Submission from the University of Wollongong to Senate Inquiry:

Higher Education and Research Reform Amendments Bill 2014

September 2014
1 Introduction

The University of Wollongong (UOW) welcomes the opportunity to be invited to make a submission to the Senate Inquiry for the Higher Education and Research Reform Amendments Bill 2014. Higher education policy is inherently challenging in an environment of continuous change, and UOW recognizes this is a timely opportunity to simplify the current system and improve the capacity of both universities and government to provide an exemplary tertiary education for Australian and international students. Moreover, the issue confronting political systems across the world is to devise a policy framework which ensures the long-term financial sustainability of the higher education system given its strategic importance in the development of knowledge based economies.

UOW started in 1951 as a small college of the University of NSW. UOW gained autonomy in 1975 and has grown substantially to now having just over 31,000 current students (including more than 11,500 international students), and approximately 2,500 EFT staff. Since 2012, UOW has been ranked in the Top 50 of global universities less than 50 years old. UOW is a major entity in NSW based in the Illawarra but with satellite operations in Nowra, Bega, Batemans Bay, Moss Vale, Loftus and Sydney CBD.

UOW's export business is built around the delivery of higher education services both onshore (Wollongong and Sydney campuses) and offshore through partnership operations in the major Asian hubs of Hong Kong, Singapore & Malaysia.

Moreover, the University of Wollongong in Dubai (UOWD) is one of the oldest and most prestigious universities within the United Arab Emirates (UAE). Established in 1993, UOWD is now recognised as an integral part of Dubai. As an independent UAE institution of higher education, UOWD currently has over 3,500 students representing over 100 nationalities. Equally, UOWD is proud to be one of Australia’s largest and longest presence in Dubai.

UOW is ranked in the top 2% of universities in the world, and rated as first in Australia for Educational Experience and Graduate Outcomes by the 2013 Australian Good Universities Guide. UOW works with leading Australian businesses and world-renowned companies in innovation and development. We lead the way in research through a number of highly ranked research clusters and the SMART Infrastructure Research Facility, the Illawarra Health and Medical Research Institute (IHMRI), the Australian Institute for Innovative Materials (AIM), the Sustainable Buildings Research Centre (SBRC) and Early Start Centre. In addition, UOW's Innovation Campus provides businesses access to leading researchers, cutting-edge R&D facilities, enterprising organisations and well qualified students and graduates.

In drafting this submission we have assessed that Government wishes to evolve the Higher Education system to provide further opportunity for Australians to access higher education and ensure the standards of our universities are internationally competitive. This submission outlines UOW's position on the strengths and weaknesses of the 2014 reform proposals and provides a number of alternative scenarios for consideration by the Senate Standing Committee.
2 Context

Over the last 12 years, there has been a large increase in tertiary enrolments in Australia among both national and international students. During this time period the proportion of young adults who entered academic tertiary programs in this country increased by more than 40 percentage points (OECD, 2014). While international students make up 18% of total tertiary enrolments, entry into tertiary education among national students is still very high in comparison to OECD partner countries (OECD, 2014). Across all OECD countries, close to 40% of 25-34 year olds now have a tertiary education, a proportion 15 percentage points higher than that of 55-64 year olds - and in some countries this difference exceeds 20 percentage points (OECD, 2014). The 2012 Survey of Adult Skills across OECD countries demonstrates that the level of skills found in the population has also increased tremendously. For example, there is a 13 percentage point increase on average between the share of older and younger adults scoring at the highest levels of literacy proficiency (OECD, 2014). However, while access to education continues to expand and the proportion of adults who are highly skilled in literacy continues to grow, socio economic divisions are deepening, and the impact of education and skills on an individual's life chances has strengthened considerably (OECD, 2014).

The difference in outcomes from employment between adults without upper secondary education and those with a tertiary degree continues to grow. Across OECD countries, adults with a tertiary education earn on average approximately 70% more than those with upper secondary education (OECD, 2014). Additionally, over 80% of tertiary educated adults in OECD countries are employed, compared to less than 60% of those with upper secondary education or below (OECD, 2014). Just 27% of tertiary educated individuals find themselves at or below median earnings, compared to 70% for those without an upper secondary education (OECD, 2014). The risk of low educational attainment also has a significant effect on social outcomes. Self-reported levels of health, interpersonal trust, participation in volunteering activities and the belief that an individual can have an impact on political processes, are all closely related to both education and skill levels (OECD, 2014). The increasing divide between the 'haves' and 'have nots', requires that we give immediate attention to the way education and skills are distributed across our population. At a time when access to education is expanding, we must promote learning and the acquisition of skills in an equitable manner that supports meritocracy and social mobility (OECD, 2014).

While variations between countries reflect different historical and cultural contexts, these differences can also serve to illustrate the power of government policy in breaking the cycle of inequality in education and provide opportunities to as many people as possible. The OECD, for example, notes the 'quantum leap' the United Kingdom (UK) has made in higher education access since the UK's revolution in higher education. For the first time, more people in the UK now have a tertiary qualification than an upper secondary education (OECD). We recognise that education is not just about students being enrolled - rather how well students learn. The quality of tertiary graduates must improve if we are to address the enormous challenges of the changing labour market.
3 Analysis of Current Australian Position

3.1 Current funding arrangements

OECD data suggests that some partner countries have maintained relatively significant investments in education despite the tricky financial climate (cited in Walker, 2014). However, such enhancements have not been achieved in Australia due to a Lack of improvement in spend per student, showing no absolute increase in spending given the corresponding increase in student numbers since the onset of the GFC. This compares to an OECD average across all partner countries of a 10% increase in expenditure per student, and our European competitors have done even better, with a 15% increase in expenditure per student over the period.

The OECD data is supported by the domestic data presented in the October 2011 Final Report of the Expert Panel who conducted the Higher Education Base Funding Review for the Commonwealth which stated that "average base funding per student...was the same in real terms (based on the Consumer Price Index) in 2010 as in 1994....The full introduction of improved indexation arrangements from 2012 will mean that, in the absence of other changes, the average Level of base funding per student will remain more stable in real terms".

The associated graph on the next page (from page 4 of the Base Funding Review Report) demonstrates the volatility of base funding, and confirms the OECD data which shows 2008 was the high point.

However, since the release of the Base Funding Review Report, the series of Government funding changes which were introduced first by the former Labor Government in 2012 and 2013, then by the Coalition in 2014 demonstrates that the Commonwealth - regardless of who is in power - does not believe it has the resources available to maintain funding to the sector at previous Levels given the range of priorities and demands on governments to allocate taxpayer funds.

The particular conundrum of University funding is that they are hybrid organisations, straddling the public and private spheres. Universities operate under predominately state Legislation, yet are substantially (but not wholly) supported by Commonwealth funding, and often engage in competitive behaviour (Lee, 2014). Depending on the discipline of study, universities currently get between a third and three-quarters of funding for each teaching place from the students themselves (Lee, 2014). Even with changes toward multiple income funding streams, in the short term at Least fees and grants remain a significant source of funding for universities. Yet the proposed deregulation of fees is not entirely new in the Australian context, with international and domestic postgraduate fee-paying cohorts being subject to an essentially deregulated environment.

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1 UOW modelling on Australian tertiary expenditure, indicates the Government spend per student in 2011 was 129% of 2005 level with student numbers also up to 129% of 2005s level. This results in a change of expenditure per student of 0% (with a slight fall on 2010).

2 Calculated off 15% increase in students for a 10% improvement in expenditure per student.
The objective of deregulation is allowing universities the autonomy to manage their own income streams, with any operating margins ploughed back into education and research to make our internationally renowned system more competitive in a changing global environment.

Figure 1.1: Income per Commonwealth supported place (2010 dollars)

Note: From 2005 the EFTSL amounts include Commonwealth supported students only. Before 2005 the EFTSL includes HECS liable students plus some other Commonwealth subsidised students supported through the Operating Grants. Before 2001 HECS liable students included a small amount of EFTSL for research students.

Source: DEEWR administrative data.

3.2 Strength of current system

Quality: The Australian higher education sector is recognised as one of the strongest in the world. There are currently 19 Australian universities in the Academic Ranking of World Universities (ARWU) Top 500, The Times Higher Education World Universities Ranking (THE-WRU) Top 400 and the Quacquarelli Symonds World Universities Ranking (QS-WRU) Top 400. Thirteen institutions (including six from NSW) are rated in all three of these major world rankings.

Broad social access: Universities are performing well in terms of access to education for women, with 53% of young women aged 25-34 years having attained an undergraduate degree compared with 42% of their male counterparts (OECD, 2014). A unique aspect of the Australian education system is that participation is also not Limited to a particular age range. Based on 2012 data, 19% of adults aged 30 and over participate in education, compared with the OECD average of 8.0% (OECD, 2014).
Inspired by the Bradley Review, the decision to abolish caps on student numbers for undergraduate degrees in 2009 has also impacted on university participation in Australia, improving equity and applying more stringent regulation to academic standards. Since 2008, student numbers have increased significantly, by a national average of more than 20 per cent, and much more at some institutions (James, 2014). The move to this demand driven system has meant that universities are already more responsive to the shifting patterns in student demand and student needs that are required to stay competitive in the international market.

The rising demand for higher education reflects the economic value of that education, especially those who graduate. However, this creates barriers for people from Lower socioeconomic backgrounds who may be more debt averse and so be Less Likely to take on a Loan to participate in higher education. The solution to this in Australia is the income contingent Loan currently known as HECS.

Under this system student interest is indexed to the consumer price index, meaning that any remaining debt merely keeps pace with inflation. The Level of time it takes to repay HECS debt varies with the Level of income and means that the imposition of a real interest rate is 'regressive', hitting Lower-income debtors harder than those on higher incomes. Recent research from Deloitte indicates that HECS has not deterred participation in higher education in Australia for those from Lower socioeconomic backgrounds. It is this underlying principle of equal access which must not be Lost in the proposed changes to higher education policy in Australia.

3.3 Areas for improvement

While the current mix of funding varies between universities, every tertiary institution in Australia is suffering from progressive public funding cuts, particularly the more aggressive measures announced over the past two years. Universities had already recognised that government funding could not keep pace with student demand without eroding quality. It has and will become increasingly necessary to move towards identifying diversified sources of private funding, regardless of which political party is in power (Pitman, 2013).

However, short term budget savings simply cannot be allowed to adversely impact something as important as the Long-term sustainability of the tertiary education sector. Indeed, as the Group of Eight (GoB) notes ‘if we miss the opportunity now to make the breakthrough that will open up expansive new opportunities - we will fail our future generations’ (cited in Maslen, 2014).
4 Future

4.1 Strength of 2014 reform proposals

UOW commends the Government for recognising that education and skills hold the key to future wellbeing and will be critical to restoring long term growth, tackling unemployment, promoting competitiveness, and nurturing more inclusive and cohesive societies. With the combination of proposals providing greater autonomy for universities, participation will improve, and the student experience will be enhanced by improved teaching through new technology and innovative delivery (Bebbington, 2014).

There are several key aspects of the Government's reform agenda, which are essential to the future strength of the sector:

- Deregulation of student fees: It is critical that universities are funded appropriately and sustainably if they are to compete in a globally competitive market. This requires university funding to be rebalanced so that the public budget cuts of the past decades can be met by private sources. Freeing universities to set their own fees will encourage competition, leading to higher quality courses and more competitive pricing. Schleicher posits that the UK is one of the very few countries that have assumed a sustainable approach to higher education funding (cited in Walker, 2014). The system of students using publicly based loans to pay for tuition appears to strike a good balance between access and financial viability. In such a system, universities are free to adopt a range of pricing strategies, competing on both the price and value of their courses, as well as locational factors such as the cost of living and lifestyle. The opening up of the market to non-university providers will also act as a strong market force to keep prices fair and provide students with a wider range of choices. Further, securing private capital for higher education and research will allow universities to attract the best academics from around the world and engage actively in more high impact research - a driver of economic development (Myklebust, 2010).

- Commonwealth scholarships: The benefits of expanded education must be shared in an equitable manner that supports meritocracy and social mobility. As a part of this reform the government proposes to restructure subsidies for Commonwealth supported places to ensure a more equal sharing of costs between taxpayers and students. Higher education institutions will be required to use a portion of the additional funding resulting from deregulated fees to provide access and participation opportunities for disadvantaged students through the Commonwealth Scholarships scheme. This will include scholarships and bursaries, outreach activities, tutorial support, mentoring, fee exemption and assistance with costs of living. This is a particularly important initiative to address the inequality in access to education, particularly for students from low socioeconomic backgrounds.

4.2 Weakness of 2014 reform proposals

There is further consideration and analysis required in a number of proposal areas, to ensure that changes do not act as a barrier to accessing higher education. Specific considerations should include:
• Debt repayment scheme: The increased indexation rate proposed by the Government is a savings measure designed to overcome the additional implied loan subsidy in the existing rate. It aims to act as an incentive for debtors, including those moving overseas, to repay debt more quickly (Dow, 2014). The proposed change includes imposing interest at the bond rate from the commencement of their studies which may see a student's debt rise in real terms while they are below the income threshold for repayment (Bebbington, 2014). Such an interest and repayment policy may discriminate against students who drop out of university, start in, or choose lower-paying work (and therefore take longer to reach the threshold), or against those who leave the workforce for a period to raise children. Higher indexation rates may also result in total debt and doubtful debt increasing. Other suggested fiscal sustainability measures include recovering debt from deceased estates, collection of debt from debtors moving overseas, imposing a loan fee on all HELP borrowing and selling (or 'securitising') the HELP debt to the private sector (Dow, 2014). The combination of these proposed measures may indeed deter students, particularly those from low socioeconomic backgrounds, from undertaking a degree and override the incentive of higher graduate salaries, which has to date seen students prepared to forgo income and take on debt in the HECS-HELP scheme (Dow, 2014).

• Scale of reduction in Commonwealth contribution: The impact on university finances of the 20% cut to average public subsidies under the Commonwealth Grants Scheme (CGS) is not likely to impact equally across the sector, as each university is not uniformly reliant on CGS as a total share of revenue. While we recognise that this change is intended to achieve a fairer split between the amount borne by taxpayers and students, for universities that are traditionally more reliant on CGS funding income, it is likely to be more difficult to achieve sustainable fee increases to compensate for the loss of revenue, while still attracting students. This immediate reduction in income is unlikely to be adequate for some universities to scale up the facilities required by a demand driven system, while maintaining the quality of teaching and innovative delivery that meets student expectations and international standards.

4.3 Options for consideration

Australia's future competitiveness will be driven by the skills of its population. The evolution of the demand driven system has created opportunity for most sections of the Australian population and it is important that any future changes do not negatively impact on the choice of opportunity our school leavers see before them. Getting these policy levers right is no easy task and UOW's internal analysis is already indicating the impact of uncertainty on the decisions of potential students for 2015. As of mid-September, the NSW Tertiary Admission Centre (UAC) data is showing a fall in school Leaver participation for 2015 from the non-metropolitan areas, demand from the Hunter is down 8%, Wollongong 14%, North Coast 14%, Central West 23%, Murray 16%, South Coast 12%, compared to the same time last year. Potential students from more affluent areas are currently appearing less impacted by the uncertainty as demand from Northern Sydney, Central Sydney and Western Sydney out to Parramatta is stable. As such, we ask the Committee to seriously consider the following:
• Funding contribution mix: It remains appropriate that students make a personal contribution to the cost of their education. There is however a case for looking further at the appropriateness of the mix of funding between Commonwealth Grants and individuals. Allowing changes in this mix for the more price-sensitive would ensure low socioeconomic background students are provided the opportunities to become the well-qualified graduates on whom our future economy depends.

• Fee capping: With the deregulation of student fees there has been some suggestion of adding a new fee cap to ensure students are not burdened by ballooning debt. This measure would be contrary to the objective of fee competition and indeed risks adding a price guide to the market. It is an unnecessary step, as institutions who charge excessive fees will simply be unable to compete in an open tertiary education environment.

• Commonwealth grant cuts: The scale of the proposed cut to the Government’s contribution is likely to severely impede the financial circumstances of some universities, which would in turn flow on to the quality of education provided to students. It is highly unlikely that the scale of genuine efficiencies required to meet this funding cut can be found within the timeframe required. Reconsidering the percentage decrease in funding, or scaling its implementation would provide universities that are currently heavily dependent on CGS funding to make sustainable decisions about operational efficiency without knee-jerk cost reduction reactions which will impact on student experience and in many cases the wider community.

• Repayment proposals: Under the proposed repayment methods students will undoubtedly be responsible for a greater portion of the costs of higher education. The impact of this will be very different between genders and locations and in fact may drive graduates away from employment in socially valuable occupations or regional areas, which is incongruent with other objectives of the Government. By considering a more modest interest rate or revisiting some of the debt forgiveness proposals, the impact of these changes will be more equitable across our society.

Finally, we would reiterate that the challenges and opportunities of the changing international and regulatory environment will require enhanced capacity for universities to set our own strategic direction and mobilise our research and institution around that vision. The financial pressure of cumulative declines in Government funding, along with proposed new financing mechanisms will require all universities to rethink their own internal structures and practices. Empowering universities to address the challenges in economic innovation, social cohesion and cultural dynamism, requires a shift from current bureaucratic structures toward autonomous, innovative and professional organisations (Schleicher cited in Walker, 2014 and Nixon, 2010).

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References


Walker, P 2014, 'UK has more graduates but without skills and social mobility to match', The Guardian 9 September 2014, viewed 16 September 2014 <http://www.theguardian.com/education/2014/sep/09/uk-more-graduates-skills-social-mobility-match-oecd>