

UNIVERSITIES AUSTRALIA SUBMISSION

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# HIGHER EDUCATION SUPPORT LEGISLATION AMENDMENT 2017

JUNE 2017

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## EXECUTIVE SUMMARY

**Universities Australia is the peak national body representing Australia's 39 comprehensive universities in the national interest.**

**The Government has brought forward the *Higher Educational Support Legislation Amendment (A More Sustainable, Responsive and Transparent Higher Education System) Bill 2017* to make policy changes—including changes to funding—in the higher education sector.**

**We appreciate the opportunity to comment on these proposals that, if implemented in their current form, would have far reaching consequences for the shape and quality of Australia's higher education system.**

**This submission complements those made by individual universities and university groupings that reflect their own particular circumstances and shared perspectives. We commend these to you.**

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All members of Universities Australia oppose the reduction in investment in universities and measures that would restrict student access on the basis of affordability. Members also recommend excising performance funding from the Bill pending work being done design and rationale. A majority of our members oppose the Bill in its entirety.

If passed:

- students will pay more to get less;
- universities will be weakened at the very time Australia needs them most to assist in making a successful transition to an economy based on advanced skills, new ideas and innovation;
- the measures will have a negative impact on education quality and diversity; and
- red-tape, government bureaucracy and administrative costs will increase.

Should the Committee be inclined to recommend proceeding with the Bill, we strongly recommend that the 'efficiency dividend' be removed and the clauses that relate to performance funding be subjected to further analysis and discussion.

These two elements are the primary focus of our submission.

The cuts to university funding combined with increases in students fees mean that students will be paying more to get less. This constitutes a double hit on students, increasing the fees they pay—already high by international standards

—and decreasing the funding for the courses, learning opportunities and student services that are critical to the quality of their education.

The proposed reduction of \$1 billion in university funding would come at a time when competing nations are investing heavily in higher education and research as a way of safeguarding their economies against profound economic, industrial and social upheaval.

UA members are not-for-profit, nation-building enterprises.

They play a critical role in equipping Australia for the new economy by building national resilience. Our universities will be responsible for producing the next generation of graduates with the flexible, adaptable, high-level skills needed to navigate Australia through the transition to a profoundly different economy. Through world-leading research, universities also contribute to the innovation and new products, ideas and breakthroughs needed to solve our thorniest problems and create new industrial opportunities.

Further reducing investment in higher education and research runs counter to the Government's National Innovation and Science Agenda (NISA) and its policy premise that recognises the imperative of innovation, science and research for maintaining and enhancing Australia's global competitive position.

Universities understand the challenge for Government in juggling priorities for public expenditure and acknowledge the need to address budget repair. In this context, however, the Committee should in turn acknowledge the substantial contribution that universities and their students have already made to the budget repair effort in recent years.

Since 2011–12, \$3.9 billion in net budget savings from the sector have been made. This does not include the loss of another \$3.7 billion from the sector as a result of the Government's proposal to abolish the last remaining capital works program—the Education Investment Fund (EIF)—that provides funds for the building and renewal of university facilities, including classrooms, lecture theatres, laboratories, libraries and student study spaces.

Reducing the level of investment also denies the Australian community the commensurate return on that investment, particularly in relation to jobs and economic growth that extends well beyond the higher education sector. Australia's international education success—grounded in the high quality and reputation of the Australian system—is a key element. Valued at more than \$22 billion, international education is Australia's third largest export and too important to put at risk.

It also risks the quality and diversity of education and support services offered to students. An efficiency dividend puts at risk some of the most financially challenging aspects of universities' operations. These are typically student support services, smaller courses (including languages), smaller (often regional) campuses, and community outreach and support. While these may be a net cost to universities, these operations are important in delivering the public good mission of universities.

The Bill provides for Government funding to be further reduced for institutions that do not meet yet-to-be determined ‘performance’ measures.

Universities are demonstrably committed to continuous improvement in meeting the needs of their students and will support a scheme that further assists them do this. However, we believe that it is premature to introduce legislation on a scheme that addresses an under-articulated ‘problem’ and that has not benefitted from a process of broad consultation and analysis. Attrition rates have not changed markedly in recent years, retention is on par with the rest of the developed world and student satisfaction continues to climb. This is in large part a reflection of the robust performance and accountability framework that is already in place.

Together with the funding cuts, an inadequately conceived performance funding system has the potential to condemn the sector to a downward spiral that would hit hardest the institutions that serve the most disadvantaged students and communities in the country.

Given the potential for unintended consequences, and the immaturity of the proposal, performance funding should be removed from the Bill until a workable system is developed.

Despite our serious concerns regarding the central elements of the Bill, it is important to acknowledge that the Bill includes a number of elements that the sector has been calling for some time:

- Extending the demand-driven system to sub-Bachelor programs - improving and diversifying entry pathways will widen access to higher education.
- Enshrining the flagship equity program, HEPPP, in legislation will help to assure the program’s future: proposed changes to its structure will improve its effectiveness.
- Making Commonwealth subsidies available for work experience in industry units will support employers, universities and students develop and pursue work-integrated learning, leading to improvements in graduate work-readiness.

## Recommendations

That the Committee, at a minimum:

1. oppose the proposed efficiency dividend;
2. oppose the changes that affect student affordability;
3. remove provisions for performance funding so they can be properly considered, scrutinised and analysed through a considered and consultative process;
4. ensure feasible timeframes for smooth implementation; and
5. consider the positive elements of the Bill and how they might best be delivered:
  - a. extension of the demand-driven system to sub-Bachelor places; and
  - b. legislative protection for HEPPP and changes to the program.

# 1 INTRODUCTION

Higher education and research are not only essential for maintaining Australia's prosperity, competitiveness and standard of living but are the bedrock upon which Australia's future economic success depends. As the mining investment boom recedes, Australia faces an urgent task to broaden growth and diversify the economy. Decisions taken now will shape Australia's living standards, job security and social cohesion in the years ahead.

Around the world, constrained public budgets and global uncertainty have become public policy contextual fixtures. Governments at home and abroad are wrestling with competing budget priorities. Yet, despite these challenges, smart nations continue to invest strategically in higher education, research and innovation. They are doing so to ensure their citizens aren't left behind by the sweeping forces of globalisation and technological change. Such investments are a down payment on a future characterised by high-wage jobs, skilled and smart workforces and increased productivity.

Every prosperous and successful nation has a high quality university system. More than ever before, competitive and wealthy nations need the advanced skills and innovative research that universities deliver, to guarantee prosperity into the future.

Australia has one of the world's best university systems and enjoys an international reputation to match.

Our diverse universities are consistently ranked highly – more so than comparable national systems. At the same time, Australia has more universities at the top of the international rankings than the population—or the number of institutions—would suggest.

The Universitas 21 ranking of national university systems ranked Australia's higher education system tenth best in the world, and would rank higher if better resourced. In the highly competitive, global field of research, Australia ranks fifth.<sup>1</sup>

Australia has six universities in the world's top 100 on the prestigious Shanghai Jiaotong ranking, and more than half of Australia's universities are in the top 500.<sup>2</sup> QS Rankings released on 8 June show that Australia has one university in the world's top 20 and five in the top 50. There are 21 Australian universities in the top 400.<sup>3</sup> Only the United States and the United Kingdom have more high ranking universities.

The QS World University Rankings 2018 observed that Australian institutions collectively made '*... progress unparalleled by any other nation of similar size and standard.*'

Younger Australian universities are rising fast, maintaining Australia's competitiveness as Asian universities climb the international rankings. The *Times Higher Education Supplement's* ranking of the top universities under 50 years old

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<sup>1</sup> Universitas 21 2017, *U21 Ranking of National Higher Education Systems*, Universitas 21

<sup>2</sup> Academic Ranking of World Universities (Shanghai Jiaotong ranking) 2016, <http://www.shanghairanking.com/World-University-Rankings-2016/Australia.html>

<sup>3</sup> QS World University Rankings 2018, <https://www.topuniversities.com/university-rankings/world-university-rankings/2018>

has 17 Australian universities in the top 100, more than any other nation, and a further five in the top 150.<sup>4</sup>

Australia's highly ranked universities are the lynchpin of our third biggest export—international education—worth \$22 billion in 2016. Higher education contributed around \$15 billion of this total. Just as importantly, the global reputation of our universities anchors Australia's position as one of the world's leading education destinations, and drives international student demand.

Building a reputation for excellence in higher education and research takes a long time and is hard won. Once lost, it is nigh on impossible to regain

The sector needs reliable and sufficient investment and policy consistency to maintain, extend and develop its contribution to the nation at a time of intensifying challenge and accelerating change.

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***Our higher education system is a national treasure that should be nurtured and celebrated.***

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Our higher education system is a national treasure that should be nurtured and celebrated.

Instead, policy decisions are pushing it ever closer to a tipping point. Reducing investment is not a strategy for strength or sustainability.

Universities Australia (UA) acknowledges that the Government's higher education policy package includes several positive elements:

- extending the successful demand-driven funding system to associate degree courses;
- retaining and protecting the flagship equity program, HEPPP; and
- further support for work-integrated learning.

However, these are small components of an overall damaging package.

The changes pose a real threat to quality, both of the standard of education that our domestic and international students expect and the student experience more broadly. They would also limit students' options by driving sameness across the sector as institutions pursue the cheapest teaching options.

In combination, cuts to university funding and increases in fees mean that students would pay more and get less and will weaken the capacity of our universities to support Australia's economic and social development.

## **1.1 UNIVERSITIES AND A CHANGING ECONOMY**

UA agrees with the Government that higher education and research are more important to Australia than ever before. The economy—and the labour market—are changing at breakneck speed. It is impossible to predict the full impact of the current structural shifts. For nations, companies and individuals, resilience and adaptability will be central to success. Universities play a vital role in equipping societies, industries and individuals for a future of rapid and unpredictable change.

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<sup>4</sup> Times Higher Education 2017, Supplement Young Rankings 2017, [https://www.timeshighereducation.com/world-university-rankings/2017/young-university-rankings#!/page/0/length/25/locations/AU/sort\\_by/rank/sort\\_order/asc/cols/stats](https://www.timeshighereducation.com/world-university-rankings/2017/young-university-rankings#!/page/0/length/25/locations/AU/sort_by/rank/sort_order/asc/cols/stats)

Higher education develops the advanced generic and specific skills that individuals and nations increasingly need, and the open-minded inquiry and continuous learning needed to drive and respond to the new economy. University research creates the new knowledge on which breakthroughs and innovation are based, and develops ways to apply knowledge to practical innovation. Universities are the only institutions that combine rigorous education and training in both specific and generic skills, with both applied and blue sky research.

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***It is no coincidence that every successful modern economy has a strong university system.***

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It is no coincidence that every successful modern economy has a strong university system.

The skills and innovative capabilities that universities foster need to be spread more broadly across the population than in the past. As traditional industries are disrupted and recede—not only in manufacturing and primary industries, but in white collar sectors too—economic and employment growth will increasingly depend on knowledge and innovation.

Deloitte forecast that around 3.8 million new graduates will be needed over the next decade.<sup>5</sup> The Australian economy will require 2.1 million more skilled graduates than it needed in 2015 and an additional 1.7 million skilled workers to replace those exiting the workforce as the population ages.

Universities play a pivotal role in ensuring that Australia has the skilled workforce needed to meet the growing and changing employment needs of the economy.

Beyond the economic imperatives, broad access to higher education is also important for social cohesion. The more people who possess the skills needed to adapt to disruptive change, the lower the level of community dislocation and disenfranchisement.

Currently, nearly one in five Australian university students are in the bottom quarter of income distribution. Education has long been a key contributor to social mobility. It is more important than ever to maintain the role of universities as enablers of opportunity for capable people from all backgrounds.

A recent report from IP Australia found that Australia ranks 11<sup>th</sup> in the OECD (ahead of Israel and Switzerland) for collaboration between universities and industry leading to international patent applications.<sup>6</sup> As the Hon Craig Laundy, Assistant Minister for Industry, Innovation and Science, acknowledged: *'the research showed that every university in Australia undertook at least one collaborative IP application.'*<sup>7</sup>

A world-class higher education system that maintains quality in teaching and research while expanding access to an increasing share of the population should be recognised as a fundamental pillar of a well-functioning and prosperous economy and society.

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<sup>5</sup> Deloitte Access Economics 2015, *The importance of universities to Australia's prosperity*, Deloitte Access Economics Pty Ltd, Canberra, [https://www.universitiesaustralia.edu.au/ArticleDocuments/783/The\\_importance\\_of\\_universities\\_to\\_Australia\\_s\\_prosperity.PDF.aspx](https://www.universitiesaustralia.edu.au/ArticleDocuments/783/The_importance_of_universities_to_Australia_s_prosperity.PDF.aspx)

<sup>6</sup> IP Australia 2017, *Australian Intellectual Property Report 2017*, <https://www.ipaustralia.gov.au/ip-report-2017>

<sup>7</sup> Laundy, C. 2017, *Australian universities ahead of Israel and Switzerland on collaborative international patents*, Media release, 26 April 2017, <http://www.minister.industry.gov.au/ministers/laundy/media-releases/australian-universities-ahead-israel-and-switzerland-collaborative>

## 2 CUTS TO UNIVERSITY FUNDING

### 2.1 CUTS ARE SIGNIFICANT AND PERMANENT

The Government’s Bill proposes interlocking changes to the base funding for Commonwealth-supported university places (CSPs).

There has been some confusion about how these changes interact, and about the magnitude of their net effect.

The headline figure in the package is a 2.5 per cent ‘efficiency dividend’ that will reduce the Government’s contribution to university places in 2018 and 2019. The increase in the student contribution will not fully offset this reduction.

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***This cut is bigger than it looks and—by re-setting the baseline—is permanent.***

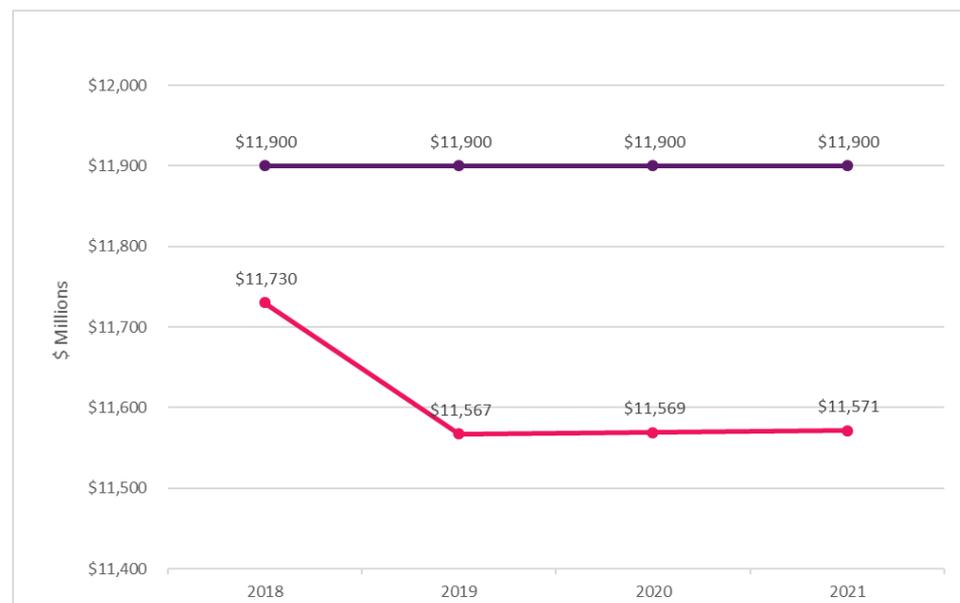
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The combined impact of ‘efficiency dividends’ in two successive years represents a cut of nearly 5 per cent in real terms to the Commonwealth Grant Scheme (CGS), compared to current funding levels.

Efficiency dividends are net cuts: their application reduces total resourcing per place. Figure 1 provides indicative figures for 2018 to 2021.

**Figure 1: Impact of efficiency dividends on base funding per place, 2018 dollars**



Source: UA calculation, based on 2015 student load data

## 2.2 STUDENTS WOULD PAY MORE AND GET LESS

By 2021, the total cut to Government subsidies for university places would be just over 10 per cent.

While student contributions increase by 7.5 per cent to 2021 and offset most of the 10 per cent cut, they would not offset the 'efficiency dividend'. As a result, students will have to pay more for university places, but the overall level of resourcing per place will be lower.

This may have a negative effect on access to higher education particularly for those from more financially disadvantaged backgrounds and regional and remote areas where higher education participation is already comparatively low. UA is concerned that the changes to CSP funding will further exacerbate a city – country divide in employment, productivity and innovation.

Proposed funding changes will make it harder to offer innovative and distinctive courses and experiences that respond to student demand and provide diversity of choice. In particular, universities will find it harder to offer students the breadth of experiences that extend their capabilities and equip them with the range of transferrable skills they will increasingly need. Further, the breadth of subjects, extra-curricular opportunities, overseas experiences, student services, campus numbers and, ironically, work-integrated learning opportunities are also likely to be scaled back.

To illustrate the potential impact on diversity, James Cook University (JCU) maintains and operates several specific programs and facilities that are necessary to the institution's particular mission and strengths. Specific facilities – such as research stations in the Great Barrier Reef and in the Daintree, operational grazing properties, a research ship – are crucial to run programs that differ from others in the sector.

Maintaining these facilities is expensive, but JCU is committed to providing a high quality experience and to providing the facilities needed to deliver on its commitment to excellence in higher education and research with a particular emphasis on the tropics. Reducing the capacity to deliver such difference would compromise JCU's ability to provide a unique, high quality experience, and would mean reducing the diversity of Australian higher education.

Funding cuts will also make it more difficult for universities to offer support services for students who require academic and pastoral support. These vital services are already under strain as a consequence of previous funding cuts.

## 2.3 FIGURES ON FUNDING INCREASES ARE MISLEADING

The Government has stated that funding to universities will increase over the forward estimates period.

The claim that Government grants to universities will increase by \$1 billion over the four years from 2017–18 to 2020–21 is derived from a Parliamentary Budget Office (PBO) report comparing 2017-18 Budget estimates with figures from the 2016–17 MYEFO. What the PBO report actually shows is that, if the Government's package

were to be passed in full, grants to universities over four years would be \$1 billion higher than they would have been if the Government’s earlier policy package—including ‘zombie measures’ such as a 20 per cent CGS cut—had been passed.

Compared to current funding arrangements, the new package will reduce grant funding. It is a net cut in real terms.

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The Government has also stated that “*Government funding for university teaching and research is expected to grow by approximately 23 per cent over the next four years*” This is not true since the Government’s own explanatory figures show that HELP loans – most of which will be paid back by students – make up 87 per cent of the growth. This increase assumes substantial growth (60,000 additional full-time equivalent students) in the number of permanent residents and New Zealand citizens commencing university study.

In dollar terms, the Government’s figures show a total increase of \$3.9 billion. Some \$3.4 billion of this is attributable to HELP loans. Funding for student places is flat despite inflation and enrolment growth. In other words, funding per student falls.

## **2.4 THE CUTS ARE NOT JUSTIFIED**

### **2.4.1 UNIVERSITIES AND THEIR STUDENTS HAVE ALREADY CONTRIBUTED TO BUDGET REPAIR**

Australia’s universities and their students have already contributed more than their fair share to addressing the Budget repair.

Students and universities have contributed around **\$3.9 billion** in net savings between 2011–12 and 2016–17.

This figure represents net cuts and only includes cuts actually taken (it excludes Budget measure that did not proceed to become law). For the same reason, the figure does not include projected cuts over last year’s forward estimates.

If anything, \$3.9 billion is a conservative figure.

Major cuts already made include (but are not limited to):

- Changes to Student Start-up Scholarship (\$1.41 billion)
- Cuts to the Sustainable Research Excellence (SRE) scheme (\$648.8 million)
- Removing performance funding for universities (\$698.5 million)
- Abolishing the Capital Development Pool (\$298 million)

- Cuts to the Higher Education Participation and Partnerships Program (\$90.7 million)

In addition to \$3.9 billion in cuts, the Government has also announced that it intends to re-purpose a further \$3.7 billion earmarked for university buildings such as classrooms and laboratories in the Education Investment Fund (EIF). This is the last remaining dedicated capital works for universities. To maintain the quality of their assets, universities will need to repurpose funding intended for education and research.

## 2.4.2 INVESTMENT IN HIGHER EDUCATION YIELDS A BIG RETURN

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***Successful nations understand the link between investing in higher education and research, and enduring national prosperity. This is why countries in our region are investing heavily in their higher education and research systems.***

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Successful nations understand the link between investing in higher education and research, and enduring national prosperity. This is why countries in our region are investing heavily in their higher education and research systems. They know that this investment yields substantial returns for the nation and for individuals.

The benefits for graduates are well known. They are less likely to be unemployed and more likely to participate in the labour market. The latest ABS statistics show the unemployment rate for people with a bachelor degree or higher was 3.2 per cent in 2016, compared with 8.2 per cent for those without a post-school qualification.<sup>8</sup>

Graduates earn more than workers without a degree, on average. According to the 2011 Census, the median male bachelor degree graduate has lifetime additional earnings of \$1.4 million, compared to the median male without a post-school qualification. For women, the estimated lifetime earnings premium is just under \$1 million.<sup>9</sup>

Studies also show that university graduates are more likely to have better health, more likely to be engaged in civic society, report higher life satisfaction and are more receptive to people from different cultures.<sup>10</sup>

Perhaps more importantly, the public benefits are just as significant. Deloitte modelling shows the university sector contributed around \$25 billion to the

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<sup>8</sup> ABS 2016, *Education and Work, Australia, May 2016*, Cat. No. 6227.0, Commonwealth of Australia, Canberra.

<sup>9</sup> Norton, A. and Cakitaki, B. 2016, *Mapping Australian higher education 2016*, Grattan Institute, Melbourne, p. 80.

<sup>10</sup> Savage, J. and Norton, A. 2012, *Non-financial benefits of higher education: Analysis supporting Grattan's graduate winners report*, Grattan Institute, Melbourne.

Australian economy in 2013, accounting for over 1.5 per cent of Australia's GDP. Universities directly and indirectly accounted for 160,000 full-time equivalent jobs.<sup>11</sup>

In May this year, the Government cited a new (still unpublished) study by Deloitte which shows that the public benefits of higher education exceed the private benefits. The report shows that, after controlling for students' 'innate ability', 55 per cent of the benefit to the economy from each graduate was a public benefit, compared to a 45 per cent private benefit.<sup>12</sup>

University education added an estimated \$140 billion to Australian GDP in 2014, due to higher labour force participation and employment of university graduates and increased productivity of the workforce. Australia's GDP is 8.5 per cent higher due to these impacts.<sup>13</sup> This equates to roughly a sixfold return on \$25.3 billion university spend from all sources, and more than a tenfold return on Commonwealth Government investment on universities in 2014.

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***An additional year of higher education undertaken in Australia generated spillover public benefits worth between \$10,635 and \$15,952 per year.***

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A recent study estimated that an additional year of higher education undertaken in Australia generated spillover public benefits worth between \$10,635 and \$15,952 per year of higher education per student (in 2014 dollars).<sup>14</sup>

Data published by the OECD in 2016 shows that, compared to those without a tertiary education, the net public benefit is US\$129,000 per male graduate and US\$90,000 per female graduate for Australia. Public benefits included higher tax revenue and lower social security transfer payments.<sup>15</sup>

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***A highly educated workforce benefits everyone.***

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A highly educated workforce benefits everyone. For every thousand university graduates who enter the Australian workforce, 120 new jobs are created for those without degrees. Wages for non-degree holders are boosted by \$655 a year—or \$12.60 a week—when more graduates join the national workforce.<sup>16</sup>

The value of the stock of knowledge generated by university research was estimated at \$160 billion in 2014, equivalent to almost 10 per cent of Australia's GDP. Increased investment in university research over the past 30 years has been estimated to account for almost a third of the average growth in living standards over this period.<sup>17</sup>

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<sup>11</sup>Deloitte Access Economics 2015, *The importance of universities to Australia's prosperity*, Deloitte Access Economics Pty Ltd, Canberra.

<sup>12</sup> Deloitte Access Economics 2016, *Estimating the public and private benefits of education*, unpublished report to DET, p.47, cited in Australian Government 2016, *The Higher Education Reform Package*, p.9-10

<sup>13</sup> Deloitte Access Economics 2015, *The importance of universities to Australia's prosperity*, Deloitte Access Economics Pty Ltd, Canberra.

<sup>14</sup> Chapman, B. and Lounkaew, K. 2015, 'Measuring the value of externalities from higher education', *Higher Education*, 70, p. 767–785.

<sup>15</sup> OECD 2016, *Education at a Glance 2016: OECD indicators*, OECD Publishing, Paris, Indicator A7.

<sup>16</sup> Cadence Economics 2016, *The Graduate effect: Higher education spillovers to the Australian workforce*, Cadence Economics Pty Ltd, Canberra.

<sup>17</sup> Deloitte Access Economics 2015, *The importance of universities to Australia's prosperity*, Deloitte Access Economics Pty Ltd, Canberra.

Given these facts, it is lamentable that stable, sustainable higher education funding is still a matter of political contest.

### **2.4.3 PUBLIC FUNDING FOR HIGHER EDUCATION IN AUSTRALIA IS ALREADY LOW**

According to the OECD's latest figures, Australia is ranked 32 out of 33 OECD countries for public investment in tertiary education, 0.7 per cent of GDP compared to an OECD average of 1.13 per cent in 2013.<sup>18</sup>

Australian total investment in tertiary education institutes has been flat since 2000, while total investment in other OECD countries has been increasing.<sup>19</sup>

Despite the increase in enrolments between 2008 and 2015, as a share of both GDP and total Commonwealth outlays, the Commonwealth is investing less in higher education in 2016 than it did in 2009.<sup>20</sup>

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***The value of 'base funding' per student is approximately the same as it was 20 years ago despite recommendations from the past two major reviews that per student funding rates be lifted, at least for some disciplines.***

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The value of 'base funding' per student is approximately the same as it was 20 years ago despite recommendations from the past two major reviews that per student funding rates be lifted, at least for some disciplines.<sup>21</sup>

### **2.4.4 THE DEMAND-DRIVEN SYSTEM IS STABLE**

Growth in the number of student places funded under the demand-driven system has plateaued. As a result, the level of Government expenditure on the demand-driven system is also stable.

After the move to a demand-driven system was announced in 2009, aggregate Government funding for university places increased significantly as the sector transitioned to the new system and universities absorbed unmet demand for higher education.

This was the policy intent, supported by both sides of politics, then and now.

Australia now educates almost 140,000 more students in Government-supported places than in 2009. The system has now absorbed unmet demand for university places, and annual growth in enrolments has stabilised to levels just below population growth. In 2015, domestic student places grew by only 1.6 per cent, down from 3.6 per cent in 2014 and 5.2 per cent in 2013. Consequently, growth in public investment has also stabilised.

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<sup>18</sup> OECD 2016, *Education at a Glance 2016: OECD indicators*, OECD Publishing, Paris, Indicator B2.3. Note that OECD figures for public funding do not include costs to Government of operating the HELP scheme. OECD data on higher education financing include some anomalies due to the difficulty of comparing different systems.

<sup>19</sup> OECD, *Education at a Glance: OECD Indicators*, OECD Publishing, Paris, Indicator B2.3, various years.

<sup>20</sup> Australian Government, Budget Paper No.1, 2009–10 and 2016–17.

<sup>21</sup> Universities Australia 2015, *Higher Education and Research Facts and Figures*, Universities Australia, Canberra, p.13

The demand-driven system is a historic reform designed to ensure that at least 40 per cent of our young people have a university degree to meet the estimated demand for 3.8 million skilled graduates by 2025.

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***An end to arbitrary limits on enrolments has opened up access to Australia's universities to sections of the population that have traditionally been under-represented in higher education, including Indigenous students, students with a disability and students from low SES backgrounds.***

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The Department of Education and Training (DET)'s data shows that:

- low SES undergraduate student enrolments increased 50 per cent, from 90,467 in 2008 to 135,859 in 2015;
- Indigenous undergraduate student enrolments have increased from 7,038 in 2008 to 12,240 in 2015, a growth of 74 per cent; and
- enrolments of undergraduate students with a disability have almost doubled, from 24,311 in 2008 to 47,256 in 2015.

As a result, low SES students' share of total domestic undergraduate enrolments has increased to 17.7 per cent – up by 1.6 percentage points on 2008. The Indigenous share of enrolments has increased to 1.6 per cent – up 0.3 percentage points.

More needs to be done to support participation by regional and remote students. Growth in enrolments by these students grew 45 per cent between 2008 and 2015, somewhat slower than overall enrolment growth.

Supporting the number of places currently in the sector is a significant Budget commitment. It is a necessary investment in the future of Australia and Australians. It is an investment that has a significant return.

#### **2.4.5 AN 'EFFICIENCY DIVIDEND' CANNOT BE JUSTIFIED**

The Government has argued that trends in university teaching costs, relative to trends in funding, justify an 'efficiency dividend'.

In principle, this argument suggests that efficiency should be punished – a counter-intuitive proposition.

Australian universities are amongst the most efficient in the world.

The Universitas21 ranks Australia 3<sup>rd</sup> for output' (research output and its impact, student throughput, the national stock of graduates and researchers, the quality of a nation's best universities and employability of graduates) but 15<sup>th</sup> for input resources. The gap between the two is a measure of efficiency and only Australia and the United Kingdom are ranked in the top five for output but lower than the top 10 for resourcing.

A recent study found that Australian universities, increased their productivity by 15.7 per cent in the six years to 2013 on average, or 2.6 per cent per year. Technological or system-wide progress is the main driver of productivity growth on

average was 15.2 per cent over the period and all universities benefitted from improved technological efficiency. This gain for the sector can be explained by a number of changes including widespread use of information technology in both teaching and research; changes in enterprise agreements in the sector; and moves to support, measure and incentivise research outcomes.<sup>22</sup>

Universities have responded to changes in the funding environment through identification of incremental efficiencies and productivity improvements. This has been paired with increased domestic enrolments, and an increasing reliance on international students, in effect increasing admissions such that scale can sustain the cost base. The combined result was a significant rise in student - teacher ratios.

The Government's assertion that growth in funding has outstripped growth in teaching costs is flawed.

A review of the cost of delivery of higher education, carried out in 2016 by Deloitte Access Economics for the Department of Education and Training (DET) estimated teaching costs across 19 fields of education at a sample of 17 universities. It is important to note that the costing study examined only the cost of teaching: it did not include the costs of other activities that base funding for universities supports, including research and community engagement. The 2016 review found that the cost of teaching—on average across all levels of education, all fields of education and the sample of universities—consumes 91 per cent of base funding.<sup>23</sup> This leaves only 9 per cent for universities' other essential—and legislatively required—activities.

The Government has used a lower figure of 85 per cent: this refers to the cost of teaching in Bachelor level courses only. Across all levels of education (including sub-Bachelor and postgraduate coursework), teaching costs consume a higher proportion of base funding.

Since 6 to 10 per cent of base funding is intended to support research, and a further six per cent supports the need to maintain and refurbish buildings, even the Government's lower figure is hardly evidence of over-funding.<sup>24</sup>

The Minister has further stated that the share of base funding spent on teaching—and, by implication, the cost of teaching—has decreased. This contention is based on a comparison of 2016 results with an earlier costing review carried out in 2011.

This comparison is not valid, as the 2016 Deloitte Access Economics report, upon which the Government has based its claims, makes very clear.

The consultants make a number of strong statements to this effect in their report, and state categorically that direct comparison of results cannot be used to assert changes in teaching costs.

In particular, the consultants state that shares of base funding spent on teaching in each study *'cannot be compared as direct growth or decline in costs relative to*

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<sup>22</sup> Moradi-Motlagh, A., Jubb, C. and Houghton, K. 2016, 'Productivity analysis of Australian universities', *Pacific Accounting Review*, 28 (4), p. 386-400.

<sup>23</sup> Unpublished UA analysis of university data provided to the costing review in 2016.

<sup>24</sup> Lomax-Smith, J. et al. 2011, *Higher Education Base Funding Review: Final Report*, p. viii.

*funding the five years to 2015, given the differences in the sample, and differences in cost collection approaches.*<sup>25</sup>

The Deloitte report also states on the first page of the Executive Summary that *'(t)he relatively small (and different) sample used in the 2011 study makes accurate comparisons [with the 2016 study] infeasible'* (p.i).<sup>26</sup>

Comparison of the two reviews cannot reveal changes in teaching costs:

- *'Given the variation in sample size, sample representativeness, and in approach between the current study and the 2011 study, it is not appropriate to determine precise cost growth over this period from a direct comparison, of the two studies'*. (p.x)
- *'The differences between the two studies means [sic] inferences cannot be drawn about the evolution of teaching cost on a field by field basis'*. (p.xi)

## 2.5 BROADER ECONOMIC IMPACT OF CUTS

In addition to their significant negative impact on the quality of the student experience, the proposed cuts will have a broader economic and social impact well beyond universities.

Universities play a significant role in local economies, labour markets and communities, both through their provision of higher education, research and community engagement, and even more directly, as major employers.

This is especially true in regional areas, and in communities where the decline of traditional industries has challenged the local economy and labour market. Particularly in these communities, universities are supporting adaptation, innovation and opportunity.

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***For Charles Sturt University, the headline cut would remove around \$9 million from the local economy every year.***

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For Charles Sturt University—one of Australia's key regional universities—for example, the headline cut would remove around \$9 million from the local economy every year. That would translate into the loss of 90 jobs on their regional campuses and—applying standard economic multipliers—would see 270 jobs lost in the region they serve. Another university that serves heavily disadvantaged communities in a different State estimates a loss of 130 jobs.

A study conducted of Monash University's economic impact notes that the University:

- generates \$5.10 for every dollar of government funding;
- directly accounts for \$3.9 billion worth of economic activity annually;
- contributes \$1.5 billion annually from international education to the economy;
- directly employs nearly 18,000 staff;

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<sup>25</sup> Deloitte Access Economics (2017), *Cost of delivery of higher education*, Department of Education and Training, Canberra; p.xxii)

<sup>26</sup> Ibid., p.1

- spends over \$640m per year in external works from food trucks to construction firms; and
- contributes indirectly to some 2,800 jobs through its capital expenditure.<sup>27</sup>

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***A core part of CQU's mission is to give regional Queensland communities access to higher education. The proposed cuts would make it difficult or impossible to continue with this work.***

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CQUniversity has 23 campuses and study centres. Some of these are in very small communities like Charters Towers, Busselton and Karratha. Some of these run at a loss but CQU uses surpluses generated elsewhere to support them. A core part of CQU's mission is to give regional Queensland communities access to higher education. The proposed cuts would make it difficult or impossible to continue with this work.

Higher education offers new skills and career pathways, and retrains workers for the jobs of the future. Transferrable skills developed through university education equip people for continuing economic change.

University research—and application of research—contributes to the development of new industries, companies and jobs.

A recent piece from the American public policy think tank, The Brookings Institute, notes that Australian's universities can play a primary role in driving 'innovative, market led growth' and equipping the nation to deal with and profit from economic change. Universities can lead in developing innovation precincts which, Brookings argues, are crucial to innovation and growth in the contemporary economy.

*In today's innovation landscape, no one company can master all the knowledge it needs, requiring companies and other organizations to rely on a network of industry collaborators. This in turn has placed a growing premium on collaboration and the convergence of multiple minds and disciplines.*

Brookings also argues that:

*One of Australia's first moves should be to transform its R&D-laden universities to become hyper-compact, connected, and collaborative locales of spiking innovative growth.<sup>28</sup>*

This cannot be achieved through funding cuts. No not-for-profit, public good enterprise has achieved its mission through starvation.

Cuts endanger, not only potential contributions, but also the innovative and applied work that universities are doing now.

For example, Deakin University's research has led to the development of the 'Carbon Revolution' R&D centre, which employs 120 manufacturing workers. Deakin had plans to increase this to 300 workers over the next three years. Carbon Revolution's activity has a broader economic benefit given that its support of local suppliers including Proficiency, Marand and Furnace Engineering is assisting in the

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<sup>27</sup> As quoted in the Group of Eight Newsletter, May 2017.

<sup>28</sup> Wagner, J. and Katz, B. 2017, *Australia's pathway to innovative growth lies with its universities*, <https://www.brookings.edu/blog/metropolitan-revolution/2017/05/30/australias-pathway-to-innovative-growth-lies-with-its-universities/>

local economy making the transition from traditional industries like automotive to advanced manufacturing.

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***If the cuts proposed this year had been introduced five years ago, Deakin could not have established the Carbon Revolution.***

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The proposed cuts would dampen the university's capacity to take necessary risks, particularly in areas of innovation, acceleration and product incubation – areas that have been emphasised by the Government's National Innovation and Science Agenda (NISA). If the cuts proposed this year had been introduced five years ago, Deakin could not have established the Carbon Revolution.

Cuts would be a disincentive for Deakin University's approach to industry-university collaboration at precisely the time Australian manufacturers and industries need to be working with robust innovation partners to create jobs, products and export-focussed industries to ensure Australia's future prosperity.

Capital investments by the three universities in Adelaide, funded from institutional surpluses sustained 4000 jobs in the construction phase. These are jobs outside the university sector, which have led to a substantial boost to the economy of South Australia.<sup>29</sup>

More directly, universities are themselves major employers. Across Australia, universities employ more than 120,000 staff, both academic and non-academic staff. Universities employ people in occupations ranging from lecturers and researchers, to various kinds of skilled professionals and tradespeople, and a wide range of service and support jobs. In some regional centres, the local university is one of the biggest employers in town.

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***The local university is often the biggest employer in town and serves as a powerful stimulus in local real estate and retail markets.***

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Universities' local role as employers and centres of economic activity is especially important in regional areas. The local university is often the biggest employer in town and serves as a powerful stimulus in local real estate and retail markets. The university also plays an important role in bolstering (and often helping to provide) services in education, health and community development.

The funding cuts proposed in the amendment Bill will inevitably lead to job losses at universities. It is difficult to predict exactly how many jobs will be lost but it is certain that every university job lost will have a flow on impact in the local economy beyond the direct effect and will reduce employment and economic activity in the community broadly. Just as universities have a positive impact on local economies through the operation of the multiplier effect, so a forced contraction in university activity and employment will have a commensurate and major negative flow through.

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<sup>29</sup> Lloyd, D. 2017, Address to the Committee for the Economic Development of Australia (CEDA), 19 May 2017.

## 2.6 IMPACT ON UNIVERSITIES' FINANCIAL POSITION

The Government has claimed that universities are able to absorb the proposed funding cuts based on their published accounting surpluses. This argument misunderstands the true position of universities and how they operate.

Universities are not-for-profit organisations. Any surpluses can only be reinvested in universities' core activities that support teaching, research and community engagement. This includes buildings, labs, lecture theatres, technology and study spaces. Universities need to accrue and maintain surpluses, as a matter of prudent financial management and is typically required – for sound financial reasons - by their establishing legislation. In this context, the term 'surplus' is somewhat misleading.

The *Higher Education Finance Statistics* published by the Department of Education and Training, report that Australia's 37 public universities had a combined accounting surplus of \$1.7 billion in 2015.<sup>30</sup> This is equivalent to 6.1 per cent of university revenue.

Current accounting standards overstate operating margins at most universities, since margins include one-off capital funding, as well as income received in 2015 that is committed to be spent in future years.

University activities in teaching, research, community engagement, capital projects, donations and scholarships typically occur over a longer timeframe than is reflected in annual accounts.

A significant proportion of the income universities receive in any given year is tied to specific teaching, research or other activities that run over more than one year, and must be held over to meet expenses when they occur. Similarly, income from philanthropy is often allocated to specific purposes and must be spent over several years.

An accounting requirement that income in these categories be reported in the year the income is received serves to artificially inflate the true state of university finances.

The Australian Accounting Standards Board recently released a new revenue accounting standard for not-for-profits (AASB 1058 'Income of Not-for-Profit Entities') that will partially address this issue following its mandatory implementation from 1 January 2019.

Cash reserves are also needed for maintaining universities vast asset base. This has taken on an even greater challenge given Government's determination to abolish the last remaining dedicated capital grants program worth \$3.7 billion.

Analysis of universities' published financial reports by the Australian University Senior Finance Officers Group (AusFOG) shows that since 2012 universities have spent the majority of their operating margins/surpluses on capital investment.

Across the sector, universities realised net cash inflows from operating activities of around \$3.5 billion (excluding capital grants) in 2015. Universities spent 88.3 per

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<sup>30</sup> *The Australian*, 10 May 2017, 'Cuts "hurts strugglers punish the profitable"'. Figures exclude vocational education and training courses.

cent of these (or \$3.2 billion) on property, plant and equipment in 2015, 97.9 per cent in 2014 and 103.6 per cent in 2012.<sup>31</sup>

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***The maintenance of a vibrant, contemporary, globally-competitive university system requires universities to be financially secure.***

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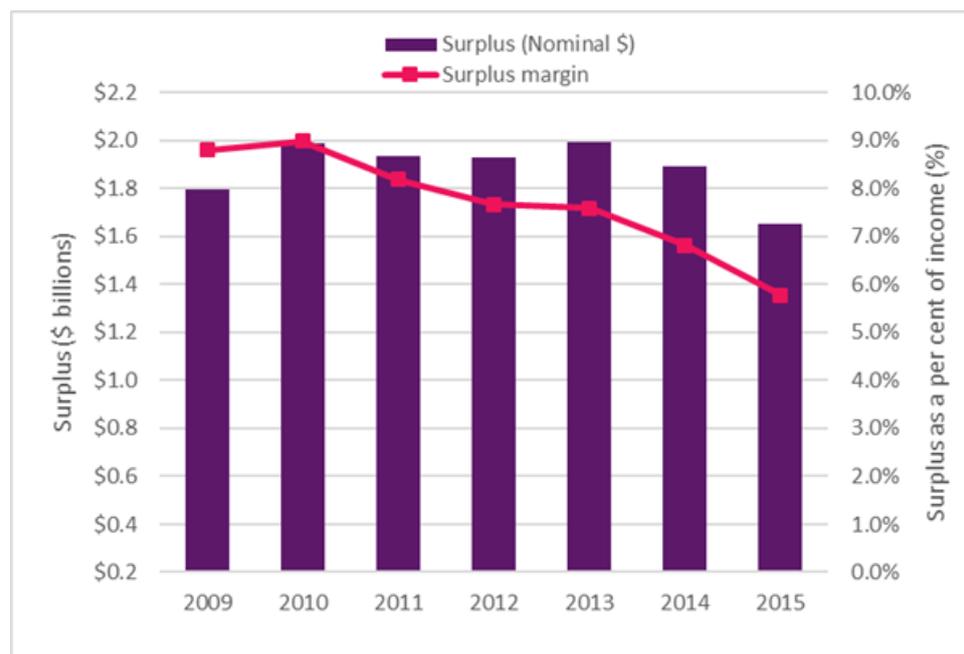
More generally, surpluses insulate university finances against external shocks, including changes to Government funding policy and downturns in international education. The maintenance of a vibrant, contemporary, globally-competitive university system requires universities to be financially secure.

In spite of this, university surpluses have declined over time.

Figure 2 uses the published surplus figures from DET Higher Education Finance Statistics.<sup>32</sup>

- The total sector surplus in absolute nominal dollar terms has declined by around 8 per cent compared to 2009. In real, constant 2015 dollar terms, surpluses have declined by 20 per cent since 2009.
- As a percentage of total revenue, surplus margins for the whole sector have declined from around 9 per cent in 2009 and 2010 to 5.8 per cent in 2015.

**Figure 2: University sector surpluses, 2009-15**



Source: Department of Education and Training), *Higher Education Finance Statistics*, various years.

An average figure for university surpluses conceals the spread of university operating results. In 2015, four universities reported a deficit. If one-off capital grants are excluded, that number is eight. A further nine universities had (adjusted) operating results below five per cent, three of which were below three per cent. In

<sup>31</sup> Unpublished analysis by AusFOG of DET Higher Education Finance statistics.

<sup>32</sup> Statistics in Figure 2 include both HE and VET activities for 38 units. They exclude results of Bachelor Institute.

real 2015 dollars, the total surplus in 2010 was \$2.2 billion, nearly half a billion more than in 2015.

In dollar terms, six universities reported (adjusted) surpluses of less than \$20 million. Proposed cuts to university funding will have a significant impact especially on these smaller surpluses.

There is a clear negative trend over time in the number of universities with healthy surpluses (Figure 3). The number of universities with a surplus margin greater than 8 per cent has declined from 23 universities (or 3 in 5 universities) in 2009 to 8 universities in 2015 (or 1 in 5 universities).

The NSW Audit Office's 2017 report on universities noted that half of the universities in NSW (five institutions) experienced faster growth in operating expenditures than in revenue in the previous year. The Audit Office noted a risk that *'There may not be sufficient resources to fund normal operations and maintain existing assets over the medium to longer term' as a result.*<sup>33</sup>

The Audit Office also noted that *'Universities are constraining expenses and streamlining activities to ensure financial sustainability.'*<sup>34</sup>

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***Top of the Audit Office's list of strategic risks is 'Potential impact of government policy changes'.***

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The report discusses various strategic risks to universities and their possible impacts. Top of the Audit Office's list of strategic risks is *'Potential impact of government policy changes'*.<sup>35</sup> As we have argued above, UA agrees that the proposed funding cuts would have a significant negative impact on many universities financial and operational viability.

The report notes that—for the first time—fee income from international students exceeds fee income from domestic students at NSW universities. In a context of flat growth in domestic enrolments and proposed cuts to Government funding, universities' reliance on international students' fees is likely to increase.

The Victorian Auditor-General's Office (VAGO) has also recently released its annual report on universities. While VAGO found that Victorian universities were in a sound financial position, the report noted some negative trends and risks.<sup>36</sup>

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***Over the past five years, net surplus margins for Victorian universities have fallen from 7.65 per cent to 4.24 per cent.***

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Over the past five years, net surplus margins for Victorian universities have fallen from 7.65 per cent to 4.24 per cent.

VAGO's report notes increases in enrolments have helped to keep (most) universities' operating margins positive. Since domestic enrolment growth has now plateaued, there may be a further negative impact on operating margins.

Universities' capacity to meet their short-term financial obligations has declined since 2015. This indicates that 'universities are using their excess cash to purchase longer term investments [and] increasing borrowings'.

<sup>33</sup> NSW Auditor-General's Report to Parliament | Universities 2017, p.10

<sup>34</sup> Ibid

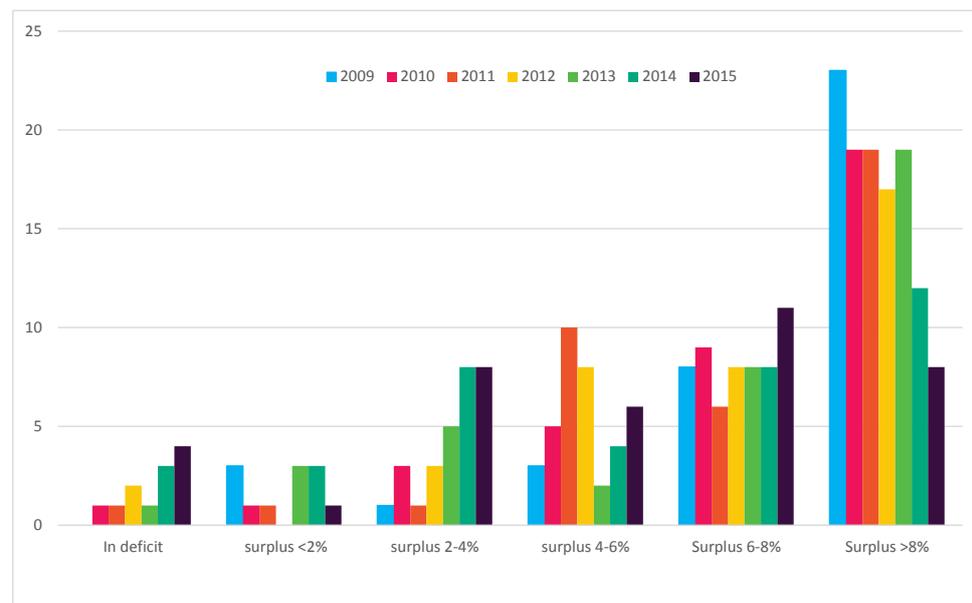
<sup>35</sup> Ibid, p.29

<sup>36</sup> Victorian Auditor-General's Office 2017, *Universities: 2016 Audit Snapshot*, Melbourne

Across all Victorian universities, the capital replacement ratio remains good, indicating that universities are replacing assets faster than they depreciate. However, three of the eight universities spent less on asset replacement than their assets' decline in value through use. Asset replacement ratios are a long-term measure of sustainability. VAGO warns that:

*'...inadequate expenditure on asset renewal and maintenance may lead to assets, including equipment and infrastructure, deteriorating to a point where they are unsuitable for use.'*<sup>37</sup>

**Figure 3: Universities by size of surplus, 2009-15**



Source: Department of Education and Training, *Higher Education Finance Statistics*, various years.

Many younger universities which service regional and outer metropolitan populations and cater to non-traditional student cohorts have been making changes to adapt to the new environment without the benefit of strong market positions or structural adjustment funding, and have faced revenue challenges as a result. Proposed funding cuts will make it particularly hard for universities that are in deficit to turn their budgets around and get back into surplus.

For example, Victoria University (VU) has recorded an operating deficit over four of the last five years, partly because of the cost of restructuring. Ongoing deficits are not an option, so VU has developed a plan to return to surplus by 2018, involving further substantial improvements in efficiency and associate redundancies.

VU's investments in structural reform including initiatives such as creating a new First Year College, a VU Academy for its high achieving and high potential undergraduate students, and a Research School to facilitate an increasingly focussed research agenda. These necessary initiatives cost money in the short term, but will help to bolster the university's competitiveness and financial sustainability in the medium term.

<sup>37</sup> Ibid., p.18

VU is on the way to turning its budget around, by:

- improving the efficiency and of quality of its teaching and learning, by restructuring the workforce to create more ongoing teaching focussed positions;
- increasing the efficiency of its research budget, to enable it to reduce its allocation of funding to research while maintaining or enhancing its research output; and
- increasing the efficiency of its administrative support systems, through process re-design and automation.

The proposed cuts will add 12.5 per cent to the already large financial turnaround that VU needs to make. This will mean extra staff cuts.

It is hard to see how VU could accommodate the impact of funding cuts without reducing the quality of student services and teaching, or cutting research so much that it would significantly jeopardise the universities reputation, and its ability to undertake applied and translational research for industry and the community.

Regulatory authorities, including State Auditors-General and TEQSA, are taking a close interest in universities' operating results and their implications for institutions' financial risk.

Performance-contingent funding and the financial risks it brings will further exacerbate an already challenging financial and risk position.

## 2.7 IMPACT ON INTERNATIONAL EDUCATION

International education is Australia's third biggest export, and our biggest services export. It is the biggest export earner for Victoria, South Australia and one of the top earners in most other States and Territories. In 2016, international education earned \$22 billion for Australia. University education represented around three quarters of this—around \$15 billion—making it one of Australia's most economically successful sectors.<sup>38</sup>

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### ***Why would Government put one of its most successful sectors, at risk?***

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A question that many are asking is, why would Government put one of its most successful sectors, at risk? Universities are the cornerstone of Australia's reputation and attractiveness as a world leading education destination. Our universities are the flagships of the international education sector. Many international students who come to Australia to study in the vocational

education, school or English language sectors are on a pathway to university study and come on the basis of the reputation established over many decades by universities.

A 2016 survey by the Australian Government confirmed that for 19 out of 20 international students, the reputation of the of the Australian education system, and the reputation of their qualification were the two most important reasons they came

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<sup>38</sup> Australian Bureau of Statistics (ABS) 2017, *International Trade in Services, by Country, by State and by Detailed Services Category, Calendar Year, 2016*, Cat. No. 5368.0.55.004, Commonwealth of Australia, Canberra.

here to study.<sup>39</sup> International students are attracted to Australia by the calibre of the education available and the world-class research that universities do.

Any downturn in international education will have a direct impact on Australia's national income. We are exposed.

The headline figure of \$22 billion covers only the direct contribution of international students to Australia's economy through their spending on fees and on living costs. A report by Deloitte Access Economics estimated that in 2014–15 international education supported more than 130,000 full-time equivalent jobs, or 1.3 per cent of total employment in Australia.<sup>40</sup>

In the higher education sector itself, loss of income from international student fees would have a significant negative effect on universities' capacity to maintain the quality and range of education offered to domestic students, and to uphold the quality and quantity of Australia's world-class research effort.

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<sup>39</sup> Department of Education and Training 2017, 2016 International Student Survey Results, [https://internationaleducation.gov.au/research/research-papers/Documents/ED17-0018%20International%20Student%20Survey%20HEADLINE%20FINDINGS%20Infographic\\_05.pdf](https://internationaleducation.gov.au/research/research-papers/Documents/ED17-0018%20International%20Student%20Survey%20HEADLINE%20FINDINGS%20Infographic_05.pdf)

<sup>40</sup> Deloitte Access Economics (2015), *The value of international education to Australia*, Australian Government, Canberra; p.1

## 3 PERFORMANCE FUNDING

The Bill includes a proposal to make 7.5 per cent of Government funding for university places contingent on as yet unspecified performance metrics.

Universities are demonstrably committed to continuous improvement in meeting the needs of their students. No convincing case has been made to support the proposal to tie funding to measures that may or may not have anything to do with meeting the best interests of students. Together with the funding cuts, this measure has the potential to condemn the sector to a downward spiral that would hit hardest the institutions that serve the most disadvantaged students and communities in the country.

### 3.1 A STRONG PERFORMANCE FRAMEWORK ALREADY EXISTS

Australia has a well-developed and effective framework for higher education accountability and performance monitoring.

The Higher Education Standards Panel is responsible for setting standards that all universities must comply with. The Tertiary Education Quality and Standards Agency (TEQSA) regulates higher education providers against these Standards. Providers—including universities—must be registered every seven years. Further, TEQSA continuously monitors providers against clear Standards in teaching, course design, learning outcomes and progression.

A new report on attrition by TEQSA shows that attrition at universities is considerably less than at non-university higher education providers. The report points to administrative data which show that first year attrition was not materially higher in 2014 than it was in 2005. TEQSA note that ‘over that same period, there were 37 per cent extra enrolments and the majority of these students have successfully completed or are pursuing their studies’.<sup>41</sup>

Higher education is transparent. The Government’s Quality in Learning and Teaching (QILT) website provides a range of data on student satisfaction with different courses and institutions as well as students’ employment outcomes. These data give prospective students solid information about the performance of different institutions across various fields of education.

Universities have well developed and effective procedures for internal performance monitoring, quality assurance and regulation. A review of higher education in 2014 found that ‘TEQSA regulates a sector that for the most part [is] already compliant, self-regulating and monitored’.<sup>42</sup>

Universities are required by the Standards to maintain an Academic Board to oversee the quality and integrity of teaching and learning and academic operations generally. The Academic Board’s responsibilities include accreditation and

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<sup>41</sup> TEQSA 2017, *Characteristics of Australian higher education providers and their relation to first year student attrition*, Melbourne

<sup>42</sup> Lee Dow, K. and Braithwaite, W. 2013, *Review of Higher Education Regulation*, p.40

reaccreditation of academic programs; maintaining high standards in teaching, scholarship and research; and developing academic policy.

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***‘All higher education providers are highly attuned to the importance of reputational capital for attracting students and therefore develop effective internal regulatory mechanisms to ensure provision of quality higher education’***

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The 2014 review of regulation found that ‘*All higher education providers are highly attuned to the importance of reputational capital for attracting students and therefore develop effective internal regulatory mechanisms to ensure provision of quality higher education*’.<sup>43</sup> Internal quality assurance uses methods including course evaluation, benchmarking and course reviews. These often include monitoring of success rates and student outcomes.

The strong performance framework in higher education gets strong results.

While full-time equivalent Commonwealth-supported student numbers in 2015 were 47 per cent higher than ten years earlier, attrition rates were at essentially the same level: first year attrition was 15.18 per cent in 2014 (latest available figure), compared to 15.04 per cent in 2005.<sup>44</sup> There is a very strong financial incentive for universities to address attrition, which is that they will continue to receive funding for that student in a subsequent year. It is unlikely that tying performance based funding to attrition as one of the measures will greatly increase incentives.

Graduate employment outcomes are improving, as the labour market recovers from the slowdown that followed the global financial crisis. A new survey shows that employers are overwhelmingly satisfied with the quality of the graduates they employ. The new *Employer Satisfaction Survey* released in April found four out of five supervisors (84 per cent) expressed overall satisfaction with their recent graduates. Nine out of ten graduates (89 per cent) and supervisors (93 per cent) thought their qualification prepared the graduates for their current jobs.<sup>45</sup>

Contrary to common perceptions about graduates’ preparation for the workforce, the employer survey found that employers were more positive about graduates’ skills and adaptability than graduates themselves.

UA does not oppose initiatives to improve performance and quality even further. But these must start from a recognition that the current standard of performance across the sector is very high, including by world standards.

## **3.2 PROPOSED PERFORMANCE FUNDING LACKS DETAIL**

The proposal set out in the Bill provides almost no information on how performance funding would work. It is not good practice to enshrine a new performance funding system in legislation before either Government or the university sector knows what it is or how it will work. If legislated in its current form, the Government’s current proposal would give the Minister very broad discretion over the performance

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<sup>43</sup> Ibid, p.22

<sup>44</sup> DET 2016, *Higher Education Student Statistics*, Appendix 4.

<sup>45</sup> DET 2017, *Employer Satisfaction Survey*, p.ii, p.16, [https://www.qilt.edu.au/docs/default-source/gos-reports/2017/ess-2016-national-report-final.pdf?sfvrsn=f0e0e33c\\_6](https://www.qilt.edu.au/docs/default-source/gos-reports/2017/ess-2016-national-report-final.pdf?sfvrsn=f0e0e33c_6)

metrics to be used, including the power to vary them from year to year. This would create significant uncertainty for universities about their funding.

As it is currently structured, the Government's proposed approach to performance funding provides no assurance that future governments would retain even the general outlines, metrics and criteria that may eventually be identified. The open-ended power which the amendment would give to reduce universities' funding could be used for a range of purposes including those not yet envisaged.

Any performance enhancing system should encourage - not punish; should set the right incentives, identify and mitigate against unintended consequences, ensure there is a clear understanding of the issue to be resolved and ensure the 'solution' is a best fit in addressing the policy objective.

Measures that relate to attrition, retention and completion should be informed by the work currently being undertaken by the relevant work being done by Higher Education Standards Panel (HESP). This work will also help to inform the specifics and magnitude of any problem that needs to be addressed.

UA believes that the Government's proposal puts the cart before the horse. We propose removing the relevant provisions (items 29-32 and 43-45 of Schedule 2) from the Bill, and conducting a broader consultation process with universities, students, employers and other stakeholders. This is more likely to get a beneficial and effective result.

### **3.3 PERFORMANCE FUNDING MUST TAKE ACCOUNT OF DIVERSITY**

Universities are concerned about the homogenising, lowest-common-denominator impact of combination of unjustified cuts and hastily designed performance funding. It is crucial that any performance funding system be designed to support and encourage diversity, and to take account of differences between institutions.

One of the strongest features of the Australian university system is its diversity. This creates a wide range of choice for our students. Universities offer different mixes of modes of study, differing theoretical and practical foci, and differing balances of full-time and part-time study. Fields and levels of education also vary greatly between institutions.

All of these factors are well known to have an impact on attrition, progress and success rates. Mature age and part-time students are much more likely, often due to difficulties in juggling work and family responsibilities, to withdraw from university study, even though many do return at a later date.

Performance funding must avoid perverse incentives, such as penalising universities that enrol large numbers of students from groups traditionally under-represented in higher education.

Conversely, universities that cater particularly to mature age distance education students report higher employment rates, partly because more of their students are already employed full-time while studying.

The design of any performance-funding system must take account of these differences. It would be inappropriate and unfair—as well as ineffective—to hold all

universities to a common standard. A uniform approach would work against diversity and responsiveness.

We know this from observing the impact that a similar approach had in New Zealand. Their recently introduced performance funding system holds all universities to a common standard, and penalises universities whose completion, retention and progression rates are below the sector median. The New Zealand Productivity Commission (NZPC)—in their report on *New Models of Tertiary Education*—has recommended that this system be abolished. The NZPC argues that the system does not effectively penalise poor performance, or encourage improvement.<sup>46</sup>

UA is reassured by statements from DET that a uniform set of criteria is not envisaged, and that performance funding will be allocated on the basis of institution-specific improvement targets. Nevertheless, this is not set out in the Bill or in the Government's policy statements. Even if it is eventually adopted, there is no guarantee that an institution-specific approach will be retained in future.

UA argues that it is premature to legislate performance funding before basic design features are determined, and anchored in the appropriate regulations.

### **3.4 PERFORMANCE FUNDING CREATES A SIGNIFICANT FINANCIAL RISK FOR UNIVERSITIES**

Making a proportion of universities' CGS funding contingent on performance metrics is a significant policy change. There are important issues of principle in removing a portion of base funding, especially if any of the funding foregone is to be redirected to purposes other than base funding of universities' core activities.

There are also significant administrative challenges for universities related to internal budgeting, risk management and auditing. A performance funding system would need to be carefully designed to ensure that universities have certainty about levels of resourcing with a sufficient lead time to allow for informed planning. It is UA's view that the Government has underestimated the implications.

UA notes DET's assurances that any changes to university grants resulting from performance funding will be communicated to universities before the year in which they take effect. But this still creates real problems, given that universities must plan and budget for the next academic year well before it begins. Universities are moving towards three-year budget cycles in context of more deeply embedded planning frameworks

This issue is still more pressing in relation to changes and innovations—such as new courses—that universities make from time to time.

Beyond the issue of information needed for accurate budgeting, performance-contingent funding has implications for risk management and auditing. Despite verbal assurances from DET that most universities would not lose funding, and almost none would lose all 7.5 per cent, the fact remains that the Government's proposal would make a significant proportion of CGS funding contingent. This creates a very large financial risk that would need to be reported to both TEQSA and State Auditors-General.

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<sup>46</sup> New Zealand Productivity Commission 2016, *New Models of Tertiary Education: Draft Report*, NZPC, pp. 302-303

## 4 RED TAPE AND MINISTERIAL DISCRETION

Several elements of the package would substantially broaden Ministerial discretion over detailed matters of higher education administration, and provide for greater, rather than less arbitrary, government intervention. Some of the changes are specified very generally in the Bill. It would be left to Ministerial discretion to develop these proposals and the rules around how they would work, and how they would be funded.

The performance funding system—as proposed in the Bill—is the prime example. As discussed above, the legislation specifies only that there will be a performance funding system and that universities' base funding can be reduced on the basis of performance against as yet unknown metrics. This level of Ministerial discretion is unprecedented.

There are several other key elements of the package which would make significant changes to the operation and funding of the sector, while leaving the details to the Minister and the Department. These include the proposed scholarship system for allocating postgraduate Commonwealth supported places (CSPs) and the proposed competitive tender for Enabling places. To some extent, the same issues apply to the allocation of new sub-Bachelor places.

The nature of these proposals, and the broad discretion they would grant the Minister, create several issues.

First, it is not desirable in principle to increase the Minister's discretionary powers, as this would make the policy and funding environment less predictable and expose the sector to sudden changes without adequate consultation. Broad ministerial discretion is not consistent with the architecture of HESA, which deliberately anchors the details of allocation and funding of places and the requirements on higher education providers in legislation

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***This will necessitate substantial growth in the supporting bureaucracy and a substantial increase in cost to both Government and universities – funding that would be better spent in maintaining the quality of university education and research.***

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Secondly, development and implementation of poorly specified proposals will require significant additional bureaucracy in administration and reporting. This will necessitate substantial growth in the supporting bureaucracy and a substantial increase in cost to both Government and universities – funding that would be better spent in maintaining the quality of university education and research.

Inefficient and cumbersome initiatives are unlikely to be effective in developing the improvements in access, diversity and quality that students—and the nation—need.

While the Government's package makes an attempt to deal with very complex issues of allocation of postgraduate CSPs, the proposal in the Bill is a way short of a solution. How it would work in practice is very unclear.

Eligibility criteria for the proposed scholarships are not set out in the Bill, and the proposed focus on 'academic merit' raises as many questions as it answers. At the same time, the Bill allows scholarships to be limited to by types of course, without any indication of what this might mean. More basically, how a scholarship or voucher awarded by a central government or quasi-government agency will interact with universities' enrolment decisions is not clear. It is likely that the proposed

system would increase uncertainty for universities, particularly around budgeting. It is not clear that the proposal, in its current form, could realise its policy aim, namely to give students more options and opportunities.

As discussed above, too much is reserved to Ministerial discretion, raising issues of principle (the Government should not be directly involved in selecting students) and practice (universities and students will not know how the system works).

Settling the details will increase the size of government, without substantial commensurate benefits for prospective students.

Similarly, while the proposal to allocate enabling places through a competitive process has the potential to expand access and opportunity, there is insufficient detail on how it would work. Since it is not clear what factors the tender would consider, UA is concerned that this proposal may inadequately build on current practice and achievement in providing access to higher education through Enabling programs.

Enabling programs are an effective pathway into higher education for some of Australia's most disadvantaged people. UA urges the Government to consider arrangements for these programs very carefully, to ensure their continued effectiveness.

While UA welcomes the extension of demand-driven funding to approved sub-Bachelor courses – something we have advocated for for some time – members are concerned about implementation. Processes and criteria for identifying 'approved courses' will have to be developed in consultation with stakeholders to ensure that this positive initiative is effective in providing better pathways into higher education and improving the supply of skills to the labour market.

## 5 IMPLEMENTATION TIMEFRAMES

The Government's proposed package includes several major elements that would require significant work to scope, design and implement. These include in particular:

- proposed new arrangements for allocation of Enabling places;
- the proposed new scholarship system for allocating postgraduate CSPs; and
- the proposed performance-based funding system.

It will take some time to develop these proposals to the point where they could be successfully implemented. Timelines for implementation of the proposals are already very challenging.

While some of the changes proposed are not due to commence until 1 January 2019, this is not a generous timeframe for policy changes that are as complex as the proposed arrangements for performance funding, postgraduate scholarships and enabling places.

The timing issues—as well as more significant questions of policy, legislative and funding principle—around performance funding are discussed above. This is more than just a question of adequate timeframes, and thus UA recommends that performance funding be removed from the Bill, so that the design of a performance funding system can be developed in a way that both allows sufficient time and makes the objectives, outline and components of the system clear to stakeholders.

There are some design issues associated with the proposed postgraduate scholarship system and allocation of enabling places by competitive tender. A detailed, specific response to these proposals will only be possible once more detail becomes apparent about how the Government plans to implement these elements of the package.

Whatever shape these elements of the package ultimately take, it will be crucial to ensure that there is sufficient time to consult with the sector on the options, develop feasible plans and give universities adequate lead time to allow for effective implementation. It is also important that we do not create overly complex allocation mechanisms for these relatively small schemes and thereby overburden them with administrative costs in the Department and the universities.

UA encourages the Government and the Senate to consider carefully the proposed commencement dates for the various changes proposed in the Bill, with a view to ensuring effective implementation and avoiding perverse outcomes that impact negatively on students.

## 6 POSITIVE ELEMENTS OF THE PACKAGE

UA cannot support the proposed funding cuts, and recommends the removal of performance funding from the Bill to pending the outcome of a 12 month consultation and analysis period.

Nevertheless, there are several positive elements in the package that many UA members support and for which UA has long advocated. These are:

- protecting HEPPP in legislation;
- extending the demand-driven system to sub-Bachelor courses; and
- additional support for work-integrated learning.

While not included in the Bill, the Government's proposal to fund new regional higher education hubs could be a positive contribution to supporting regional participation. The Government's proposal, however, is inadequate in scale. It is unlikely to offset negative impacts on regional higher education from the core element of the package, namely cuts to CGS and increases in student fees.

UA would welcome the opportunity to further discuss effective ways to boost regional higher education.

### 6.1 CHANGES TO HEPPP

UA supports the retention and preservation of the Higher Education Participation and Partnerships Program (HEPPP) – the flagship equity program in the university sector.

The Higher Education Partnerships and Participation Program (HEPPP) has helped drive an historic increase in university participation by people from low SES backgrounds and other under-represented groups. Higher education access and equity is a long-term issue, and long-term solutions are needed.

An evaluation of HEPPP commissioned by the Government found that:<sup>47</sup>

- all universities, together with the majority of schools and other organisations that have partnered with universities through HEPPP endorse the program and have seen positive impacts on students' aspirations to, and success in higher education; and
- since the introduction of HEPPP there has been a strong increase in the number of low SES student enrolment.

The evaluation recommended that the Government should:

- retain HEPPP;
- reform the program to provide greater incentives for universities to enrol low-SES students;
- improve the reporting on the program, especially through an agreed evaluation framework;

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<sup>47</sup> ACIL Allen (2017, *Evaluation of the Higher Education Participation and Partnerships Program*, Melbourne)

- consider increasing funding for HEPPP to give the sector (and the Government) a better chance to hit the target of 20 per cent low SES share of undergraduate enrolments by 2020; and
- allocate funding on a triennial rather than an annual basis, to provide more certainty for universities.

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***UA supports the implementation of the HEPPP review findings and recommendations regardless of the fate of the Bill.***

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UA supports the implementation of the Review findings and recommendations regardless of the fate of the Bill.

To spread opportunity fairly, universities make substantial efforts to help students overcome the reality of systemic disadvantage. HEPPP has strongly supported these efforts. HEPPP has been instrumental in increasing the level of participation in higher education by disadvantaged students. HEPPP has helped universities to expand their outreach activities, and to strengthen and diversify their student support activities.

UA strongly supports the Government's proposal to enshrine the program and its funding in legislation. This will help protect HEPPP against arbitrary Budget cuts and further erosion of this program.

UA agrees that more needs to be done to boost the completion rates of students from disadvantaged and under-represented population groups. Just as rates of access to university vary according to socio-demographic background, so do success and completion rates. Indigenous students and students from remote areas have markedly lower retention and completion rates than the average. Proposed changes to HEPPP to support improvements in retention of low SES and Indigenous students are an important step.

UA also welcomes additional funding for the National Priorities Pool (NPP) component of HEPPP, along with a sharper focus for the NPP on research and evaluation that will make HEPPP even more effective.

We note, however, that draft *HEPPP Guidelines*, which the Minister would make under proposed amendments to HESA, do not include stricter requirements on participating universities to spend a minimum amount of HEPPP funding on outreach activities to raise awareness of and aspiration for higher education among individuals and communities that may not previously have considered university a realistic or relevant option. Some provision should be mandated. Similarly, collaboration between universities has been an important element in the success of HEPPP. Any diminution in collaboration may have negative impacts on both the effectiveness and the efficiency of HEPPP.

## **6.2 DEMAND-DRIVEN SUB-BACHELOR COURSES**

UA strongly supports the extension of the demand-driven funding system to sub-Bachelor courses. This is another change with UA has advocated for some time.

Providing more CSPs in associate degree, advanced diploma and diploma courses will improve the availability and diversity of pathways into Bachelor degrees, especially for students who have not had the chance to perform at school at a level that reflects their abilities. These qualifications are also valued by employers in their own right.

UA supports the prudent safeguards which the Government has proposed in order to ensure that the legislative change will realise the policy intent. The sector will work with Government to ensure a rigorous but responsive process for identifying ‘approved courses’ to supply skills to the labour market, both directly from sub-Bachelor courses and through improved articulation from sub-Bachelors to Bachelor degree courses.

Since the change proposed in the Bill is designed to improve pathways into higher education, it is appropriate that eligibility conditions should support students without prior higher education. However, UA is somewhat concerned about how this requirement will be effectively put in practice.

More importantly, we note the possibility that the beneficial changes proposed to funding and allocation of sub-Bachelor CSPs may have unintended effects on universities’ provision of Diploma courses to students concurrently enrolled in Bachelor degrees, especially in strategic foreign language courses. Universities responded to earlier Government priorities and incentives to offer more courses in these areas.

It would be unfortunate and counter-productive if improvements in one area of sub-Bachelor provision had negative effects on this quite different aspect of universities’ operations. Improving Australian students’ access to appropriate language training is an important element of the higher education sector’s effort to equip Australians with the skills needed in a globalised labour market. Improved and diversified pathways to higher education need not put at risk provision of language skills through concurrent enrolment in Diploma courses.

### **6.3 ADDITIONAL SUPPORT FOR WORK-INTEGRATED LEARNING**

UA welcomes and supports the Government’s proposal to expand support for work experience in industry (WEI) units. UA strongly supports this investment in work-integrated learning and graduate employability.

WEI units are defined as units which are part of a higher education course, but which are undertaken entirely through work experience with an employer. Currently, these units do not attract Commonwealth contributions through the CGS. The Government’s proposal would provide Commonwealth contributions for WEI units, up to one sixth of the total load for a course.

Extending the CGS to WEI units will support universities, students and employers to develop and pursue high quality opportunities in work integrated learning and improve graduate transitions from study to work.

UA acknowledges that the proposed measure will support the objectives of the UA led National Work Integrated Learning Strategy.

This is positive measure that will benefit students, employers and the economy.