

# After demand driven funding in Australia: Competing models for distributing student places to universities, courses and students

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With a Foreword by Nick Hillman and an Afterword by Alec Cameron



Higher Education Policy Institute

**HEPI Report 128**

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# Foreword

## Nick Hillman, Director of HEPI

There is a tremendous amount in common between the UK higher education system (especially the English part) and the Australian higher education system. Policy debates in the two countries – on funding, research and internationalisation – closely parallel one another. Sometimes, as with the shift towards student fees and loans and on liberalising the rules for international students, the UK has followed Australia. On other issues, such as distributing research funding and knowledge exchange, Australia has looked to the UK as a model.

In 2012, Australia removed student number controls or, in the local terminology, introduced a ‘demand driven system’ based on student choice. There was no cap on bachelor degree numbers overall nor a cap at each institution. Funding followed students in a way that had not happened under the previous block grant system.

A few years later, in 2015, England followed suit. At the time, HEPI looked closely at the Australian experience to try and discern any lessons.<sup>1</sup> Now we know for certain that the results in both countries, as this report makes clear, were similar. They included: some individual institutions growing much larger; more satisfying of latent demand; and a boost to some institutions’ finances. On the negative side, students’ non-completion rates rose.

In Australia, after a few years of political change and wrangling, the demand driven system came to an end in 2017. The result

1 Andrew Norton, *Unleashing student demand by ending number controls in Australia: An incomplete experiment?*, HEPI Report 68, August 2014 <https://www.hepi.ac.uk/wp-content/uploads/2014/08/NORTON-As-uploaded.pdf>;  
Nick Hillman, *A guide to the removal of student number controls*, HEPI Report 69, September 2014 <https://www.hepi.ac.uk/wp-content/uploads/2014/09/Clean-copy-of-SNC-paper.pdf>

has been cuts to funding and, as this document makes clear, potential cuts to student places. Yet there is a demographic bulge coming that will raise demand and would otherwise be expected to fill more places. In the pages that follow, Andrew Norton calls for the return of a demand driven system, this time paid for by universities and students both taking some modest financial pain.

England remains at an earlier point in the policy cycle, with student number caps not yet seriously back on the political agenda. Some universities' admissions offices still have their foot firmly on the gas. But there are growing fears that student number controls could be on the way back just as our own demographic bulge starts approaching universities.<sup>2</sup> As in Australia, the main driver is the fear that, in a liberalised system that responds to demand, taxpayers are too exposed. In March 2018, Bahram Bekhradnia (HEPI's President) and Diana Beech predicted: 'It seems highly likely therefore that some form of rationing – whether overtly in the form of student number controls or otherwise – will need to be introduced'.<sup>3</sup>

So it is time, once more, to look closely at the Australian debate to reveal any lessons for the UK from the seemingly inexorable drift towards greater political control over how many people make it to higher education.

There is no better person to do this than Andrew Norton because he has been an official adviser to the Australian government on student number issues for many years and helped write the official review of the policy in Australia.

2 Nick Hillman, 'Whoever wins the election, English student number controls are set to return', *Times Higher Education*, 12 December 2019 <https://www.timeshighereducation.com/opinion/whoever-wins-election-english-student-number-controls-are-set-to-return>

3 Bahram Bekhradnia and Diana Beech, *Demand for Higher Education to 2030*, HEPI Report 105, March 2018 <https://www.hepi.ac.uk/wp-content/uploads/2018/03/HEPI-Demand-for-Higher-Education-to-2030-Report-105-FINAL.pdf>

## **Executive Summary**

Between 2012 and 2017 the Australian government uncapped how much money it was willing to spend on undergraduate education. But this was more than just funding another enrolment surge in Australia's history of mass higher education. It was a new system of distributing student places, ending a block grant system in which the government controlled how much funding any university could receive, and replacing it with a demand driven system that paid universities for all the bachelor degree students they enrolled.

In the long run, history suggests that both block grant and demand driven systems respond to major shifts in demand for higher education. But demand driven funding does so more smoothly, letting demographic shifts quickly translate into higher education opportunities. Demand driven funding allows enrolment shares between universities and disciplines to change more quickly than is likely with block grants.

Demand driven funding ended in 2017 by capping public expenditure. De facto, policy has returned to a version of block grant funding. As total funding will decline in real terms under current policy, universities will offer few additional student places. By the mid-2020s, when a baby boom generation starts reaching university age, this will become a major problem.

A new demand driven system is the best way of dealing with this issue. Funding it requires compromises between the major political parties and higher education interest groups.



## Introduction

In 2009 the Australian government decided to lift most of its previous controls on bachelor degree student places in public universities, in a system that it called demand driven funding. It triggered a period of major change in Australian higher education. Commencing enrolments boomed for six years, with some universities transforming themselves into much larger institutions. Enrolment shares between the disciplines also changed, with some fields of education growing much more quickly than others.

Demand driven funding attracted critics, who complained about entry standards, attrition rates, employment outcomes and financial cost. But the end of demand driven funding in December 2017 was not the goal of the higher education sector's major political players. A series of misjudgements led to an outcome that was nobody's first preference.

For now, the politics of higher education are quiet. A demographic lull means that slightly fewer young people than in recent years are seeking university entry. But soon the situation will be very different. A mid-2000s baby boom will start reaching university age in the mid-2020s. The question of how to fund extra student places for them, and how to distribute those places between universities and courses, will dominate Australia's 2020s higher education politics.



## 1. What was the demand driven system?

Australia's demand driven funding system is best understood by contrast with what it replaced, a supply-constrained block grant system with parallels to the then English system. The standard practice was to provide each public university with an annual sum of student-related funding with a target number of student places.<sup>1</sup> Within their funding envelope and overall enrolment target universities had substantial autonomy over which courses to fund and which students to take.<sup>2</sup>

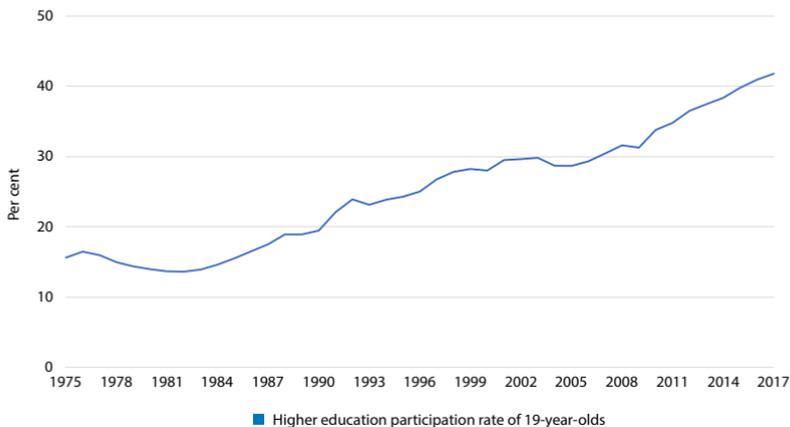
At different times various financial rewards or penalties applied for over- or under-shooting the target number of full-time equivalent students, as outlined in Table 1. Some 'over-enrolment' above the target was common, but exceeding it significantly made no financial sense. At best a university would receive part of its normal per student funding rate for the additional students, at worst it would receive nothing at all. No university could meet all student demand if that meant teaching for free. At both an institutional and a national level, the supply of student places was limited.

Usually, total block grants were legislated several years in advance. Changes in demand for higher education, which was roughly known due to centralised university application systems in each state, did not trigger any automatic funding response. Proposed increases or decreases to maximum block grants instead went through a budget process, making them politically contested inside the government. The education minister competed with other ministers for policy attention and public funds. Changes took time and political capital, and so needed motivated actors within the government to happen. Budget deficits tended to lead to funding cuts, as they created whole-of-government pressures to reduce spending, while activist ministers sometimes secured spending increases. If

these political forces were absent the default outcome under block grants was the status quo.

Because higher education funding was tied to broader budgetary and political considerations, the block grant era displayed a disjointed relationship between enrolments and applications to enrol, which were driven by population trends, school completion rates and the labour market. From the mid-1970s to just prior to demand driven funding, the higher education participation rate for young adults sometimes dipped, as seen in Figure 1. This was not usually because student numbers had fallen but because population growth outpaced increases in student places.<sup>3</sup>

*Figure 1: The long-run school-leaver participation rate is trending up, but with temporary reversals*



Note: 1989-2017 onshore international students deducted from student and population data.

Sources: Department of Education, Training and Youth Affairs, *Higher education participation rates 1975-1995*; Department of Education, Skills and Employment, *Higher education statistics collection*; Australian Bureau of Statistics, *Demographic Statistics*.

Despite occasional reversals in higher education participation rates, Figure 1 shows that the long-term trend is up. In Australia, as elsewhere, the economic, social and political pressure for more student places eventually leads to a policy response.<sup>4</sup> This can lead to periods of rapid supply-side increases in student places with consequent enrolment growth. In these times, earlier episodes of under-provision are corrected and the system moves closer to an equilibrium between supply and demand. Under block grant funding systems Australia experienced multiple enrolment surges. These happened several times between the mid-1950s and mid-1970s and then again in the early 1990s.<sup>5</sup> Student numbers also grew from the mid-2000s just prior to demand driven funding.

A block grant system needs steering mechanisms for allocating student places between different potential uses. Which universities, which courses and which students should receive them? Australia's block grant system had mixed steering mechanisms, with the government dominant in determining which universities received places, universities the main but not exclusive drivers of which courses received places and universities maintaining almost complete autonomy over which students received places.

In distributing student places between universities one important feature was constant. After a university was allocated student places it only lost them when it could not fill them. The distribution of student places between institutions therefore had a strong status quo bias. This practice also meant that the government lacked a powerful potential system steering tool, moving student places between universities. It left distributing new student places as the government's major policy lever for promoting specific universities or courses. When there was no additional funding for new student places the government had limited capacity to influence enrolment patterns.

*Table 1: Key Australian student funding developments, 1989-2020*

- **1989** Higher Education Contribution Scheme (HECS) introduced by a Labor government. A flat student contribution set by and paid to the government. Repaid on an income contingent basis.
- **1989-1996** Block grant system, annual grant for each university with a target number of student places. Usually no specific discipline-level funding. Enrolments above target permitted but not funded.
- **1996** Liberal Party wins election and announces funding cuts, mostly offset with higher HECS charges.
- **1997-2004** Block grants with a target number of students, but enrolments above target funded at approximately a quarter of the average funding rate.
- **2005-2007** Block grant system with enrolment targets, but over-enrolment funding capped at 1 per cent of the original grant. Government and student contributions separated into two funding streams, with universities now directly charging price-controlled student contributions.
- **2007** November election returns the Labor Party to office.
- **2008-2009** Block grant system with enrolment targets, maximum over-enrolment funding increased from one to five per cent of the original grant by the 2007 Liberal Budget.
- **2008** A review of higher education policy, chaired by former vice-chancellor Denise Bradley, recommends demand driven funding.

- **2009** Education Minister Julia Gillard accepts the main Bradley recommendations with full implementation in 2012. Sets a target of 40 per cent of Australians aged 25-to-34 years to have a degree by 2025.
- **2010-2011** Block grant system with enrolment targets, over-enrolment funding capped at 10 per cent of the original grant.
- **2011** Demand driven funding legislated. Medical and postgraduate courses not included. Sub-bachelor – diploma and associate degree – courses were later also made ineligible for demand driven funding.
- **2012** Official start of demand driven funding for bachelor degree places only.
- **2013** May 2013 Labor Budget proposes ‘efficiency dividend’ cuts to per student public funding but these are not passed.
- **2013** A September election returns the Liberal Party to office. In November a review of the demand driven system is announced.
- **2014** The demand driven review report is released in April, recommending extending it to sub-bachelor places and making all higher education providers eligible to join it.
- **2014** The May 2014 Budget accepts the main demand driven review recommendations. Announces an average 20 per cent cut to per student public funding and the end of price control on student charges. The necessary legislation is not passed.

- **2015** The May 2015 Budget cuts research expenditure and other higher education related programs. Efficiency dividend legislation is again introduced and again does not pass.
- **2016** A policy discussion paper is released with the May 2016 Budget, creating a consultation process around future funding systems and levels.
- **2017** The May 2017 Budget announces an efficiency dividend, partly offset with increased student charges. For the third time it does not pass.
- **2017** In December 2017 the government freezes demand driven funding payments at 2017 levels for 2018 and 2019, linking subsequent increases to university performance. The demand driven system effectively ends. Universities still receive student charges for all bachelor degree enrolments.
- **2019** An election is held in May. The opposition Labor Party promises to restore demand driven funding. However, the Liberal Party wins the election.
- **2020** Universities receive their first increase in total bachelor degree funding since 2017 as performance funding is paid.

Although persistently under-used student places were reallocated, a weakness of block grants was that they could not quickly adjust to student preferences. Some universities struggled to fill their allocated student places while others had more applicants than they could accept on their available funding. Misallocation sometimes meant fewer students could enrol than the government was willing to fund and universities were willing to take.

This problem could be exacerbated by how new student places were distributed. Sometimes the government allocated places based on what it thought demand should be, rather than evidence of real student interest. For example, places went to universities in regions with low higher education participation rates, rather than areas with high existing 'unmet demand' (the number of qualified applicants who did not receive a university offer).

Especially in the block grant system's final pre-demand driven years, the government allocated new places to courses leading to occupations with workforce shortages. They were awarded to universities via funding agreements with the government. These agreements could be very detailed, distributing precise numbers of places to specific courses on named campuses. Medical student places were always tightly controlled, sometimes to boost supply but mostly to ensure that their numbers were kept down.<sup>6</sup>

Despite these prescriptive allocations, earmarked student places were never more than a small percentage of all enrolments. Universities had significant discretion in how they spent most of their student-related public funding, justifying the label 'block grant'. Universities could create and fund new courses and move student places between fields and courses according to their own priorities or in response to local demand. In the years before demand driven funding began, universities added more student places in high-demand health courses than could be explained by newly-funded places.<sup>7</sup>

Although universities could and did move student places between faculties and courses, the block grant system created obstacles and disincentives to doing so. Most obviously, without new student places, expanding opportunities in one field meant reducing them in another. Sometimes declining

demand for a discipline made this easy. The IT boom turning to bust in the early 2000s was a case in which a block grant system that was not generally highly prescriptive allowed universities to move resources elsewhere.

Without a conveniently-timed decrease in enrolments, or the government allocating new student places, boosting one field of education meant cutting another. For university leaders, that meant complex political issues within the institution and potential criticism from outside. Leaving the current internal distribution of places intact was the easiest option. But sometimes that status quo decision meant not meeting the strongest demands from students or the labour market.

In Australia, demand driven funding meant dismantling the supply-side constraints described in the preceding paragraphs for bachelor degree courses, while public funding caps remained for other undergraduate and postgraduate qualifications.<sup>8</sup> The 2011 demand driven funding legislation removed set annual funding limits for domestic bachelor degree students. It replaced them with a standing appropriation that automatically funded each bachelor degree student place according to a legislated amount based on discipline. A separate student contribution, set by universities up to a legislated maximum they all charged, was also based on discipline. The two amounts together made up the overall per student funding rate.<sup>9</sup>

The 2011 legislation was a radical change but – and this became significant in 2017 – did not abandon all financial control. It included a provision that would let the government use funding agreements, which all universities had to sign, to set a maximum annual government grant for each institution. The maximum could not be less than the university's demand driven entitlement in the previous year, but it could be frozen or increased by a figure the government chose.<sup>10</sup>

Despite this reserve power to limit expenditure, under demand driven funding the default outcome had changed. Instead of status quo funding recurring unless the government acted to change it, funding would automatically increase in line with enrolments unless the government acted to stop it. That ministerial action required an internal government decision, although importantly it did not require parliamentary approval. Nevertheless, it ensured that a decision to limit funding would come with a political cost.

With demand driven funding, the government also relinquished its power to distribute new bachelor degree student places to specific universities or courses. It was up to universities individually to meet local needs for higher education and graduates, and collectively to meet national needs. Compared to the block grant system, universities had much more flexibility to lift supply to meet demand. With no funding limits on the number of students they would be paid for, the zero-sum trade-offs that previously existed were abolished. Universities could create new courses or expand enrolments in existing courses without closing old courses or reducing their student numbers.<sup>11</sup> That would sometimes mean that other universities lost student places, but it provided a mechanism for moving funding between institutions that the block grant system lacked.

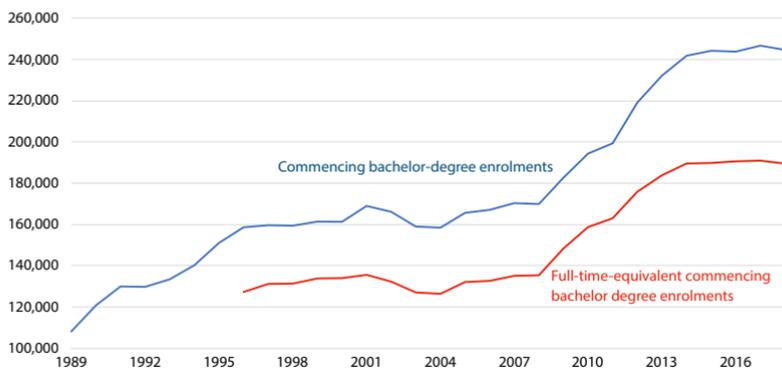
Universities were not forced to meet demand. Calling the new system 'demand driven' assumed that by lifting supply constraints mission considerations and market incentives would drive universities to meet demand. Unlike in some European countries, applicants meeting predetermined criteria were not guaranteed a student place. The right of universities to reject applicants was never questioned, although the right to accept unsuitable applicants was notionally constrained by simultaneous reforms to higher education standards regulation.<sup>12</sup>

Although this quasi-market (uncapped places but not prices) was the main policy instrument for increasing enrolments, the government put other pressures on universities. It set an overall attainment target of 40 per cent of 25-to-34-year olds to have a bachelor degree or above by 2025, compared to 32 per cent in 2008. And it wanted the proportion of undergraduate students from a low socio-economic background to increase from 15 per cent in 2008 to 20 per cent by 2020.<sup>13</sup> The government provided additional funding to support this goal.

## 2. System strengths during demand driven funding

Although not every university grew significantly under demand driven funding, overall the system met and sometimes exceeded the expectations of 2009. An easing of caps on funding – universities were eligible for funding up to 5 per cent more than their original cap for 2008 and 2009, and 10 per cent more for 2010 and 2011 before full demand driven funding in 2012 – triggered an enrolment boom. Commencing bachelor degree students in public universities increased by 7.5 per cent in 2009, 6.4 per cent in 2010, slowed in 2011 and then peaked at a nearly 10 per cent increase in 2012, with two further years of strong growth before the boom ended in 2014, as seen in Figure 2.

*Figure 2: Easing and then removing caps on funding in the late 2000s triggered an enrolment boom at public universities*



Notes: Data prior to 2001 includes a small number of students not at public universities. A change in 2001 to count students commencing at any time of the year, rather than just first semester, has a small effect on the trend.

Source: Department of Education, Training and Youth Affairs, *Selected higher education statistics 1999 and 2000*; Department of Education, Skills and Employment, *uCube* (online higher education statistics)

This enrolment surge pushed the higher education participation rate for 19-year-old Australians up from 31.6 per cent in 2008 to 41.7 per cent in 2017, the demand driven system's last year (seen in Figure 1). It was the kind of increase needed to achieve the original 2025 40 per cent attainment target for 25-to-34-year olds.<sup>14</sup> Low socio-economic status students increased their undergraduate enrolment share from 16 per cent in 2008 to nearly 19 per cent in 2017.<sup>15</sup>

At a course level the enrolment boom was unevenly distributed, as expected in a more market-driven system. Health-related enrolments increased the most in both absolute and percentage terms, reflecting labour market needs and strong student interest. Science was the second-largest growth area for commencing enrolments, although partly as a spillover from Health, as students enrolled in Science in the hope of transferring into a high-demand health-related course. IT recovered from its previous crash to experience an above-average rate of growth. At its peak Engineering also had above-average growth, meeting needs in the growing mining and construction sectors, before trending down again as Australia's mining boom ended. With no zero-sum trade-offs required to expand a course, only one broad discipline group, Education, had fewer full-time equivalent commencing students in 2017 than in 2008, but due to falling demand rather than supply constraints.<sup>16</sup>

At the institution level too, the demand driven era saw unequal growth. Across all 37 public universities, the number of domestic bachelor degree students increased by 38 per cent between 2008 and 2017. But three institutions more than doubled their enrolments, and another eight expanded by more than 50 per cent. Although the bachelor degree enrolments of some universities in the demand driven system grew only modestly, none had fewer students in 2017 than 2008.<sup>17</sup>

### **3. System weaknesses during demand driven funding**

The four most common criticisms of demand driven funding were that entry requirements declined, attrition rates increased, employment outcomes deteriorated and costs to government grew.

In Australia, school leaver entry requirements receive the greatest attention because, for most courses, admission is linked to a summary metric of school achievement, the Australian Tertiary Admission Rank (ATAR). The ATAR ranks all students in each age cohort in each state, so for example an ATAR of 80 means that the student did better than 80 per cent of their state contemporaries, including those who did not finish school. The share of offers going to ATAR applicants with ranks below 50, a common target of criticism, rose from 2 per cent before demand driven funding to 7 per cent in 2017.<sup>18</sup>

Easier admission requirements are a near-inevitable consequence of increased higher education participation rates. At the higher ATAR deciles, university application and offer rates were already very high before demand driven funding.<sup>19</sup> On their own, high achievers who were not already going to university could not drive a 10 percentage point increase in the participation rate. It had to come in part from less academically prepared students.

Growing numbers of lower-ATAR students increased the student population's risk profile. There is a strong relationship between ATAR and attrition.<sup>20</sup> On analysis done by the Grattan Institute, where I worked until 2019, part-time study is the single largest risk factor for attrition, with competing work and family commitments the likely causes.<sup>21</sup> Part-time enrolments

increased in the later years of demand driven funding, pushing attrition rates up.<sup>22</sup>

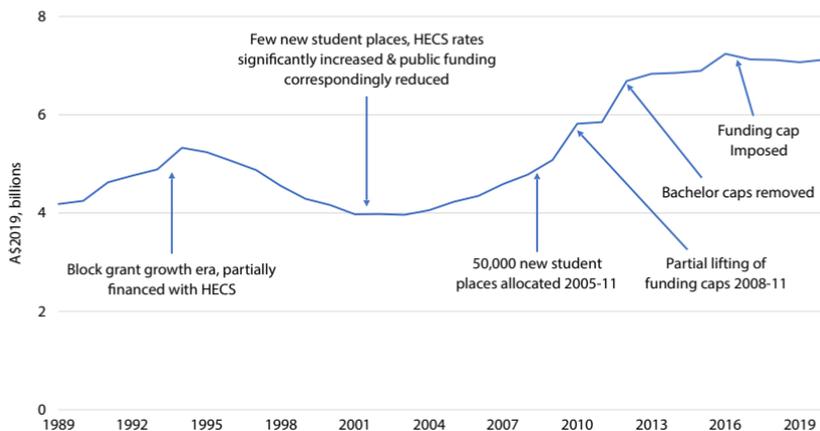
These factors help explain why the proportion of commencing undergraduate students not returning after their first year increased from under 13 per cent in 2008 to nearly 15 per cent in 2017.<sup>23</sup> The 2008 benchmark attrition rate, however, may over-credit university policies and practices. It had improved sharply that year on the preceding years, with attrition decreasing in all but a handful of institutions. This points to an external factor affecting all universities driving a broad trend, most likely fewer students leaving study to work due to the global financial crisis.

By contrast, the subsequent increase in the national attrition rate was less evenly spread across the sector. A quarter of universities had lower attrition in the peak overall year for attrition, 2014, than they had in 2008. In the institutions with higher attrition a government report identified three universities, all of which had grown rapidly, as between them explaining much of the national deterioration in attrition performance.<sup>24</sup>

Despite higher attrition rates, about three-quarters of students who started in the demand driven era are likely to finish a course. Annual degree completions increased at a bad time in the Australian labour market. New graduate numbers spiked in 2013, the same year as a significant downturn in how many young people were employed in professional and managerial jobs. In early 2014 the proportion of graduates still looking for full-time employment about four months after completion reached its highest ever level of 32 per cent.<sup>25</sup> It has since improved but remains high compared to earlier years. A lower proportion of all graduates find well-remunerated and high-skill work. The graduate premium – the additional earnings

of a bachelor graduate over someone with the final year of school as their highest education – declined for 25-to-34-year olds between the 2011 and 2016 Australian censuses.<sup>26</sup>

*Figure 3: Demand driven funding sent higher education public expenditure to record levels, but there were significant growth phases under earlier block grant funding*



Note: 2020 funding an estimate only. These figures include funding for allocated student places, demand driven student places, and several minor related student programs.

Source: Data from the Department of Education, Skills and Employment

If higher education had become less financially beneficial than students might have expected, under demand driven funding it was more costly than the government originally anticipated. In its early years, the cost of demand driven funding was consistently and significantly underestimated.<sup>27</sup> Between 2008 and 2017 real spending on the main student funding grant program increased by more than 50 per cent, and it was up more than 80 per cent on 2001, the low point of the last 30 years (see Figure 3).<sup>28</sup> The government's estimates of future spending

improved as the program matured, but not its happiness with expenditure levels. While the demand driven system remained intact until the end of 2017, every national budget from 2013 – whether from a Labor or Liberal government – included plans to reduce higher education-related spending, including cuts to per student funding rates, research funding, the student loan scheme and student income support.

## **4. Mass higher education and demand driven funding**

Demand driven funding was the policy trigger for rapid enrolment increases between 2009 and 2014, and it therefore receives blame or credit for what happened in higher education and to graduates while it was in place. But demand driven funding is just one way of increasing student numbers. Mass higher education, a large and increasing share of the age cohort going on to higher education, exists around the world despite a wide variety of funding systems.<sup>29</sup> In Australia, block grant systems had already doubled the 19-year old higher education participation rate from around 15 per cent in the mid-1970s to over 30 per cent in 2008 (see Figure 1).<sup>30</sup> In comparing the consequences of block grant and demand driven systems, we need to think about how their dynamics differ despite moving in the same broad long-term direction.

Each system has a long-run link to underlying social and economic demand for higher education, but demand driven systems have a smoother relationship. If higher education demand increases due to demographic or labour market change, demand driven systems can react quickly. There are no political or bureaucratic obstacles to doing so, and in Australia most universities respond to demand for a mix of mission and financial reasons. In block grant systems, a political and bureaucratic process is needed to allocate additional student places, and large changes typically need both an activist minister and strong government finances.

Educational opportunity declines when the population increases but the block grant conditions of change are not present. Figure 1 shows that this happened from the mid-1970s to the early 1980s and in a smaller way in the mid-2000s.<sup>31</sup> The Australian Census confirms that despite catch-up

study opportunities at older ages there are lifetime educational attainment consequences from missing out on university when young.<sup>32</sup>

When block grant systems enter their corrective phases, pent-up demand may cause enrolments to surge at faster annual rates than would occur under long-running demand driven systems. This may have happened in the transition to demand driven funding. Although recent school leavers remain a majority of all commencing undergraduate students, since 2012 they have accounted for less than half of the annual growth in commencing enrolments.<sup>33</sup> If more people go to university straight after school, as they can under demand driven funding, we would expect fewer catch-up enrolments of older people who missed out earlier.<sup>34</sup>

With or without demand driven funding Australian higher education was entering a corrective phase in the late 2000s. With a mining boom producing budget surpluses the Liberal government had already started increasing funding and student places (see Figure 3). By late 2007 Julia Gillard, an activist Labor minister who subsequently became prime minister, had the education portfolio. The Labor government, led initially by Kevin Rudd, had come to office promising an 'education revolution'. The terms of reference Gillard gave the review that led to demand driven funding required it to look for policies that would widen access to higher education.<sup>35</sup> She succeeded in getting demand driven funding approved for the 2009/10 Budget (although, as noted, on too-low estimates of its cost), despite falling tax revenues and rising government expenditure due to the global financial crisis.<sup>36</sup> A capped block grant increase would have been easier to sell to her colleagues, so the block grant counter-factual includes growth in the late 2000s and early 2010s, but not at the same level.

Given ongoing fiscal problems, however, it is unlikely that total funding for bachelor degree students would have continued growing in real terms until 2017 under a block grant system, as it did with demand driven funding.<sup>37</sup> We know that both major political parties wanted to spend less. Labor proposed cuts to per student funding rates in their May 2013 Budget (see Table 1). The Liberal Party took office in September 2013 and, as they had when inheriting budget deficits after previous coming-to-office election victories in 1975 and 1996, decided to reduce higher education funding. If a block grant system had been in place, funding would almost certainly have been stabilised if not cut.

However, in 2013/14 neither party was ready to end the demand driven experiment. In May 2013 Julia Gillard was the prime minister. She would not have wanted to overturn one of her major achievements as education minister. And with sympathy for demand driven funding, which had originally been a Liberal idea, the new education minister, Christopher Pyne, decided in 2014 to expand demand driven eligibility to higher education diplomas, associate degrees and students at private higher education institutions. He proposed financing this by reducing per student public funding rates and deregulating undergraduate fees.<sup>38</sup> His policy plan failed in Parliament, but demand driven funding for bachelor degree students survived.

Although introducing demand driven funding led to a longer and larger expansionary phase from 2009 than would have happened under a continuing block grant system, initial growth rates would likely have been lower from 2009 if demand driving funding had been longstanding. There would have been fewer older students catching up on their education. But, in the late 2000s the school leaver population was growing, so a more mature demand driven system would

also have produced enrolment growth. The consequential increase in graduates exacerbated the poor mid-2010s employment outcomes, although they could not have been avoided entirely. Major job losses for young adults as the mining boom ended made 2013 a bad year to graduate under any university funding system.

A block grant expansionary phase would also have led to complaints about inadequate entry standards. Any rate of expansion beyond population growth is likely to enrol students who would previously have been excluded by their school results. In some circumstances block grant policies also create incentives to take weaker students. A previous education minister criticised the then block grant system for creating a 'use it or lose it' incentive, as universities admitted students with weak school results to maintain student numbers as demand dropped.<sup>39</sup> At the time, universities were financially penalised for 'under-enrolling' by more than a small amount.<sup>40</sup>

Allocating a university more places than warranted by its student demand creates specific institution-level incentives to lower admission requirements. The block grant era practice of allocating student places to areas with low higher education participation rates but not high demand accentuated this problem. A demand driven system creates a financial incentive to take additional students but imposes no commitment to a specific minimum number of students.

A block grant system does not inherently maintain or increase admission requirements. In Australia, despite some localised exceptions, it often did so as a side effect of keeping the overall supply of student places below demand. Because universities usually allocate student places to applicants in rank order of their prior academic achievement, fewer places means higher entry requirements.

Limiting the supply of student places gives block grant systems a blunt mechanism for reducing system-level attrition risk. Students with a below-average chance of finishing a course are excluded. But it is less clear that block grant systems reduce individual-level attrition risk – the probability of a student with given characteristics not completing a course. Universities with strong student demand are virtually guaranteed to fill their allocated number of student places. They can therefore accept a higher attrition rate, confidently taking students in the knowledge that, based on previous experience, a predictable proportion will drop out. Unexpectedly high retention would be a problem, as the university would end up 'over-enrolled' with under-funded students. With demand driven funding every prematurely-departed student represents lost revenue, creating a previously absent financial incentive to increase retention. This may be one reason why a quarter of universities reduced their attrition rates in the early demand driven years.



## **5. The end of demand driven funding**

By 2017 demand driven funding had accumulated critics and opponents, but its end was not the preferred outcome for major players in the higher education system: not the government, not the opposition, and not the university interest groups, other than the Group of Eight lobby representing the most research-intensive universities. Instead, political misjudgements led to an outcome that was not anyone's first-best option.

With the 2016 Budget, the government released a discussion paper setting out various options for higher education policy change.<sup>41</sup> It included proposals that would require more spending, such as extending demand driven funding to sub-bachelor (associate degree and higher education diploma) places. But the discussion paper made clear that the government, still struggling with budget deficits, wanted to decrease higher education expenditure. It also announced that an expert advisory panel would assist with the government's thinking, to which I was later appointed.

During consultations before the 2017 Budget one system-level alternative to demand driven funding was suggested, something its proponents, all from Group of Eight universities, called 'cap and trade'. The idea was not developed in detail, but the core concept was a return to block grant funding, but with new flexibility to move student places between undergraduate and postgraduate levels. Under previous block grant systems such transfers needed government approval, as they still did for the sub-bachelor and postgraduate student places outside the demand driven system.

Ad hoc exceptions to demand driven funding were also proposed, such as setting minimum ATAR requirements and putting enrolment quotas on some courses. The expert

panel, which included two vocal supporters of demand driven funding (myself and Peter Noonan, who had served on the Bradley review that originally recommended demand driven funding in 2008) opposed these ideas. The then education minister, Senator Simon Birmingham, decided not to end demand driven funding as part of his goal of reducing government outlays.

To pay for a continuing demand driven system and deliver financial savings to the government, the May 2017 Budget announced reduced government funding per student place. Some lost public funding would be replaced with higher student contributions, but not all – there would also be an ‘efficiency dividend’ reduction in total funding.<sup>42</sup> This reflected a view within the government that universities had done very well financially out of demand driven funding, a perspective it supported with a consulting firm analysis of university teaching costs.<sup>43</sup> It found that most disciplines were profitable on a teaching-only basis, a conclusion supported by the enthusiasm that many universities showed for taking additional students at the offered funding rates.

Whatever the intellectual merit of the government’s argument, the cut to total per student funding rates changed the politics of their policy. Three years earlier most universities had, somewhat reluctantly, supported the Pyne policy package with much larger proposed cuts because their losses could be more than fully offset with deregulated student fees. But they had always opposed suggested cuts to their own total income, including previous efficiency dividend proposals.

Australian governments rarely control the Parliament’s upper house, the Senate, which has the power to reject any piece of legislation. In 2017, the Senate balance of power between the governing Liberal Party and the opposition Labor Party,

which had signalled that it would not support Birmingham's changes, was held by independent and minor party senators. The university lobby groups worked hard on these cross-bench senators, and by October 2017 it was clear that the legislation necessary to implement the cuts would never pass. The universities had won – or so they thought.

Unfortunately the debate had been conducted between a false set of options, between the status quo and cuts to per student funding rates, rather than between a funding freeze and cuts to per student funding rates. Because a funding freeze did not need parliamentary approval the expert panel had always assumed that it was possible, making the realistic choice between better or worse cuts. The freeze was in the worse category, because it would break the demand driven system's capacity to reallocate student places between universities and courses. In August 2017, I publicly pointed out that a freeze was one of the government's options.<sup>44</sup> But the universities did not seem to understand the risk they were taking, and the government never made it clear that a freeze was a live option.

In December 2017 the regrettable consequence of these misjudgements – the government's decision to target both students and universities, the universities' decision to campaign strongly against the per student cuts – was announced. Using the funding agreements with universities, which are administrative rather than legislative instruments, the government set maximum grants for each university at 2017 levels for 2018 and 2019, with no adjustment for inflation and no tuition subsidy funding for any enrolment growth.<sup>45</sup> From 2020, maximum grants would be indexed to growth rates in the 18-to-64-year old population for universities that met performance requirements.<sup>46</sup>

Universities had to accept the freeze for 2018 and 2019 but hoped for the overturn of funding caps in 2020 after the 2019 Australian election, which took place in May. The Labor Party, which had led the government in every national opinion poll since 2017, promised to restore the demand driven funding they had introduced when last in office, albeit with additional conditions attached.<sup>47</sup> This seemed attractive even for universities that had not increased enrolments in the interim. The lifting of funding caps would mean paying universities for all their bachelor degree students at a higher indexed-to-inflation funding rate. But in an unexpected result the Liberal Party was returned to office.

If Labor had won, an unwelcome surprise would have been waiting for universities. Labor's funding plan for restoring demand driven funding, released by the independent Parliamentary Budget Office after the election, showed that it assumed average tuition subsidy funding per student place as of 2019.<sup>48</sup> With the number of student places delivered in 2019 likely to be similar to their 2017 level on stable total funding, average per student public funding rates in 2020 would be approximately those of 2017, with their 5 per cent inflation indexation missing. Labor's policy and the Liberal 2017 Budget proposal were similar: a demand driven system on reduced per student funding. The main difference was that Labor would leave student contributions unchanged.

Unlike the Liberal total funding freeze, Labor's reduced per student funding rates would have required legislation. But in the event of a Labor election win, a now-opposition Liberal Party may well have voted in the Senate for a version of its own 2017 proposal. All parties to this debate, whether political or in the higher education sector, would have avoided significant pain if the original 2017 cuts had been passed by the Parliament.

## 6. A new block grant system

Instead, Australia is left with a de facto new block grant system – a fixed sum of money which universities can spend largely according to their priorities. But, because this new funding system was introduced as an emergency brake on demand driven spending, rather than as a designed new method of distributing student places, it differs in important ways from previous block grant arrangements.

The demand driven funding formula remains the legal basis for appropriating money from the Treasury for students. For each discipline, the number of bachelor degree full-time equivalent places is multiplied by the relevant public funding rate, and these sub-totals are added up. If a university's total demand driven funding is less than their maximum grant the university receives the lesser amount; it is paid for the student places it delivered. Due to weak student demand, several universities received less funding in 2019 than 2017. If the demand driven total exceeds a university's maximum grant, the university receives its maximum, leaving it unpaid for the additional student places (although it will receive student contributions).

Because the demand driven funding legislation remains in place, the government lacks a clear power to allocate new bachelor degree student places. The funding legislation specifically notes that the minister does not allocate these places.<sup>49</sup> Despite this, when the government created exceptions to the general funding freeze for several universities it used their funding agreements to spell out numbers of student places at specified campuses and, in one case, a field of education.<sup>50</sup> Although the government avoided the language of 'allocation', saying instead what the additional money was 'for', in practical terms it is similar to how new places were allocated before demand driven funding. Arguably these

words on what the additional money is for are just statements of agreed intent that cannot be legally enforced, because the government lacks the statutory authority to allocate bachelor degree places.<sup>51</sup> It is hard to run an effective block grant scheme with a legal framework that intended to abolish block grants.

Although the government's power to specify how bachelor degree student places are used is questionable, except for this and a short list of other topics excluded by the statute, it has wide discretion in attaching conditions to increased funding. In 2020 it will attach performance conditions to the receipt of additional funding. These conditions include graduate employment outcomes, student satisfaction with teaching, student retention and equity group participation. But 2020 brings the last increase in the maximum grant for the foreseeable future.

From 2021 to 2027, all potential population growth-indexed increases will accumulate until they reach 7.5 per cent of the previous maximum grant. Each year, all the accumulated funding will be contingent on both performance and delivery of student places of an equivalent value (under the demand driven funding formula). Not meeting the student place criterion will mean no or reduced additional money. The performance funding criteria are less onerous, as universities falling short of their target results can still be paid, but with conditions attached to improve their performance.<sup>52</sup>

Linking increases in total funding to the growth rate of the 18-to-64-year old population sounds like it will keep up with demographic change. But projected population growth rates are below forecast inflation rates, so in real terms total funding for bachelor degree students will decline each year, even for universities that receive their maximum performance funding

amount. There is no funding for increased population. Like earlier block grant systems in their stagnant phases, increased student demand is irrelevant to funding policy.

While maximum funding for undergraduate places will decline in real terms, the underlying per student funding rates are still being indexed in line with inflation, as required by the funding statute. As the price per student place goes up, a university can therefore reach its maximum funding on slightly fewer student places each year.<sup>53</sup> Universities have less control over their revenue, but they can control costs by offering fewer student places. Under the old block grant system, universities would lose funding if their student places fell below a set level.

Current funding policy assumes that for mission reasons most universities will maintain their student numbers. But universities that let their student places fall over time would maximise their per student funding rate, avoid performance-scheme bureaucratic hassles, and reduce the risk of paying the costs of additional students but later losing their funding due to 'poor performance'.

No strong evidence yet supports a conclusion that universities are choosing to reduce student places. Recent falls in commencing student numbers look more like a response to weak demand than an unwillingness to supply student places.<sup>54</sup> But, as real cuts to the maximum institutional payment grind on year-after-year, reducing student places will become a more attractive option.



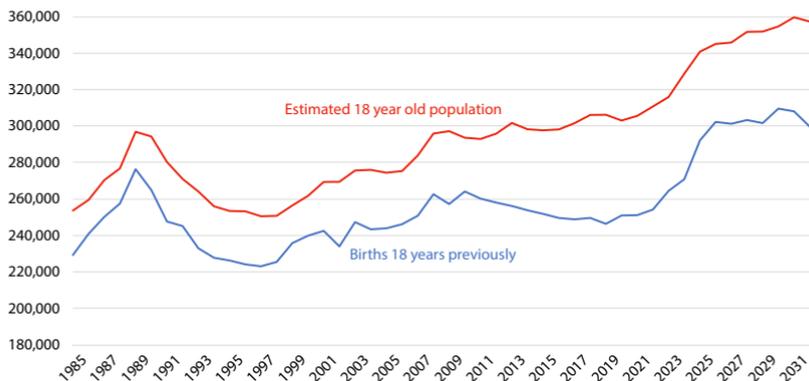
## **7. Policy responses to coming demographic changes**

Whether or not universities reduce student places the current funding system is poorly placed to deal with coming demographic changes. While the school-leaver university population is currently in a demographic lull – a major reason for current weak demand – by the mid-2020s its size will exceed previous peaks, with migrants adding to a large birth cohort, as seen in Figure 4.<sup>55</sup> Even if student places remain at current levels, the higher education participation rate will decline in the mid-2020s under current policies.

The effects of a declining participation rate would not be neutral between prospective student groups. With larger school-leaver cohorts, more university applicants will have high ATARs. They will bid up the academic price of university entry as they chase a stable or declining number of student places. That will disproportionately affect applicants from disadvantaged backgrounds, who on average receive lower ATARs.<sup>56</sup> They will miss out entirely or have fewer courses to choose from.

The current education minister, Dan Tehan, acknowledges that the higher education system needs to prepare for the coming population increase, but says that this must be done in a ‘fiscally responsible’ way.<sup>57</sup> The Liberal Party government he serves promises budget surpluses after many years of deficits. But local and global economic issues make that goal ambitious. To avoid slipping back into deficit the government needs expenditure constraint. With higher education funding back in a block grant phase, with every proposed additional outlay competing against other fiscal priorities, Tehan will struggle to get big funding increases through the budget process.

Figure 4: A baby boom birth cohort is approaching higher education age



Note: Population figures are projections only from 2019.

Sources: Australian Bureau of Statistics, *Historical population statistics*; Australian Bureau of Statistics, *Demographic statistics*; Australian Bureau of Statistics, *Population projections*.

To rise to the forthcoming demographic challenge, public policy must avoid a repeat of the 2017 impasse in which the competing major players are powerful enough to veto proposals that they do not like but not powerful enough to deliver a policy that can meet long-term needs. Some compromise is needed to share the cost of expansion. Pushing down the per student cost to government is an option that should be put back into consideration.

A small reduction in total average per student funding, compared to its demand driven era peak, could be an 'efficiency dividend' style cut, or a more nuanced reset of funding rates by discipline. The most recent cost study indicates that some disciplines enjoy significant surpluses on teaching costs, creating a case for taking savings primarily from them.<sup>58</sup> Student contributions could be increased, with public subsidy

reduced by an equivalent amount. Options include percentage increases on current student contribution levels, a flat dollar amount extra on each student place or more complex field of education level changes.

The politics of increased student charges are never easy. Experience in Australia and England suggests that the inevitable claims of high student price sensitivity will not be well-founded, at least for recent school leavers. But higher student charges mean slightly reduced lifetime net income for those paying the additional charges. When the financial benefits of higher education are lower than in previous times, and in the context of Generation Y and Z complaints about their overall poor prospects compared to the 1950s and 1960s baby boomers, paying more for university will seem like an added injustice. But this is a lesser injustice than reduced higher education opportunities.

Not making students pay all the cost of expansion would help manage their legitimate financial concerns. Universities accepting less total payment per student, compared to continuing inflation-based indexation, would reduce the financial burden on students and taxpayers. The government plausibly argues that economies of scale were achieved during demand driven funding. Universities may make less profit per student on a lower funding rate, but additional students could help maintain total teaching surpluses.

While the government can insist on others sharing the cost of expansion, to have a chance of political success it must abandon ongoing real cuts to total higher education spending. Significant demographic changes have unavoidable consequences for government. It would be politically difficult, if not impossible, for the government to ask others – such

as universities and students – to contribute more while it continues to contribute less.

These suggested changes require legislation that must get through the Senate. The major 2014 and 2017 Liberal higher education legislative proposals failed to win Senate support, partly because they were solutions to problems that many people did not believe Australia had: regulated student fees, restricted demand driven system eligibility and higher education's contribution to budget deficits. The compromise package above would avoid the looming loss of higher education opportunities that all the major higher education players agree is a problem. The issue could be easily explained to the general public, which will support the policy goal even if they have doubts over the means.

Compared to 2017, the university interest groups now clearly understand their actual alternatives. Under the status quo, they face real annual cuts in per student funding in any case, unless they reduce student places, which many would see as undermining their missions. Some funded growth in student places is a better option. It would help significantly if the interest groups supported a compromise package, but they at least need to mute their lobbying and campaigning against it.

Ideally, the necessary legislation would pass with the Labor Party's non-opposition – the usual complaints about cuts, but not voting against the package in the Parliament. From their perspective, if some shared financial burden is needed for long-run increases in higher education student places, it is better that the Liberals pay the political price now rather than Labor when it returns to office. The 2019 election costings remind us that Labor has no fundamental opposition to lower per student funding rates. Without Labor support the legislation

might still pass, as the Senate cross-bench is less complicated after the 2019 election, but it would not be certain.



## 8. Distributing the additional student places

These proposals suggest how system expansion could be funded, but none provide a mechanism for distributing student places between universities and courses. The established models are block grant and demand driven funding, but in recent years other ideas have circulated. Some involve the government being much more prescriptive about which courses it funds, with parallels to concerns about 'low value' courses in England.

In the 2017 Budget higher education policy announcement, the government proposed a new method of allocating sub-bachelor student places to universities. In late 2011, these had been excluded from demand driven funding, mainly due to concerns about possible effects on the vocational education system, which is the major supplier of diploma-level courses. Sub-bachelor places were instead allocated directly to universities, in what was effectively a mini block grant.<sup>59</sup>

As part of the 2017 Budget, the government proposed restricting funding eligibility to approved courses that had a focus on industry needs. In courses that met industry needs the number of student places would not be capped.<sup>60</sup> This reflected a view that universities should concentrate more on employment outcomes, an idea that also features in the performance funding criteria.

The government called its 2017 sub-bachelor proposal 'demand driven', and it is true that all demand for the specified courses could be met. But the idea differs radically from demand driven funding as it existed from 2012 to 2017. The policy significance of the original demand driven funding was not just that student numbers were uncapped; something similar could have been achieved by significantly increasing block grant allocations. It was that the distribution of student

places was to be determined by the supply-side decisions of universities interacting with demand-side choices of students. It was a quasi-market in which the views of these parties were accorded significance in themselves, reflecting notions of university autonomy and consumer sovereignty. Implicit in both is the multi-purpose nature of universities, including the pursuit of knowledge for its own sake, independent of any likely practical or economic benefit.

Course funding entitlements could be restricted in other ways that narrow the basis of public support. In vocational education, the government already links course-based student loan eligibility to the likelihood of repayment. Over the last few years, it has improved its understanding of the earnings prospects of different higher education courses, possibly with a view to ending or restricting lending where non-repayment risks are high.<sup>61</sup> This would steer students towards fields of education with better employment prospects.

As of early 2020, however, there are no active proposals to specify which courses should be funded. The government decided instead in late 2019 to let universities use allocated sub-bachelor places more, rather than less, flexibly, including switching their funding to postgraduate courses, in what looks like a limited version of the 2017 'cap and trade' model.

Universities can also barter sub-bachelor or postgraduate student places for services provided by another university.<sup>62</sup> This policy is to date under-explained but implies that universities can sell or lease a right to public funding. This raises possible issues that need further examination, but the proposal is an interesting response to a weakness of block grant programs; their lack of mechanisms for moving student places between universities.

The government's decision not to control which courses it funds is fortunate, as recent history reveals some questionable judgements. Few existing higher education diploma courses would have satisfied the 2017 industry links criterion. The government seemed unaware that higher education diplomas rarely lead directly to work, with many instead providing pathway courses for students needing further academic preparation or foreign language instruction for bachelor degree students. The policy would have sacrificed valuable niche courses to satisfy non-existent employer needs.<sup>63</sup> For years, the government promoted STEM courses despite very poor employment outcomes for Science graduates.<sup>64</sup> It continues to promote STEM to schoolgirls without acknowledging the associated risks.<sup>65</sup>

This criticism of government priorities is not to say that decisions under demand driven funding were always wise – they were not. All allocative systems draw on common sources of statistical information and popular ideas about social and economic trends, some of which turn out to be unreliable guides to the future. But the more decentralised allocative systems, whether block grant or demand driven, draw on more local information than a central bureaucracy, work with a wider range of hypotheses about what kinds of graduates will be needed and adapt more quickly to feedback, whether positive or negative.

This leaves the issue of allocating places to students. On this demand driven and block grant systems are historically the same, the university decides. As argued earlier, occasional preference for block grants as better for maintaining high entry requirements reflects supply constrained below demand, not any inherent academic-standards design feature. It raises the question of whether, as has been suggested previously, the government should set minimum university entry requirements.

There is nothing unusual about a government setting eligibility criteria for the benefits it pays. It does so in higher education by delegating the decision to universities, who are supposed to assess academic suitability. The problem is that universities have a conflict of interest as their funding depends on admitting students. But centrally-set minimum entry criteria are not likely to better manage the competing policy considerations.

A defensible minimum entry requirement needs to be based on risk – the chance that students of certain characteristics in specified courses will not receive or generate benefits commensurate with costs. At the Grattan Institute, I participated in work on non-completion risks.<sup>66</sup> It is very complex, with many factors interacting with each other. Historically, a little over half of low ATAR students complete a course, but it is hard to know prior to admission which of them will succeed. Due to their lower average ATARs, already disadvantaged applicants would be most affected by a minimum ATAR.

Another major risk factor is part-time study, but it is only a proxy indicator – probably not a major academic issue of itself, but a sign of competing commitments that do get in the way of successful study. Neither the government nor university admission staff can easily know how good applicants are at managing their time.

The work by the Grattan Institute concluded that student admissions cannot bear the full weight of the selection process. There is just too much that nobody with a stake in the decision – the applicant, the university and the government – can know for sure on the day that the university sends out its offers.

Policy should recognise the reality that there is a much longer process of mutual selection, including well into the first year

of study, in which students and universities each assess the other's suitability. Provided there is integrity in assessment, academic selection is not abolished by admitting higher-risk applicants, just delayed. The best test of whether a prospective student can succeed at university is to let them try and see how they go.

During this long selection period first-year students need significant attention. Universities and policymakers emphasise retention – it is one of the performance funding indicators – but quick exits if things are not working out are also important, so that students do not waste time or money.

Australia has a longstanding policy that could be used more effectively for quick exits. For every subject they enrol in, Australian students have a free 'try before you buy' period that usually lasts three or four weeks into the teaching term. If they end their enrolment during this time no student contribution is charged and no tuition subsidy is paid.

While many students experiment with this cost-free study and then drop subjects, significant numbers disengage without formally ending their enrolment. La Trobe University found in 2013 that no assessment exercises were submitted by its students in 3.4 per cent of all undergraduate subjects taken.<sup>67</sup> Grattan Institute research found that, across the system, 5 to 6 per cent of bachelor degree students fail every subject they enrolled in for their first year, raising doubts about whether they were actively studying.<sup>68</sup> Many of these students needlessly incur financial costs and blemished academic records.

Potential policy responses include making students more aware of the final date for dropping subjects before they must pay or take on debt, and putting more responsibility on universities to manage disengaged or struggling students.<sup>69</sup>

These policies protect all students who, for whatever reason, are not on track for success. The alternative of regulating the admission of students with known risk factors would generate large numbers of false positives, excluding people who would succeed if given a chance.

## **Conclusion**

Despite the policy case for demand driven funding, in the next few years the government may judge that it has already paid the political price for capping higher education expenditure and so should enjoy the fiscal benefits of that decision. Some demographic good fortune means that in the short term, strict funding constraints will not have major negative consequences for student opportunities. But population trends mean that current policies are not a long-term option. The history of higher education, in Australia and around the world, shows that eventually policy must find a way to translate student demand into student places. When it does, demand driven funding will be the best way of distributing those places to universities, courses and students.



## **Afterword**

### **How could the Australian experience play out in England?**

**Alec Cameron, Vice-Chancellor and Chief Executive of Aston University and previously Deputy Vice-Chancellor at the University of Western Australia**

As noted by Nick Hillman in his Foreword, a debate on the 'demand driven system' has not yet surfaced in the English system. However, as Andrew Norton explains, the cessation of the demand driven system was not the focus of the higher education funding debate in Australia but the consequence of a budget imperative for which other options had been defeated.

In England, there are currently pressures from both sides of politics, which have elevated the likelihood that the current system may not survive in the medium term.

- On the Labour side, the policy proposal of free tuition for home undergraduates was assumed, within the sector, to lead consequentially to a requirement to cap student numbers to limit budgetary impact.
- On the Conservative side, the attention on 'low value' degrees (and to the political imperative to 'level-up' further education funding and prestige) is associated with a narrative that too many young people are going to university.

As the experience of Australia demonstrates, if governments wish to limit the cost of higher education to the public purse, the options are to either restrict numbers or to restrict funding per student.

An important difference exists in the Australian funding model, in that the per student 'government contribution' is of similar

magnitude to the 'student contribution'. Hence, the opportunity existed (although it was defeated) to shift the balance from the public component ('government contribution') to the private component ('student contribution'). Since the introduction of the £9,000 fee cap in England, there has been very little (direct) government contribution; only the modest Teaching Grant distributed via the Office for Students, which is currently in the process of being cut. Hence, shifting the funding further to students is not an available option.<sup>4</sup>

Another important difference is that in Australia, prior to the recent changes, indexation of university funding (and hence maintenance in real terms) was the norm. In England, on the other hand, funding has been reduced in real terms, with only one indexation of the £9,000 fee cap (to £9,250) since 2012, and with no plans for indexation in the foreseeable future. Over the decade from 2013 to 2023, this will have resulted in a real-term reduction in the level of funding per student by over 20 per cent. Thus the reduction in funding per student (in real terms) is already being played out in England.

How much longer year-on-year reductions can be absorbed is an ongoing experiment. It would seem that any fat in the sector has been excised by now, with the ongoing cuts likely to impact on the quality of the system and compromise the student experience.

The question not asked of the sector, and on which there is unlikely to be a unanimous response, is: which is the less preferred scenario, further cuts in funding per student with uncapped student numbers or a cap on student numbers but a preservation of funding per student?

4 The government contribution in England is indirectly realised in the form of forgiveness of the student loan on expiry, which is estimated to be approaching 50 per cent of the value of the loan book. This could be reduced by tightening loan conditions, such as reducing the payment threshold or extending the life of the student loans, both of which were recommended in the Augar report.

## Endnotes

- 1 Since 2005, under both block grant and demand driven funding, universities have also received student contributions as a separate amount of money, mostly paid via the HECS / HELP income contingent loan scheme.
- 2 From 2005 to 2011 student places were nominally allocated, for the purposes of calculating the block grant, to 12 discipline-based funding rates. Enrolments not matching discipline allocations did not result in a sanction.
- 3 Andrew Norton, 'Young people were less likely to enter higher education in the years after Whitlam than before. Demography and deficits were against them', *Andrew Norton's blog*, 29 April 2019 <https://andrewnorton.net.au/2019/04/29/young-people-were-less-likely-to-enter-higher-education-in-the-years-after-whitlam-than-before-demography-and-deficits-were-against-them/>.
- 4 Brendan Cantwell, Simon Marginson and Anna Smolentseva (eds), *High participation systems of higher education*, 2018
- 5 Department of Education and Training, *Time series data 1949-2000*, 2014
- 6 On the theory that more doctors led to excessive costs under the publicly-funded Medicare scheme through unnecessary consultations and tests.
- 7 Andrew Norton, 'Markets and central planning in meeting labour market needs: Lessons from higher education', in Tom Karmel, Francesca Beddie and Susan Dawe (eds), *Competition in the Training Market*, 2009
- 8 Although postgraduate coursework public funding was capped, public universities could offer full-fee places in postgraduate courses, and these were just over half of all full-time equivalent places
- 9 With the exception of Medicine, which retained the previous system of capped student places. For the actual rates, see Andrew Norton, Ittita Cherastidtham and Will Mackey, *Mapping Australian higher education 2018*, 2018, p. 62

- 10 For the technical detail, see Andrew Norton, 'How can the government cap funding for Commonwealth-supported places?' *Andrew Norton's blog*, 17 December 2017 <http://andrewnorton.net.au/2017/12/17/how-can-the-government-cap-funding-for-commonwealth-supported-student-places/>
- 11 Universities were required to seek permission before closing courses leading to occupations in skills shortage or teaching a 'nationally strategic' language
- 12 The vague wording of the admissions standard limited its effectiveness. See the discussion in Ittima Cherastidtham and Andrew Norton, *Dropping out: The benefits and costs of trying university*, 2018, chapter 7, p.46 <https://grattan.edu.au/wp-content/uploads/2018/04/904-dropping-out-the-benefits-and-costs-of-trying-university.pdf>
- 13 Department of Education, Employment and Workplace Relations (DEEWR), *Transforming Australia's higher education system*, 2009, pp.12-13 <https://www.voced.edu.au/content/ngv:14895>
- 14 The original 2009 announcement was not clear on the relevant population. Counting all Australia residents attainment was 40 per cent in the 25-to-34-year old age group in 2019. But counting only Australian citizens the 2019 figure is 34.5 per cent: Australian Bureau of Statistics, *Microdata: Education and work, May 2019, Cat. 6227.0.30.001*, 2019
- 15 The previously cited 15 per cent, from the government's demand driven funding policy statement, used all students. Department of Education and Training, *Students: Selected higher education statistics 2017*, 2018
- 16 Department of Education and Training, *uCube - Higher education statistics*, 2019; Department of Education and Training, *Undergraduate applications, offers and acceptances 2017*, 2017
- 17 Department of Education and Training, *uCube - Higher education statistics*, 2019. The University of Melbourne had fewer bachelor degree students due to a shift to postgraduate professional courses, but it sat outside the demand driven system.

- 18 Department of Education and Training, *Undergraduate applications, offers and acceptances 2017*, 2017; AVCC, *Applications for undergraduate courses 2007*. The 2008 figures use ENTER, a predecessor to ATAR. The figure was still 2 per cent under ATAR in 2010.
- 19 Australian Vice-Chancellors' Committee, *Applications for undergraduate courses 2008*, 2008
- 20 Department of Education and Training, *Completion rates of domestic bachelor degree students: a cohort analysis, 2005-2018*, 2019
- 21 Ittima Cherastidtham and Andrew Norton, *University attrition: what helps and what hinders university completion?*, 2018
- 22 Department of Education and Training, *uCube - Higher education statistics*, 2019
- 23 Department of Education and Training, *Students: Selected higher education statistics 2018*, 2019
- 24 Higher Education Standards Panel, *Final report - Improving retention, completion and success in higher education*, 2018
- 25 Andrew Norton, 'Graduate employment is up, but finding a job can still take a while', *The Conversation* 10 January 2019 <http://theconversation.com/graduate-employment-is-up-but-finding-a-job-can-still-take-a-while-109654>
- 26 Andrew Norton, Ittima Cherastidtham and Will Mackey, *Mapping Australian higher education 2018*, 2018, chapter 10
- 27 Andrew Norton, *Unleashing student demand by ending number controls in Australia: An incomplete experiment*, 2014
- 28 Andrew Norton, Ittima Cherastidtham and Will Mackey, *Mapping Australian higher education 2018*, 2018, pp.47-48
- 29 Brendan Cantwell, Simon Marginson and Anna Smolentseva (eds), *High participation systems of higher education*, 2018
- 30 Andrew Norton, 'Young people were less likely to enter higher education in the years after Whitlam than before. Demography and deficits were against them', *Andrew Norton's blog*, 29 April 2019

- 31 The mid-2000s are a complicated case. Allocated places and funding were increasing, but less funding for student places above the target number triggered a decline in actual enrolments.
- 32 Andrew Norton, 'Young people were less likely to enter higher education in the years after Whitlam than before. Demography and deficits were against them', *Andrew Norton's blog*, 29 April 2019
- 33 School leavers aged 19 years or less. Department of Education and Training, *Selected higher education statistics*, various years
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In 2012, Australia removed student number controls or, in the local terminology, introduced a 'demand driven system' based on student choice. In 2015, England followed suit. In both places, entry to higher education was opened up but non-completion rates rose.

In Australia, the demand driven system ended in 2017, despite a coming demographic bulge. England remains at an earlier point in the policy cycle, but there are growing fears that student number controls could also be on the way back despite the coming increase in school leavers.

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March 2020 ISBN: 978-1-908240-63-7

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Tel: 01865 284450 [www.hepi.ac.uk](http://www.hepi.ac.uk)

Printed in the UK by Oxuniprint, Oxford

Typesetting: Steve Billington, [www.jarmanassociates.co.uk](http://www.jarmanassociates.co.uk)

Editing and proofreading: Emma Ma, HEPI