Dear Committee Secretary

Please find the following submission by the University of Technology, Sydney (UTS) to the Higher Education and Research Reform Amendment Bill 2014 inquiry.

UTS shares and strongly supports the Government’s commitment to enhancing the quality of the Australian higher education system and supports the stated purpose of the Legislation to “ensure that Australia is not left behind at a time of rising performance by universities around the world”. (Higher Education and Research Reform Amendment (HERRA) Bill 2014 explanatory Memorandum, p1).

UTS believes that any reform of the Australian higher education system needs to be based on three fundamental principles:

- **Affordability for students**
- **Opportunity of access for all who merit a higher education place**
- **Protection and sustainability of the high standard of quality of Australia’s universities.**

Focusing on these principles, this submission will highlight for consideration a number of possible unintended consequences and risks that may result from measures in the Legislation as it currently stands. These factors will adversely impact affordability, access and equity, and quality and thus need to be fully considered and addressed as part of the Senate discussion.

**UTS would urge the Senate Education and Employment Committee to consider:**

- **Affordable fees and access for any student who merits a place in higher education**
  
  - Australia’s education system has proudly always been based on a system of equitable access to high quality education regardless of background or ability to pay. While well designed scholarship funding should help our most financially disadvantaged, there are tens of thousands of Australians who are financially constrained or have marginal means to support large long-term loans, who may decide to opt out of higher education altogether. Not only is affordable education an important equity issue, it is critical to Australia’s future productivity and wellbeing. The Senate should ensure that a pricing regime is designed and implemented that does not exclude these students from undertaking further study, both for their own
benefit and for the productivity and prosperity of our country, or in any way risk shrinking the potential pool of talented people.

- **Supporting the UA position and calling for a reduction in the overall cuts to education in the package – which in total are approximately 30%, (including the announced 20% cut to CGS, cuts to EIF, RTS and indexation).** The proposed cuts will dramatically impact the quality of our universities at a time when our international competitors, particularly in Asia are enjoying major boosts in Government funding. Further, these cuts, coupled with the current move to full deregulation of fees, could render unachievable the Government’s stated goal of Government and learner equally sharing the cost of education.

- **Moderated deregulation** – The concept of deregulation can be a positive reform for Australian higher education, but its application needs to be carefully thought through. This is a major structural change and any implementation should be rigorously planned. Higher education is a particularly opaque and non-transparent market (as highlighted in international and domestic literature reports including the recent Commission of Audit Report). In such circumstances the opportunities for pricing distortions are high. Any industry moving from a highly regulated to unregulated pricing state needs well-conceived and detailed transition mechanisms. The impact of the proposed cut of 30% (once all budget measures are included) with unconstrained fee deregulation could lead to substantial increases in the cost of a undertaking a degree. This is why UTS believes a moderated pricing mechanism is needed to avoid price shocks and protect affordability. This would of course need to be modelled against the cost of delivery of courses and students’ ability to pay. There are a number of other transition issues which have yet to be fully considered.

- **A strong and generous scholarship scheme for ALL low SES and disadvantaged students regardless of location** - Universities should control their own Scholarship funds and places, allowing students from low SES and disadvantaged backgrounds a wide choice of study locations. Strong HEPP funding is essential for the infrastructure and services that are vital in supporting students from low SES backgrounds.

- **Supporting the UA position and rejecting as regressive the application of the 10-year Australian Government Bond rate to the repayment of outstanding student debt.** This measure should be scrapped in favor of less regressive alternatives.

- **An appropriate period of consultation to consider both potential changes and transition mechanisms** - The Government’s reform package is the largest set of changes to higher education in its history. Universities contribute around $23 billion to GDP and International Education is Australia’s 4th largest exporter. It would be unprecedented to massively restructure one of Australia’s leading industries in just six months. A 12 month period was recommended by the Federal Government’s Commission of Audit.
• **The needs of current final year school students** - The window for the introduction of deregulated fees in 2016 is effectively closed as the current cohort of final school year students needs information now about course options and costs. Fairness to these students needs to be considered in expecting them to make decisions about future study with so little concrete information available about future financial implications.

Yours sincerely,

UTS Vice Chancellor and President
UTS submission to the Higher Education and Research Reform Amendment Bill 2014

Context

Why is Government support for higher education important?

Universities play a fundamental role in the creation of civil societies. They are places of inquiry and learning without which there is no advancement in health, scientific and technological developments. Without universities we do not have doctors, nurses, teachers, scientists, engineers. We know that Australians place a very high value on a university education, with Universities Australia research showing around 90% of Australians aspiring to send their children to university.

Universities not only provide private benefit for individuals through education but also significant public benefit;

- The skills and capacity needed for a prosperous, enlightened and productive society and nation
- Drive prosperity, wellbeing and productivity of a nation through research and innovation
- Provide thought leadership and broad community benefit from engagement.

And the economic benefits of Australia’s universities are stark. As cited in recent Universities Australia research:

- Australia’s university graduates are worth $188 billion to our economy annually.
- Our universities employ over 110,000 staff and directly contribute over $23 billion to our GDP.
- At around $15 billion each year, international education is Australia’s largest export earner after resources and our fourth largest export industry; it builds vital diplomatic and international links.
- One extra dollar invested in tertiary education grows the economy by $26 and grows tax revenue by $8.

Key issues

Australia’s higher education system is high quality

Thanks to decades of investment, Australia’s university system is extremely high quality, and is now ranked 9th globally, ahead of the Germany and Japan. (Universities Australia) Australia’s rise in academic world rankings is one of which we can all be proud. In the respected Academic Rankings of World Universities system – the number of Australian
universities among the world’s top 500 grew from 13 universities in 2003 to a high of 20 this year.

In the Times Higher Education rankings Australian universities increased from 7 in 2010 to 19 in 2013-2014. Investment in research and higher education during the 2000’s enabled dramatic improvement right across the sector, not just for the older and historically financially privileged Universities. The majority of Australia’s universities are now counted in the top few percent globally. For example UTS last year became the 4th ranked university aged 25 and under in the world. Australia had nine universities ranked in the top 50 universities in the world under 50. Australia’s performance compares strongly with other systems. For eg, Australia graduates a similar percentage of young people as the US college system, yet we have on average a much higher quality system. The US has more than 10,000 colleges and universities, whose quality varies dramatically from quite low standard schools to the small number of world leading institutions such as Harvard and Yale. And further, in the fully deregulated US market, fee levels have been rising at twice the rate of inflation for the past decade and student debt is spiralling out of control.

The Australian model of funding higher education - a balance of private and public contribution through the HECS scheme - has been the envy of the world and key to achieving the affordable degrees and high participation rates that have been fundamental to the nation’s productivity.

Need for a sustainable funding plan to maintain quality and survive global competition

While clearly “the system is not broken” there is universal agreement that more investment is needed in order to continue to provide high quality education and contribute to change and development in the Australian economy.

Funding per student is a core determinant of providers’ ability to deliver high quality education. While the decision to remove controls on the number of students who may access higher education has resulted in an overall increase in funding for the system, per student funding has continued to be restricted. Funding sources for Australian public higher education providers are primarily through government, students and revenue from the international student market.

Government commissioned reports over the last 5 years (including the respected Bradley Review) show that an increase of at least 10% to funding of Australia’s universities by the federal government is required to maintain international competitiveness and quality. The international student market is not growing at the rate of earlier years and thus no longer provides the same opportunities to increase funding per student across the sector. In fact, Australian universities are seeing much greater global competition which makes even holding our current position a challenge. The latest OECD figures show our public investment in tertiary education as a percentage of GDP is ranked just 25th out of 30 advanced economies. (UA)

Essentially then greater investment must come from government and/or domestic student contributions. The growth in higher education participation has placed increased strain on government funding at a time of generally increased budget pressure. We understand that long term financial sustainability requires striking the right balance between government and student contributions. The government needs to manage its financial position while continuing to participate in higher education to ensure that the economic and social benefits of education flow broadly, and not just to the individuals who participate. Students do
receive a personal financial benefit, as well as other benefits, from higher education and their financial contribution to that education has generally been accepted for some time now.

The issue is determining the most appropriate relative contributions and ensuring affordability. As noted elsewhere in this submission, the solution is not simple given the potential distortions and unintended outcomes of immediate price deregulation. While the government priority is to address its budget position, it is important that the time be taken to ensure that the long-term implications of deregulation not only deliver a sustainable financial position but more importantly, a sustainable high quality education system for the future.

Access and Equity

Australian education has always been based on the fundamental principles of equitable access to high quality education regardless of background or ability to pay. Australian universities have been available to any and all who desired and merited the opportunity. Not only is this part of Australia’s heritage, it also has been a driver in the growth of our standard of living. We must support the widest possible pool of talented people to draw from in the development of graduates. Only then can we tackle the economy’s current and future productivity challenges.

Deregulation is a profound change to the way higher education will operate. If it is to be a positive change, careful, methodical and rigorous consideration of all the potential consequences will be vital. This is not something we should be rushing. Ensuring ongoing broad based and equitable access to education is key. Short term partial solutions or focusing on any one particular interest group will do a disservice both to highly talented, but financially constrained students who may be excluded, and also to our nation’s productivity aspirations.

Productivity agenda

Any move to a deregulated market needs to examine in close detail the potential impacts on national priority and skills shortage areas such as engineering, science and nursing. In a fully deregulated market, Government will lose any control over capacity building for the nation and meeting skills shortage areas. There will be no link between social and industry policy and education. We need to seriously consider the risks of a market response where we have an oversupply of law and business graduates (courses relatively cheap to run) whereas, high cost and price sensitive degrees areas such as Science and Engineering and Health become both less attractive to provide and study. In a worse case scenario, we are graduating thousands of homeopathy students – adding little to the nation’s productivity and less to our international reputation.

If we take the national priority area of Engineering as an example, under the proposed 20% cut to CGS, UA modelling shows that for providers to break-even, the cost of the degree will have to rise by 58%. The additional cuts to the Research Training Scheme, will add further costs to higher degree study, acting as a disincentive to advanced study in this national priority area.

Government’s Industry and Education policies are very clear about the importance of a highly trained, high productivity workforce and the need to focus on “advanced” industry
segments. Cutting funding to the very section of the workforce that will assist in this goal sends strongly contradictory signals.

**Deregulation Timing**

The most pressing issue we face right now is the timing of major changes to higher education regulation, particularly those that affect students’ ability to make informed decisions about their higher education options.

Higher education providers would normally have determined their 2016 tuition fees at this point in the year. Publication deadlines for course guides and prospectuses are already upon us. Prospective higher education students have chosen their preferred higher education courses and high school students are not far off starting their final exams. They are preparing for a major commitment to ongoing learning without any conception of the financial cost they will bear.

Providers cannot afford to provide open-ended assurances on limiting increases in tuition fees given the large funding cuts included in the legislative package. It is not possible for providers to absorb a potential 30% (but at this stage unknown) funding cut in 2016 and at the same time provide students with a reasonable forecast of fees over the next four to five years.

**Market Impact**

Moving to completely unregulated pricing in one step has the potential to create significant disruption in the market. It is unclear how providers will react. For example, if public providers significantly raise prices and simultaneously increase their student numbers, some public providers and many private providers may be pushed out of the market altogether. This may be highly problematic for regional populations and other small sub-markets. Alternatively, if public providers raise prices significantly and narrow their student intakes, the excess demand would either exclude many potential students or put quality education at severe risk by flooding other providers who do not have the scale of operations to properly satisfy such demand.

The higher education market has a range of significant externalities. Higher education makes a major contribution to the development of the economy, social cohesion, and Australia’s international reputation including aspects of soft diplomacy to name just a few. The government’s ability to continue to realise the positive aspects of these externalities in a deregulated market must be fully assessed. We must be able to critically review the Government’s continuing capacity to influence human capital development that supports innovation and growth in the Australian economy. If change results in the unintended exclusion of cohorts of students from higher education, we must consider the longer term impacts on Australia’s egalitarian principles and the negative impact on social cohesion this may have. Australia is a relatively small higher education market and it relies on the quality reputation of the system as a whole to compete internationally and to be a flag bearer for Australia’s business reputation more broadly. We must consider the impact on the quality of the system, as if that is not sustained, all providers will ultimately suffer.

Deregulation provides potential opportunities to deliver a sustainable, high quality higher education system. However, working through the potential scenarios and putting in place appropriate protections that allow the market to transition and mature without disrupting
students’ opportunities or placing individual provider’s at undue risk, will require appropriate consideration and time. A major market disruption will not serve the interests of students, the reputation of the system, or the economy.

**Student Loan Indexation**

The student loan system has supported access to higher education for a broad spectrum of Australian students. It is a very important element of Australia’s higher education system and it needs to be sustainable in the long term. However, the proposed change to student loan indexation risks alienating the very people that most benefit from it. Lower income workers and women generally, are likely to be disproportionately negatively affected by the proposed change. More work needs to be done on striking a balance between financial sustainability and encouraging student participation to ensure the objectives of the system are also sustainable.

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**Facts at a glance**

**Australian Universities – (Source: Universities Australia)**

- Australia’s university graduates are worth $188 billion to our economy annually.
- Our universities employ over 110,000 staff and directly contribute over $23 billion to our GDP.
- At around $15 billion each year, international education is Australia’s largest export earner after resources and our fourth largest export industry; it builds vital diplomatic and international links.
- One extra dollar invested in tertiary education grows the economy by $26 and grows tax revenue by $8.

**Rankings**

- Australia is now ranked 9th globally, ahead of the Germany and Japan.(UA)
- Academic Rankings of World Universities system – the number of Australian universities among the world’s top 500 grew from 13 universities in in 2003 to a high of 20 this year.
- In the Times Higher Education rankings Australian universities increased from 7 in 2010 to 19 in 2014
- Nine Australian universities rank in the global top 50 universities under 50
- Research outputs (approximated by journal publications) grew dramatically from 2002-2012 across the sector in Australia. Even more importantly, the distribution of these outputs expanded across the entire sector, as demonstrated by the reduction in research output concentration in the top 6-8 universities from 60% in 2002 to less than 55% in 2012 (and currently trending to be less that 50% in 2020).. This demonstrates the growing strength of the university sector as a whole and the critical broadening of Australia’s innovation system.

**Overseas competition (Source: Universities Australia)**
• The latest OECD figures show our public investment in tertiary education as a percentage of GDP is ranked just 25th out of 30 advanced economies.
• Emerging economies like China, India and Brazil are making university education and research amongst their highest priorities.
• Chinese expenditure on research and development has been growing at 18% a year, this is over 2.5 times the rate of Australia’s growth.
• In 2013, the number of patent applications in China grew by 15.6%, compared with 10.8% growth for the USA and 10.4% for Sweden.
• India has over six million higher education science and engineering students.
• Brazil, in line with its aspiration to be a ‘natural knowledge economy’ is working towards an increase in research spending to 2.5% of GDP by 2022.