

Tuition Fee Deregulation

By Grant Harman

One funding option suggested by Minister Nelson's Crossroads discussion paper is deregulation of tuition fees.

In other words universities would be given freedom to set tuition fees for all students while currently they have power to set fees within limits for international students, domestic coursework postgraduates and full-fee international programs for particular undergraduate programs.

Not arguing for or against fee deregulation, but rather will try to provide information to help participants make their own judgements.

At the same time, I have personal reservations about fee deregulation on three grounds:

- 1. Fee deregulation could work adversely against increasing access among particular equity groups. Increasing concern that access**

programs have not worked as well as hoped for amongst Indigenous students, and students from rural and isolated families and low SES families. Some equity groups have a fear of debt.

- 2. High tuition fees could mean that graduates are saddled with very high levels of debt.**
- 3. Implementation of a radical fee system has the potential to adversely affect the operation of other aspects of the funding system.**

In presentation look at:

- What is proposed with regard to fee deregulation;**
- What forms it may take;**
- Possible advantages and disadvantages; and**
- UK experience**

Prospects of Change

- **Tuition fee deregulation and vouchers are by far the most controversial proposals for alternative systems of funding in both in Australia and UK.**
- **In Australia, the West Committee recommended gradual implementation of package including vouchers and fee deregulation, but in 1999 when the Kemp Cabinet submission was leaked Prime Minister Howard quickly backed away from vouchers, charging market interest for HECS, and HECS for TAFE for the life of that Parliament.**
- **In the UK, Labor Government sent out some positive or perhaps ambiguous signals about willingness to consider 'top up' or 'differential fees' but then backed away.**
- **In both cases, intense opposition from student and academic staff groups.**
- **This raises doubt about likely community or government acceptance of either fee deregulation or vouchers, whoever is in government.**

Crossroads

***Crossroads* should be seen primarily as a political document. It was designed to gain acceptance by the Federal Cabinet and hence it is written in a particular ideological style. It also deliberately says little about the possibility of additional Commonwealth funding or about the key arguments for state support for higher education.**

Presumably *Crossroads* also was written to prompt a strong response from the sector. Hence the critical comments in the second part and various provocative statements.

Main focus on funding, with subsidiary interest in achieving greater productivity in learning and further efficiency reforms, especially in governance, management and workplace relations.

Links between increased public funding and reform - Minister may argue in Cabinet for additional funding on the basis of agreed reform and to support *Backing Australia's Ability*. Could also use data from Productivity Commission's

forthcoming international comparative costs study.

Two key elements of *Crossroads* on funding:

- **Revenue Diversification (and increase)**
- **Allocation of Public subsidies**

Revenue Diversification

Six areas for potential growth:

- **Fees from continuing education**
- **Investment income**
- **Bequests and donations**
- **Research income**
- **Consultancy service fee**
- **Research commercialisation**

Allocating Public Subsidies

- **The existing system**
- **Learning accounts or vouchers**
- **Performance funding**
- **Competitive tendering**
- **Fee deregulation**
- **Mission funding**

Clues about DEST'S Preferred Future Arrangements

- **Any major change must provide for a variety of options and not be based on a single solution - no one size fits all.**
- **Public subsidies in the future may need to be limited, especially if more funds are need to support new access and equity initiatives.**
- **Increased concern in DEST that access and equity measures have not worked as well as expected.**
- **One possible package mentioned - adjust index for salaries component of operating grants; allocation of tuition subsidies to universities through a performance related formula; institutions set own fees within a band; and income contingent loans to cover gap between tuition fees charged and government subsidy.**

Fee Deregulation Proposal

- **Allow institutions be allowed set their own tuition fees - could result in what UK proposals refer to as 'differential fees', varying between institutions and within institutions between courses.**
- **Current situation is that institutions are unable to charge fees for domestic undergraduates, except for the special arrangements with additional places when quotas are met.**
- **Government currently sets the price per student place at the same rates nationally for HECS based courses, using three bands based on course costs and graduate earning potential.**
- **However fees effectively deregulated for overseas students and Australian postgraduate students.**
- **Amendments to legislation necessary if universities are to charge fees.**

How Fee Deregulation might work?

Number of options, varying from some flexibility of institutions in determining HECS fee levels to a full fee system without any HECS.

However, if any fee deregulation most likely to be combined with continuing government 'subsidies' and income contingent student loan system, either HECS or something similar.

Importance of administrative detail, especially:

- Whether 'free go', or fees to be set within bands;**
- Whether maximum enrolment limits will be set;**
- Whether special arrangements for equity groups.**
- Whether special protection for some groups of institutions.**

Arguments For and Against Fee Deregulation

For

- **Could generate additional income - revenue per student unit has fallen and need to compete internationally**
- **By setting their own prices, universities secure increased flexibility and be better able to compete effectively against overseas competitors**
- **Encourage increased responsiveness and innovation**
- **Result in less regulation**
- **Enhance university autonomy**

Against

- **Access issues - possible adverse effects on potential students from poorer families and from regional and isolated areas, and Indigenous students**
- **Graduates could be saddled with substantial debts**
- **Advantages to best endowed universities**
- **Threat of monopoly behaviour**

- **Risks some institutions may raise fee levels without improving services**
- **Could threaten quality.**

Need for critical scrutiny of these arguments

British 'Top-up Fee' Debate

Centred mainly around the idea of 'top up' or differential fees, and an Australian style HECS scheme

Two key reports:

Greenaway, David and Haynes, Michelle (2000) *Funding Universities to Meet National and International Challenges*, School of Economics Policy Report, University of Nottingham, Nottingham, 110 pages

Taylor, W. (Chair) (2001) *New Directions for Higher Education Funding: Funding options review group*, Final Report, Universities UK, London, 37 pages.

Greenaway and Haynes

**Economists from University of Nottingham -
commissioned by Russell Group**

**Comprehensive report covering key trends in UK
and OECD higher education, benefits to
individuals and society, funding options,
differential fees and scholarships/income
contingent loans**

**Currently in UK fees set by Government, with
institutions requiring approval to charge
additional fees, but allowed to charge lower fees**

**Researchers considered following options to
increase funding levels:**

- **Enhanced grant allocations**
- **Graduate tax or deferred payment scheme**
- **Funding via vouchers**
- **Investment by beneficiaries (students' families,
student earnings, scholarship funding,
employers, students future earnings)**

Greenaway and Haynes concluded best option is students' future earnings with differential fees combined with a student income contingent loan system.

'... the case for students contributing to the costs of their education is strong, on both economic and social justice grounds. The economic case derives from the high rates of return which accrue to graduates. The social justice case derives from the fact that the present system redistributes income from (on average) lower to higher income taxpayers, has poor record in terms of social inclusion and is therefore doubly regressive. A system of loans which permits students to borrow against future earnings to make a greater contribution to the costs of their education has the potential to provide an injection of resources quickly and over a long period and is likely to be far more equitable than present arrangements'.

Greenaway and Haynes Arguments in Favour Differential Fees:

- **If British Universities are to continue to expand without further deterioration in class sizes, infrastructure and relative staff remuneration, further resource per student is required and this should come from students, given their expected future income rather than from (on average) lower income taxpayers.**
- **If British Universities are to compete effectively in the global market, in recruiting international students and sustaining international excellence in research and technology transfer, they require additional funding and again this should not come from the taxpayer.**
- **Different universities have different cost structures, fashioned by, for example, subject mix; balance of activities between teaching, research and technology transfer; whether their focus is regional or international.**
- **Present arrangements mean that the contribution of students make is unrelated to the costs of teaching (theology students and**

medical students in their clinical years both pay 1000 per annum) and to the expected rate of return on their degree.

- **Fee differentiation permits Universities to levy higher fees on those able to pay so as to generate resource to support those from less fortunate backgrounds.**
- **Result in greater market discipline and less need of costly regulation.**

Differential fees can bring in additional resources

Taylor Report

Reviewed a number of funding options:

- **Increased public funding;**
- **Market fees;**
- **Graduate income-contingent contributions;**
- **Institutional endowment;**
- **Undergraduate teaching funded by block grants and means-tested fee contributions as currently but with higher level of fees and income-contingent loans available to meet fee as well as maintenance costs;**
- **Cubie/Scottish Parliament scheme;**
- **Funding for undergraduate teaching abolished, fees deregulated, and support for needy students provided from a public bursary fund;**
- **Individual learning accounts.**

Taylor Section on Market Fees

Increased funding would be achieved by differential fees paid directly to institutions.

Fee differentials based on subjects, whole institution, or prospective rate of return to individual, deregulation.

Need to be accompanied by institutional funded scholarships to support lower income groups with income contingent loans for remainder.

To meet the £620 million needed to repair funding levels would require average fees per person to increase by about £700 per person per annum before taking into account scholarships for poorest students.

Conclusions

Basically only three possibilities of addressing revenue short-fall:

- **increased government support;**
- **extension current institutional income generation activities; or**
- **raise additional income from students/graduates.**

In these circumstances, should fee deregulation be ruled out without careful consideration?