



THE UNIVERSITY OF MELBOURNE

SUBMISSION TO THE INQUIRY INTO THE HIGHER EDUCATION
SUPPORT LEGISLATION AMENDMENT (A MORE SUSTAINABLE,
RESPONSIVE AND TRANSPARENT HIGHER EDUCATION SYSTEM)
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Introduction

The University of Melbourne is pleased to make a submission to the inquiry into the *Higher Education Support Legislation Amendment (A More Sustainable, Responsive and Transparent Higher Education System) Bill 2017*.

The Government's proposed changes to higher education have far reaching consequences for students and universities. On balance, the University of Melbourne cannot support the proposed legislation and policy package.

The package would impose a cut of \$2.8 billion dollars to the sector over the next four years and would continue a decade long pattern of federal disinvestment from the nation's higher education system.

The Bill comprises a series of new regulations attached to a significant funding cut. It is a piecemeal policy offering that fails to acknowledge and address the shortcomings of the demand-driven system, overlooks the integral role of research in the university setting and will cause severe detriment across the system if implemented. This is not a package representing genuine sectoral reform. The measures would generate additional regulatory burden at a time when the Government is actively seeking to remove productivity-sapping red tape and boost the nation's productive capacity. It is perplexing the Government is taking a punitive approach to a sector that has built a \$20 billion export industry in international education and is a critical enabler for the Australian economy as it shifts to create industries and jobs for the future.

While the package has some welcome elements, such as enshrining in legislation the Higher Education Participation and Partnerships Program (HEPPP), many of its measures would introduce enduring negative consequences for Australian higher education.

Students will bear much of burden, suffering increased contributions while the overall funding for their universities is reduced and worse terms for the Higher Education Loan Program (HELP).

All public universities and their students would be adversely affected by the proposed 'efficiency dividends' of 2.5 per cent in 2018 and again in 2019 applied to the Commonwealth Grant Scheme (CGS).

The Government has based its argument for the \$384.4 million efficiency dividend on the 2016 *Deloitte Access Economics: Cost of delivery of higher education* report. However, the report does not support the Government's claim the sector is overfunded, but rather points to the need for ongoing work to understand the reasonable costs of delivering high quality education consistent with the Higher Education Standards Framework. The Report states "... *these figures cannot be compared as direct growth or decline in costs relative to funding over the five years to 2015...*" The University has previously argued for the establishment of an expert body to provide a robust, evidence base and advice to Government to inform policy making.

The incoherence of the 2017-18 Budget proposals make the case for the need for a Commission-styled expert body.

Of deep concern is the lack of important detail about two key initiatives in the legislation - the performance funding measures and the postgraduate scholarships scheme. It is surprising such fundamental shifts in public policy are being implemented without adequate detail and no prior consultation with those most affected. Both measures will be complex and expensive to manage and each could have significant unintended consequences for the sector as a whole and the viability of graduate education in particular.

The proposed scholarships scheme for postgraduate Commonwealth Supported Places (CSP) has a number of shortcomings. These include:

- There is no national (or state) system or testing regime for determination of merit at the graduate level moderated in such a way that students from different institutions can be meaningfully compared for the scheme;
- Universities will be unable to plan effectively, given the potential volatility in the number of scholarship students each year for particular fields of study and how that will impact the number of non-scholarship places an institution can make available;
- The proposed scheme would be bureaucratically cumbersome and expensive to administer yet do little to address the central issue of how to capture demand and distribute places in a transparent, efficient and cost-effective way;
- In an unprecedented development, this would be the only cohort of students for which the Minister and Commonwealth Government administer outcomes for individuals, raising issues around timeliness and appropriate appeals mechanisms;
- It is unclear what measures, other than merit, will be adopted to determine the allocation of places and how this will impact on the needs of professions; and
- On the limited information currently available, the proposed scheme does not offer a fair or clearly defined methodology for allowing a capped number of places to exist alongside unlimited full-fee places.

For the University of Melbourne, the move to a voucher system to allocate postgraduate CSPs fundamentally undermines the integrity and viability of the Melbourne Model. Established ten years ago with the support of the Howard Government, and the then Minister for Education, The Hon. Julie Bishop MP, the Model introduced diversity into the higher education landscape by virtue of creating a postgraduate professional entry model in which students undertake a broad undergraduate degree before specialising into a postgraduate professional pathway.

In many respects the Melbourne Model is comparable, from a funding impact perspective, to the 'double degree' model offered by other institutions. The University of Melbourne purposefully adopted the operating structure of world-class universities in Europe and the US to create excellence and diversity in Australian higher education.

As a result of the trade-off for an agreed higher number of postgraduate places, Melbourne was excluded from the demand-driven system when it was introduced later by the Rudd/Gillard Government. To remove the assured postgraduate pathway, without any consultation with the University, would nullify the previous arrangements with the Government on the funding model.

The University of Melbourne believes there are alternatives to addressing the historical anomalies having arisen in the allocation of postgraduate places that would be sensitive to the aspirations of other universities to have access to a greater number of postgraduate places without creating an unwieldy, centrally controlled system removed from the decision-making and accountabilities of universities.

The University shares the concern expressed by other institutions, Universities Australia and the Go8, about the proposed performance funding measures that would put 7.5 per cent of each institutions' funding at risk with no clarity about the intent of this measure or the basis on which the funding would be reallocated.

International examples point to the difficulty of implementing effective teaching and learning performance schemes and many schemes are eventually abandoned. Embarking on a scheme of the scale and in the timeframe proposed presents significant risks to community confidence in higher education. The initial 'performance measures' suggested by the Government, such as complying with data collection exercises, are compliance matters not true performance indicators and do not require a performance funding scheme. The CGS funding agreement, for example, can already accommodate performance and compliance aspects of an institution's operations to achieve the accountability and performance improvement aims suggested by this Budget measure.

Overall, the Government's proposals do little to contend with the central issue of how to manage the growing overall cost of higher education in a way that is not punitive to students or that risks quality. The package shies away from addressing the uncapped budget outlays and inefficiencies created by the demand-driven system and does not address modifications that could ensure it continues to facilitate entry for any eligible student seeking to study while ensuring appropriate pathways likely to result in completion and graduate employment. Nor does the package advance the interrelated challenge of reforming research policy and funding, which ensure students can be educated by academics working in appropriate research environments.

Summary of Recommendations

- The legislation should not be supported as many of its measures risk lasting negative consequences for students, universities and the Australian economy.
- The Government should develop principles and an implementation plan before considering a postgraduate scholarships scheme so it can align with universities' entry procedures and ensure a reasonable chance for awardees of being accepted into their programs of choice.
- The Government should establish a specialist higher education policy body that has deep knowledge of the sector's institutions, their operating models and particular missions and which has adequate resources to evaluate the impact and consequences of policies.
- The Government should develop an evidence base on the nature of the problems/enhancements to be addressed before considering implementing 'performance funding' measures in order to avoid unintended and perverse outcomes.
- The Government should introduce a system of flexible funding envelopes for Commonwealth Supported Places to renew the demand driven system and encourage greater choice for students.
- The Government should provide surety for the national research effort through greater certainty for funding research infrastructure and the National Collaborative Research Infrastructure Strategy (NCRIS), and implementing the recommendations of the Review of the R&D Tax Incentive.

The University of Melbourne

The University of Melbourne is Australia's leading university, with more than 50,000 students (approximately 42,500 full-time equivalents), 7,400 staff, over 360,000 alumni and an annual expenditure on teaching, research and engagement exceeding \$2.3 billion. Of this, around a quarter is funded with recurrent Commonwealth Government grants through the CGS and the research block grants. The University raises the rest through a diversified funding strategy.

The University offers a distinctive, world-class education model, the first of its kind in Australia. Introduced in 2008, the Melbourne Model reflects the global trend towards broad and liberal undergraduate education leading into specialised, professional graduate study and research degrees. The University undertook significant structural and curriculum change on the understanding it will have sufficient and ongoing access to postgraduate CSPs. With the strong support of the then Commonwealth Government to make the transition, the University has a unique profile – 50 per cent of our students study at postgraduate level. This is echoed in funding arrangements entered into with the Government whereby Melbourne has a larger number of postgraduate CSPs compared with other universities, but is not permitted to participate in the undergraduate demand-driven system.

Ten years on, the Model sets a benchmark for quality in Australian higher education. Places are heavily in demand from high-achieving domestic and international students. The University has the best reputation in Australia among employers for the quality of its graduates. Taxpayers receive value for money reflected in the high retention and employability rates of Melbourne graduates.

The University of Melbourne has risen from 75 to 40 in the benchmark Academic Ranking of World Universities since the Melbourne Model was introduced in 2008. Melbourne is now among the 50 finest universities in the world as judged by every major international index.

Benefits of the Melbourne Model

Flexibility and focus – 40 per cent of our students rethink their career direction during undergraduate studies. Some school leavers have a chosen career and study pathway mapped out, others are not ready to do so. Our Model helps both kinds of student succeed, and breadth subjects allow students to develop a wider range of knowledge and skills to supplement their main discipline.

Student retention – A Melbourne education gives students the time, insight and maturity to make an informed decision, ultimately reducing the burden on taxpayers funding incomplete or under-utilised education. Melbourne consistently achieves the highest student retention rates (95 per cent) of any university in Australia.

Equity and diversity – 34 per cent of domestic undergraduate students enter the University via an access scheme. We welcome a diverse range of students for whom the Melbourne Model has compelling benefits. A large number are assisted by our access schemes offering life-changing possibilities where disability, socio-economic disadvantage, financial difficulty, geographical isolation or other circumstances stand in the way of study.

Well-equipped graduates – The benefits of the Melbourne Model become apparent when our students begin masters and doctoral courses. They have greater self-awareness, well-considered aspirations, and a mature and broad intellectual base. Students emerge from graduate schools ready for advanced professional practice.

Strong demand – Since launching the Model, Melbourne Arts, Science and Commerce undergraduate degrees have become the most sought-after in Australia. Our median entry rank in 2016 was an ATAR of 94.3.

Outstanding employability – No university is rated more highly by Australian employers. The University of Melbourne also ranks 11th among employers worldwide. Ninety-three per cent of graduates are employed four months after graduation. Each year more than 250 Australian and international organisations – consulting firms, technology firms, government and industry – actively recruit on campus including IBM, Microsoft, Telstra, ANZ, Commonwealth Bank and NAB, BHP Billiton, Credit Suisse, Deloitte, PricewaterhouseCoopers, Rio Tinto, Shell, The Boston Consulting Group.

The Melbourne Model is a distinctive approach to the delivery of a university education – it provides students with choice in a relatively uniform national market for higher education. Australia has made slow progress in genuinely supporting institutions to diversify and be responsive to the needs of students. There is scope in Australia for a more ‘joined up’ tertiary system with stronger linkages and pathways between all post-secondary forms of education – many institutions are already working towards genuine reform and innovation in the sub-bachelor and dual sector spheres, for example.

A higher education reform package should embrace and encourage diversity, support institutions in pursuing their unique missions and areas of strength in teaching, learning and research and encourage innovation in delivery of cutting-edge education. The proposed legislation will not achieve this and on that basis alone it should not be supported.

A model designed to deliver depth and breadth

Undergraduate fundamentals	Specialised graduate programs
<p>Our six core undergraduate degrees offer students a choice from over 100 majors, offering a deep learning experience over three years.</p> <p>—</p> <p>Breadth subjects enrich the experience and allow students to supplement their main discipline with a wider range of knowledge, skills and interdisciplinary perspectives.</p> <p>—</p> <p>On graduation, students can enter the workforce with confidence or progress to a professional graduate degree or research higher degree.</p>	<p>Our Model offers a true graduate school experience, with a choice of more than 400 courses, in fields including law, engineering, medicine, architecture and teaching.</p> <p>—</p> <p>A professional graduate degree can be a life-changing option, equipping students with specialised cognitive and technical skills – with an internationally recognised masters level qualification.</p> <p>—</p> <p>The Melbourne Model also offers pathways into outstanding research training led by world-leading academics.</p>

Scholarships for Commonwealth supported postgraduate coursework

The Government proposes a new ‘scholarships’ places scheme as the mechanism to allocate national postgraduate places from 2019. The Government has indicated allocation will reflect student demand, filtered by scholarship criteria set by the Minister or a body with delegated authority under the Act. A higher education provider (HEP) will likely not be able to refuse to admit a student on the basis of their scholarship but are permitted to ‘opt out’ of the scheme altogether. The total number of postgraduate vouchers is yet to be advised but will likely be less than 36,000, approximately 3,000 fewer than the current allocation of postgraduate CSPs.

Impact on the Melbourne Model

The scholarship scheme could have significant implications for the University of Melbourne and the Melbourne Model, which provides assurance students with appropriate academic performance can progress from a broad undergraduate degree to a professional entry postgraduate degree. The few details available from public statements and in the amending legislation raise significant questions about the feasibility of the scheme achieving its stated aims and raises issues about the viability of the Melbourne Model from 2019 - a model that was previously supported by the Commonwealth Government.

The Melbourne Model is effective because it explicitly builds pathways through undergraduate to graduate study to optimise the continuity between bachelors and graduate programs without limiting student options and choice. Many school-leavers are not yet ready to make career decisions and experience shows a large number of students form entirely new career aspirations during their undergraduate studies, some influenced by their breadth subjects. Melbourne’s model recognises graduate study is not for every future student. Providing options to suit what is best for individual students is a strength of the model.

Under the scholarships proposal students considering graduate education will have much less confidence in whether they will receive Commonwealth support and whether their course of choice will be available. This is a particular issue for school-leavers considering the integrated Melbourne Curriculum Model. The long timescales involved for the pathway for students exacerbate this challenge. For example, applicants for undergraduate places in 2019 would be looking to commence a postgraduate course in 2022-23.

The scheme would also exacerbate a serious inequity: some students would be eligible for taxpayer subsidy for liberal-professional undergraduate double degrees (with uncapped places available and high costs caused by attrition) while those students opting to undertake liberal-professional studies through sequential bachelors and graduate degrees would not be guaranteed the same level of tax-payer support. While it may not have been the Government’s intention to preference double bachelor degrees over bachelor-graduate degree combinations

for students who are seeking professional entry qualifications, the proposed legislation explicitly does that.

The assurance of a pathway into a graduate program is essential to both the integrity and the viability of the Melbourne Model. The Government's proposed approach would remove that assurance, notwithstanding the Government's agreement to grandfather all currently enrolled students and those enrolling in 2018.

The challenge of implementing a fair and effective scholarship scheme

Important considerations and challenges for the sector more broadly are immediately apparent:

- **Significant challenge in developing consistent and fair criteria for awarding scholarships:** The criteria for a student to be granted a scholarship is to be developed by an Advisory Group and applied by the administering body. Even if such a body could reach agreement on the criteria for selection; there is no efficient way to moderate the outcomes of students from different disciplines and institutions without substantial academic input. That is, HEPs presently use a variety of criteria to assess entry into individual postgraduate courses, with no universal system for reliably comparing academic merit. The Government has indicated in material published for the Budget that it will emphasise merit alongside other criteria, such as equity and the Government's discipline/course priority areas. There is some precedent in the allocation of CSP for priority disciplines, for instance education and nursing. However awarding based on low SES criteria, for example, will require development of a new framework. Australian universities currently receive funds to support low SES students based on aggregate measures not tied to individuals.
- **Difficulty in timing the scholarship offer:** The sequencing of when a scholarship is granted by the third party authority, versus when a student is offered a place at a HEP, becomes crucial to successfully implementing the requirement that no student be refused entry solely on the basis of having a scholarship. HEPs would have to make an enrolment offer to students 'blind' of, or prior to, resolution of that student's postgraduate CSP funding status. This would make it more difficult for HEPs to estimate for the coming year the number of CSP and Full Fee students likely to apply for enrolment in any given course. Many courses would be financially unviable without a mix of CSP and Full Fee students to cover the full cost of delivering the course.
- **Uncertainty around enrolling students:** At an appropriate point in the enrolment cycle, estimates of both CSP and Full Fee student cohorts are drawn so the enrolment process can proceed with certainty and efficiency. The scholarships scheme will create a challenging situation for both HEP and student alike if applicants do not know whether they have been successful in gaining a scholarship prior to applying for a course. The scheme will bring a considerable challenge for HEPs to plan course load for each coming year and mean potential delays in offering some unsuccessful

scholarship applicants entry on another basis, such as Full Fee. It will also introduce volatility, for example, a person seeking a scholarship may only want to undertake a selected course on a CSP basis and if unsuccessful may refuse an offer of a Full Fee place, so the place will need to be reallocated. Volatility is also introduced if a successful scholarship applicant decides to decline the scholarship and it has to be re-allocated – increasing administrative effort and slowing the process.

- **Scale of the application process:** It can be estimated that currently there are at least 60,000 applications made for the around 30,000 postgraduate CSP places commencing annually. A centralised system of allocation would be a significant undertaking, not least because under the legislation the Minister must write to every student advising of the outcome of their application.
- **High costs for administering the scheme:** The proposed scheme will bring with it a major cost to administer, and it is unclear whether this will be passed onto HEPs or charged to students. At present universities undertake significant administrative efforts to manage the application process and informing students of their success or otherwise, as well as handling appeals. The scholarships scheme will require the replication of many of these processes nationally at a cost in the order of millions of dollars each year. It is not clear the new scheme will be as transparent as existing arrangements, with allocation no longer appearing in funding agreements.
- **Feasibility of delivering the scheme by the 2019 start date:** Remarks on the public record suggest the Tertiary Admissions Centres (TACs), or similar, could be seen as suitable to run the scheme. This proposition highlights questions about the feasibility of establishing the scheme by 2019. Currently there is no national body undertaking postgraduate student entry assessment at similar levels of complexity and scale to that implied by the scholarships scheme proposal, nor are there moderated examination/assessments to form the basis of such a scheme. The lead time to develop a postgraduate equivalent of ATARs (or similar) would be at least three years and possibly longer, even with the TACs working in close cooperation with each other and the universities.

Implications of a poorly implemented scheme

Introduction of the proposed scholarship places scheme would be the most significant development for postgraduate coursework education since the reintroduction of student contributions in the late 1980s.

While the allocation of postgraduate CSP has been based on historical arrangements with no recent rationale for distribution, shifting to a voucher scheme may produce little more coherence in the allocation of places either geographically, for particular purposes, or to particular candidates. There is nothing in present policy and regulation to prevent a Minister from redistributing the postgraduate CSP in any way she or he decides to meet policy goals.

The proposed scholarships scheme aspires to deliver greater choice and agency for students to decide where to direct their Commonwealth support for postgraduate education. However, this will only be true if the rules around scholarships allow students to genuinely choose. There is a limited pool of scholarships for the whole nation. If they must be used for particular courses in certain locations, the scheme does not represent much less control by Government over present allocation practice, and indeed may mean more.

There is a strong risk the viability of individual programs might change from year-to-year because graduate programs are typically smaller and more sensitive to the mix of fees paid by different student groups.

The scheme has the potential to dramatically shift the type of postgraduate education offered in Australia. The requirement to take scholarship holders means HEPs may decide to ‘opt out’ of the scheme if they have courses they can only afford to deliver through Full Fee places. The limited pool of available scholarships means there is less room for diversity in an expanded system, where new non-university providers can be eligible for postgraduate CSP across a range of disciplines, with the risk they will only offer those in high margin disciplines and subjects.

Overall, the scheme as proposed does not contend with the central issue for postgraduate coursework places in Australia, which is how to capture demand and distribute places in a transparent, efficient and cost-effective way. Even on its own terms, the proposed scheme has not found a clear way of allowing a limited postgraduate CSP pool to exist alongside unlimited Full Fee places.

Recommendation: Develop agreed principles and an implementation plan before considering introduction of postgraduate scholarships

The Government’s aspiration is for student choice to drive Commonwealth support for postgraduate education in Australia. The Budget release states the “*Government will implement a ‘student-centred’ model for the distribution of postgraduate coursework places, ensuring the places are used at the institutions where students want to study.*” To ensure it can achieve this aspiration, the Government should develop principles and an implementation plan in consultation with the sector, before considering a scholarships scheme so it can align with universities’ selection and entry processes and ensure a reasonable chance for awardees of being accepted into their program of choice.

Establishing effective ‘performance funding’

The Government’s proposal to introduce performance funding from 1 January 2018, made up of 7.5 per cent of a university’s CGS each year contingent on the university meeting performance requirements, presents many implementation challenges.

While performance, educational outcomes and financial accountability are essential requirements for every university, under this proposal it is unclear whether the proposed pool of around \$500 million would be returned to the sector and its institutions and, if so, on what basis. The proposal comes with significant risks, including the setting of valid, reliable and fair criteria. Similar attempts to introduce performance-based funding overseas have failed to deliver on their aims.

The Government has stated it will engage with and consult higher education providers and students on the development of metrics related to performance contingent funding. The Minister signalled in Commonwealth Budget-related publications that universities will be required “to participate in the reform of admissions information and cost of teaching and research transparency initiatives”. This initial requirement represents a minimal approach, which all universities should be able to meet, but these measures could be readily managed through individual University CGS funding agreements. So too could more institution-specific performance requirements if these were to eventuate under this policy.

International experience with performance funding

Some form of performance funding is part of most major higher education systems worldwide. Significant evidence of its impact and effectiveness comes from the United States where it has been widely incorporated in many State systems. Recently, half of all states (27) in the US were operating performance funding programs. Overall 36 states have operated performance funding at some point in time, with a number having abandoned it in favour of other mechanisms to promote quality teaching and research.

Performance funding in the US has had limited success and in many cases has been shown to have little positive impact on actual performance. A major study examining data from over 500 institutions observed over an 18-year period shows student outcomes were not enhanced by performance funding policies and outcomes even declined following the adoption of these measures. It found that “at best, these policies are ineffective, and, at worst, they are negatively linked to student performance.”¹

Another large scale study of US State universities found that “on average, performance funding had little to no impact on associate or baccalaureate degree completions.” More worryingly, given the disruption and unintended consequences associated with implementation, the study

¹ Rutherford, A., & Rabovsky, T. (2014). Evaluating impacts of performance funding policies on student outcomes in higher education. *The Annals of the American Academy of Political and Social Science*, 655, 185–208.

showed no difference in overall student outcomes between States with and without performance measures.²

There is a growing body of research suggesting this experience is not unique. Performance accountability reforms appear to result in limited to no improvement in educational outcomes measured. An overview of policies for funding higher education in 11 Organization for Economic Co-operation and Development (OECD) countries found similar evidence about the lack of impact from performance funding schemes. To promote quality improvement and greater efficiency, funding for the universities' teaching activities does not necessarily benefit from being transformed into a performance-based system.

For performance based funding schemes to meet their aims and foster better outcomes in the long term, research into recent schemes in the US holds some lessons. Schemes must be phased in gradually, align with institutional capacity for organisational learning and be matched with financial and technical assistance to develop the necessary HR and IT systems.³

Most importantly, to avoid perverse outcomes and unintended consequences performance funding schemes must use appropriate indicators and measures, tailored to institutional missions and student composition while including markers for developmental education, credit progression and transfer. Indicators must be compared between relevant peer groups over an appropriate period. In short, successful performance funding requires an appropriate evidence base.

If Australia embarks on a scheme of the scale proposed and on the planned timeframe there are significant risks for students and universities.

² Tandberg, David and Hillman, Nicholas (2013). State Performance Funding for Higher Education: Silver Bullet or Red Herring? (WISCAPE POLICY BRIEF). Madison, WI: University of Wisconsin-Madison, Wisconsin Center for the Advancement of Postsecondary Education (WISCAPE).

³ Dougherty, K. J., & Natow, R. S. The Politics of Performance Funding: Origins, Discontinuations, and Transformations. Baltimore, MD: Johns Hopkins U. P.

Recommendation: Develop a robust evidence base before implementing 'performance funding' measures

Before considering performance funding measures, the Government should build an effective evidence base for those areas for which it is seeking to enhance performance. One example which shows the importance of this is the question around current attrition and retention rates. Nationally in 2014 around 15 per cent of first year students left their course before progressing to second year. Several Australian universities have first year attrition rates near 25 per cent. Similar numbers of students leave during second and third year. These numbers have remained consistent over the last decade.

This has led some commentators to argue there is a crisis in university attrition, with potentially great cost to students and government. Other commentators have suggested high attrition is itself not a problem, merely reflecting rational student choices to pursue different options than study, such as taking up employment.

What can be agreed is there is scope to reduce attrition and improve completion rates. Currently, however, there is not enough evidence on the full range of reasons why students leave their courses before completion to inform an effective policy intervention, such as performance funding measures.

It is not clear whether many students are leaving higher education for reasons related to course quality, the appropriateness of their enrolment, their level of preparedness, or for reasons unrelated to their education experience and readiness, such as taking up employment, the costs of their education, or balancing paid work with study. More evidence is needed to understand completion and attrition rates, and the implications for students, in order that effective performance measures can be devised.

Experience internationally demonstrates that successful programs require a close and evidenced-based understanding of the issue to be addressed and appropriate metrics and support for an institution to address them.

Evidence based policy and the efficiency dividend

The Government justified its announcement of a 2.5 per cent efficiency dividend (ED), to be applied to CGS amounts in 2018 and then again in 2019, on the basis that university revenue is growing faster than costs. The Government states “revenue has grown faster than costs – between 2010 and 2015 the average costs of delivery per student have increased by 9.5 per cent, compared to per student funding growth of 15 per cent”. The projected total impact of this ED will be to permanently cut funding for students by \$384.2 million.

Yet, the evidence cited by the Government does not support the finding that revenue has grown faster than costs nor does it justify the proposed cuts. This points to the difficulty in understanding what a reasonable cost of delivery is for higher education teaching, and hence what the public can reasonably be asked to subsidise per student. The Government’s use of the Cost of Delivery study to inform budget measures illustrates the pressing need for policy grounded in evidence.

The problematic use of the Cost of Delivery report to justify cuts

The Government cites the 2016 *Deloitte Access Economics: Cost of Delivery of Higher Education* report to justify the ED. There are several problems with the use of the report in this way.

The claimed difference in costs between 2010 and 2015 is derived from comparing the 2016 study with a similar study completed in 2011. However, the studies used different sized samples and methodologies, and the findings cannot be generalised for comparison with aggregate revenue data. The Deloitte report makes this clear, specifically stating on page 39 that:

“these figures cannot be compared as direct growth or decline in costs relative to funding over the five years to 2015, given the differences in the sample, and differences in cost collection approaches. Similarly, caution should be taken in drawing inferences about the sufficiency of CGS funding directly from these ratios.”

The Deloitte Report data collection was for a snapshot at a point in time (2015) but costs can fluctuate greatly year-to-year. Course development costs, staff teaching mix, capital expenditure, structural changes and student load changes may have a material impact on costs each year.

Overall the 2016 report does not give a complete picture of university costs due to the exclusion of research and many other activities, including capital renewal. The exercise was claimed by the Government to seek a “reasonable cost” for higher education teaching but the report does not tackle the question of quality and its interrelation to characteristics such as Staff-Student ratios. Nor does it contain proper benchmarking with universities and courses internationally.

The costing exercise, therefore, cannot be used as the basis for a credible justification for any adjustment in funding such as through an ED.

Recommendation: Establish a higher education policy body to provide advice and analysis

The problematic use of the Costs of Delivery report as a justification for budget cuts illustrates the pressing need for policy based in evidence. Continual sector improvement and reform requires ongoing detailed analysis of the future challenges and opportunities for Australian higher education and research. This analysis needs to be supported through administrative and governance arrangements which are able to efficiently assist the implementation and delivery of new initiatives, as well as to provide advice to ensure policy settings continue to be effective as circumstances evolve.

Australia lacks an overall coordinating advice body for higher education and research policy. In the past, Australian higher education has benefitted from an Australian Universities Commission and a National Board of Education, Employment and Training. While these bodies were dissolved when circumstances did not require them, the present policy complexity necessitates new system governance.

The Government should establish an expert advisory body which would provide advice at arm's length to all levels of government on policy for the whole tertiary system. While a number of viable configurations are possible, at its core would be a remit to advise on policy implementation and change. In addition, the body could ensure consistent and appropriate methodologies and approaches to pricing, forecasting, reporting and prioritisation were achieved. In conjunction with these core advisory functions, the body could also have a role in market oversight and the ongoing monitoring of the system's financial sustainability across all sources of funding and investment, as well as a role in advising on price regulation, subsidy setting and setting the parameters of loan schemes for all qualification levels. This body could be instrumental in building system architecture to enable a 'joined up' post-secondary education system.

Managing the overall costs of higher education

The Government will cut public funding to higher education by an amount required to raise student contribution amounts for Commonwealth supported students by 1.8 per cent per year on average from 2018 to 2021 or 7.5 per cent in total. Once fully implemented in 2021, this measure would result in a cut to the per student government contribution of between \$2000 and \$3600 for a four year course. A further 2.5 per cent efficiency dividend (ED) will be applied to CGS amounts in 2018 and then again in 2019. Combined, this means a cut of over 10 per cent to base teaching funding from 2021. The projected impact of the ED will be to permanently cut the sector by \$384.2 million, compared to present arrangements, as this will not be offset by student fee increases.

The Government claims these cuts are necessary given the overall increase in outlays for higher education. The demand driven system (DDS), introduced in 2012, has resulted in an increase in public outlays, with the CGS and associated grants increasing by over \$2 billion between 2009 and 2014. This ignores the fact the growth in public outlays has educated many more students. Over 200,000 extra students have benefited from higher education than otherwise would have under the previous arrangements.

Limits of the current demand driven system

The challenge for policymakers is to continue to meet the goals of the DDS while evolving arrangements to meet national priorities as well as student and employer needs.

Despite its clear success, the DDS has failed to deliver on some important goals for Australian higher education. While the system has largely addressed previous unmet demand for university access, so far it has not provided sufficient inducement for specialisation in different levels of education, nor different modes of provision. The system has skewed incentives for enrolment to bachelor level courses at the expense of sub-bachelor and other courses and is not optimally meeting student and employer needs across the spectrum of education offering, which the Government will partially address by opening it to selected sub-bachelor courses.

Even by opening the system to sub-bachelor places there is still no mechanism to fully align Government funded student places with the ambition to increase diversity of access and improve completion rates.

Universities have a strong incentive under the present system to cross subsidise other courses by enrolling bachelor students in cheaper courses, regardless of student suitability. While the DDS has not caused high attrition rates, it has not addressed them either and it has not itself boosted enrolment rates for students from disadvantaged and regional backgrounds who have typically been underrepresented in university enrolments.

Under the current rules the Government has few levers to manage uncapped outlays on bachelor places. In a fiscally constrained environment this means it is harder for government to manage funding allocations, increase funding for additional postgraduate places or support the reallocation within the existing budget outlay across the higher education spectrum.

Recommendation: Introduce a system of flexible envelopes for Commonwealth Supported Places to renew the demand driven system

Introducing a more flexible allocation of CSPs could mitigate the policy dilemmas. This can be achieved in a way that enables funding settings to support a wider range of course types at different levels, maintain the fundamentals of the demand driven system, while also providing greater funding certainty and consistency to both Government and higher education institutions.

Under this system, Universities would be able to allocate places within an agreed funding envelope for CSPs each year, based on existing funding, for enabling, undergraduate, sub-bachelor and postgraduate places. The envelope would include an in-built mechanism to grow places to meet changing demand, such as population growth and emerging industry requirements.

The Commonwealth could work with universities to deliver the right mix between levels of education and to address issues such as local student needs, progression and completion rates and equity. To further ensure greater choice for students, government would also be able to set incentives for universities to offer particular courses, such as growing some disciplines or levels in different markets. This would result in the universities being able to better respond to calls for greater diversity in student offerings. This would provide additional flexibility while meeting the Commonwealth's requirement to manage overall funding.

Research policy challenges: Infrastructure and industry engagement

The Government's higher education package does not address significant ongoing issues for research policy, including certainty of funding for research infrastructure and measures to drive industry engagement, which must be addressed to ensure students can be educated by leading academics in a research rich environment.

Research infrastructure and the full costs of research

Recent policy change has provided additional certainty for support for researchers and universities. The Research Support program (\$879 million in 2017) and the Research Training program (\$1.01 billion in 2017), in conjunction with the Australian Research Council and National Health and Medical Research Council, provide an important base support for Australia's research effort. Greater certainty around the NCRIS, also helps deliver critical shared infrastructure to drive collaboration between researchers, government and industry.

However, to ensure Australia derives the greatest benefit from its national research system, a long-term solution is needed to support investment in research infrastructure not provided under NCRIS. For Australia to maintain highest quality teaching supervision, ideas and curricula the nation needs the best researchers and the best educators which requires a vibrant and well-funded research and scholarly environment to attract and retain the best academic staff.

The need for a long-term solution for providing research infrastructure is compounded by the fact the current public funding does not reflect the full costs of research. Instead, it provides a fraction of the indirect costs of basic and applied research.

To be globally viable and support the research grants they have won, this means universities must cross-subsidise their research from other sources of income, even with substantial collaboration and research partnerships with industry, non-profits and governments. In the absence of adequate public investment, universities must rely on international student fees as a source of income growth.

Fostering industry engagement

Initiatives such as *Innovation Connections* and the *ARC Linkage Project* scheme are crucial government enablers. There is more to do in utilising this important instrument to encourage collaboration and leverage public investment in research.

The recent *Review of the R&D Tax Incentive* found it could be more closely targeted to increase industry-researcher collaboration and the output of new research that would not otherwise have happened through public research organisations. The R&D tax incentive is important for Australia's research effort, accounting for nearly a third of the Government's spending on science, innovation and research.

While Australian universities are working hard to change academic cultures and better align promotion, reward and performance measures to foster collaboration, there is a significant opportunity to use policy initiatives such as the R&D Tax Incentive to act as an additional facilitator.

Recommendation: Provide surety for the national research effort through greater certainty for funding research infrastructure and NCRIS

The Government should legislate long-term funding certainty for NCRIS and provide a long-term solution for infrastructure, as the Education Investment Fund once did, alongside transparently funding closer to the full cost of research by linking direct and indirect costs. Australia would benefit in the long term from greater research output.

Recommendation: Implement the recommendations of the Review of the R&D Tax Incentive

The Government should implement the recommendations of the *Review of the R&D Tax Incentive* to increase industry-researcher collaboration and the output of research through public research organisations.

Specifically, it should adopt the recommendation to: “Introduce a collaboration premium of up to 20 per cent for the non-refundable tax offset to provide additional support for the collaborative element of R&D expenditures undertaken with publicly-funded research organisations. The premium would also apply to the cost of employing new STEM PhD or equivalent graduates in their first three years of employment.”

Implementing this recommendation would allow Australia to achieve greater research translation into commercial outcomes and, through collaboration, stronger alignment between the interests and priorities of industry and academia.