

UNIVERSITIES AUSTRALIA SUBMISSION

SUBMISSION IN RESPONSE TO 'FUTURE PROOF'

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EXECUTIVE SUMMARY

High quality tertiary education and training is more important to Australia than ever before. The industries and jobs of the future will depend increasingly on innovation and skills. Improving productivity will be vital to maintain our prosperity and standard of living. A greater share of our population will need to be equipped with the adaptable, transferrable skills that are shaped by high quality post-school learning.

Universities Australia (UA) agrees with the Business Council of Australia (BCA) that education, training and skills are critical to ‘future-proof’ Australia against a backdrop of profound economic, industrial, demographic and social change. Education builds resilience in individuals, firms and nations.

Any change to post-school education policy settings must be grounded in the principle of inclusion – which sees the entire community benefit from economic growth and progress. This is crucial at a time when large-scale economic change risks dislocation and disadvantage for vulnerable sections of our community. High participation in tertiary education bolsters social cohesion and works against entrenched disadvantage and the political dislocation it brings.

UA welcomes the BCA’s continuing interest in tertiary education. While we support many of the underpinning principles and concepts articulated in the paper, many of the recommendations require further development and would benefit from a more robust evidentiary base. Universities are also disappointed that the paper does not outline the contribution that business can and should make to equipping the nation’s young people for the workforce of tomorrow.

We are keen to work with the BCA to develop practical policy proposals to enhance the strengths of Australia’s tertiary education system.

In our submission, we address some misconceptions in the ‘Future Proof’ paper about higher education. We also call on business to take a more active and direct role in contributing to the development of a highly skilled workforce to meet the labour market needs of the future.

UA looks forward to further discussion with the BCA on these important issues.

Recommendations

UA recommends that the BCA:

- work with UA to further develop ideas for policy proposals;
- note UA's advice on misconceptions about higher education in the 'Future Proof' paper;
- reconsider the proposed single funding system for higher education and vocational education, with a view to maintain the distinctive characteristics of both sectors;
- abandon the proposal to charge students upfront fees; and
- Consider practical actions that business could take to advance the aims of the 'Future Proof' paper, including in collaboration with universities, such as:
 - Work with universities to develop higher-end vocational programs in higher education;
 - Co-invest with universities in high quality work placements including internships, work-integrated learning (WIL) places, and apprenticeships;
 - Participate actively in university education through teaching into degree programs where appropriate;
 - Co-invest in research with universities to create high-value add products and jobs;
 - Facilitate research impact and education through co-investment in positions in the higher education sector;
 - Increase the number of apprenticeship opportunities;
 - Consider a national training fund; and
 - Upskill existing staff through education and training at Australian universities.

INTRODUCTION

Universities Australia (UA) welcomes the opportunity to make a submission in response to the paper '*Future Proof: Protecting Australians through Education and Skills*', released by the Business Council of Australia (BCA) in October 2017.

UA shares the BCA's view that investing in the skills and knowledge of our people is the best way to prepare Australia for an uncertain and rapidly changing economic future. Investing in education will support productivity growth and innovation – the key to maintain Australia's prosperity and standard of living.

UA welcomes the BCA's continuing interest in education policy, and in tertiary education in particular. We are keen to work constructively with the BCA to develop ideas for effective policy proposals.

UA is, however, disappointed by some aspects of the BCA's paper.

It is highly unusual that the BCA did not consult extensively with UA nor the higher education sector while developing the paper – and this absence of expert, evidence-based input shows. Consultation from the beginning would have strengthened the higher education sector's understanding of and support for the BCA's project, and would have laid a solid foundation for collaboration to develop ideas and proposals.

The paper contains some misconceptions about the higher education policy environment. These misconceptions influence the paper's discussion of the issues and its recommendations in unhelpful ways.

Most importantly, the 'Future Proof' paper lacks a focus on what business itself can do to advance the aims set out in the paper. We make some relevant suggestions at the end of our submission, including a number of areas where universities could work with business to improve the supply of graduate skills to the labour market and to improve graduate outcomes.

UA looks forward to further discussion with the BCA on the issues and potential solutions. The higher education sector wants to work productively with business to deliver improvements to the education policy framework.

MISCONCEPTIONS IN THE 'FUTURE PROOF' PAPER

The BCA's paper and related public statements include a number of misconceptions about the higher education sector.

UA AND GOVERNMENT POLICY PROPOSALS

In an interview with *Campus Review* about the 'Future Proof' paper, BCA Chief Executive Jennifer Westacott stated that UA has 'criticised every plan that every Government has had'. This is simply not true.

Over the past two years alone, UA has welcomed a vast number of policy proposals and worked in partnership with Government on all manner of issues.

Some recent examples include our collaborations with Government to make university admissions more transparent, to resolve 457 visa issues for researchers, and to continue to build our international education sector which brings \$28.6 billion into Australia each year. We also supported proposals in last year's Budget to extend the demand driven system to sub-bachelor places and to improve funding for work-integrated learning (WIL).

Of course, UA defends and advocates for its members and for higher education and research in Australia. We do not support cuts to higher education funding as they are a false economy which will damage skills supply, productivity, economic growth and Australia's long term interests.

VALUE FOR MONEY AND RETURN ON INVESTMENT

In her speech at the National Press Club launching the 'Future Proof' paper, Ms Westacott stated that 'we don't know if we're getting the best value for the twenty billion dollars we're putting into VET and higher education each year'.

In truth, Australian universities are amongst the most efficient in the world.

Universitas21 ranks Australia 3rd for output' (research output and its impact, student throughput, the national stock of graduates and researchers, the quality of a nation's best universities and employability of graduates) but 15th for input resources. The gap between the two is a measure of efficiency and only Australia and the United Kingdom are ranked in the top five for output but lower than the top 10 for resourcing.¹

A recent study found that Australian universities, increased their productivity by 15.7 per cent in the six years to 2013 on average, or 2.6 per cent per year².

There is no doubt that investment in higher education yields a big return.

Deloitte modelling shows the university sector contributed around \$25 billion to the Australian economy in 2013, accounting for over 1.5 per cent of Australia's GDP. Universities directly and indirectly accounted for 160,000 full time equivalent jobs.³

University education added an estimated \$140 billion to Australian GDP in 2014, due to higher labour force participation and employment of university graduates and increased productivity of the workforce. Australia's GDP is 8.5 per cent higher due to these contributions.⁴ This equates to roughly a sixfold return on \$25.3 billion university spend from all sources, and more than a tenfold return on Commonwealth Government investment in universities in 2014.

¹ Universitas21 2017, *U21 Ranking of National Higher Education Systems*, <http://www.universitas21.com/article/projects/details/152/u21-ranking-of-national-higher-education-systems-2017>

² Moradi-Motlagh, A., Jubb, C. and Houghton, K. 2016, 'Productivity analysis of Australian universities', *Pacific Accounting Review*, 28 (4), p. 386-400.

³ Deloitte Access Economics 2015, *The importance of universities to Australia's prosperity*, Deloitte Access Economics Pty Ltd, Canberra.

⁴ Ibid.

Data published by the OECD in 2017 shows that the net public benefit from university education for Australia is US\$149,800 per male graduate and US\$119,900 per female graduate. Public benefits included higher tax revenue and lower social security transfer payments.⁵

A highly educated workforce benefits everyone. For every thousand university graduates who enter the Australian workforce, 120 new jobs are created for those without degrees. Wages for non-degree holders are boosted by \$655 a year – or \$12.60 a week – when more graduates join the national workforce.⁶

THE COST OF TERTIARY EDUCATION

The 'Future Proof' paper states that little is known about the cost of delivering high quality tertiary education.

This overlooks some important recent work.

UA worked with the Government in 2016 on a major exercise to improve data on the cost of delivering high quality higher education in Australia's universities. Following this project, the Government announced in May 2017 a further project to collect higher education costing data on an ongoing basis from 2018. UA is also closely involved in this work.

The 2016 costing review found that current resourcing levels for universities (including both Commonwealth and student contributions) were – at best – adequate, given the range of functions that universities are legally required to undertake. Base funding for universities covers not just teaching but also scholarship, a base capability in research and maintenance of infrastructure.

Similarly, the costing review found that funding rates and costs for different disciplines were for the most part quite closely aligned. Some expensive fields (Dentistry, Veterinary Science and Medicine) were underfunded. No field was clearly overfunded. The results of the costing review did not support the view that funding rates are unrelated to costs.

THE PUBLIC AND PRIVATE BENEFITS OF TERTIARY EDUCATION

The 'Future Proof' paper also assumes that little data is available on the relative public and private benefits of higher education.

In May this year, the Government cited a new study by Deloitte which showed that the public benefits of higher education exceed the private benefits. The report showed that, after controlling for students' 'innate ability', 55 per cent of the benefit to the economy from each graduate was a public benefit, compared to a 45 per cent private benefit.⁷

⁵ OECD 2017, *Education at a Glance 2017: OECD indicators*, OECD Publishing, Paris, Indicator A7.3.

⁶ Cadence Economics 2016, *The Graduate effect: Higher Education spillovers to the Australian workforce*, Cadence Economics Pty Ltd, Canberra.

⁷ Deloitte Access Economics 2016, *Estimating the public and private benefits of education*, unpublished report to DET, p.47, cited in Australian Government 2016, *The Higher Education Reform Package*, p.9-10

THE FISCAL COST OF THE DEMAND-DRIVEN SYSTEM

The 'Future Proof' paper encourages the view that the demand-driven system of funding university places imposes unpredictable, ongoing increases in the fiscal cost of higher education.

The Government's decision to freeze Commonwealth Grants Scheme (CGS) funding at 2017 levels effectively ends the demand-driven system. As UA has argued elsewhere, this is a poor policy decision, as it constricts opportunity and reduces the responsiveness of the sector to student and employer demand.

From a purely fiscal point of view, it is also an unnecessary decision.

Growth in the number of student places funded under the demand-driven system plateaued two years ago. As a result, Government expenditure on the demand-driven system also stabilised.

After the move to a demand-driven system was announced in 2009, aggregate Government funding for university places increased as universities absorbed unmet demand for higher education.

This was the policy intent, and was the subject of a bipartisan consensus until very recently.

Enrolment initially grew at around 6 per cent during the transitional years prior to the full introduction of the demand-driven system in 2012. In 2016, Government-supported places grew by only 1.5 per cent, down from 1.6 per cent in 2015, 3.6 per cent in 2014 and 5.2 per cent in 2013. Consequently, growth in public investment also stabilised.⁸

EMPLOYERS' PERCEPTIONS OF GRADUATES

The National Press Club speech launching the 'Future Proof' paper repeats familiar claims that employers are unsatisfied with graduates and believe they are not ready for work.

The Government's large-scale *Employer Satisfaction Survey* presents a very different picture. This is the only comprehensive survey of employers' perceptions of graduates that is based on direct experience of graduates' work. The 2017 *Employer Satisfaction Survey* found that more than nine out of ten employers believed their graduate employees were well prepared for work by their university studies. Nearly 85 per cent of employers expressed overall satisfaction with their graduate employees.

Graduates' supervisors were slightly more likely to report that university study had prepared graduates well for work than were graduates themselves.⁹

These data refute the all too commonly asserted view that universities are not equipping graduates for work.

⁸ DET various years, *Higher Education Student Statistics*.

⁹ QILT 2017, *2017 Employer Satisfaction Survey National Report*, https://www.qilt.edu.au/docs/default-source/ess/ess-2017/ess_2017_national_report_final.pdf?sfvrsn=19b2e33c_6

A TERTIARY SECTOR: HIGHER EDUCATION AND VET

The main proposal in the 'Future Proof' paper is a common policy and funding framework should cover both higher education and VET. In particular, the BCA's proposal seeks to redress decreases in VET funding in recent times.

The paper seems to argue that a unified tertiary funding system can be delivered within current funding allocations. This implies a zero sum game. There is no reason to lock in current levels of total funding where these are not adequate. The solution to inadequate VET funding is better VET funding – not even more inadequate higher education funding.

While it argues for a single funding system, the 'Future Proof' paper rightly insists on the importance of maintaining the distinct identity and character of each of the higher education and VET sectors. The two sectors are fundamentally different and have different histories, aims and characteristics. The BCA paper does a good job of outlining the differences between the two sectors and of establishing the need to 'maintain their unique identities' (pp.82-83).

Against this background, the paper's proposals for an integrated tertiary policy and funding framework needs to be examined closely for risks of unintended consequences. Other things being equal, a common funding and policy framework would tend to produce uniformity in other aspects of the tertiary education sector. The proposal needs to include more developed design elements to maintain the separate identities of the two sectors.

As it stands, the proposal (see diagram on page 84) separates Federal and State funding responsibilities, rather than educational sectors. It is not clear that this arrangement is well thought out, nor that it would maintain the sectors' independence as the BCA intends.

'Breaking down barriers' between the two sectors is certainly a worthy goal, and one that UA supports. There are several initiatives that could be considered to advance this goal by partnering to deliver courses, credit recognition and articulation.

A unified policy and funding framework, on the other hand, is a much bigger and qualitatively different undertaking. UA believes that more thought needs to be given to the aims, mechanisms and desired outcomes of such an initiative.

The last thing anyone would want is for Australia's very successful higher education sector to be subjected to the kind of rapidly changing, poorly considered policy and funding interventions that have damaged VET in the past decade. This would harm higher education and do nothing to improve VET.

UPFRONT FEES FOR STUDENTS

One of the proposals in the 'Future Proof' paper is to require students to make some upfront payment to gain admission to courses. The rationale for this is to give students 'skin in the game'.

It appears that the BCA intends this proposal to address an alleged problem of students enrolling in courses without due consideration of the cost and effort involved, their likely post-study outcomes or their likelihood of repaying income-contingent loans.

Students – at least in higher education – already have significant ‘skin in the game’. While income-contingent loans cover tuition costs – supporting fair access to study regardless of students’ background or financial circumstances – there are other up-front costs that students need to meet. Study also typically imposes opportunity costs on students. Leaving financial costs aside, study is a serious commitment of time and effort. It is not clear that large numbers of students enrol frivolously or thoughtlessly resulting in distortions in the funding system.

If there are students who do not give due consideration to return on investment, it is not clear that an upfront free would address the problem. An upfront fee would penalise students without access to upfront cash. This is not a fair or well targeted proposal.

More importantly, an upfront free would be a serious and unwelcome change to a system that is predicated on no upfront fees. Once a small upfront fee became established, there would always be a risk that the upfront component would be increased, particularly given current exaggerated concerns about the sustainability of the income-contingent loan program that are largely shared by the ‘Future Proof’ paper.

UA’s view is that recent problems in the operation and cost of the income-contingent loans scheme were caused by the poorly designed and inadequately policed VET FEE-HELP program. The Government has taken action to fix these problems by replacing VET FEE-HELP with the VET Student Loans program. As the ‘Future Proof’ paper observes, this causes some other problems, but UA believes things are moving in the right direction.

Establishing upfront fees as a principle of tertiary education funding would be a retrograde and undesirable move.

PRINCIPLES AND PROPOSALS THAT UA SUPPORTS

UA welcomes the BCA's continuing interest in education policy, and in tertiary education funding in particular. We share many of the views that inform the 'Future Proof' paper and welcome the BCA's strong public statements about the importance of tertiary education and the need for effective policy settings.

Firstly and most importantly, UA welcomes the BCA's recognition of the vital importance of tertiary education in today's world, and the even greater importance it will have in the economy and labour market of tomorrow. The 'Future Proof' paper makes a strong argument for the positive impact of education and research on economic prosperity and growth, innovation and social cohesion. UA entirely agrees. As we have argued in various contexts, tertiary education is more important than ever before.

The economy—and the labour market—are changing at breakneck speed. It is impossible to predict the full impact of the current structural shifts. For nations, companies and individuals, resilience and adaptability will be central to success. Universities play a vital role in equipping societies, industries and individuals to face a future of rapid and unpredictable economic change.

UA welcomes the BCA's commitment to seek policy settings that set Australia up for the long term. Tertiary education – both higher education and VET – must be adequately resourced. Policy and regulatory settings must continue to assure the quality of Australia's tertiary education systems to maintain their reputation at home and abroad. At the same time, policy settings should grant universities and other providers the autonomy and flexibility to deliver a wide range of different courses and educational experiences, and to innovate in what they deliver and how they deliver it. Funding freezes and poorly thought out performance funding systems are not the way to do this.

We welcome the paper's recognition of the various purposes of education. While tertiary education has a vital role in preparing students for work and does this very well, it also has broader roles. This is particularly true of higher education.

In addition to building human capital, higher education is about cultivating knowledge and analytical skills that can be of enormous value well beyond the workplace – and encouraging wide-ranging intellectual enquiry. Each of these purposes has both public and private benefits.

UA also welcomes the paper's recognition of the role of research in universities, and its important relationship to teaching.

Similarly, UA welcomes the BCA's recognition of the different and complementary roles of higher education and VET. The paper's articulation of the two sectors' aims is a useful contribution to policy discussion. There is a risk that these important differences – and the complementary roles of the two sectors – may be threatened by a single funding system.

The 'Future Proof' paper takes a strong interest in lifelong learning. UA fully supports this. We agree that creating a culture of lifelong learning will be a big job. Changes to the Australian Qualifications Framework (AQF) and to both

academic and professional accreditation may be necessary to promote lifelong learning. It will be very important to ensure that any changes do not compromise the quality, rigour and reputation of either existing or new providers and awards.

UA commends the BCA's interest in practical ideas and policies to expand access to tertiary education to all Australians. UA has campaigned strongly for wider access to higher education for several years. The skills and innovative capabilities that universities foster need to be spread more broadly across the population than in the past. As traditional industries are disrupted and recede—not only in manufacturing and primary industries, but in white collar sectors too—economic and employment growth will increasingly depend on knowledge and innovation.

As the 'Future Proof' paper argues, a range of diverse pathways into (and potentially out of) different levels of education is needed to facilitate access by learners from diverse backgrounds at different stages of their lives. Once again, pathways need to be designed carefully to ensure the quality and integrity of awards and to maximise the benefits for students. UA fully supports, however, the use a range of different methods to identify quality students and admit them to courses. We would be pleased to work with the BCA to examine ways of designing exit points to deliver a diverse range of high quality awards that meet the needs of both students and employers.

Finally, UA agrees with the BCA that improved information for prospective students is important to help inform effective and efficient decision making.

Information also ensures transparency. UA has strongly supported the Government's work to develop the Quality Improvement in Learning and Teaching (QILT) indicators, and we continue to work with Government to improve the system. The QILT indicators demonstrate the success and quality of Australia's higher education system.

WHAT BUSINESS CAN DO

The BCA paper is surprisingly quiet on actions that business can take to advance the goals in tertiary education that it advocates. Business needs to step up and take a more active role in workplace learning inside universities and businesses, in close collaboration with the university sector. In particular, businesses' decisions about who they employ could help to address perceptions of the relative value of higher education and VET, which the paper points to as a key problem. This also applies to apprenticeships.

A recent newspaper column made some strong points about the contribution that business could make to both discussion about and practice in job ready education and training, including through their employment decisions and through on the job training.

'Businesses aren't offering cadetships and internal pathways for careers in the way they once did. They instead expect the taxpayer-subsidised higher education sector to do the heavy lifting'.¹⁰

UA and several business peaks set up a national Work Integrated Learning (WIL) strategy in 2015: a partnership between the university sector and industry to promote the benefits of work integrated learning for students and employers.

We would welcome a broader discussion about how business and higher education could collaborate productively in this area.

In higher education, business could take a range of practical steps – both within its own operations and in partnership with universities. For example, business could:

- Work with universities to develop higher-end vocational programs in higher education;
- Co-invest with universities in high quality work placements, including internships, work-integrated learning (WIL) places, and apprenticeships;
- Participate actively in university education through teaching into degree programs where appropriate;
- Co-invest in research with universities to create high-value add products and jobs;
- Facilitate research impact and education depth through co-investment in positions in the higher education sector; and
- Upskill existing staff through education and training in programs at Australian universities.

In 2017, Universities Australia began a sector-wide audit of work integrated learning activities, both for-credit and not-for-credit. This data collection is a commitment under the National Work Integrated Learning (WIL) Strategy. We know that there are a very wide range of university/industry activities taking place. The audit will, for the first time, provide a comprehensive picture of the dynamic and innovative ways that universities are preparing their students for employment.

The report will be published mid-2018 and will provide a national picture of our universities' commitment to enhancing graduate employability, the experiences of international and domestic students, and challenges that universities face in implementing WIL.

The WIL audit will provide a solid base from which to build evidence-based policy to enhance graduate employability and industry engagement in this important project.

The only recommendation in the BCA paper which specifically mentions actions to be undertaken by business proposes a new taxpayer-funded Industry Training Scheme to help employers upskill their workforces. If this kind of

¹⁰ Peter Van Onselen 2018, 'University approval rating of 84pc from business is not a fail', *The Australian*, 13 January 2018

education and training is covered by the tertiary education proposals in the rest of the paper, dedicated program funding is unnecessary. If it isn't covered, it is not clear why employers should not fund this kind of training themselves.

Business might more usefully examine options for a training program that is funded by employers themselves, for example through a training levy. UA would be happy to discuss options with the BCA, including options for collaboration in this area.

WORKING TOGETHER TO DEVELOP POLICY IDEAS

UA extends an invitation to the BCA to collaborate on policy ideas to enhance Australian tertiary education for the future.

UA agrees with the BCA that investing in education and research is the best way to support productivity and innovation, and to position Australia to face continuing economic change.

Supporting high levels of participation in higher education will help Australians to develop the advanced generic and specific skills that the economy increasingly needs. Open-ended inquiry and continuous learning – the most traditional academic values – instil the attitudes and capabilities to drive and respond to the new economy.

Despite the Government's recent rhetoric and actions, Australia can afford a high-quality university system that is open to all Australians with the ability and desire to pursue higher education. Indeed, Australia cannot afford not to make this investment.

There is no evidence of a decline in the quality of the higher education system. This is a very positive result at a time when participation has expanded significantly, especially among groups traditionally under-represented in universities.

Funding levels were sustainable before MYEFO. Enrolments were growing at around the same rate as population growth: the demand-driven system was successful and sustainable.

Despite this success story, universities continue to confront an uncertain policy and funding environment. The medium-term future for university policy and funding remains uncertain. Even some elements of the recent MYEFO announcements are unpredictable in their impact. This is especially true of performance funding, where the motives, aims and design of the initiative are unclear.

UA is keen to work with BCA to develop further the elements of a stable policy and funding framework that enhances the strengths of our existing system.