HIGHER EDUCATION SUPPORT LEGISLATION AMENDMENT (A MORE SUSTAINABLE, RESPONSIVE AND TRANSPARENT HIGHER EDUCATION SYSTEM) BILL 2017

VICTORIA UNIVERSITY SUBMISSION

to the Senate Education and Employment Legislation Committee

8 June 2017

VICTORIA UNIVERSITY
MELBOURNE AUSTRALIA

VICTORIA UNIVERSITY DETAILS

Name of organisation	VICTORIA UNIVERSITY
Postal address	PO Box 14428 MELBOURNE VIC 8001
Legal status	OTHER INCORPORATED ENTITY established under the Victoria University Act 2010 of Ballarat Road Footscray VIC 3011
Australian Business Number (ABN)	83 776 954 731
Key contact person	Dr Rob Brown Executive Director, Engagement and Government Relations Phone: Email:

TABLE OF CONTENTS

1. INTRODUCTION

Victoria University welcomes the opportunity to provide a submission to the Senate Education and Employment Legislation Committee on the *Higher Education Support Legislation Amendment (A More Sustainable, Responsive and Transparent Higher Education System) Bill 2017*.

Victoria University (VU) is relatively new. Just 26 years old, it was created in 1991 to provide the west of Melbourne with a university in order to raise participation in tertiary education and promote the economic and social development of its region. It has been successful in this regard.

It is a dual-sector university, offering higher education and vocational education, and was created through the amalgamation of the former Footscray Institute of Technology with a number of other TAFE and higher education providers in Melbourne's west.

In its first two decades, VU operated in a regulated environment with quotas of students in vocational education and higher education. It developed a strong access and equity agenda to achieve higher participation in tertiary education, especially amongst students from low socio-economic backgrounds in its region. Evidence shows that it has been very successful in this endeavour and continues to contribute strongly to the west of Melbourne economy.

However, deregulation of vocational education, TAFE funding cuts and the demand driven system of higher education since 2010 has created a very different environment. At the same time, VU has been at the forefront of the national agenda to increase participation in higher education amongst students from poorer backgrounds, many of whom need additional support to succeed. This requires substantial investments.

To survive and compete, VU has undertaken major workforce re-structuring involving hundreds of redundancies, made substantial investments in the quality of teaching and learning and student support, introduced more efficient administration and imposed a focused research excellence agenda.

An underlying challenge has been the uneconomic, sprawling campus footprint that VU has inherited largely due to its formation through amalgamations. While VU has a campus consolidation plan to improve the student experience and reduce operating costs, this is taking a long time to implement because of the need to take the community with it, and in order to obtain the necessary government approvals.

In the circumstances, the broader reform agenda is progressing as well as could be expected. Student satisfaction is rising. In 2017 VU has been listed as the number 56 the Times Higher Education Young (under 50) University World Rankings, an achievement to be very proud of for a university that is only 26 years old.

However, to achieve this in a highly competitive market with a developing brand and an uneconomic campus footprint, VU has had to incur financial deficits in its annual operating result in four of the last five years. This cannot go on. While the University Council approved another deficit in 2017 to enable ongoing reform, we have committed to returning the University to surplus in 2018, and larger surpluses thereafter to provide reinvestment for the future.

Workforce reforms underway in 2017 include:

- the establishment of a new first-year model to increase the quality and efficiency of teaching through a dedicated teaching-focused first year workforce and an innovative block-mode delivery model;

- a proposed Research School to increase the quality and efficiency of research; and
- a process redesign of student support services to improve the quality and efficiency of student support.

These reforms aim to increase the University's attractiveness to students and to improve the budget bottom-line by $30m in order to record a surplus in 2018, while also enhancing teaching, research and engagement with business and community, especially in the west of Melbourne.

2. THE CASE FOR A STRUCTURAL ADJUSTMENT FUND

It is clear that the demand-driven system introduced by the Commonwealth Government over the past decade has significantly transformed the higher education landscape. Victoria University endorses these changes, and would vigorously defend the maintenance of uncapped places in the higher education sector.

While VU supports the demand-driven system that has delivered many positive outcomes to our nation, it would be naïve to argue that the introduction of these changes occurred over a level tertiary education playing field. There is substantial differentiation amongst Australian universities, with institutions ranging greatly in their history, assets, missions, and student and community constituencies. Different universities found themselves positioned very differently to respond to the highly competitive landscape that has developed.

In their draft report on Higher Education Infrastructure to the Commonwealth Government in 2015, Denise Bradley and Philip Marcus Clarke included a case study of VU. The authors commended the University on taking the first steps toward significant campus rationalisation, noting that before it started the process, VU had twelve campuses, with higher education being offered on seven, all within a 30-40 minute drive of its main campus at Footscray Park. They found that this was a major cause of annual administrative costs being of the order of $40m-$50m higher than comparable institutions. They offered the view that the University's success in implementing its campus rationalisation plans would depend on financial and political support from both the Commonwealth and the Victorian Governments. It is hard to argue that such support has been consistently delivered.

In many ways, the situation at VU is not different to companies in other Australian industries that in the past have found themselves needing to adapt to changed, market-driven environments. However, in such circumstances there has been a long history of the Federal Government providing Structural Adjustment Funding to allow businesses to transition to the more competitive models of operation required to succeed in the new world.

This was a case that the Bradley Review prosecuted strongly in its Final Report (2008) as applying equally to the Australian Higher Education sector.

> *Consistent with structural adjustment funding available to other industries and in the light of changes in the policy framework recommended, the panel believes there is a need for an increase in structural adjustment funding for institutions. Allocation of this funding will require the government to make judgments from time to time about the merits of particular proposals for assistance*. (p.171)

Unfortunately, the Bradley Review's Recommendation to establish a $400m Structural Adjustment Fund during this transition period (Recommendation 38) was not adopted by Government. Consequently, universities have been left to implement the changes necessary to prosper in the new environment from within whatever resources the uneven historical baseline had delivered them.

VICTORIA UNIVERSITY
MELBOURNE AUSTRALIA

We believe the Recommendation from the Bradley Review was prescient. Some years later, a number of Australian universities now find themselves in extremely challenging circumstances, despite the efforts they have made to slash their expenditure, contract their course offerings, shed staff numbers and market aggressively for students. In most instances this is because they have been left to cope with market forces without support that acknowledges that they started this competition with inherent disadvantages. Changes foreshadowed in the current Legislation are again being imposed uniformly over the sector, and will exacerbate the existing uneven situation for a significant number of universities.

In what follows, Victoria University does not argue that changes to Legislation should be applied differentially over the sector. However, the argument for Structural Adjustment Funding presented forcefully by the Bradley Review in 2008 remain just as relevant in 2017, and should be a consideration for the Commonwealth.

3. KEY POINTS IN RESPONSE TO LEGISLATION

VU would like to provide feedback on a number of elements of the Legislation, using as a base the summary provided by the Government on the Parliamentary website. We do not wish to comment on every element.

Apply an efficiency dividend of 2.5 per cent per annum to grants under the Commonwealth Grant Scheme (CGS) in 2018 and 2019.

Framing this compounding cut on CGS payments to universities as an 'efficiency dividend' seems predicated on the mistaken assumption that universities are not doing enough to increase their efficiency. We do not believe that this is the case generally, and can confirm that it is certainly not the case at Victoria University.

VU has undertaken substantial reductions in its operating expenditure over the past five years. Both the breadth of our student offerings as well as the number of academic and professional staff have been substantially reduced. Over this period, there have been over 800 staff redundancies aimed at developing a more fit-for-purpose staff profile, as well as a significant reduction in the number of courses. The University has done this while increasing its level of student satisfaction and obtaining remarkably good outcomes in external assessments such as the recent Times Higher Education Global University Rankings. Despite these efforts, however, the University has returned an operating deficit in four of the past five years, and looks likely to do so again in 2017. This is not because of inattentive management or inefficient operations, but largely because of the dual impacts of:

- an unviable campus footprint inherited at the time of the University's formation (and subsequently not recognised as requiring of Government assistance to support in its rationalisation through either political support for campus rationalisation nor Structural Adjustment Funding); and
- a student body that comes from a relatively non-traditional, educationally under-prepared background that requires greater support to achieve academic success than students drawn from more traditional backgrounds.

It would be easier to justify the imposition of this 'efficiency dividend' if Victoria University was an outlier. However, there are at least four other Australian universities currently reporting an operating deficit, and another nine operating on margins of less than 4%. This is more than one-third of the institutions in Australia. To assume that a reduction of 5% of CGS revenue can simply be absorbed without significant impact at the operational level is unsupported by the evidence or the lived experience. We explore this assertion in more detail in the Case Study attached at the end of this brief submission.

In Victoria University's case, the Commonwealth's foreshadowed imposition of the 2.5 per cent efficiency dividend in each of 2018 and 2019 will result in a reduction of revenue of $6.5m, necessitating equivalent further budget savings. This will probably require at least an additional 50 redundancies over the next eighteen months. Given the huge restructuring and efficiency agenda already underway, we cannot see a way of doing this without reducing the quality of student services, or cutting research so much that it would significantly jeopardise the University's reputation and its ability to undertake applied and translational research for industry and our local community.

The west of Melbourne continues to grow strongly in population size, particularly its school age population that will be looking to participate in tertiary education in the 2020s. For the economic and social benefit of the region, the west of Melbourne needs to have a strong and competitive university to satisfy this increased demand for tertiary education that is expected in the next decade. These budget cuts significantly jeopardise that prospect.

That is not to mention the threat of a potentially larger reduction in budget that could result in future from the challenge of meeting an unspecified set of performance requirements, about which more is said below.

Increase the maximum student contributions by 1.8 per cent for four years from 2018

Adjust the Commonwealth contribution amounts from 2018 to 2021 to reflect the increased student contribution amounts

Given that university budgets are to be reduced, the incremental increases in student contributions announced in the budget are disappointing. Students will be paying more, but universities' capability to enhance the student experience will be diminished by the budget cut.

It is acknowledged that the increases proposed in this case are a small proportion of lifetime earnings and arguably will not impact substantially on participation. However, there is also reason to be concerned that incremental increases in student contributions are a factor that could potentially impact the decision-making of students from low Socio-Economic backgrounds and non-School Leaver cohorts more than others, especially when combined with the lower repayment thresholds (see below). While this impacts on all universities, it needs to be acknowledged that not all students come to their university studies with the same level of educational preparation, and some students therefore require greater support from their institution in order to achieve comparable levels of achievement in their undergraduate studies.

This is not a bad thing. Rather, it is a natural outcome of an uncapped higher education system, a bi-partisan policy position seen as critical in helping Australia to transition from a resources-based economy to a more knowledge-based one. Economic modelling has consistently shown that having a greater proportion of young

Australians undertaking higher education is a positive thing both for the students undertaking the study as well as for the economy as a whole. However, the reality is that some universities – particularly the newer universities and those based in regional and outer-metropolitan locations, especially areas with a high incidence of low SES students – will necessarily do more of the heavy lifting in terms of helping students from non-traditional backgrounds to academic success.

Victoria University would argue that increased student fees should be retained by the institution at which students choose to study in order to directly improve the student experience of those paying the fees, rather than being used to offset the Commonwealth's public investment into the higher education sector.

Expand the demand driven funding system to include approved sub-bachelor courses at public universities from 2018

Victoria University strongly supports this element of the proposed Legislation. For students from non-traditional backgrounds the transition to higher education can be challenging, but the path can be eased by some students entering tertiary education through purposefully designed sub-bachelor courses. The limits that were previously in place prevented some institutions from accepting all of the students who would have benefited from such an opportunity, so this expansion is welcome.

However, the Commonwealth needs to consider the effect of this reform on VET programs. From a dual-sector university point of view, it would be preferable if all sub-bachelor courses were funded from a single source (the Commonwealth) regardless of sector and with consistent settings for access to HELP, as the Mitchell Institute at Victoria University has persuasively argued[1].

Require enabling course students to pay a student contribution amount for any units of study with census dates on or after 1 January 2018

In a similar vein to other elements of tertiary education in a higher education institution, it is not unreasonable to expect that students who undertake an enabling course pay a student contribution component, utilising the same mechanisms of FEE-HELP that support undergraduate study.

Allocate enabling courses on a cyclical basis through a three-year tender process from 2019

We understand that the intent of these changes is to allow the entrance of a broader range of specialist providers at the tertiary level, allowing students to transition from such course to different universities. VU is broadly

[1] http://www.mitchellinstitute.org.au/opinion/vet-funding-more-than-a-band-aid-required/

supportive of this approach and would be keen to participate, particularly given our dual sector nature. The moves that we have foreshadowed to implement a First Year College model with our institution's substantial expertise in transitioning less-educationally prepared students into tertiary studies indicates our commitment to this kind of approach. However, the tender process through which such courses would be allocated needs to be very carefully managed, to ensure that enabling programs provide a strong foundation for university first year pathways.

Introduce performance-contingent funding under the CGS

Victoria University is not critical of the case for performance measurement of universities. However, it is critical of the proposal to make 7.5 per cent of a university's CGS funding dependent on yet-to-be-determined performance measures.

Past endeavors to implement such performance-based measures have not been highly successful, and have resulted at times in extremely perverse outcomes. Part of the issue is the imposition of one-size-fits-all measures to institutions that have very different missions and that cater to very different student cohorts. Another is that the majority of nationally-available measures operate within relatively tightly-scaled ranges, and so apparent differences between institutions that are actually within the measurement margins of error or are due to population sampling issues can be used to affect the funding they receive in a way that is fundamentally unfair.

There are mechanisms that could potentially be used to make performance-contingent funding fairer in their application. One is to consider the use of value-added measures that operate on the basis of population-adjusted rather than (or in conjunction with) absolute measures of performance. Another might be not to use a standard approach at all, but rather to impose performance targets that are negotiated institution-by-institution (perhaps through a 'compact' system of some kind), and reflect more appropriate measures than a homogenized system might do. However, in the absence of any firm proposal from the Commonwealth, such speculations are simply that.

The substantial quantum of CGS funding being put at risk through this proposal, the ineffectiveness of such systems in the past, and the lack any detail as to how a new system might be applied in practice, means that it would be imprudent for any University to support this proposal in its current form.

Reduce the Higher Education Loan Program minimum repayment income to $41 999 and replace the current repayment thresholds with new ones, including additional repayment thresholds and rates

While we understand the need to recoup a greater proportion of HECS loans more quickly, we are concerned that the lowering of the loan repayment threshold to $41,999 is another imposition on students who are already being asked to pay more without the benefit of knowing that their increased fees are going to the university at which they choose to study, and who are facing an increasingly uncertain future into to which to carry an increased debt burden to be repaid earlier in their careers.

This funding level is only just over half of the average wage, and only $7,000 above the minimum wage. It is not clear what impact this will have on different student cohorts, but it is reasonable to surmise that it might impact most on those who enter higher education at an older age and who are first in family to attend university – exactly the cohort that VU so proudly serves.

However, the particular threshold level is probably less of an issue than the policy imperative of looking to develop a common and equitable Income Contingent Loan (ICL) scheme across the tertiary sector. This issue has been explored at some length by the Mitchell Institute at Victoria University. We would advocate the case for seeking to establish a fairer and simpler financing framework across the different levels of government and tertiary education to support a tertiary education student entitlement for all school leavers. This should be the longer-term priority for the tertiary sector.

Restructure the Higher Education Participation and Partnerships Program to include new student loading for students from low socioeconomic backgrounds, annual performance funding and grants for a National Priorities Pool and make minor and technical amendments

Victoria University welcomes the retention of the HEPPP funding for three years (albeit at a slightly lower level), replacing the recent uncertainty about the future of the scheme. We see HEPPP as an important mechanism for supporting students who come from non-traditional backgrounds. While broadly supportive of the Government's proposals, we note that there has been some confusion in the sector in more recent times in terms of the continued support of the outreach components of the program, and clarity on this would be welcomed.

In circumstances in which we are asking students to pay more, and where funding to universities is being cut, there becomes an even stronger case for universities to apply strategies to help students from non-traditional backgrounds who are seeking access to Higher Education. In this environment, there is a strong argument for additional funding for the HEPPP, especially for those universities for whom servicing the aspirations of equity groups is a major focus.

4. CONCLUDING REMARKS

While the sector understands and supports the Government's desire to undertake budget repair, changing the Higher Education system in major ways without careful analysis of the likely impacts on different student cohorts and types of institution can lead to perverse outcomes. Such outcomes may ironically hamper our nation's economic output and intellectual innovation. At both the personal and the systemic level, Higher Education is unequivocally a driver of economic development and international revenue. Using the sector as a means to chalk-up budget savings without due consideration of the flow-on impacts to the students who access our system, and the institutions that provide much Australia's intellectual output, is not maximizing our potential as a clever country.

In addition to the comments we have made about individual elements of the Legislation, we again commend to Government the consideration of a system of Structural Adjustment Funding, something acknowledged as necessary by the Bradley Review almost a decade ago but as yet unimplemented. Without such consideration, the currently proposed funding cuts will simply add further burden to institutions that due to their historical constraints, constituencies or geographic location were not given a fair opportunity to position themselves to compete in the aggressively competitive tertiary landscape that Government policy has created.

Once again, Victoria University thanks the Senate of the Australian Parliament for the opportunity to comment on the Government's proposed changes to the Higher Education Support Legislation Amendment Bill 2017.

Victoria University thanks the *Senate Education and Employment Legislation Committee* for the opportunity to provide feedback and responses on the *Higher Education Support Amendment (A More Sustainable, Responsive and Transparent Higher Education System) Bill 2017* and looks forward to receiving advice on the outcome of this consultation process.

Professor Peter Dawkins
Vice-Chancellor and President

ATTACHMENT 1: VU CASE STUDY

The Expected Impact of Federal Government Funding Cuts on Victoria University

5 June 2017

Background

Victoria University (VU) is relatively new. Just 26 years old, it was created in 1991 to provide the west of Melbourne with a university, in order to raise participation in tertiary education, and promote the economic and social development of its region. It is a dual-sector university, offering higher education and vocational education and training, created through the amalgamation of the former Footscray Institute of Technology with a number of other TAFE and higher education providers in the west of Melbourne.

In its first twenty years, it operated in a regulated environment with quotas of students in vocational and higher education, and a strong access and equity agenda, to achieve higher participation in tertiary education, especially amongst students from low socio-economic backgrounds in its region. Evidence shows that it was very successful in this endeavour, with over 50% of students studying and residing in the West and also contributing strongly to the west of Melbourne economy, $632m to the region's GDP and supporting an estimated 4400 jobs[2].

Deregulation

Deregulation of vocational education in Victoria and the demand driven system of higher education, which started at the beginning of this decade, have created a very different tertiary education environment, which has required the university to undertake major structural changes to compete with other providers in Melbourne.

TAFE Funding Cuts

Major funding cuts for VU's TAFE operations, necessitated a major downsizing of teaching and administrative staff. In the first few years of these changes, despite a major restructuring and downsizing, the TAFE business recorded a deficit in its net result.

VU has now created Victoria Polytechnic ('the Polytechnic') as its new look TAFE division, operating on a leaner and more market-focussed basis. With the establishment of the Polytechnic, along with recent State Government policy reforms that have resulted in a number of profiteering private providers going out of business, and more funding going towards high quality provision, revenue has started to grow again. As a result, the Polytechnic aims to be able to break even by 2020 at the latest.

The Demand Driven System of Higher Education

In its relatively short history, VU has been successful in establishing itself as a world-class institution, ranking in the top 400 Universities in the world, in the Times Higher Education overall university rankings in 2016, and 56th, equal to La Trobe University, in the Times Higher Education rankings of young universities, under the age of 50 in 2017.

Despite the considerable achievements that this accolade represents, in its relatively short history as a university in the west of Melbourne, VU has a young brand in the market place when compared to its major competitor

[2] Source: Centre of Policy Studies, 2016, http://intranet.vu.edu.au/vco/PDF/16.06.01_VUEconomicImpactReport_FINAL.pdf

universities. Moreover, in the demand driven model of higher education, Melbourne and Victoria is a highly competitive market for domestic undergraduate students. With the demand driven system, all universities sought to expand their numbers, and VU's market position relative to its competitors was hampered, by this younger brand.

As a strategic response to this challenge, VU is investing considerably in enhancing the offer to students and improving student satisfaction, through investments in blended learning and the quality of teaching and student support. This has resulted in rising student satisfaction, which along with the high world ranking achieved, provides the foundations for building its brand to compete in the market place. However, this will require further investment for example in outreach with schools across the region, to change perceptions of the West's young university.

Uneconomic Campus Footprint

An uneconomic campus footprint has also hampered VU, which is partly a legacy of its history of mergers of a number of predecessor institutions. When deregulation commenced, VU was operating on twelve different campuses, resulting in excessive costs of operating its sprawling infrastructure, and a less attractive student experience for many of them, than is possible, when there is a sufficient critical mass of students present.

VU has adopted a campus rationalisation strategy, with bold plans to reinvest in high quality campuses in key locations such as Footscray, Sunshine and Werribee but this is taking a long time to implement, because of the need to take the west of Melbourne community along with it, to obtain the necessary government approvals.

The Need to Invest in Additional Support for Students

So in a period of TAFE funding cuts, VU's higher education offer has also been significantly challenged. While it has been able to grow its international student numbers, from a low base, the University has not been able to grow its higher education undergraduate domestic load significantly. However, during this period of higher education reform, the proportion of students who need additional learning support has risen, due to the growth in participation of students from more disadvantaged and less well-prepared backgrounds. This has required significant investment in teaching and learning and additional support for students who need it.

Financial Implications

In four of the last five years, VU has recorded an operating deficit. This is despite a very large downsizing of its staff, necessitating substantial improvements in efficiency, without being able to take advantage of economies of scale that some of its competitors have enjoyed due their considerable expansion.

One of the factors that has contributed to these deficits has been substantial redundancy payments, but even after allowing for these separation costs, VU is still operating with an underlying structural deficit. When benchmarking against other universities, the main reasons for this underlying deficit are:

- an uneconomic campus footprint
- relying more than other universities on revenue for TAFE which has been hit by deregulation and funding cuts
- a lower proportion of its students being international onshore students than the average of the sector as a whole
- operating as a dual-sector university imposing additional administrative costs because of the need to operate in two different education systems

VICTORIA UNIVERSITY
MELBOURNE AUSTRALIA

- being unable to charge as high a price for international and postgraduate students than many of its competitors because of its brand still being under development, as a young university
- the need to invest more in additional support for students who need it, than most of its competitor universities.

Towards Success

Ongoing deficits, however, are not an option for the University. The University Council approved another deficit in 2017, to support on-going structural reform. This includes exciting initiatives such as the First Year College, a VU Academy for its high achieving and high potential undergraduate students, and a Research School to facilitate an increasingly focussed research agenda.

However, these investments in structural reform over the last few years bring with them the need to move to a sustainable financial model, which by 2020 will require surpluses of the order of $20m to enable the institution to reinvest in its future success, and if necessary, to borrow to reinvest in the future. Meanwhile the Vice-Chancellor and Senior Executive Group have committed to producing at least a break-even result in 2018.

Financial analysis in the second half of 2016, demonstrated the need to achieve a turnaround in the underlying net operating result of $30m in order to achieve a surplus in 2018.

The University is well on the way to achieving this $30m turnaround, though a range of major reforms:

- improving the efficiency and quality of its teaching and learning, by restructuring the workforce to create more ongoing teaching focussed positions
- increasing the efficiency of its research budget, to enable it to reduce its allocation of funding to research while maintaining or enhancing its research output
- increasing the efficiency of its administrative support systems, through process re-design and automation.

These reforms will involve well in excess of a further 100 redundancies in 2017.

Implications of the Proposed Efficiency Dividend from the Federal Budget

The imposition of the 2.5 per cent efficiency dividend in 2018 and 2019 will result in a further $6.5m reduction in VU's projected revenue. This increases the required financial turnaround by a further $6.5m.

Given the huge restructuring and efficiency agenda, already underway, this will significantly jeopardise VU's prospects of returning to financial sustainability in the next two to three years. Furthermore, with the need to return to surplus in 2018 and achieve a significant surplus by 2020, we envisage this will require at least an additional 50 redundancies over the next eighteen months.

At this stage, we cannot see a way of achieving these additional redundancies without reducing the quality of teaching and student services, or cutting research so much that it would significantly jeopardise the University's reputation and national and international standing, and its ability to undertake applied and translational research for industry and the community.

This in turn will put at risk the University's aim to firmly establish a successful university for the west of Melbourne, limiting its ability to promote economic and social development of the region.

The west of Melbourne continues to grow strongly in population size, particularly its school age population, which will be looking to participate in tertiary education in the 2020s. For the economic and social benefit of the region, the west of Melbourne needs to have a strong and competitive university to satisfy this increased demand for tertiary education that is expected in the next decade. These budget cuts significantly jeopardise that prospect.