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Vice-Chancellor and Principal

25 July 2016

Senator the Hon Simon Birmingham MP
Minister for Education and Training
C/- Australian Department of Education and Training
By email: HEReform@education.gov.au

Dear Minister,

Please find attached a submission from the University of Sydney in response to the *Driving Innovation, Fairness and Excellence in Australian Higher Education* options paper, released by the Government on budget night 2016. Our submission seeks to complement the Group of Eight's *Priority Directions* statement released during the election, and the Universities Australia and Go8 submissions on the options paper.

Through the roles they play in education, research and knowledge transfer, universities underpin our national capacity to innovate and compete in the global knowledge economy.

Universities are also major economic contributors in their own right, through the staff they employ, the international students they attract, the infrastructure they build, and the jobs and industries created by their researchers and graduates. As our submission notes, the University of Sydney's turnover has quadrupled over the last 25 years to more than \$2 billion annually, while we employ 7,000 full-time equivalent staff.

The very countries Australia seeks to compete with in the innovation stakes are investing strategically and heavily in their universities and national research capabilities. While there may on the surface appear to be no imminent crisis in Australian higher education, there are many worrying signs, which have so far largely been masked by the sector's extraordinary success in attracting international students, and in so doing creating a new \$14 billion services export industry from scratch.

Australia's approach to funding higher education, now more than a quarter of century old, remains based on a funding model that was only intended to provide temporary support to enable the transition to be made to the unified national system. Various reviews since have identified the need for significant changes to the funding framework to make it relevant to modern operating realities, remove perverse incentives, increase transparency, and drive quality, diversity and student choice.



By way of example, even though we employ some 2,000 more staff today than we did in the early 1990s, our staff now account for just 56 per cent of our total costs, down from 72 per cent when the current funding framework and relativities were introduced. The cost drivers of delivering high quality higher education and research have shifted fundamentally, with soft and hard infrastructure costs now accounting for a much higher share.

We therefore welcome the government's commitment to overhaul the funding framework and address related issues through a considered and consultative process. We look forward to working with the government and all other stakeholders to secure the quality and sustainability of Australia's higher education system, while maximising accessibility for students from low socio-economic and other currently under-represented backgrounds.

Please do not hesitate to contact me if you or your department would like to discuss any aspect of our submission further. Alternatively, please contact Mr Tim Payne, Director, Higher Education Policy and Projects in my office, who will be able to assist you:
tim.payne@sydney.edu.au, 02 9351 4750.

Yours sincerely,

(Signature removed for electronic distribution)

Michael Spence

Attachment University of Sydney submission to the Australian Government's *Driving Innovation, Fairness and Excellence in Australian Higher Education Options Paper*

University of Sydney submission to the *Driving Innovation, Fairness and Excellence in Australian Higher Education*, options paper, July 2016

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Recommendations

1. *Set the overarching long-term goal of achieving an integrated Australian post-secondary education system, where Commonwealth and state and territory policy, regulation and funding arrangements provide a level playing field for students to choose courses offered by all registered VET and higher education providers.*
2. *Release an integrated set of policy principles for the future of Australia's tertiary education system, drawing on those contained in the options paper, and ensure that any final package is consistent with these principles.*
3. *Not proceed with the currently budgeted \$3.188 billion in proposed cuts to the Commonwealth Grants Scheme over the forward estimates.*
4. *Not proceed, on budget sustainability grounds, with the options to expand demand driven funding for all undergraduate courses offered by registered higher education providers, and for sub-bachelor and postgraduate courses offered by universities.*
5. *Moderate the demand driven system for bachelor degrees offered by universities, and provide certainty in relation to the allocation of Commonwealth Supported Places for sub-bachelor and postgraduate courses for the period 2017-2019. This can be done by using the upcoming funding agreement negotiations with universities to give them the option of moving outside the demand driven system in all or some of their disciplines, with flexibility to allocate places between sub-bachelor, bachelor and postgraduate programs within an agreed funding envelope and modest growth profile.*
6. *Maintain the Education Investment Fund (EIF) for investment in higher education teaching and research infrastructure available to all universities through regular rounds, transparent criteria and processes.*
7. *Not proceed with the 'flagship courses' option for the reasons outlined in this submission.*
8. *Ensure that comprehensive data on student progression, retention and successful completion rates is included in the Quality Indicators for Learning and Teaching (QILT) website.*
9. *Prioritise the option of an 'efficient pricing review', in cooperation with the sector through Universities Australia.*
10. *Appoint and resource an independent higher education expert advisory panel as soon as possible to oversee the proposed 'efficient pricing review', and provide advice to the government on the content of the final package of reforms and their implementation.*
11. *Engage with the Independent Hospital Pricing Authority (IHPA) to learn about its work on activity based funding in the Australian public hospital system, and specifically its current project to develop and apply an activity-based funding framework for teaching, training and research in the Australian public hospital system.*

1. Summary

The University of Sydney welcomes the opportunity to comment on the government's *Driving Innovation, Fairness and Excellence in Australian Higher Education* options paper. We have contributed to the submissions provided by Universities Australia and the Group of Eight, and endorse their calls for ongoing dialogue to find the best way forward to ensure the higher education system is able to deliver the skilled graduates, research outcomes and innovation needed to secure Australia's future prosperity.

The following options canvassed in the paper, upon which we have not provided comments, are broadly endorsed: the evaluation of the Higher Education Participation and Partnership Program (p.13); and the development of measures to improve the consistency and affordability of the various income-contingent loans schemes (pp.19–23). Following some contextual comments, we have limited our specific feedback to those options about which we have concerns, or where there are issues we would like the government to consider as it progresses the development of its reform package. These include:

- expansion of demand driven funding and the allocation of postgraduate Commonwealth Supported Places (CSPs) (pp.11–12)
- supporting the regional presence of universities (p.14)
- flagship courses (pp.15–16)
- improving information for students (pp.16–17)
- funding cuts, student contribution increases and the efficient pricing review (pp.18–19).

Noting both the budget challenges the government faces and the outcome of the 2016 election, we encourage the government to work with the sector within the current legislative framework to start addressing the perverse incentives and anomalies that have been exacerbated by demand driven funding for bachelor degrees. This approach is working well in relation to the major reforms of university research block grant funding currently underway. *The Higher Education Support Act* and the institutional funding agreement process for 2017–19 provide ample scope to manage the demand driven system in the short term, while also dealing with the sub-bachelor and postgraduate CSP allocation issues without the need for new legislation to be passed by the Senate.

Consistent with our position throughout the policy debate since the government announced its deregulatory reform package in the 2014–15 budget, we do not support the proposed \$3.2 billion in cuts to Commonwealth Grants Scheme over the forward estimates. Cutting public funding for higher education as proposed may help address the budget deficit in the short term, but it will reduce long-term economic growth and as a result government revenues, making the task of balancing the budget even harder for future governments.

Given the importance and complexity of the issues involved, we strongly support the government's decision to establish an expert panel to advise on the content and implementation of the final package. As the reform task will be ongoing and broad political support will be needed to secure the passage of any major legislative changes through parliament, this panel should be established and resourced permanently as an independent expert commission on all policy and funding aspects of the tertiary education system.

2. Underpinning the economic and social transition

With predictions that a further five million lower-skilled Australian jobs will be lost in the next decade due to technological advances, now, more than ever, the nation's prosperity and social cohesion depends on strengthening all levels of the education system.¹ Jobs in the manufacturing, mining and construction industries are being replaced increasingly in the service sectors by roles that require higher level skills and qualifications. More than 3.5 million new high-qualification positions were created in these fields over the last 25 years, compared to just over 500,000 in goods-producing industries.²

These trends are only expected to accelerate. Globally, employers are already seeking out and paying a premium for people with high level '*enterprise skills*' such as critical thinking, problem solving, creativity, digital literacy, bilingualism, teamwork, financial literacy, and presentation skills.³ While the entire education system will need to develop and foster these skills at all levels, higher education has a particularly critical role to play in developing and refining them at the highest levels of sophistication. If Australia fails to continue to make the transition to the new economy, we risk leaving many millions of people behind economically and socially. There are also likely to be significant budget impacts for future governments and taxpayers due to reduced economic growth, and higher costs in the area such as social security and health.

3. Policy vision and principles

We welcome and agree wholeheartedly with the options paper's opening statement: '*Higher education is more important to the future of Australia's industry, businesses and families than ever before.*' (p.4). The emphasis on the need for policy to take a holistic approach to the national education system, and the role of higher education as part of that system, is also strongly supported, as is the acknowledgement of the critical link between ensuring the quality of our higher education institutions and supporting international education (pp.5&8).

We also strongly endorse the following key policy principles for the future of the higher education system extracted from the options paper: *global excellence* (p.4); *drive innovation and specialisation* (p.4); *remove perverse incentives between post-secondary education sectors and providers* (p.8); *strike the right balance between public and private contributions while ensuring that upfront barriers to participation are minimised* (p.10); *offer genuine pathways by maintaining admission standards and ensuring support for disadvantaged learners* (p.10); *provide sound information to inform student choice* (p.8); *transparency and accountability for graduate outcomes* (p.9); *long-term financial sustainability and affordability* (p.4); *guarantee quality via effective regulation* (p.10); *be informed and developed with input from experts* (p.5).

The higher education policy and funding environment has been particularly unpredictable over the last five years, with many policy reversals and deferrals making it difficult for students, families and providers to plan and invest with certainty. Ensuring that any reforms are underpinned by policy principles such as policy stability and predictability, fairness, transparent policy development and

¹ Committee for Economic Development Australia , [Australia's future workforce](#), June 2015, p.8

² Lowe P., Deputy Governor, Reserve Bank of Australia (Nov 2014) [Address to the Australian Business Economists \(ABE\) Annual Dinner](#)

³ Foundation for Young Australians , [The New Basics: Big data reveals the skills young people need for the new work order](#), April 2016

change processes, sound monitoring and evaluation, will help to strengthen the system and ensure that any resulting changes will have long-lasting and widespread support.

Recommendation 1

Set the overarching long-term goal of achieving an integrated Australian post-secondary education system, where Commonwealth and state and territory policy, regulation and funding arrangements provide a level playing field for students to choose courses offered by all registered VET and higher education providers.

Recommendation 2

Release an integrated set of policy principles for the future of Australia's tertiary education system, drawing on those contained in the options paper, and ensure that any final package is consistent with these principles.

4. Financial sustainability savings in context

We acknowledge that the government faces a significant challenge returning the budget to surplus;⁴ that the cost to the budget of supporting the higher education system has grown substantially since 2009, largely as a result of introduction demand driven funding for university bachelor degrees (p.4); and that the government remains committed to implementing reforms to higher education funding that 'preserve equity of access while meeting the financial sustainability savings outlined in the budget' (p.5). However, these funding trends, and the government's proposed savings targets, should be viewed within the following context:

- the long-term rates of return (to the economy and budget through higher taxes and lower social services costs) from public investment in higher education and research are high, well documented, and informing government investment decisions globally⁵
- Australia's levels of public investment in tertiary education and research remain relatively low compared to OECD benchmarks⁶
- spending on higher education teaching represents less than 3 per cent of the total Commonwealth budget of \$450 billion in 2016–17, with the cost to the government of supporting the school and vocational education sectors representing a greater share, and increasing at a faster rate since 2009⁷
- notwithstanding the nominal growth in funding for higher education teaching, as a share of both GDP and total Commonwealth outlays, the Commonwealth is investing less in the higher education teaching function in 2016 than it did in 2009, while its budgeted savings targets over the forward estimates will only increase this trend⁸
- the real value of higher education 'base funding' per student remains essentially the same today as it was twenty years ago, with the last two major reviews of funding

⁴ Commonwealth Treasury, [Budget Paper No.1 2016-17](#)

⁵ See for example, Withers G., [Higher Education pays for itself many times over](#), *The Conversation*, 1 July 2016

⁶ Universities Australia, [Keep it Clever Policy Statement](#), Oct 2015, pp.9&15

⁷ University of Sydney analysis of Commonwealth Budget Paper No.1, 2006–7 to 2016–17

⁸ University of Sydney analysis of Commonwealth Budget Paper No.1, 2006–7 to 2016–17

(Bradley 2008 and Lomax-Smith 2011) recommending funding increases in response to evidence of rising and changing costs ⁹

- student contributions amounts have only been changed substantively on three occasions since 1989, with no increases for a decade (p.6).

Given this financial context and the government's recognition of the vital importance of higher education to Australia's future prosperity, our assessment is that a defensible case cannot be made to the Parliament that the budgeted \$3.2 billion cut to the Commonwealth Grants Scheme over the forward estimates should be legislated. We therefore do not support this proposal as raised in the options paper (p.19). A defensible case can be made, however, that student contributions should be increased to help address identified funding shortfalls in various disciplines. However, the rate of increases will need to be informed by the proposed review of the current funding clusters, disciplinary/delivery relativities, and the public and private returns from graduates in different fields.

Recommendation 3

Not proceed with the currently budgeted \$3.188 billion in proposed cuts to the Commonwealth Grants Scheme over the forward estimates.

5. Key policy challenges

Except for the demand driven funding reforms introduced from 2010 to 2012, the underlying funding framework supporting Australia's higher education system remains essentially the same as that introduced from 1990 as a result of the Dawkins reforms. Australia's higher education landscape is radically different today compared with 1990. Total student numbers have more than doubled to well over 1 million. Close to 40 per cent of Australians aged 25–34 now hold bachelor degrees or higher. Around 50 per cent of domestic student offers are not made on the basis of school performance. Many more students study part time or remotely using technology. The number of international students studying in Australia has also grown exponentially, enriching campus life and providing vital revenues. Many providers now rely heavily on revenues from these students to support core educational and research activities. See **Appendix A** for snapshot data comparing the University of Sydney in 1990 and 2014.

While Australia now has a truly mass system of higher education, its underpinning 'base funding' architecture was designed for another era and bears little relevance to today's operating realities. As we argued in our submission to the Base Funding Review of 2011:

the current cluster funding framework (based as it is on the Relative Funding Model) has passed its use by date. We do not believe that further tweaking or short-term fixes to the current arrangements will be sufficient to underpin in the long term a high quality Australian higher education system. Indeed... rearranging the current funding clusters within a fixed funding envelope would simply serve to shift the problem instead of address it seriously. Such an outcome would simply mean that in five to ten years, another review will be required to iron out new anomalies that have emerged.

⁹ Lomax-Smith et al., [Higher Education Base Funding Review](#), final report, 2011, p.4; Universities Australia, [Higher education and research facts and figures](#), 2015, p.13

The base funding framework needs to be replaced by a new transparent and rational approach. This should be principles-based and built around a clear statement of purpose. It should be based on a robust understanding of the actual costs of sustaining high quality educational environments in different disciplines and settings. It should be responsive to reasonable changes in costs incurred by providers over time.¹⁰

Five years on, the key policy challenge remains essentially the same: *how to ensure that Australia can sustain a high quality, fair and accessible mass system of higher education (including research) in a constrained budget environment, and on what evidence to base decisions about government and student contributions?* With the context outlined above, our comments below respond to some of the proposals canvassed in the options paper.

6. Comments on specific policy options

6.1 Expansion of demand driven funding and postgraduate CSPs

The options paper's vision for an integrated Australian tertiary education system, with no perverse incentives influencing students' post-secondary study choices (p.8), should be the long-term policy goal towards which all levels of government and providers (leaving their self-interests aside) should agree to aim.

It is possible to imagine a coherent Australian tertiary education system where all registered providers are funded and regulated consistently, and where all qualified domestic students have access to financial assistance for tuition and living costs on an equitable basis. At present, however, the funding incentives for both providers and students create a highly complex system, with myriad perverse incentives that distort student choices and provider behaviour.

Moreover, achieving this ideal policy state would take years, as it will require bipartisan support and cooperation between all jurisdictions. We also question whether applying a policy such as demand driven funding more widely is desirable and affordable, given how demand driven funding has played out for university and research sectors (see below). Recent developments in the VET sector, arising from the combination of fee deregulation and contestability — and the introduction of VET-FEE HELP to cover students' tuition costs — also point to the significant financial and other risks of such approaches.

Nevertheless, in a step towards this goal, the government has committed to extend demand driven funding to higher education courses at the diploma, advanced diploma, associate degree and bachelor degree level courses offered by all registered higher education providers. The estimated cost to the budget of these reforms is \$735 million to 2019–20, and more than \$5 billion through to 2026–27.¹¹ The options paper seeks feedback on these plans. It also includes five options for resolving the longstanding issue of how to allocate CSPs for postgraduate university courses in a demand driven funding environment for bachelor degrees (p.11-12).

¹⁰ University of Sydney, [Submission to the Higher Education Base Funding Review](#), March 2011, p.3

¹¹ Commonwealth Treasury, [Budget Paper No.2 2014-15](#), p.84; Parliamentary Budget Office, [Unlegislated measures carried forward in the budget estimates](#), June 2016 update, p.4

As originally conceived by the Bradley Review of 2008, demand driven funding was to apply first to undergraduate places in universities, but with the long-term aim of expanding the approach to all postgraduate coursework programs, and ultimately to all registered higher education providers.¹² The policy objectives were to expand participation in higher education, and to improve quality, diversity and student choice by reducing regulation and introducing competitive forces.

Since 2010, demand driven funding has applied only to bachelor degree courses, other than medicine, offered by public universities. The 2011 Base Funding Review raised concerns about the risk of unintended consequences if funding per student place was not brought into alignment with the actual costs of delivery for each discipline; and, like the Bradley Review, it recommended funding increases.¹³ Notably, the Bradley Review also identified key risks that could arise from demand driven funding, including:

the capacity of the government to fund the sector if student demand were rapidly to increase; the potential for sudden changes for some institutions and campuses if other universities were to significantly increase the numbers of students taken; the quality of entrants admitted in some institutions if funding were to be demand driven; and the risk of mismatch between student choice of fields of study and the requirements of the workforce.¹⁴

The review of the demand driven system completed in 2014 concluded that it was a policy advance that needed to be preserved and enhanced in the interests of student opportunity, institutional flexibility and economic productivity. It recommended the further expansion of demand driven funding to sub-bachelor programs, private universities, public and private non-university higher education providers, and for some postgraduate coursework programs. With appropriate regulation and quality assurance, it concluded that innovation, quality and efficiency would flow from the resulting further increases in competition.¹⁵

With the former government's 2025 bachelor degree participation attainment target already almost met, it is clear that the demand driven funding has played a rapid and important role in increasing overall participation in Australian universities. It is also clear, however, that while the total numbers of students enrolled from low SES, regional, remote, and Aboriginal and Torres Strait Islander backgrounds have increased, the reforms have been much less successful in achieving the former government's target that by 2020, 20 per cent of undergraduate enrolments would be from people from low SES backgrounds.

There has been a range of other impacts from demand driven funding. As noted in the options paper (p.4), the cost of implementing the reforms has been much higher than originally predicted. In response, successive governments have pursued or announced short-term offsetting cuts to other higher education and research programs. Ironically, with no limits in place for bachelor degree enrolments, such funding cuts have created an additional incentive for providers to enrol more students to offset the impact of the cuts to other programs.

¹² Bradley et.al., Review of Australian Higher Education, final report, December 2008, pp.152–158, recommendations 25–29

¹³ Lomax-Smith et.al, [Higher Education Base Funding Review](#), final report, 2011, p.xv

¹⁴ Lomax-Smith et.al, [Higher Education Base Funding Review](#), final report, 2011, p.155

¹⁵ Kemp D. and Norton A., [Report of the Review of the Demand Driven Funding System](#), 2014

Concerns have also been raised about declining university admission standards, and about a lack of transparency, attrition rates and graduate standards.¹⁶ Full time graduate employment rates and starting salaries are in decline.¹⁷ The rapid growth in students requiring practicum and clinical placements in schools and health services has put pressure on these sectors and strained relationships between some universities and state government agencies. In some cases, the growth in student numbers has contributed to workplaces levying (or seeking to raise) fees for student placements, threatening the viability of courses where funding and student contributions are capped by the government.¹⁸ While enrolments in bachelor degrees in universities have grown substantially, there has been no clear policy process in place since 2010 governing the allocation of sub-bachelor and postgraduate CSPs. This has created much uncertainty for providers and limited their capacity to tailor courses to meet the needs of students at these levels.¹⁹

Notwithstanding the merits of the policy objective of expanding demand driven funding to sub-bachelor programs offered by all registered higher education providers, we question the affordability of the proposal in the current budget context. We are also concerned that should the actual costs of the expansion be higher than expected (as has occurred for demand driven funding for bachelor degrees in universities) the government will be forced to make further offsetting cuts in other areas, including research.

For similar reasons, we do not support the expansion of demand driven funding to postgraduate coursework programs, or the reintroduction of a time-limited learning entitlement for Commonwealth subsidies (p.12). The options proposing that the government allocate postgraduate CSPs in areas of identified national priority have merit, so long as the selection process is completely open, transparent and fair to all providers. However, such an approach would also come at an additional cost to the budget. Finally, while the option of spilling all existing postgraduate CSPs and reallocating them through an independent process would be cost neutral, we do not favour it for the potential impact it would have on many of our existing programs.

A pragmatic way to address both the university sub-bachelor and postgraduate CSP allocation issues in the short term would be for the government to give universities the option, in the upcoming 2017–2019 funding agreement negotiations, of withdrawing in full or part from the demand driven system, in return for flexibility to determine their mix of CSP supported courses within an agreed funding envelope.

There would be significant benefits of such an approach for the government and universities. An immediate saving of \$358 million over the forward estimates would be delivered, due to the government not needing to proceed with the expansion of demand driven funding to sub-bachelor university programs. Depending on how universities responded, it could also reduce the cost of the

¹⁶ Bagshaw E., [‘Not in our national interest’, universities slammed for ATAR leniency](#), *Sydney Morning Herald*, 30 May 2016; Larkins F., [Australian higher education enrolments since 2009 student demand driven policy reforms](#), LH Martin Institute, August 2015; Larkins F., & Marshman I., [Domestic Student Load and Financing Trends at Individual Australian Universities](#), LH Martin Institute, 20 July 2016

¹⁷ [Australian Graduate Survey 2015](#)

¹⁸ Buchanan, J., Jenkins, S and Scott, L. [Student Clinical Education in Australia: A University of Sydney Scoping Study](#), The University of Sydney, 2014; Hunter and Coast Interdisciplinary Clinical Training Network, [The costs and benefits of providing undergraduate student clinical placements for a health service organisation: a rapid review](#), December 2014.

¹⁹ See for example, the University of Sydney, Submission to the Department of Education, Employment and Workplace Relation’s Allocation and Funding of Commonwealth Supported Postgraduate Places consultation paper, released November 2011, December 2011

demand driven system over the forward estimates significantly. The approach would serve to encourage specialisation and diversity in the system. A university could, for example, choose to use the CSP certainty and flexibility provided to focus on developing innovative sub-bachelor study pathways from VET into higher level degree programs in emerging areas of demand like disability services and aged care. Another might apply more of their designated CSPs at the postgraduate level, for example to deepen and broaden opportunities for research training and industry engagement for students on a pathway to a PhD. Universities that elected to opt out would benefit from the policy and funding certainty that would result. They would also benefit from the autonomy they would have to respond to changes in student demand, and to use their CSP allocation to support the development of innovative courses at all levels.

Recommendation 4

Not proceed, on budget sustainability grounds, with the options to expand demand driven funding for all undergraduate courses offered by registered higher education providers, and for sub-bachelor and postgraduate courses offered by universities.

Recommendation 5

Moderate the demand driven system for bachelor degrees offered by universities, and provide certainty in relation to the allocation of Commonwealth Supported Places for sub-bachelor and postgraduate courses for the period 2017–2019. This can be done by using the upcoming funding agreement negotiations with universities to give them the option of moving outside the demand driven system in all or some of their disciplines, with flexibility to allocate places between sub-bachelor, bachelor and postgraduate programs within an agreed funding envelope and modest growth profile.

6.2 Supporting the regional presence of universities

The proposal to establish a new dedicated infrastructure fund or loan facility is strongly supported. However, even though we have a substantial presence in regional and outer metropolitan NSW (Broken Hill, Lismore, Dubbo, Orange, Narrabri, Camden, Cumberland, Westmead), we are concerned by the suggestion that access to the proposed funds would be restricted based on geographic grounds (p.14).

We question the accuracy of the statement in the options paper that ‘*most universities are well placed to fund their infrastructure investments*’ (p.14). Without funding from the Education Investment Fund (EIF), it is unlikely that we would have been able to create the transformational infrastructure that is now supporting our [Charles Perkins Centre](#) and the [Australian Institute for Nanoscience](#). Moreover, like many established research intensive universities, structural funding shortfalls for core education and research activities mean that we face a constant challenge in securing sufficient funds to invest in both the renewal and maintenance of supporting infrastructure.

We are therefore very concerned that funds remaining in the EIF have been recommitted to support transport and other infrastructure projects through the Asset Recycling Fund. Here we note also that the former Capital Development Pool (CDP) scheme was cut in 2011, with the establishment of the EIF cited as the main reason for the decision. The CDP provided vital funding of around \$80 million a year for university teaching-focused capital projects, allocated on a competitive basis. As a result of these two decisions, there is currently no dedicated competitive source of Commonwealth funding to support the development of transformational education and

research infrastructure, even though investment in infrastructure is vital to realising the government's National Innovation and Science Agenda.

The government's recent commitment of long-term funding for the operating costs of major national research facilities through the National Collaborative Research Infrastructure Strategy (NCRIS), supported by a new national plan to be developed by the Chief Scientist, is very welcome. However, this funding is primarily to sustain the country's major national research facilities. There remains a critical need to provide a secure source of funding for new university educational and research infrastructure, which can be allocated through regular rounds according to transparent criteria and processes. Given the government's commitment to financial sustainability saving from the higher education function, the most obvious source of long-term sustainable funding for this purpose would seem to be the \$3.7 billion remaining in the EIF.

Recommendation 6

Maintain the Education Investment Fund for investment in higher education teaching and research infrastructure available to all universities through regular rounds, transparent criteria and processes.

6.3 Flagship courses

The government's commitment to providing universities with more flexibility to innovate, differentiate and offer students more choices and higher quality offerings is welcome. However, for a range of reasons, we question the value that would be added to the system overall through the introduction of 'flagship courses' as proposed. For example:

- strong market incentives already exist for providers to pursue excellence and innovation in their course offerings and approaches to delivery
- unlike the government's former fee deregulation proposal, the flagships would do little to help address the structural funding shortfalls we face in many important existing courses that would appear to not fit the proposed criteria
- there is no need to test such an approach from a policy perspective. Providers are already free to offer flagship type courses with far fewer regulatory restrictions, for example: at the postgraduate level for all students; in undergraduate programs with large intakes of international students; and in summer and winter school programs where domestic students have access to FEE-HELP support
- rather than deliver policy coherence, the introduction of flagships would add another layer of complexity to the system, and introduce distortions and tensions between the flagships and normally funded CSP courses within and between providers
- unlike the flagships recommended by the Base Funding Review, the government's version would require a high degree of external bureaucratic control, which would inevitably work against the very innovation and responsiveness they seek to encourage
- it is unclear how the flagships would reduce costs to the government, even with cuts to levels of CSP funding per students
- it is likely that flagships would be perceived as differentially accessible by students from low SES backgrounds, with the model possibly having the adverse effect of creating a further barrier to equitable access in some disciplines and providers

- it is also difficult to see how such a proposal would be supported by the new Senate, or survive a change of government if passed, when policy certainty will be vital to give providers the confidence to invest in such courses.

With full deregulation of student contributions for CSPs now abandoned, rather than pursue flagships, the priority should be developing the evidence base to underpin a new robust and transparent base funding framework that provides adequate levels of resourcing for all disciplines, and which strikes a fair balance between government and student contributions.

Recommendation 7

Not proceed with the 'flagship courses' option for the reasons outlined in this submission.

6.4 Improving information for students

The proposal to further improve the Quality Indicators for Learning and Teaching (QILT) website to give prospective students more and better information to inform their study choices is supported (p.16). In addition to stronger data on the employment and salary outcomes of graduates from different courses and universities, QILT should include comparable data on student progression, retention and successful completion rates. While a course may have excellent graduate employment outcomes, it may be that only a small proportion of commencing students successfully complete the course. Progression and success rates, as well as standards of achievement within a courses, may also vary between different cohorts of students. The inclusion of progression and success data would help students make realistic assessments of their prospects of success. It could help reduce costs for students and the government if better student decisions reduce attrition rates. It would also provide an extra incentive for providers to focus on improving graduate outcomes in their courses.

Recommendation 8

Ensure that comprehensive data on student progression, retention and successful completion rates is included in the Quality Indicators for Learning and Teaching (QILT) website.

6.5 Funding cuts, student contribution increases and the efficient pricing review

For the reasons outlined in section 4 above, and consistent with our position in relation to the government's 2014–15 budget reform proposals, we do not support the 20 per cent cut to the Commonwealth Grants Scheme which remains in the budget forecasts (p.19).

We do believe, however, that with appropriate supporting evidence, a sound case can be made to the parliament to allow student contributions to be increased in the short term, and periodically thereafter. As the options paper notes, except for indexation, student contributions have only been increased three times in more than 25 years, and have not increased in real terms for a decade (p.6). Yet the costs of delivery in terms of staffing, learning, student support services and infrastructure have increased substantially, with the cost drivers also shifting markedly away from staff costs over this period (see **Appendix A**).

The principle of ensuring that the balance of costs is shared fairly between taxpayer and students, based on robust evidence about reasonable costs of quality delivery in each discipline,

and about the likely long-term public and private benefits is endorsed (p.19). We therefore support the proposed efficient pricing review, and a further examination of the current funding clusters and their relativities.

We note, however, that the costing study undertaken by Access Economics for the Base Funding Review in 2011, in which we participated, examined these issues in detail, but failed to resolve them fully due to the difficulties inherent in the task. A key weakness of that study, like others that preceded it, was that it relied heavily on historical cost data from providers about the delivery of fee-capped courses as the basis for informing thinking about future funding levels and relativities. A basic problem with such an approach is that providers seek, in 'cutting their educational cloth', to deliver courses of the best quality possible with the resources available to them. Therefore, using historical costs data as the grounds for determining future funding rates simply serves to perpetuate historical relativities.

The proposed new efficient pricing review will only be able to accurately determine the efficient cost of delivery, and relativities between different disciplines and modes of delivery, if robust comparable data about costs and quality (outcomes as well as inputs) is obtained from providers operating in fee-capped and uncapped environments. For example, in the Australian context the study should include Bond University, postgraduate courses offered entirely on a full fee paying basis, and courses offered by non-university providers where fees are uncapped. It should also involve international benchmarking with institutions offering comparable courses in regulated and unrestricted tuition fee markets. Unless the review takes such an approach past distortions and inaccuracies will continue to drive future funding relativities.

Finally, as the government considers how best to proceed with the planned efficient pricing review, including the identification of experts to sit on the proposed advisory panel, we urge the department to engage with, and take advice from, the Independent Hospital Pricing Authority. IHPA's ground-breaking work to develop and implement a national efficient price for the delivery of all clinical services in Australia's public hospital system is highly relevant to the pricing review that the government plans for the higher education sector. Since ABF was introduced to drive funding for public hospital services, health costs have been contained, as demonstrated in the figures below from IHPA in **Appendix B**.

IHPA is also in the final stages of developing an activity-based funding framework for teaching, training and research activities undertaken in the public hospital system, including the supervision of pre-registration (CSP and FEE-HELP) students while on clinical placements. With more than 110,000 students currently enrolled in university health courses, and these students completing around 3.5 million compulsory clinical training days annually in public health service settings, responsibility for educating and training of the future health workforce is a shared partnership between the Commonwealth, state and territory governments, universities and the professions.²⁰

With the direct and indirect costs of clinical education and training also shared between the partners through arrangements that vary between disciplines and jurisdictions, it is difficult to see

²⁰ Buchanan J., Jenkins S and Scott L. [Student Clinical Education in Australia: A University of Sydney Scoping Study](#), The University of Sydney, 2014, p.10

how a clear picture of the full costs of efficient delivery in the health disciplines can be achieved without including the costs of the embedded training component.²¹

Recommendation 9

Prioritise the option of an 'efficient pricing review' in cooperation with the sector through Universities Australia.

Recommendation 10

Appoint and resource an independent higher education expert advisory panel as soon as possible, to oversee the proposed 'efficient pricing review' and provide advice to the Government on the content of the final package of reforms and their implementation.

Recommendation 11

Engage with the Independent Hospital Pricing Authority (IHPA) to learn about its work on activity based funding in the Australian public hospital system, and specifically its current project to develop and apply an activity-based funding framework for teaching, training and research in the Australian public hospital system.

Appendices

- A** University of Sydney Snapshot data 1990–2014
- B** Independent Hospital Pricing Authority, Slides from *The ABF Journey so far, presentation, IHPA conference, May 2016*

Ends/

July 2016

²¹ IHPA, [Teaching, Training and Research Costing Study Website](#); Universities Australia, Health Professions Education Standing Group (HPESG), [Submission to the Independent Hospital Pricing Authority's 2016-2017 Work Program](#), June 2016

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8. Appendices

Appendix A

The University of Sydney snapshot data 1990 and 2014

Indicator	Change between 1990 and 2014	1990	2014
Total student enrolments	+91%	27,674	52,789
Undergraduate enrolments	+50%	22,329	33,505
Bachelor	+62%	19,875	32,153
Other undergraduate	-45%	2,454	1,352
Postgraduate enrolments	+254%	5,448	19,284
Masters by coursework	+512%	2,070	12,677
Masters research	+23%	796	980
PhD*	+213%	1,153	3,613
Other postgraduate	+41%	1,429	2,014
Domestic student enrolments	+54%	26,558	40,893
International student enrolments	+855%	1,246	11,896
International students share of total student enrolments	+18.5 percentage points	4.5%	23%
Full-time equivalent staff	+48%	4,724	7,004
FTE Academic staff	+68%	1,886	3,181
FTE General staff	+35%	2,837	3,823
Student to staff ratio**	+5.4 students	11.9	17.3
Student fee income (including HECs and full fees, domestic and international) as a share of total revenues (1992)	+26.7 percentage points	13.3% \$61 million	40% \$759 million
Total revenues (T&L, Research, Other) (1992 and 2014)	+315%	\$457.5 million	\$1,898 million
Employee costs as a share of total expenditure (1992 & 2014)	-16 percentage points	72%	56%
Total expenditure (1992*** & 2014)	+297%	\$438 million	\$1,737 million

* Includes Higher Doctorate, Doctorate Coursework and Doctorate Research numbers

** <http://cabarita.planning.usyd.edu.au/statistics/ssr/ssr.php?fac=1&semind=1&yr=2014>

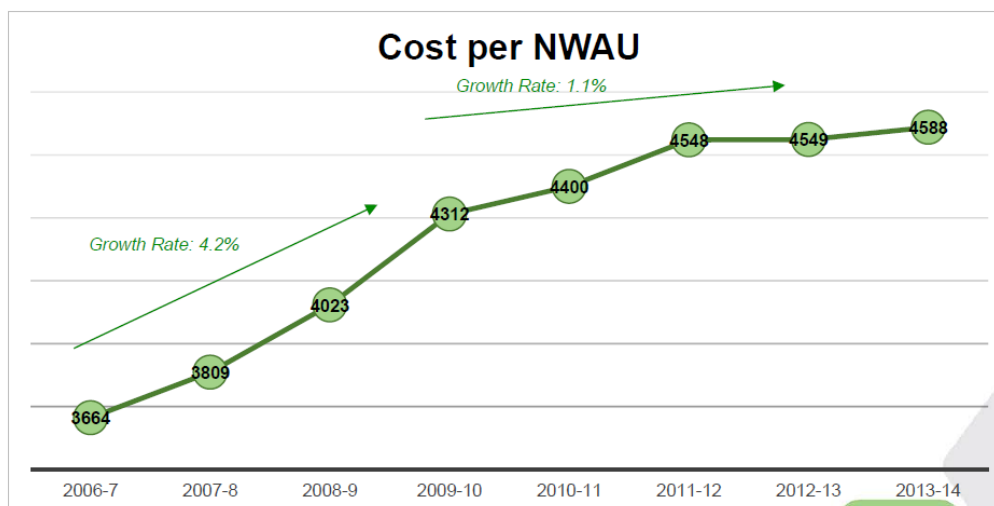
*** Earliest directly comparable due to the implementation of the Dawkins reform implementation

Appendix B

Independent Hospital Pricing Authority, Slides from *The ABF Journey so far, Presentation, IHPA conference, May 2016*

Figure 1: Reduced growth in NWAU since the introduction of ABF

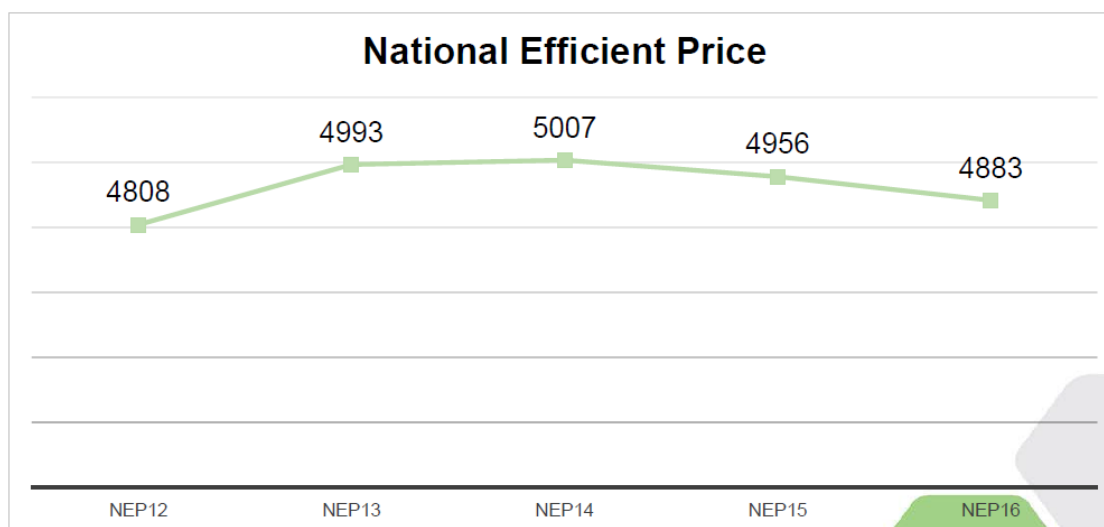
SIGNIFICANT SLOWDOWN IN COSTS



Source: *The ABF Journey so far, Presentation, IHPA conference, May 2016*

Figure 2: Trends in the National Efficient Price

NEP STABLE



Source: *The ABF Journey so far, Presentation, IHPA conference, May 2016*