22 September 2014

BY EMAIL

Senator Bridget McKenzie
Chair
Senate Standing Committee on Education and Employment
Parliament of Australia
Parliament House
Canberra ACT 2600

Dear Senator McKenzie,

Higher Education and Research Reform Amendment Bill 2014

Thank you for your letter of 9 September 2014 inviting Federation University Australia to make a submission to the Senate Standing Committee on Education and Employment Inquiry into the Higher Education and Research Reform Amendments Bill 2014.

The University's submission is guided by two key principles. These are that —

1. Federation University Australia opposes the proposed 20% reduction in Commonwealth Grant assistance to universities. The impact on the learning, teaching, research, engagement and economic conduct of the University will be profound and will further exacerbate the unpredictability of funding arrangements recently experienced by Australian tertiary education providers. Given, however, the high probability that the reduction will proceed, the University supports the corollary deregulation of student fees; and

2. As student recruitment opportunities for metropolitan and regional universities are unevenly distributed, Federation University Australia commends to the Committee the need to include in the Bill an authority to establish a Regional Adjustment Fund by which systemic competitive inequalities between metropolitan and non-metropolitan tertiary education providers can be rectified, including provision for supplementation for regional students in the Bill's proposed Commonwealth Scholarship Scheme.

These principles, which guide our submission, are informed by Federation University Australia's experience in providing post-secondary educational opportunities to Victorian regional students. The deregulation of student fees and the creation of a Regional Adjustment Fund are considered essential for the viability of the University in particular, and regional universities in general.

As per your Committee's guidelines, Federation University Australia has provided commentary on several aspects of the Bill, and an Executive Summary.
Federation University Australia thanks the Senate Standing Committee on Education and Employment for the opportunity to make a submission on the *Higher Education and Research Reform Amendments Bill 2014*. Should the Committee require further information or commentary, or should it wish to discuss the matters raised, please do not hesitate to contact me directly.

In the meantime, the University wishes the Committee well in its deliberations, commends to it the need for a Regional Adjustment Fund, and looks forward to perusing the outcome of its Report to the Senate.

Yours sincerely,

Vice-Chancellor and President
EXECUTIVE SUMMARY

1. The University opposes the 20% reduction in Commonwealth funding to universities. Given, however, the Australian Government's insistence on a 20% reduction in funding, Federation University Australia supports the deregulation of student fees.

2. The University proposes establishment of a Regional Adjustment Fund to offset systemic competitive inequalities that divide metropolitan and non-metropolitan tertiary education providers and which are ignored in the Bill.

3. The University recommends that a regional supplementation be built into the proposed Commonwealth Scholarships Scheme as part of the proposed Regional Adjustment Fund.

4. The University supports public funding for sub-bachelor degree programs (at the 100% rate of a Commonwealth supported place for universities) and funding at the 70% rate (of a Commonwealth supported place) for all approved and accredited registered providers as a means of providing greater educational opportunities to regional students.

5. The University opposes the proposed indexing of Commonwealth grants at a lower rate based on the CPI.

6. The University supports retention of the CPI, or a blend of CPI and Bond Rate, or a modified Bond Rate, as the basis for calculating interest on the Higher Education Loan Program.

7. The University opposes the reduction of Research Training Scheme support by 10%.

8. The University suggests means by which eligibility to access a proposed Regional Adjustment Fund can be assessed, and makes recommendations concerning funding and an implementation timetable.

9. The University has made nine recommendations for consideration by the Committee in support of its submission.
Federation University Australia: Submission to the Senate Standing Committee on Education and Employment Inquiry into the Higher Education and Research Reform Amendment Bill 2014

Introduction

Federation University Australia provides the following information and comments to assist the Senate Standing Committee on Education and Employment's Inquiry into the Higher Education and Research Reform Amendments Bill 2014.

Given that Federation University Australia is the nation's newest university, the submission commences by providing Senators with a short overview of the University.

Federation University Australia

Federation University Australia was opened on 1 January 2014. It is an amalgamation of the former University of Ballarat and the former Monash University Gippsland Campus.

In 2014 the University has 24,000 students enrolled in Higher Education (HE: 75%) and Vocational Education and Training (VET: 25%) programs. International students comprise 23% of higher education enrolments.

The University is Australia's leading regionally-headquartered, regionally-located and regionally-focused multi-sector university. It is the only regional university in Victoria to span the entire range of the Australian Qualifications Framework from Certificates to Ph.Ds. These programs are delivered across a federated network of campuses and partner providers in western and eastern Victoria. This extended network provides access to 80% of Victoria (Melbourne, Geelong and the south-west excepted), to 39 of 49 regional and peri-urban LGAs, and to 1.08M residents.

Federation University Australia is the only Victorian provider to be awarded the highest-rating five gold stars for teaching quality for an unprecedented six consecutive years (Good Universities Guide: 2009; 2010; 2011; 2012; 2013; 2104). It is the only university in Victoria to return almost three-quarters of its students to regional employment. It is the only comprehensive university in Victoria to achieve employment of four-fifths of its students within three months of graduation. It is an important strategic research partner in its host regions. Its Technology Park is recognised as regional Australia's premier ICT hub.

Federation University Australia is now operating under a new Act, a new name, a new footprint, new academic structures, new financial and administrative arrangements, and a new balance in its vocational education and HE student load. These descriptors indicate that the University is resilient, is willing to adjust to
changes in public policy — including the Bill's proposed changes — and is able to continue to restructure and to reposition itself just as it is now doing as Australia's newest university.

The University is, however, also financially vulnerable given the composition of its domestic student body and the diseconomies of scale that characterise the operation of its campuses in the Gippsland and Wimmera regions of Victoria. We also know from our own internal evidence that three in four of our domestic students are from regional backgrounds, with most of these being first in family to choose a university pathway.

Federation University Australia takes such students from regional and rural backgrounds, provides customised educational, professional and social support infrastructure necessary for them to learn to succeed, and graduates them as trained and qualified professionals of which 71% find employment in regional locations. Our nurses, teachers, accountants, scientists and engineers directly contribute to regional capacity building, to regional development, and to regional leadership.

No other university in Australia has this rate of success with regional students.

The choice for such students to attend and to remain at university is always delicately balanced. The University's ability to build participation is therefore essential for regional students, regional communities and regional futures. It is for these reasons that the University supports the uncapping of fees and the establishment of a Regional Adjustment Fund.

Higher Education and Research Reform Amendment Bill 2014

The Higher Education and Research Reform Amendment Bill 2014 seeks —

to enable reforms to expand opportunity and choice in higher education in Australia, and ensure that Australia is not left behind at a time of rising performance by universities around the world (Explanatory Memorandum, 2014, p.1).

The University observes that the suite of proposed reforms outlined in the Bill is based on the premise that Australian tertiary education providers have equal access to student recruitment markets. They do not. The case of Federation University Australia is instructive in this regard.

The University operates in thin regional markets characterised by small, dispersed, and stagnant or declining populations; by endemic low socio-economic status (SES) characteristics; by primary, secondary and tertiary industry contraction; and by the high cost of providing and maintaining education services and infrastructure in such a setting. As importantly, such thin markets are growing thinner: even as Melbourne grows ever larger, Victorian small towns, regional communities and rural districts are depopulating especially in the 18-35 years age group.
Within this wider setting, Federation University Australia operates in regional educational markets characterised by small population numbers, by low aspiration, participation and attainment rates, by high deferment rates, and by an above-average proportion of students from low SES backgrounds. Nearly three out of every four of our domestic students come from regional and remote backgrounds. Just under one-quarter comes from low SES backgrounds. More than four-fifths require Commonwealth Government assistance to attend university. The vast majority are the first in their families to attend university.

Most importantly, despite a significant program of structural reform that since 2010 has transformed the (predecessor) University of Ballarat and, by extension, Federation University Australia, into a leaner, more responsive and more capable institution, the University remains challenged due to regionally-limited student numbers over which it has no control.

By contrast, capital city population concentration and growth combined with the relative immobility of students (including regional students) confers a significant competitive advantage on metropolitan universities, and a significant competitive disadvantage on non-metropolitan providers. Indeed, the 2011 Larkins Review of Regional Higher Education Funding concluded that "it is unlikely that the regional higher education market will lead to better long term outcomes for students and regional areas without government intervention" (p.vii), and that "economic disincentives for regional higher education provision create an incomplete market (a type of market failure)" (p.5).

The Higher Education and Research Reform Amendments Bill 2014 takes no account of this disparity. Rather it adopts a "demographically-neutral" point of view that eliminates any consideration of metropolitan and non-metropolitan recruitment market differences. This is strategically, economically, and educationally questionable. The assumption in the Bill that regional tertiary providers can adjust to the Government's higher education reform recommendations in the same way as metropolitan universities is mistaken.

Federation University Australia therefore recommends —

**Recommendation 1**

That the Senate Standing Committee on Education and Employment report to the Senate the competitive disparities between metropolitan and non-metropolitan tertiary education providers, and recommend that the Senate challenge the underlying assumption of the Higher Education and Research Reform Amendments Bill 2014 that all tertiary education providers, irrespective of location, can respond identically to reform proposals found in the Bill.
Reform proposals

The Australian Government is proposing key reforms for the Australian tertiary sector. These include —

1. *Reducing Commonwealth Grant Scheme funding to universities by an average of 20%*. Federation University Australia opposes the proposed reduction in Commonwealth Grant Scheme funding for Australian universities. For the past decade, government funding support for universities at the national and state levels, irrespective of political affiliation, has been unpredictable and has been consistent only in its decline. For regional universities such as Federation University Australia, a further 20% reduction will challenge the sustainability of the University.

Given the proposed 20% reduction is unlikely to be modified, then the University supports the differential average 20% reduction in funding across the five new clusters rather than retention of the original eight clusters with a 20% flat rate reduction.

Federation University Australia therefore recommends —

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<td>In the event that the Senate Standing Committee on Education and Employment concludes that the Government will insist on the 20% reduction in Commonwealth Grant support for universities, that the Committee recommend that the Senate support the proposal to deploy a differential average 20% reduction across the five new clusters rather than across the existing eight clusters.</td>
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2. *Removing caps on student contributions thereby permitting universities to set their own fees without an upper limit*. Federation University Australia advises the Committee that a 20% reduction in Commonwealth Grant Scheme support makes the deregulation of student fees critical. Given the recruitment market circumstances in which regional universities are located, universities such as Federation University Australia will not be sustainable with a 20% reduction combined with capped fees that limit economic flexibility. On the assumption that the 20% reduction will apply, Federation University Australia unequivocally supports the uncapping of student fees.

Federation University Australia recommends —
Recommendation 3

That in the event of a 20% reduction to funding, the Senate Standing Committee on Education and Employment recommend that the Senate support the deregulation of student fees.

3. **Requiring that universities with 500 domestic students or more commit 20 per cent of additional revenue derived from 1 and 2 above to a university-administered Commonwealth Scholarship scheme to support “student access, participation and success”**. Federation University Australia has the largest proportion of students (73%) from regional and remote backgrounds — a designated disadvantaged group — of any university in Australia. Some 23% of its students come from low SES backgrounds. It has the highest proportion of Commonwealth Supported Students (>80%) of any university in Australia.

As noted above, Federation University Australia operates in thin markets characterised by a high proportion of low SES students. It does not have access to large, metropolitan student recruitment pools. It cannot provide the range of course offerings available, through economies of scale, to capital city providers. It does not have the capacity to charge high fees comparable with metropolitan universities.

The Bill's proposed reforms will leave the University with proportionately less funding than previously to support its core student cohort, namely disadvantaged students, than capital city based providers. Indeed, under the proposed arrangements, the University will have proportionately fewer funds to support a larger proportion of its students.

In these circumstances, Federation University Australia recommends —

Recommendation 4

That the Senate Standing Committee on Education and Employment recommend that the Senate support amendments to the Higher Education and Research Reform Amendments Bill 2014 that —

- provide for additional funding for regional scholarships complementary to the proposed Commonwealth Scholarship Scheme;

**OR**

- provide for the pooling of all or some scholarship funds to be distributed to universities based on disadvantaged student proportions and/or allocation of such funds to means tested disadvantaged students

— and that the Committee further recommend amendment of the Higher Education Support Act 2003 to enable the allocation of Higher Education Participation Program (HEPP) support to universities with high proportions of low SES students.
4. **Extending public funding to sub-bachelor degree programs and to all registered providers.** Federation University Australia supports extending public funding to sub-bachelor degree programs, at the 100% rate for a Commonwealth supported place at a university. The University also supports public funding, at the 70% rate for a Commonwealth supported place, for all registered and TEQSA approved providers offering HE programs. In its submission to the Review of the Demand Driven Funding System (2013), the University expressed its view that sub-bachelor degree programs expand existing educational opportunities, and will directly assist regional and remote students, including those from low SES backgrounds in eastern and western Victoria who have been disenfranchised from access to HE. Federation University Australia recommends —

**Recommendation 5**
That the Senate Standing Committee on Education and Employment recommend that the Senate supports public funding for sub-bachelor degree programs (at the 100% rate of a Commonwealth supported place for universities) and funding at the 70% rate (of a Commonwealth supported place) for all approved and accredited registered providers as a means of providing greater educational opportunities to regional students.

5. **Changing indexation of Commonwealth grants.**

Federation University Australia observes that all HE programs will be indexed at a lower rate based on the Consumer Price Index (CPI), at a saving of $201.3M. The University observes that this is a further loss of funding from the sector.

Federation University Australia recommends —

**Recommendation 6**
That the Senate Standing Committee on Education and Employment recommend that the Senate not support the indexing at a lower rate of HE programs based on the CPI.

6. **Increasing the interest rate on the Higher Education Loan Program.** Given the demography of Federation University Australia's HE domestic students — regional and remote backgrounds; low SES; first-in-family to attend university; mature aged; female; and an emphasis on teaching, nursing and social welfare qualifications that are not highly paid — the University is concerned at the interest rate levels proposed for the Higher Education Loan Program. The majority of
Federation University Australia students require assistance to pursue studies. The proposed adoption of the Bond Rate for interest calculations will impose unsustainable levels of debt on graduates of the University.

In these circumstances the University does not support the current proposal to transfer Higher Education Loan Program interest calculations from CPI solely to the Bond Rate. If, however, the Government insists on revoking the CPI measure, the University advocates that the Bill be amended to adopt a blending of CPI and Bond Rates measurements, or to adopt a modified form of Bond Rate calculation (50%, for example, of the long term Bond Rate).

Federation University Australia recommends —

**Recommendation 7**
That the Senate Standing Committee on Education and Employment recommend that the Senate amend the *Higher Education and Research Reform Amendments Bill 2014* so that the calculation of Higher Education Loan Program interest repayments is based on Consumer Price Indexing, on a blending of Consumer Price Indexing and Bond Rate measurement, or on a modified Bond Rate calculation (e.g. 50%).

7. **Reducing funding for research training by 10%**.

From 1 January 2016, tertiary education institutions will be given the option to charge Research Training Scheme (RTS) students undertaking Higher Degrees by Research (HDR) a contribution towards the costs of that degree. The RTS currently funds students on a low cost/high cost basis according to their fields of study. Public funding provided to universities through the RTS will be reduced by 10% from 1 January 2016. Research students will be able to pay their contribution upfront or can defer payment through HELP arrangements.

The University recognises that this measure is seeking to rebalance the cost of HE between taxpayers and students through a small reduction in Government funding for the RTS and provision for institutions to charge research students a modest contribution towards the cost of their degree.

The University contends that this measure will have a negative impact on Australia’s research and innovation system. The proposal is premised on an assumption of private benefit flowing to students from PhD and Masters-level level study. The University challenges this assumption: there is little evidence of such private benefit. Indeed, the University considers that the fiscal imperative that seems to underlie this measure is insufficient reason to proceed, given the impact not only on PhD students but equally on the innovation capacity in the economy.
Federation University Australia recommends —

**Recommendation 8**
That the Senate Standing Committee on Education and Employment recommend that the Senate amend the *Higher Education and Research Reform Amendments Bill 2014* to remove the 10% reduction on the Research Training Scheme (RTS) and to remove the option enabling universities to charge RTS students for program participation.

**Regional Adjustment Fund**
Currently, the Australian Government provides regional loading funding. This is to assist with the costs of maintaining educational infrastructure and providing educational services in regional locations. Indeed, the extent of such costs to regional providers is great and includes —

- the need to accommodate thin markets due to lower population density and lower year 12 completion rates;
- diseconomies of scale as a result of small campuses servicing thin markets;
- opportunity costs to regional universities as more time is spent travelling and supporting low SES students across large regions which in turn cannot be used otherwise for teaching, research or administration;
- higher costs for infrastructure construction, support for low-SES students, information technology provision and travel that generally increase with distance and remoteness; and
- reduced revenue due to difficulties in attracting international students, domestic fee paying students, donations and commercial revenue. Where regional universities do attract international students, these students are often taught offshore, or in metropolitan based campuses, so they do not generally contribute to economies of scale at regional campuses. (Larkins, p.vii)

Nor does the regional loading anticipate deregulation of the kind proposed in the Bill before the Senate. Indeed, based on our market research, it is becoming clear that universities such as Federation University Australia, which have the majority of their domestic HE enrolments emanating from regional and rural areas, may well be limited in the extent to which they can raise the student contribution fees to offset the 20% decline in Commonwealth funding and also continue to attract the same number or even additional numbers of students especially from the regions they serve.
In these circumstances, a Regional Adjustment Fund appears the only way to —

- achieve the Government's HE reform agenda;
- ensure that regional residents can continue to enjoy educational opportunities taken for granted in capital cities; and
- enable regional universities to overcome the inherent market disadvantages of the Australian tertiary education sector.

Given inequality of population distribution, and given as well the long-held view that regional, rural and remote residents, whether young or mature aged students, should not be disadvantaged from accessing educational opportunities taken for granted in Australian metropolitan centres, Federation University Australia commends to the Committee the need for a Regional Adjustment Fund as a means of correcting the competitive imbalances upon which the Higher Education and Research Reform Amendments Bill 2014 is presently built.

In this regard, the University cites to the Committee the example of the educational needs of mature aged students — that is, those who are non-recent school leavers — who are largely immobile and cannot relocate for educational purposes due to family, employment and economic considerations. Such residents constitute a large proportion of Federation University Australia's students. Without a Regional Adjustment Fund, such students will be lost to education, as has proved to be the case in post educational reform in the United Kingdom, with consequential impacts on regional capacity building.

The University therefore contends that such a Fund is the only feasible means of making the Government's HE reform agenda workable outside our capital cities.

The University proposes the following implementation matters for consideration by the Committee —

1. That regional tertiary education providers such as Federation University Australia have a higher than average exposure to thin markets.

2. Calculation of "higher than average exposure" can be assessed by calculating the percentage of a provider's domestic undergraduate students whose permanent residence is located in a regional or remote location. In the case of Federation University Australia, for example, 73% of its domestic students come from regional or remote locations.

3. Given that all universities enrol some proportion of students from regional backgrounds, the University suggests that it is necessary to establish the relative rather than the absolute level of such recruitment. The University, as with the Regional Universities Network (RUN) submission, has utilised PhillipsKPA analysis that such a measure may be found by identifying those providers where the proportion of regional students is above the national average. Given a national average of 19% of all Australian university students come from regional
backgrounds (2013 data), Federation University Australia with a 73% share of regional and remote students would qualify.

4. Allocation of Regional Adjustment Fund support to eligible providers can then be calculated by the relative size of each provider's regional student numbers. Thus, in the case of Federation University Australia, the University exceeds the national "exposure to thin markets" average by 53%. Adjustment fund allocation can then be assessed by calculating 53% of the University's domestic undergraduate students. Based on 2013 data, this would mean that Federation University Australia's share of the Fund would be based on 53% of 4,994 domestic students, or 6.5%. The University would then be allocated 6.5% of Regional Adjustment Fund support.

5. PhillipsKPA estimates that an annual sum of the order of $100M, indexed annually, will be required to support the fund. Currently, 15 Australian universities will be eligible to receive Regional Adjustment Fund support (RUN Submission). As the Government is proposing to introduce its reforms in 2016, the University recommends to the Committee that the Regional Adjustment Fund likewise commences from 2016.

6. The Fund is essentially self-regulating. If, for example, the proportion of regional students at Federation University Australia falls due to increasing recruitment of metropolitan students, then the University's draw on the fund would decline. Similarly, if a university's proportion of regional students was to increase, then so too would its access to the fund.

The University refers the Committee to the Regional Universities Network (RUN) submission for the detailed calculations and tables summarised above.

Federation University Australia recommends —

Recommendation 9
That the Senate Standing Committee on Education and Employment recommend that the Senate amend the Higher Education and Research Reform Amendments Bill 2014 to give effect to the creation of a Regional Adjustment Fund; that such a Fund be of the order of $100M, indexed annually; that such a Fund be allocated to eligible providers with an above-average proportion of regional and remote students; and that the Fund commence operation from 1 January 2016.

Summary

The creation of Federation University Australia demonstrates commitment, on the part of the former University of Ballarat and of Monash University, to major structural adjustment and renewal in response to the changing higher education landscape. Federation University Australia is the result, a University that is regional in focus, national in scale, and international in reach.
The University continues to look forward to working closely with the Australian Government in ensuring that the proposed HE reforms are able to be implemented effectively and in a way that does not significantly disadvantage regional students, regional communities, and regional universities.

The recommendations proposed in this submission, and which complement those of the Regional Universities Network, are derived from the very real experience of providing HE opportunities to young and mature aged regional students on a day-to-day basis. The University must do this in an environment that demarcates between metropolitan and non-metropolitan providers not on any measure of learning, teaching, research or engagement quality, but simply on the basis of population distribution.

The *Higher Education and Research Reform Amendments Bill 2014* maintains and consolidates this demarcation by assuming that regional universities have a capacity to respond to the proposed reforms in ways identical to capital city universities. That they do not is widely recognised in the Australian tertiary sector; in diverse Australian and state government support initiatives (regional loadings; structural adjustment funding; regional partnerships facilitation schemes; regional growth funds; regional education infrastructure schemes); and in extensive commentary associated with post-secondary education. Indeed, it appears to be recognised everywhere except in the current Bill. Federation University Australia therefore requests that the Committee explore this omission, and recommend that the Senate do likewise, as a matter of urgency.