regulatory responsibility for HEIs receiving public funding but it is increasingly important that this regulatory authority be extended to all HE providers full stop. The 674 named privately funded providers with 80,000 domiciled students should also come under their watch – not in exactly the same way as those receiving public funding, but in an appropriate and proportionate relationship.

xvi. This is where the Australian model of TEQSA has something to offer the English system. As a national regulatory body, TEQSA has regulatory responsibility for all HE providers, public or private, receiving public funding or otherwise.

xvii. Furthermore, TEQSA is responsible for establishing and maintaining a National Register of Higher Education Providers. Given recent student visa scandals with private providers – often English language providers – a National Register of HE Providers could be helpful in making more sensible visa rules. For example, England could return to an automatic 2 year right to stay and work for all graduates from those institutions on the National Register of HE Providers. This would put England back in line with Australia, Canada and other international competitors rather than the complicated and off-putting system we have at present.

TEQSA – is this HEFCE and QAA combined?

125. In the context of expansion and diversification of providers, perhaps we should not be surprised that the Australian Government established the Tertiary Education Quality and Standards Agency (TEQSA) in 2012 – the first national regulatory body for higher education ‘with teeth’. TEQSA has been established for the purpose of registering and evaluating the performance of higher education providers against the HE Standards Framework, specifically the Threshold Standards. TEQSA’s approach is informed by three key principles for regulation; regulatory necessity, reflecting risk and proportionate regulation.
126. It first identified 46 ‘risk factors’ against which it measures all HE providers but has since refined this process to identify 12 risk factors (including 2 composite financial indicators). All providers, even those that have operated for over a hundred years or more, have to have their licence renewed at least every 7 years. TEQSA’s role is to interpret and enforce the minimum threshold standards for entry to the HE market that were identified by an independent panel (HESP) and approved by the Minister. TEQSA has been applying these minimum thresholds to all HE providers since January 2012.
127. This is surely a welcome step in managing quality and maintaining the all-important HE brand in Australia but, interestingly and probably not entirely unexpectedly, the tough approach of TEQSA has met with considerable opposition from some of the established universities that are not used to having to prove themselves to an external regulatory body. Some of this will be teething problems but there has, quite rightly, been considerable dialogue between the QAA and HEFCE in England with TEQSA to see what lessons can be learnt on both sides.
128. From the English perspective it is helpful to consider whether TEQSA is the amalgamation of HEFCE and QAA as called for in the Browne Review in 2011, or at least whether it looks similar to the ‘meta-regulator’ role that many, including the UK HE Commission (Commission, 2013), have recommended for HEFCE in the post-2012 system. On closer inspection, it becomes clear that TEQSA is not an amalgamation of HEFCE and QAA because it has no funding role and because it doesn’t undertake the broader quality improvement activity that QAA is known for, which is made possible through the co-regulatory set up in the UK. Indeed, this broader quality improvement role was a feature of TEQSA’s predecessor the Australian Universities Quality Agency which has been lost in TEQSA’s tougher quality and standards regulation.
129. TEQSA does, however, provide a useful demonstration of what a single national regulatory body might look like – one that has regulatory responsibility for all HE providers right across the board. TEQSA takes a risk-based approach and is committed to the principle of

appropriate, necessary regulation; a differentiated approach rather than a 'level playing field' or 'one size fits all' approach, which so much of the current debate is focussed on in England.

130. The English system also lacks any equivalent to the Australian version of course accreditation. This is a really significant part of the regulation framework in Australia, as is the capacity to assess and grant an application for self-accrediting authority. Despite the rampant increase of franchise delivery of programmes in England, QAA does not have the authority to examine individual courses in the current system – this may need to change.
131. The prescription in Australia, through the agreed minimum standards, is that universities (and any provider / accrediting body for that matter) must take responsibility for ensuring that any third party delivering any part of a course or award in the name of, or accredited by, the principal must ensure the third party meets all of the standards and offers equivalent quality. Unlike in England, Australia looks to the original provider / accrediting body (the principal) directly to uphold the standards or face sanction itself. If the third party provider wants instead or additionally to enter the HE system itself, then it goes through the rigorous registration front gate and has to have its courses individually assessed and accredited by TEQSA. The Australian framework does not put the onus on the regulator to chase directly the third parties used or franchised by universities. This is an important feature. It leans heavily on the self-regulatory capacity of universities (or accrediting bodies) but with the spectre of external scrutiny and accountability for the same high standards.
132. Both QAA and HEFCE would need significant changes to their regulatory authority in order to operate in a similar way in the English system and this would require a change of primary legislation¹⁸. QAA may also need some adjustments to its ownership if it is to co-regulate this new sector.

xviii. In an English system that is about to experience further growth, TEQSA provides a useful example of a national regulator that has proportionate regulatory engagement with all HE providers, whether receiving public funding, fee loans or otherwise. TEQSA take a differentiated, risk-based approach rather than a 'level playing field' approach. Australia also looks to the original providers / accrediting body directly to uphold standards at franchise providers or face sanction itself – an important lesson for England with the rampant growth of franchise providers. This is a model that HEFCE could adopt without, necessarily, having to change the position or co-regulatory function of QAA but it would require changes to primary legislation.

¹⁸ see HEPI report no. 65 'Unfinished business?: higher education legislation'

Is co-regulation a better approach?

133. From the Australian perspective, the question is whether they might have something to learn from a more settled approach to co-regulation in England. Co-regulation is a system by which the QAA and universities have a shared agreement to regulate and improve standards. For providers receiving public funding, it is HEFCE that carries regulatory responsibility but HEFCE commissions the QAA to monitor and improve quality and standards. QAA does so through co-regulation. Co-regulation is more robust than simple self-regulation because the QAA has certain powers to intercede where there is poor performance, but the principle of shared responsibility and shared ownership of standards avoids some of the ownership issues that are being experienced in Australia at present.
134. Co-regulation is not a straightforward solution in a system that is not used to having a national regulator. Co-regulation was developed and has been refined over a long period of time in the UK but it is certainly true to say that it has reached a stage where QAA's approach might be a useful model in some regards, given some of the teething problems TEQSA is experiencing in Australia.

xix. From the Australian perspective, perhaps there is something for Australia to learn from the UK's approach to co-regulation of standards – a method that seems to be a little more harmonious but, so far, equally effective at ensuring standards and protecting students.

Chapter 8: Areas that deserve further comparison

135. There are some significant areas that deserve further comparison: the student support system; the student visa system; research impact; the innovation ecosystem; doctoral training centres; open access; and the future of the research landscape more widely. In each of these areas, the questions facing both countries are remarkably similar – and the approach both similar and yet different enough to warrant closer inspection.
136. There are many reasons why England would benefit from a closer policy dialogue with Australia. There is already an active dialogue and a Memorandum of Understanding between Universities Australia and Universities UK as well as between the Australian Technology Network of universities (ATN) and University Alliance. I hope this report, amongst others, will encourage a growing sense of cooperation, collaboration and shared learning between these two countries. By learning from each other and collaborating more effectively, we can only improve our respective higher education systems.

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Annex 1: Australian student contribution and direct public funding

Allocation of units of study to funding clusters and student contribution bands according to field of education codes 2014

Funding cluster	Part of funding cluster	Unit description	Field of education code	Maximum student contribution amounts (see footnotes for exceptions)	Commonwealth contribution amounts ⁴
Funding cluster 1 Law, accounting, administration, economics, commerce		Law	0909	\$10,085	\$1,951
		Accounting	0801		
		Business and Management	0803		
		Sales and Marketing	0805		
		Tourism	0807		
		Office Studies	0809		
		Banking, Finance and Related Fields	0811		
		Other Management and Commerce	0899		
		Economics and Econometrics	0919		
		Food and Hospitality	1101		
		Personal Services	1103		
		General Education Programmes	1201		
	Other Mixed Field Programmes	1299			
Funding cluster 2 Humanities		History	090305	\$6,044	\$5,419
		Archaeology	090307		
		Indigenous Studies	090311		
		Justice and Law Enforcement	0911		
		Language and Literature	091500		
		English Language	091501		
		Linguistics	091521		
		Literature	091523		
		Language and Literature not elsewhere classified	091599		
	Philosophy and Religious Studies	0917			

Funding cluster	Part of funding cluster	Unit description	Field of education code	Maximum student contribution amounts (see footnotes for exceptions)	Commonwealth contribution amounts ²
Funding cluster 3 Mathematics, statistics, behavioural science, social studies, computing, built environment, other health	Mathematics, statistics, computing, built environment or other health	Mathematical Sciences	0101	\$8,613	\$9,587
		Computer Science	0201		
		Information Systems	0203		
		Other Information Technology	0299		
		Architecture and Urban Environment	0401		
		Building	0403		
		Public Health	061300		
		Occupational Health and Safety	061301		
		Environmental Health	061303		
		Health Promotion	061307		
		Community Health	061309		
		Epidemiology	061311		
		Public Health not elsewhere classified	061399		
		Rehabilitation Therapies	061700		
		Massage Therapy	061711		
		Rehabilitation Therapies not elsewhere classified	061799		
		Complementary Therapies	0619		
		Other Health	069900		
		First Aid	069907		
	Health not elsewhere classified	069999			
	Behavioural science ¹ or social studies	Human Movement	069903	\$6,044	
		Political Science and Policy Studies	0901		
		Studies in Human Society	090300		
		Sociology	090301		
		Anthropology	090303		
		Human Geography	090309		
		Gender Specific Studies	090313		
		Studies in Human Society not elsewhere classified	090399		
		Human Welfare Studies and Services	090500		
		Social Work	090501		
		Children's Services	090503		
		Youth Work	090505		
		Care for the Aged	090507		
Care for the Disabled		090509			
Residential Client Care	090511				
Counselling	090513				
Welfare Studies	090515				
Human Welfare Studies and Services not elsewhere classified	090599				
Behavioural Science ¹	0907				
Librarianship, Information Management and Curatorial Studies	0913				
Sport and Recreation	0921				
Other Society and Culture	0999				

Funding cluster	Part of funding cluster	Unit description	Field of education code	Maximum student contribution amounts (see footnotes for exceptions)	Commonwealth contribution amounts ⁴
Funding Cluster 4 Education	Education	Teacher Education	0701	\$6,044 ²	\$9,974
		Curriculum and Education Studies	0703		
		Other Education	0799		
Funding cluster	Part of funding cluster	Unit description	Field of education code	Maximum student contribution amounts for 2014 (see footnotes for exceptions)	Commonwealth contribution amounts ⁴
Funding cluster 5 Clinical psychology, allied health, foreign languages, visual and performing arts	Clinical psychology, foreign languages, or visual and performing arts	Clinical psychology	090701 ³	\$6,044	\$11,790
		Northern European Languages	091503		
		Southern European Languages	091505		
		Eastern European Languages	091507		
		Southwest Asian and North African Languages	091509		
		Southern Asian Languages	091511		
		Southeast Asian Languages	091513		
		Eastern Asian Languages	091515		
		Australian Indigenous Languages	091517		
		Translating and Interpreting	091519		
		Performing Arts	1001		
		Visual Arts and Crafts	1003		
		Graphic and Design Studies	1005		
		Communication and Media Studies	1007		
		Other Creative Arts	1099		
	Allied health	Pharmacy	0605	\$8,613	
		Optical Science	0609		
		Indigenous Health	061305		
		Radiography	0615		
		Physiotherapy	061701		
		Occupational Therapy	061703		
		Chiropractic and Osteopathy	061705		
		Speech Pathology	061707		
Audiology		061709			
Podiatry	061713				
Funding cluster 6 Nursing	Nursing	Nursing	0603	\$6,044 ²	\$13,163

Funding cluster 7 Engineering, science, surveying	Science, Engineering or surveying	Physics and Astronomy	0103	\$8,613	\$16,762
		Chemical Sciences	0105		
		Earth Sciences	0107		
		Biological Sciences	0109		
		Other Natural and Physical Sciences	019900		
		Forensic Science	019903		
		Food Science and Biotechnology	019905		
		Pharmacology	019907		
		Laboratory Technology	019909		
		Natural and Physical Sciences not elsewhere classified	019999		
		Manufacturing Engineering and Technology	0301		
		Process and Resources Engineering	0303		
		Automotive Engineering and Technology	0305		
		Mechanical and Industrial Engineering and Technology	0307		
		Civil Engineering	0309		
		Geomatic Engineering	0311		
		Electrical and Electronic Engineering and Technology	0313		
		Aerospace Engineering and Technology	0315		
		Maritime Engineering and Technology	0317		
		Other Engineering and Related Technologies	0399		
Funding cluster 8 Dentistry, medicine, veterinary science, agriculture	Dentistry, medicine or veterinary science	Medical Science	019901	\$10,085	\$21,273
		Medical Studies	060100		
		General Medicine	060101		
		Surgery	060103		
		Psychiatry	060105		
		Obstetrics and Gynaecology	060107		
		Paediatrics	060109		
		Anaesthesiology	060111		
		Radiology	060115		
		Internal Medicine	060117		
		General Practice	060119		
		Medical Studies not elsewhere classified	060199		
		Dental Studies	0607		
		Veterinary Studies	0611		
		Agriculture	Agriculture	0501	\$8,613
	Horticulture and Viticulture		0503		
	Forestry Sciences		0505		
	Fisheries Sciences		0507		
	Environmental Studies		0509		
	Other Agriculture, Environmental and Related Studies		0599		
Pathology	060113				

1. Excluding clinical psychology, which is in cluster 5.

2. This maximum student contribution amount applies to students who commence their course of study on or after 1 January 2010, regardless of the course of study. Students who commenced their course of study prior to 1 January 2010 will be subject to the previous national priority maximum student contribution amount (indexed). In 2014 this amount is \$4,836.

3. Clinical psychology units of study are psychology units of study (Field of Education code 090701) that contribute to courses that are accredited for the purposes of professional registration by the Australian Psychological Society (APS) College of Clinical Psychologists, the APS College of Clinical Neuropsychologists, the APS College of Counselling Psychologists, the APS College of Educational & Developmental Psychologists, the APS College of Forensic Psychologists, the APS College of Health Psychologists, the APS College of Sport Psychologists and the APS College of Community Psychologists. Other units of study in psychology are in cluster 3.

4. The Commonwealth contribution amounts include the efficiency dividend. This is subject to passage of legislation;

From 1 January 2013, all students enrolled in accounting, administration, economic and commerce units can be charged the Band 3 rate and all students enrolled in mathematics, statistics and science units of study can be charged the Band 2 rate.



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