



**GROUP
OF EIGHT
AUSTRALIA**

Priority Directions.



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National Context and Executive Summary

Australia's higher education sector is one of the best in the world.

Through the skilled graduates we produce, the breakthrough research we deliver and the communities we serve, universities are critical to the future prosperity of Australia.

Higher education generated over \$12 billion in export revenue for Australia in 2014–15, and produced an estimated \$140 billion spend in Australia in 2014. Our university sector is one of Australia's strongest non-resources based industries. Of the 69 per cent of Australia's economic activity derived from services, only the education sector has managed to grow its export earnings faster than the total Australian economy over the past decade.

The very countries from which Australia seeks to emulate innovation and educational achievements – such as Canada, the UK, the US, Singapore, Israel, New Zealand and Europe – have all taken a conscious decision to invest significantly in their universities and research capacity and quality.

If Australian higher education is to build on its strong base and recent successes, it must continue to innovate to meet the challenges of an increasingly competitive international student market, embrace the transformative power of technology for university education, and be equipped to prepare

graduates for the future workforce. The right policy settings are crucial to ensuring the nation continues to benefit from strong universities, their graduates, research and other successes, and to compete successfully in the global knowledge economy.

Australian higher education policy has served the country well and has made many innovations such as the Higher Education Contribution Scheme (HECS). There is now a need to renew the policy architecture, addressing the inconsistencies and contradictions that have been created by incremental policy changes over the past three decades.

All sides of politics must recognise the challenges in the current funding and regulatory frameworks, and that there is an opportunity to work with the sector to find solutions which are fair for both taxpayers and students, and that recognise the great public and private benefits flowing from a highly educated population.

The solutions must advance high quality teaching and research, facilitate differentiation across the sector and enable universities to organise to meet their specific missions, including research-intensive universities. In this way, universities will continue to make a significant contribution to building and driving Australia's innovation capability and will elevate its economic and social impact.

Higher education is the economic success story of the past decade

Commonwealth funding to the higher education sector is out-matched by the economic impact of the sector. The economic contribution of Australian universities per annum is estimated as:

1. Over \$25 billion direct benefit to the economy, including being large employers making significant capital expenditure as well as the impact of student, staff and visitor expenditure;
2. \$160 billion impact from the accrued knowledge and technology generated by university research – more than 10 per cent of GDP;
3. \$140 billion from the impact of skilled graduates on innovation, productivity and taxation income;
4. 1.3 million Australian and international students being educated and improving their professional skills which contribute to innovation and the higher skills required in workplaces;
5. Over 120,000 fulltime equivalent staff who contribute to the government's employment targets and taxation income; and
6. Improved employment and wage levels for non-graduates.¹

1–5 Deloitte Access Economics, *The importance of universities to Australia's prosperity*, 2015.
<https://www.universitiesaustralia.edu.au/news/commissioned-studies/The-Importance-of-universities-to-Australia-s-prosperity#.V1TT3U3VxaQ>;

6 Cadence Economics, *'The graduate effect': having more graduates grows jobs and wages*, 2016.
<https://www.universitiesaustralia.edu.au/Media-and-Events/commissioned-studies/The-graduate-effect--higher-education-spillovers-to-the-Australian-workforce/The-graduate-effect--higher-education-spillovers-to-the-Australian-workforce>

The Group of Eight – Australia’s research engine

The Group of Eight (Go8) members are Australia’s leading research intensive universities. In research we account for two-thirds of all research funding to universities, and each year spend some \$6 billion on research (of which only \$2.5 billion is funded by Government). Ninety-nine per cent of Go8 research is assessed by Government as world class or above.

The Go8 educates more than 23 per cent of Australia’s undergraduate students, and delivers Australia 90,000 quality graduates each year.

The strength of our performance in global ranking systems means that one in three international students who choose to go to university in Australia do so at a Go8. This makes the Go8 a significant contributor to Australia’s \$19 billion education export sector.

A more sustainable system will recognise the economic and social impact of higher education, limit unreasonable Commonwealth fiscal

exposure, better recognise the balance of public and private benefits and safeguard access and equity.

We implore Government to support a strong public investment in higher education on the basis that this investment reaps significant rewards. However we recognise the need to ensure that the system is sustainable and does in fact deliver the intended level of social and economic benefit. We accept that this will require a consideration of the balance between public and private investment that acknowledges public and private benefits. However, a bigger challenge is to ensure that the funding model supports and encourages activity in both teaching and research that best meets the needs and aspirations of the nation.

It is against this backdrop that the Go8 sets out its **Priority Directions** that an incoming government must pursue if it wants to back proven winners and promote innovation.

Go8 Priority Directions for an incoming Government

- **Addressing the current distorted funding model by increasing investment in research.** Current settings uphold perverse outcomes, such as having to cross-subsidise a large portion of essential research from teaching funds. This cross-subsidisation includes supporting critical public research for the National Health and Medical Research Council (NHMRC) and the Australian Research Council (ARC). It has also created an over-reliance on international student income to ‘make ends meet’.
- **Moderating the Demand Driven System (DDS).** The DDS in its current form has successfully increased participation in Australia’s university system. However, it is not sustainable in the long term, has been inefficient in delivering equity of access, does not address sub-bachelor or postgraduate coursework, and more broadly lacks a holistic vision for the entire tertiary sector. It is time to move to build a new model – better supporting opportunity, student choice and diversity across the

tertiary education sector. At its heart this must provide access and equity for all who are capable, while maintaining quality. In order to achieve this, sub-bachelor and post graduate courses should also be incorporated in the DDS to ensure incentives for choice of study are not skewed.

- **Targeted and effective support for low SES and Indigenous students to attend university.** The DDS was one key policy lever to help achieve the target of 20 per cent of low SES students enrolled in higher education by 2020 and that we move toward parity for Indigenous enrolment (a target of three per cent of students). This has not occurred and must be addressed. A targeted package for such students which includes a focus on living support costs is critical. Funding for the Higher Education (HEPPP) program and for a full Indigenous funding program should be restored to assist universities with targeted equity and access programs. Importantly there should be no upfront financial barriers to higher education, including student living costs.

- **Addressing the current lack of transparency regarding the resourcing of teaching in our universities and other higher education providers.** The allocation of teaching funds has its roots in policy developed nearly three decades ago. Establishing a resourcing framework, negotiated and agreed between government and the higher education sector, would enable policy settings that incorporate a mix of public subsidies and student payments and that enable institutions to develop a mix of offerings drawing on their distinctive strengths.

- **Establishing an independent expert advisory body on Higher Education for government.** Recent history has evidenced the complexity of Higher Education reform. The Go8 welcomes the current bipartisan political support for some form of independent advisory body on Higher Education and agrees that there is merit in its establishment.

The DDS was one key policy lever to help achieve the target of 20 per cent of low SES students enrolled in higher education by 2020 and that we move toward parity for Indigenous enrolment (a target of three per cent of students).

1 Addressing the current distorted funding model for research

The current policy architecture, developed over the past three decades, is suffering from growing inconsistencies and contradictions. The bulk of university funding in Australia is tied to student numbers. Yet an unintended consequence of this model is that it provides a financial disincentive for universities to grow research capacity. At the same time research itself is underfunded leaving both direct and indirect costs of research to be heavily cross-subsidised from teaching funding.

This is inexplicable in a country that relies on its universities for research and innovation more than any other first world nation. It is also inexplicable in a nation that has innovation at the heart of its economic agenda and is competing internationally against Canada, the UK, the US, Singapore and the EU all of whom are significantly increasing strategic support for basic research and innovation.

While Australia's total investment in R&D (GERD) and through the university sector (HERD) has increased as a percentage of GDP since 2000, government investment has fallen by over a quarter since 2000 (2013 OECD figures). Indeed,

recent figures suggest that university expenditure on R&D is also under pressure, having stalled at 0.63% of GDP in 2014 after more than a decade of consistent growth.

This issue is particularly acute across the Go8 universities where the excellence of our research performance means that we account for two thirds of all research funding to Australian universities and consequently have the biggest cross-subsidisation of research. Across the Go8 it is estimated that the level of cross subsidy is currently over \$2 billion,² which represents nearly a quarter of the total R&D spend by Australian universities.

² Estimated using ABS Research and Development survey, latest institutional figures available, 2012.

At risk are the economic benefits that research strength brings, including as the key driver of Australia's \$19 billion international education export industry. Australia's success in the international education market has benefited from the reputation generated by our strong global rankings based on research, to which the Go8 members have been key contributors. International students are particularly attracted to high ranked-research intensive universities, with the highly ranked Go8 universities attracting one in three international students to Australia.

Australia's recently released international education strategy predicts an increase in onshore international student numbers of 45 per cent by 2025. In 2016 dollars this represents up to an extra \$8.6 billion in export earnings from international education. Projecting such gains implies an increased and sustainable research support system given the link between international students and research international success.

The key step in reforming the distorted funding model is a higher level of research funding and greater transparency in research funding.

The Go8 recommends that an incoming Government:

Increase transparency and support for research to provide universities with:

- At least 80 per cent of the full economic cost of undertaking critical public research in the national interest (as other competitor nations do) – that is, substantially better funding for indirect costs of research. This is a secure investment in our nation's future economic strength.
- Strategic funding to allow universities to engage in long term capacity building in research and research infrastructure as well as to undertake research engagement with industry and other end-users of research.
- Increased direct cost support for ARC and NHMRC research – the backbone of Australia's world leading public research effort.

2 Moderating the Demand Driven System (DDS)

The DDS was an important development that other nations have watched with interest.³ The DDS has been highly successful in growing participation, having already almost reached our 2025 national target of 40 per cent of 25–34 year olds with an undergraduate degree. However, it is rapidly becoming financially unsustainable and has proven to be less efficient in delivering on one of its key original policy priorities around equity.

Against the target of 20 per cent of university enrolments to be students from a low SES background by 2020 the DDS has delivered just a 1.5 per cent increase, while the majority of the growth has come from medium and high SES students. The DDS has also had only limited success in increasing participation from other equity groups such as Indigenous students and those from regional and remote areas.

It is also the case that while under the DDS undergraduate degree participation has grown substantially, important sub-degree programs in vocational education and higher education have not had the capacity to grow in line with the needs of the economy.

The success of the DDS and the pressure that it places on the HELP system – Higher Education’s most significant equity measure – is a growing challenge. A recent report of the Australian National Audit Office has signalled the need to ensure the HELP system continues to be strong.⁴

‘... [the] program does not have a robust program of evaluation and review based on rigorous analysis of sound data...there is limited measurement of the sustainability of the program despite Education’s projection that the HELP debt will total almost \$200 billion in 2024–25 and almost one-third of this debt will not be collected...there is no risk-based strategy to target compliance efforts;

³ <https://www.timeshighereducation.com/comment/opinion/australias-demand-driven-reforms-need-extending/2012954.article>

⁴ ANAO report on the Administration of Higher Education Loan Program Debt, 5 May 2016

the ATO and Education are not fulfilling their broader program risk management responsibilities.’

There is now the opportunity to enhance the DDS to ensure it better meets its original intentions and continues to deliver wide participation.

Returning to the previous system of capped enrolments allocated by government is not the answer.

Rather, we must move to build a new model with a fresh purpose – one that better drives opportunity, student choice and diversity across all tertiary education ensuring access and equity for all who are eligible to the right program but not at the expense of quality.

Critical to this is a re-framing and broadening of the aims of the system – to broaden attention from degrees alone to the full range of knowledge

and skills demanded for our economic future, and the programs spanning from diploma through bachelors to post-graduate studies that support them.

While under the DDS undergraduate degree participation has grown substantially, important sub-degree programs in vocational education and higher education have languished. In 2014 there were 111,000 more persons aged 15–24 years in higher education than if 2008 participation levels had been maintained, while 33,500 fewer people of the same age group participated in VET.⁵ This has been exacerbated by the recent problems in the VET sector that have (in some cases) led to low attainment rates in mass participation courses at poor quality providers.

To that end, the Go8 recommends that an incoming Government take immediate steps to:

- Broaden Australia’s commitment to educational opportunity – spanning diploma to post graduate qualifications.
- Moderate growth in degree level participation, while opening up a wider range of opportunities, including at the sub-degree level in both vocational and higher education.

5 Mitchell Institute paper *Participation in Tertiary Education in Australia* (May 2016)

3 Addressing low numbers of eligible low SES students

Experience from the Go8 and other universities suggests a key factor deterring disadvantaged students from attending university is not course costs, which are deferred through the HELP scheme for undergraduate students, but the upfront living costs while studying, such as rent and food.

Worryingly, the Queensland Tertiary Admissions Centre indicates that regional and remote students are just as likely as metropolitan students to receive an offer to go to university, but are far less likely to accept it.⁶ Only 56 per cent of remote students and 70 per cent of regional students follow through on an offer by enrolling compared to 80 per cent in cities. A targeted package which includes a focus on living support costs, which could be achieved through reinstating the HEPPP program, is essential.

A university education should be accessible to all qualified people who choose it regardless of background or circumstance. Barriers to entry are complex. Policies need to be embedded in comprehensive support

systems to attract, retain and graduate students from financially and educationally disadvantaged backgrounds.⁷ There is strong evidence that Commonwealth scholarships (CS) are an integral part of student income support and have a retention-based effect in their own right.

Previous Government policies, however, suggest a withdrawal from CS:

- The Start-up scholarship was converted to a loan
- The Relocation scholarship has been reduced in scope, and conversion to a loan recommended
- Reductions in HEPPP over time (see table on next page).

⁶ QTAC data provided by the University of Queensland

⁷ *Moving beyond 'acts of faith': effective scholarships for equity students*, 2016 report prepared by the Universities of Sydney, Deakin and QUT

HEPPP forward estimates vs estimated actuals

Figures include administration expenses

(\$ million)	2009	2010	2011	2012	2013	2014	2015	2016
	-10	-11	-12	-13	-14	-15	-16	-17
Amount originally estimated in FEs ¹ :	28.2	84.8	143.8	176.0	185.5	194.2	205.1	190.1
Estimated actual appropriated ² :	28.2	84.8	152.2 ³	177.6	165.6	163.7	179.6	146.6 ⁴
Difference:	0.0	0.0	8.3 ³	1.6	-20.0	-30.6	-25.6	-43.4

1 For example, the 2013–14 value was first estimated in the 2010–11 Budget.

2 For example, the estimated amount actually appropriated for 2014–15 is from the 2015–16 Budget.

3 Includes extraordinary MOG administration expenses.

4 Current budget year.

The Go8 recommends that an incoming Government:

- Restore funding through the HEPPP to \$205.1 million, (as forecast in the 2012/13 budget for the 2015/16 year).
- Ensure funding through this program is repurposed to enable universities to deliver on initiatives that deliver the best benefits for students from disadvantaged backgrounds.
- The reallocation of a revitalised HEPPP be used to deliver Commonwealth scholarships for disadvantaged students in the manner outlined above with a particular emphasis on alleviating accommodation and other living costs.
- Restore the full package of the Indigenous Tutoring Assistance scheme, Indigenous Support Program and scholarships to the sector for flexible use that was subsumed into the IAS program.

4 Addressing the current lack of transparency regarding the resourcing of teaching

The resourcing within our universities is currently based on a funding model developed nearly three decades ago. The DDS will be most effective if accompanied by a deeper understanding of the reasonable costs of quality provision. We must meet the challenge of ensuring an appropriate balance between public and private contribution.

A baseline must be established which addresses the following:

- Current Government subsidies bear little relation to relative costs. Funding rates vary arbitrarily by field of study but are common to all providers.
- Funding arrangements are overly complex and administratively burdensome.
- Universities are subject to over regulation and the excessive data collection and reporting burdens, that take resources away from the core business of teaching and research.

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- The funding approach assumes that all universities are (or should be) the same, along with a belief that regulation will drive performance improvement.

The 2011 Base Funding Review concluded that the current funding clusters no longer reflect the cost of teaching, scholarship and base research capacity.⁸ Australian universities largely tailor course offerings to available funding, i.e., they spend the amount they are given.⁹ This is not an acceptable or sustainable model of funding.

⁸ Higher Education Base Funding Review, Final Report, October 2011

⁹ Ibid

The 2011 Base Funding Review concluded that the current funding clusters no longer reflect the cost of teaching, scholarship and base research capacity.

To move towards a long-term sustainable system the Go8 recommends an incoming Government take immediate steps to:

- Establish a resourcing framework, negotiated and agreed between government and the tertiary education sector, incorporating a mix of public subsidies and student payments, that enables institutions to develop a mix of offerings reflecting their distinctive strengths.
- Introduce an integrated package of complementary reforms to support the tertiary education commitment, including to cluster funding, student fees, HELP loans, and VET funding.
- Establish an agreed, data-informed and transparent evidence base for reform, including an independent tertiary education cost and price review.
- Establish the governance base for the reform process, ensuring independent advice to government and intergovernmental and cross-sectoral collaboration.

5 Establishing an independent expert advisory body on Higher Education for government

Recent history has evidenced the complexity of Higher Education reform. It also demonstrates the consequences of allowing Higher Education policy to be developed and implemented in the absence of a structure that provides high-level and independent expert advice to government.

Whether it be through an Expert Taskforce, as in the Government options paper, or the Higher Education Commission proposed by the Opposition, both sides of politics have recognised this need and the Go8 supports further investigation of this proposal.

In conclusion:

Australia's higher education system has served the country well. How well it can continue to do so in the future depends on government and higher education providers working together to update policy settings to meet the demands of a changing world. Australia's economic health and global competitiveness can be enhanced ensuring we continue to deliver world class graduates, leading research and by growing the contribution to the innovation agenda through our universities.

The Go8 proposes this policy package as a means to advance this challenging but essential discussion with the government, parliament, community and sector.