



THE UNIVERSITY OF
NEWCASTLE
AUSTRALIA

**Inquiry by the
Senate Education and Employment
References Committee**

Higher Education and Research Reform Bill

A submission by the University of Newcastle
27 February 2015

27 February 2015

Committee Secretary
Senate Education and Employment References Committee
PO Box 6100
Parliament House
Canberra ACT 2600

By email: eec.sen@aph.gov.au

Dear Committee Secretary

The University of Newcastle (UON) welcomes the opportunity to provide a submission to this inquiry of the Senate Education and Employment References Committee.

Please find enclosed a summary of the University's positions, and analysis of the possible impacts of the current iteration of the Higher Education and Research Reform Bill 2014 on the university sector and regional Australia.

I look forward to further discussion on these important proposals, as we collectively work to develop a world-class higher education system sustainably, and in a way that benefits communities in all parts of Australia.

Yours sincerely,

Professor Caroline McMillen
Vice-Chancellor and President

Summary

The University of Newcastle (UON) is pleased to provide responses to the following terms of reference established for this inquiry of the Senate Education and Employment References Committee:

1. The principles of the Higher Education and Research Reform Bill 2014 (HERR);
2. Alternatives to deregulation in order to maintain a sustainable higher education system;
3. Structural adjustment pressures, and the adequacy of proposed measures to sustain high quality delivery of higher education in Australia's regions;
4. Research infrastructure.

UON's position

UON considers that the higher education sector is one of Australia's most substantial and productive assets, and reforms to the sector that are significant in scale and scope must be introduced in a careful and consultative manner.

In this paper, UON has identified the principles as articulated by the government which underpin the HERR legislation. While UON supports these principles, there are concerns that the legislation as currently formulated may not deliver the intended outcomes when measured against the principles. In particular UON considers that there may be unintended consequences of a 20 per cent cut to Commonwealth funding coupled with an early introduction of fee deregulation.

UON's position is that Australia should maintain a level of public investment in higher education consistent with international benchmarks. **If the HERR reforms proceed, UON would accept a 'phased' approach with a more moderate cut to Commonwealth funding** in the initial phases accompanied by detailed analysis of the legislation's impact on the sector, participation levels, excellence metrics and other outputs, allowing adjustments to policy settings to be made after a 4-year period in consultation with the sector, students and stakeholders. **UON recommends establishing clear national indicators – effectively KPIs for the HERR reforms** – that would allow the Commonwealth and the sector to understand whether the HERR reforms have delivered outcomes consistent with the relevant principles.

Reflecting on the principles, UON has considered possible alternatives to funding cuts and deregulation. **The University rejects any proposals that would result in a significant departure from the demand-driven system**, one of Australia's strongest equity and social mobility initiatives, and an investment in this nation's future.

If the HERR reforms proceed as proposed, UON advocates an **expanded Structural Adjustment Fund (SAF) to support universities operating in markets where students do not have the capacity to pay higher fees** – particularly, in non-metropolitan regions of Australia. UON is also concerned to ensure that the introduction of the HERR reforms do not undermine the sustainability and excellence of research and innovation currently delivered by research-intensive universities in key non-metropolitan and regional areas.

Section 1:

The principles of the Higher Education and Research Reform (HERR) Bill 2014

Before addressing the HERR bill, it is important to establish the principles underpinning UON's response to the Bill:

- The preservation of equity in (and access to) higher education
- Ensure excellence in education, research and innovation delivery in non-metropolitan and regional areas of Australia.

These principles are particularly important outside of the capital cities, where higher education participation levels are normally lower, the capacity of students to fund their higher education is generally less, and university-led research and innovation are critical economic drivers. Based on comments by Minister Pyne and resources relating to the Bill, UON has identified the principles, outlined in the table below, as underpinning the HERR legislation.

Principles underlying the HERR Bill and deliverable outcomes

Aligned to the principles identified below, UON proposes the following 'KPIs' for assessing the impact of the HERR reforms. They are specific, measurable and aligned to the underlying principles of the higher education legislation:

Stated Principles of the HERR reforms	Possible indicator
Universities achieving freedom to innovate and play to their strengths	Growth in total University revenue (>\$24 bn p.a.) and as a % of Australia's GDP (>2%).
	Growth in fields of research excellence in more Universities
Best higher education system and some of the best universities in the world	More Australian Universities in the Top 200 in the world – some in the Top 50
Attract the best and brightest students from across the world	Rate of growth in international students in Australian higher education exceeds competitors
	Associated increase in international student revenue
Australia globally competitive, developing new technologies and building prosperity	Increase in public and private investment in R&D
	Increase in international research funding
	Global benchmark for researchers per capita & increased % researchers in private research sector
	Increase in business/industry - research organisation collaboration
Greater choice of courses and course providers	Increase in innovation outputs aligned to strategic priorities e.g. agribusiness, energy, mining, medical technology and advanced manufacturing
	Overall increase in the number of TEQSA-registered higher education providers
Greater access and opportunities for Australians to participate in higher education, including regional and rural students	Trend growth in the number of new courses.
	Growth in total enrolments in higher education
Improved outcomes for undergraduates	Growth in enrolments in higher education among students from low-SES backgrounds and from areas designated as regional, rural and remote
	Graduate employability
	Success data from selected programs for each year of study at each university, benchmarked nationally.

Access and participation

UON is particularly concerned that the impact of HERR measures on equity and access to higher education will be adverse. While acknowledging the concession made by the government in relation to indexation of HELP loans, **UON remains concerned that students from disadvantaged backgrounds or those who are 'first in family' university attendees may be deterred from higher education by the prospect of increased HELP debts**, or perceptions about the economic 'value' of a degree. This risk is particularly significant among mature-age students, as evidence from the UK indicates on page 6.

The HERR Bill's primary access measures are Commonwealth Scholarships, to be created by universities through a mandatory 20 per cent allocation of fee increases over existing levels, and to be targeted at students from disadvantaged backgrounds; and Higher Education Participation Program (HEPP) Scholarships, funded by the Commonwealth to benefit disadvantaged students across Australia.

There is insufficient detail on either measure for the University to comment in depth in this submission. However, UON makes the following observations:

- Any measures that broaden access to higher education and encourage participation among underrepresented groups are welcome.
- The currently proposed structure of the Commonwealth Scholarships will clearly benefit universities in major capital cities where the capacity to pay increased fees across their catchments will allow the faster growth of substantial scholarship funds. This would have the flow-on impact of allowing metropolitan universities to 'cherry pick' students from regional Australia with scholarships more generous and comprehensive in nature than may be the case for regional universities, where the overall funding quantum for scholarships may be significantly smaller.
- Universities in robust markets with significant capacity to pay higher fees would be able to simply pass on to students the cost of the 20 per cent 'allocation' to fund Commonwealth Scholarships.
- HEPP Scholarships appear to represent the government's solution to the likelihood that universities in different parts of Australia will be able to raise varying quantum of Commonwealth Scholarship funds, and the distortions that may create. The University welcomes this measure, and would support consideration that the funding be distributed to universities currently enrolling a proportion of low SES students in excess of the sector median. UON does not support any reduction in extant HEPP investment for outreach, student support and engagement activities to raise aspiration and strengthen participation across underrepresented groups in higher education. It is essential that new funding is found to support HEPP Scholarships and all currently planned HEPP funding remains intact.

Substantial cuts to the Commonwealth Grant Scheme (CGS)

UON is concerned that the level of the proposed cuts to CGS do not support the principles that frame the HERR bill – and in fact, may undermine both universities' freedom to innovate, grow excellence, invest in attracting world-class students and compete globally. The impact of deregulation on participation in higher education is difficult to anticipate, but global precedents are worrying particularly in the context of mature-age students.

UON recommends that if the Commonwealth cuts its contribution to higher education, **the proposed cut be no greater than 8 per cent** and that the impact of the cut and any inadvertent consequences of fee deregulation are **reviewed four years after the introduction** of the HERR legislation.

It is also critical that major changes to higher education funding be phased. UON has called for any major changes to higher education funding structures to be **delayed to January 2017** at the earliest, to afford universities – and more importantly students – one full academic year to prepare appropriately for the transition in possession of all relevant information.

The University's primary concerns in relation to fee deregulation remain the impact of higher fees on participation; and the capacity of UON and other regional universities to charge higher fees against the backdrop of disadvantage and disproportionately low higher education participation in non-metropolitan catchments. Both impacts would be adverse for UON and its regions.

It is possible that higher fees may deter students, particularly non-school leavers and part-time students. In the UK, it is notable that the number of applications and acceptances by mature-age students still remains substantially below the levels seen before tuition fees were tripled to £9,000 in 2012. The initial impact on mature-age students of much higher fees in the UK was particularly concerning: over 100,000 fewer students over the age of 25 started part-time higher education courses in 2012-13 than did in 2009-10, a reduction of 43 per cent.

Although these numbers have recovered to a limited extent, in 2014, domestic students aged 20-24 and 25+ applying to university in the UK were 8 per cent and 11 per cent below their 2010 levels, respectively. This was part of a more general decline in part-time higher education, with 41 per cent fewer part-time enrolments overall in 2012-13 than in 2009-10. (Source: Higher Education Empirical Research Database, Quality Assurance Agency <http://heer.qaa.ac.uk/SearchForSummaries/Summaries/Pages/HEER000496.aspx>)

For universities such as UON, where over half of its commencing intake does not move directly from school to university, disincentives to mature-age participation (even perceived disincentives) may significantly affect the institution's capacity to continue to deliver high-quality educational programs. A decline in mature-age participation will be particularly perceptible in the Hunter Region, which is transitioning from a manufacturing and resource-based economy to a knowledge and service-based economy and will require significant retraining and upskilling of its workforce. Phasing the proposed changes – in combination with the structural adjustment measures detailed in Section 3 - will mitigate this risk for universities and regional communities.

HERR reforms aligned to the principles

There are aspects of the current iteration of the Bill that may contribute to achieving the principles identified as central to the HERR legislation. UON supports:

- **Retention of the demand-driven system of funding** to support greater access to higher education and build participation in all parts of society and every region in Australia.
- **Extension of the demand-driven system** to encompass most sub-bachelor programs. This will support universities in building a pipeline of students ready to undertake degree-level study.
- **Retention of the Higher Education Participation Program (HEPP)** and proposals to restructure it to provide funding stability over longer timeframes.
- **Creation of new HEPP scholarships** for disadvantaged students, to complement the new Commonwealth Scholarships program. However, UON would not support any diminution of HEPP funding for outreach programs to fund new HEPP Scholarships.
- **Retention of the existing indexation arrangements on HELP loans**, aligned to CPI.
- **Creation of a Structural Adjustment Fund**, although UON will argue that the scope and quantum of the Fund must align to the needs of the sector's research-intensive regional universities.
- **Suspension of indexation of HELP debts of primary carers of children** under the age of 5.
- **Introduction of a 'soft cap' on domestic student fees** equivalent to an institution's international fee.

It is unclear, however, whether these measures are sufficient to deliver the intended HERR principles, given the high-impact measures that form the centerpiece of the legislation: cuts to CGS and fee deregulation.

In the next section, UON explores alternatives to the measures contained in HERR with reference to the government's core principles for reforming the higher education sector.

Section 2:

Alternatives to deregulation in order to maintain a sustainable higher education system

UON has considered alternatives to the HERR legislation that align to the government's principles for reforming the sector.

Modify the demand-driven system?

Given the national context of fiscal and budgetary pressures, the demand-driven system of funding higher education has been scrutinised closely, including a major review in 2014 that concluded it was a valuable and sustainable system for funding universities. However, one option for the government to consider as an alternative major reform to the higher education sector would be returning to a 'capped places' funding model. Universities with strong reputations located in capital cities may argue strongly for a system that limits access in this way, but deregulates fees.

UON, as a university committed to equity and excellence, **unambiguously supports the long-term continuation of the demand-driven system** and will strongly oppose any moves to return to a system of capped undergraduate places.

By supporting students from all walks of life and all sections of our community, with appropriate preparation and support, to enrol in higher education, the Commonwealth is creating the foundation for a highly skilled, socially mobile population and a competitive, productive knowledge economy for our nation. Australia – particularly regional Australia – benefits from open access to higher education. Effectively leveraging this opportunity means universities must engage all sectors of their community, and focus on optimising pathway programs and student support.

UON has more than 40 years of experience as a sector leader in enabling (sub-bachelor) education, and exemplifies the outstanding outcomes that are possible not only in building access to higher education, but also success. As the table below indicates, UON enrolls significantly higher proportions of equity groups than the sector average:

TABLE: Proportions of UON domestic undergraduate students from equity groups by campus, benchmarked with the sector

Demographic	Central Coast (2014)	Callaghan (2014)	Whole of UON (2014)	Sector Average (2013)
% Low SES students	29.4%	23.6%	24.4%	15.9%
% Indigenous students	2.9%	2.9%	2.9%	1.5%
% Mature-age students (Over 21 years)	78.2%	70.2%	72.4%	N/A

Source: UON MIS; Department of Education and Training Equity Performance Data, 2013

Through appropriate preparation and support, the University also achieves significantly higher success rates for these cohorts than the sector average, with low socio-economic students in particular at near parity with the general undergraduate population, as the table below indicates:

TABLE: Success rates among domestic students at UON by equity group, benchmarked with the sector

Success: UON Rates for Equity Groups	UON (2013)	UON (2014)	Sector average (2013)
Indigenous students (undergraduate and postgraduate)	80.1%	81.9%	73.4%
Low SES (SA1 measure) undergraduate students	84.3%	86.0%	82.9%
Overall undergraduate success	85.9%	86.7%	86.7%

Source: UON MIS; Department of Education and Training Equity Performance Data, 2013. Note: Sector data for success of Indigenous students is only available for Indigenous students in Undergraduate and Postgraduate Coursework programs. Success = the proportion of all load (EFTSL) that is passed in a given academic year.

However, there is still substantial work to be done in driving participation and success for underrepresented groups in higher education. In the regions where UON operates, participation rates in higher education remain lower than state and national averages, despite interventions to build aspiration and attainment.

In this context, the University opposes the removal or diminution of the demand-driven system of funding, considering that may result in diminished access, equity and participation and would undermine the significant progress the nation has made in building aspiration to higher education.

An increase in public investment to fund a sustainable higher education sector in Australia

UON considers the ongoing national discussion centred on higher education funding must be refocused, balancing the core proposition that higher education must cost the Australian government less with the strong case – based on national priorities and international benchmarks – for the government to invest more.

Australia's universities are disproportionately privately funded. Comparable to other developed countries, our nation makes a lower-than-average public investment in its higher education system.

The 2014 OECD Education at a Glance publication demonstrates that Australian governments invested just 0.7 per cent of GDP in tertiary education, below the OECD average (1.1%) and the EU21 average (1.2%).

While accepting that broad concerns exist around extant levels of Australian public expenditure, UON recommends that there should be detailed evaluation of the proposition that public investment as a proportion of GDP, should increase at least to OECD parity within a decade. The table below indicates the extent of the return on investment of public funding for higher education.

TABLE: Estimates of returns on public and private investments in higher education

	Public investment	Public benefit	Approx. ROI	Individual investment	Individual benefit	Approx. ROI
Female	\$20,720	\$91,641	x 4.4	\$69,648	\$175,023	x 2.5
Male	\$20,575	\$124,441	x 6.0	\$68,342	\$221,234	x 3.2

SOURCE: UON analysis of OECD Education at a Glance 2014 (figures based on 2009)

In the interim, given the current fiscal restraints, UON accepts that a cut to CGS funding may be imposed through the HERR legislation. UON remains concerned that a significant reduction in CGS funding would not deliver outcomes aligned to the principles that frame the HERR reforms. The University recommends that if the Commonwealth cuts its contribution to higher education, the proposed **cut be no greater than 8% and that the impact of the cut and any inadvertent consequences of fee deregulation are reviewed 4 years after** the introduction of the HERR legislation.

A four year period before review of the impact of such cuts and sector responses to the cuts would allow for analysis of the impact of these measures, using the proposed 'KPIs' for the reforms.

Building industry and international engagement in support of higher education

A core principle of the HERR reforms is building opportunity for graduates to compete successfully for jobs. Employment – and the 'graduate premium' – is also frequently cited as a justification for students bearing a larger share of the cost of their higher education. In this context, partnerships with industry – both within Australia and abroad – may provide a new source of support for education, research and innovation in universities. In order to achieve this level of engagement, however, enhanced incentives for industry to partner with universities and research institutions will be essential.

Engagement and collaboration between Australian and Asian universities and industry will require the world standing of the Australian higher education sector to be maintained or enhanced and it is important that in the first phase after the introduction of the HERR legislation that Australia takes careful stock of whether this has occurred.

Section 3:

Structural adjustment pressures, and the adequacy of proposed measures to sustain high quality delivery of higher education in Australia's regions

In the event of funding reductions and deregulation, UON supports the creation of an adequately resourced Structural Adjustment Fund (SAF) targeted at regional universities. By proposing a SAF, the government has acknowledged the differential impact of deregulation on universities, and the potentially adverse consequences of a deregulated sector on universities operating in thin markets. Because of the transformational change represented by the proposals within HERR, UON argues that structural adjustment support will be essential in smoothing the transition to deregulation, even if its introduction is phased.

UON proposes that, at the currently proposed level of CGS cuts, the quantum of funding should be \$500 million over five years. The scope of the fund should also be broadened to consider the potential impacts of deregulation on the capacity of research-intensive universities located in non-metropolitan markets to continue to deliver excellent outcomes for regional Australia.

Effective adjustment is critical because research-intensive regional universities typically offer premium education and conduct world-class research in comparatively disadvantaged non-metropolitan areas, such as the Hunter and Central Coast. The University's position is that the Commonwealth should consider the importance of preserving world-class research and innovation excellence, such as that delivered by UON, rather than focusing the SAF only on "moderately research-intensive higher education providers in relatively low population centres with a relatively limited capacity to immediately redirect resources to maintain their research efforts", as the Bill's impact statement currently describes.

Community leaders in the Hunter have reported concerns that the uncertainty around higher education funding and the possibility of higher fees have reinforced the perception that university is not 'for' students from all parts of the community.

Research-intensive universities in non-metropolitan and regional Australia

UON is a research-intensive university, located in regional Australia, making the university one of a relatively small number of universities outside capital cities where research excellence has been benchmarked at world standard or better across a comprehensive range of disciplines. UON is responsible for building excellence in research and innovation in the Hunter and Central Coast regions, and has driven exceptional outcomes for its community. A recent independent analysis by the Hunter Research Foundation concluded that over the 10 years from 2013, UON would add \$5.5 billion in flow-on economic impact to the Hunter region, a remarkable sum for a university currently celebrating its 50th anniversary.

The 20 per cent reduction in CGS funding will have a marked and adverse impact on the capacity for universities such as UON to continue to deliver research excellence, engage with international and industry partners and to deliver world class innovation in the region.

Section 4:

Research infrastructure

UON's position is that investment in research infrastructure is a critical component of a world-class higher education, research and innovation system, and the University calls for increased dedicated investment in research infrastructure.

The University endorses the recommendation of the Chief Scientist of Australia, Professor Ian Chubb AC, in his recent report '*STEM: Australia's Future*', that Australia's contribution to an international 'flow of new ideas and their application' would require "research infrastructure that is strategic, collaborative and well planned with stable funding arrangements." Professor Chubb also recommends the adoption of a long-term plan for science and research that will "enable strategic investment in research infrastructure."

The Chief Scientist's report recognises that "high upfront costs and uncertain outcomes can deter business support for basic research, large-scale research infrastructure, and new-to-market ideas. Rather than crowd out private activity, government stimulates business investment in R&D largely by supplying the 'patient' capital to researchers that tolerates risk and far horizons." These statements are supported by UON, and apply particularly in regional Australia.

National Collaborative Research Infrastructure Strategy (NCRIS)

NCRIS is a valuable and essential piece of Australia's research and innovation system. Investment in landmark research infrastructure can leverage the shared research strengths of the nation's universities, industry and other partners, and can do so strategically when aligned to the 19 priority capability areas identified in the 2011 NCRIS Roadmap. The diminution or removal of NCRIS would damage Australia's longer-term competitiveness in innovation.

UON considers that any revisions to NCRIS and a renewed commitment to long-term research infrastructure should include **a strong focus on regions** as "the critical nexus for innovation based economic growth" (Lord Sainsbury of Turville, 2007). This will not only encourage greater connections between academic research and market opportunities but if done successfully can lead to the development of new industries, job creation, new start-up businesses, investment in state of the art research facilities and infrastructure, and the attraction and retention of world class researchers, innovators, entrepreneurs and angel investors and venture capitalists.

The University welcomed the Government's commitment in 2015-16 of an additional \$150 million funding to NCRIS and strongly advocates a longer-term commitment by the Commonwealth to significant investment in research infrastructure. Focusing on investment in technology hubs and attracting overseas industries to set up their R&D centres in Australia will better position Australia to address global challenges in existing and future growth industries.

Universities as drivers of regional research and innovation

Universities provide a platform for innovation-based economic growth at a regional level, drawing upon the local interface that already exists between government, industry, business and education to drive research, innovation and change. The capacity to use this local expertise and build on the strength of these collaborative relationships to translate research to productive end use applications, be it economic, social, environmental or health, is large.

This is especially important as Australia struggles with the conversion of research and innovation capability into outputs. Focus on regional economic growth can provide an appropriate mechanism to address this deficit through localised networks of innovators, regional clusters, and research-intensive universities. It is essential, however, as the Chief Scientist pointed out, that appropriate public investment be made in infrastructure and other incentives to deliver the capacity to both create new knowledge, and test its applications.

The University of Newcastle: A world-class research-intensive university based in regional Australia

UON is a research-intensive university located in regional Australia. More than 39,000 students study at the University annually. Its main campuses are in the Hunter and Central Coast of NSW, and the University also delivers programs in the Mid-North Coast, across regional NSW, at its Singapore campus and via a Sydney presence. The University also supports wider communities through a range of online postgraduate education offered through our online 'Gradschool'.

UON is ranked in the top 10 in Australia and is the number one university in Australia under 50 years old. The University is joint 7th for research rated 5 – well above world standard – in the most recent Excellence in Research for Australia exercise completed in 2012.

The University is a major stakeholder in the Hunter region, driving an enhanced skills base and, through research and innovation, a stronger regional economy. A recent independent analysis conducted by the Hunter Research Foundation estimated UON's flow-on economic impact between 2013 and 2022 to be approximately \$5.5 billion.

Celebrating its 50th anniversary this year, the University is committed to excellence and equity. During its first half-century, the University has developed into one of the world's leading centres for research and education in engineering, health and medicine, and energy and resources, with emerging strengths in social sciences and creative disciplines. Many of our students, however, come from areas of social and educational disadvantage and in addition to creating world leading areas of expertise to support industry and business growth, UON has also engaged vigorously in the widening participation agenda to redress the low attainment levels that also hamper growth.

UON is a major contributor to both education and research in regional NSW, and is responding to the Senate Inquiry in the context of our unique mission to enhance educational attainment and support economic prosperity in that region.