

# INVESTING IN ALL OUR PEOPLE

SUBMISSION TO THE REVIEW OF AUSTRALIAN HIGHER EDUCATION

# OUR VISION FOR AUSTRALIA

The Group of Eight (Go8) has made a separate submission to the Review of the National Innovation System. That submission addressed issues relating to university research and research training, including matters of research quality, funding the full costs of research, hub & spokes networks, research and innovation links, and research infrastructure.

We strongly support the Government's decision to separate portfolio responsibilities for research and education. We believe that the new portfolios help to develop two major integrations: the integration of university research with national innovation needs; and the integration of higher education with other opportunities for tertiary education participation.

This submission addresses the major issues we see for 'tertiary education' in Australia, rather than 'higher education' more narrowly understood. We need to take the bigger view, whereby we do not limit the opportunities for Australian residents to participate and compete in the knowledge-based global economy, enjoy a high level of social wellbeing and live fulfilling lives. It is necessary, therefore, to adopt a comprehensive and integrated approach to tertiary education. To achieve what is required, Australia will need to set out on a far-reaching program of reform in tertiary education.

## What do we aspire to be?

We want to see Australia as a confident country, understanding its place in the world and internationally engaged in making the world a better place.

We value Australia as a democratic society that embraces plurality. We want Australia to be a fair and inclusive society where socio-economic gaps are being reduced.

We want to see Australia as a productive economy that provides an increasing number and proportion of high paying jobs. We aim to see Australia's workforce well skilled and competitive with the best in the world.

We want to see Australia as a creative and enterprising nation. And we aspire for Australia to be an ethical and environmentally responsible community.

We look to education as a major means of realising these aspirations. We see tertiary education and university research helping Australia to build an internationally engaged, competitive economy and a cohesive society.

Australia should excel as a nation in education, and should have a national tertiary education system that is among the best in the world.

Our vision is for a tertiary education system for Australia that will be appropriate to the needs of the community, responsive and cost-effective, equitable in providing opportunities for access and success for all, and sustainable at the standards of quality necessary to be internationally competitive.

Our vision is for an Australia where access to tertiary education is open to all. Students should be able to choose where and what they learn. They should be provided with accurate and timely information to guide their choices, including early identification of the pathways open to them. There should be no gaps for students to fall through, and no-one should be left without options for study and skills enhancement. They should have access to second-chance learning opportunities and receive recognition for their prior learning. Student progress should be facilitated by well-designed articulation frameworks and, as far as possible, guaranteed access to further learning opportunities. Student progression should reflect intellectual ability and effort, rather than ability to pay.

Within the national tertiary education system different institutions should be able to cater in diverse ways to meet varying needs. We envisage Australia with a high quality tertiary education sector of diverse institutions playing to their strengths in responding to changes in student demand and labour market requirements.

Excellence should be funded wherever it occurs. We see our research universities performing at the highest international standards in teaching and research while providing service of value to their particular communities.

Our vision is that Australian tertiary education qualifications testify to standards of learning outcomes that enable graduates to gain employment in their fields anywhere in the world.

We see too a properly regulated and well-governed sector that is adequately resourced, providing institutions with the discretion and flexibility they need to sustain quality and competitiveness.

### What challenges do we face?

Increasingly it will be necessary to deepen the skills base of those in the workforce as well as new entrants to it. The number of post-secondary educated and trained Australians must expand substantially over the coming decades, and growth must include quality improvement and cost containment.

Demographic and economic conditions, overlaid by environmental adjustments, give urgency to this need.

It is projected that the ratio of the workforce active population to the age-dependent population will fall from 2:1 in 2010 to 1.5:1 in 2050. The baby boomers are beginning to leave the workforce in large numbers. A renewed workforce will need to have the skills to make productivity improvements.

In 2006, Australia's annual productivity growth rate, measured as GDP per hours worked, was 0.5 compared with an OECD total of 1.5. South Korea achieved a rate of 3.4, while Finland achieved 3.2, the United Kingdom 2.4 and Ireland 2.2. Clearly we have to lift our game by cost-effectively increasing investment in human capital.

To expand the supply of graduates with the capabilities required for the future economy (as well as to improve their life chances, and to reduce government outlays on health and social security), it will be necessary to draw increasing numbers from the ranks of those who have little current disposition to participate in tertiary education, including many who have not been successful at earlier stages of education. To make that happen,

there will need to be some very strong incentives for potential students and providers of tertiary education services. Currently these incentives are lacking.

Additionally, it will be necessary to continue to provide quality tertiary education to those who come ready to participate, as well as to extend opportunities for those who are already tertiary qualified and seek to develop further skills.

As well as broadening the base and opening the pathways, we must continue to develop the top intellectual and creative talent needed to drive Australia ahead. It is ever more important for Australia to stay with the pace of international developments in research in those fields where we have the capacity and need to perform exceptionally well.

### What do we need to do to get where we need to be?

To achieve these goals for the nation it is necessary for policy in respect of tertiary education and university research to attend simultaneously to six key areas:

- i. broadening the base of the tertiary education system for expanded access by currently under-participating groups;
- ii. improving pathways and learning outcomes in relation to undergraduate and graduate award courses;
- iii. increasing flexible opportunities for professional development and skills upgrading for the tertiary qualified;
- iv. strengthening capacity for excellent research and research training;
- v. preparing and attracting the next generation of university researchers and academics; and
- vi. connecting tertiary education and university research more effectively with the diverse needs for knowledge and know-how in business and industry, government, and the wider community.

To this end, it is necessary to redefine the purpose of tertiary education, the role of different institutions, and the relationships between them and the community.

## What is holding us back?

The main drags on Australia's ability to address the challenges that confront us are complacency, inadequate incentives and structural impediments.

Focusing on comparisons against international averages will cause us to fall behind. Acceptance of the human wastage associated with under-performance and inequality of opportunity condemns us to mediocrity.

There is a need for new incentives to encourage new groups of learners to participate and to persist until they succeed.

Also necessary are new incentives for innovation in the provision of tertiary education, including new providers, and new forms of course design and delivery.

Reform along these lines also requires a set of policy and financing instruments that actively promote diversity and innovation, including competitive neutrality between public and private institutions.

## How big is the task ahead?

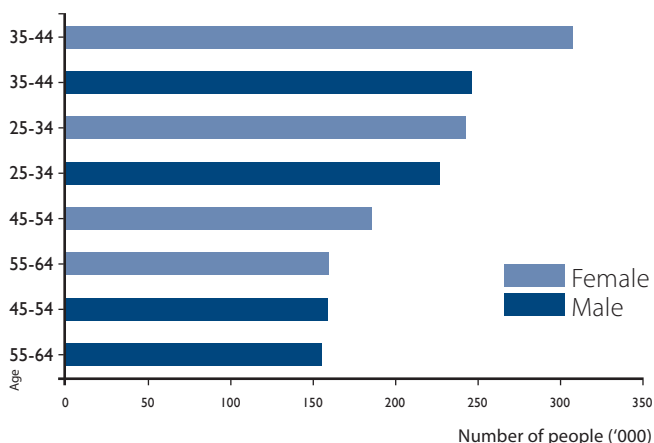
We should aspire to be much better than average.

If we set our sights on Australia performing as the best among OECD countries in terms of tertiary education attainment by age group, then we have a long way to catch up on the current leaders, based on 2005 comparisons. Indeed, a major cause for concern is that Australia's younger generations are less well qualified relative to the best in the world than our older generations.

Canada is the world leader in tertiary attainment for women in all age groups, while for men the leaders are Korea (25–34 age group), Japan (35–44 and 45–54 age groups) and the United States (55–64 age group). The gap in percentage points between Australia and the world leaders is 12 and 13 percentage points for men and women respectively in the 45–54 age group. But the gap has widened to 17 points for men in the 25–34 and 35–44 age groups, and 18 points for women in the 25–34 age group. For women aged 35–44, the gap is 20 percentage points, with 54% of Canadian women in that age range having tertiary qualifications compared with 34% in Australia.<sup>1</sup>

<sup>1</sup> The Canadian Labour Force Survey does not allow for a clear delineation of attainment at ISCED 4 and ISCED 5B; as a result, some credentials that should be classified as ISCED 4 cannot be identified and are therefore included in ISCED 5B; the proportion of the population with Tertiary education-Type B is then inflated. [OECD, Education at a Glance, 2007].

Figure 1: Number of people required to attain tertiary education (Tertiary-type B, Tertiary-type A and Advanced research programs) to reach best OECD performance



Source: OECD, Education at a Glance, 2007.

For Australia to reach OECD best performance across all age groups, on the basis of the 2006 population census, we would have to increase the stock of tertiary qualified people by 1.7 million. Just over one million of those are currently aged between 25 and 44 years. Our current tertiary education system is not structured to cater well for these people, especially those who are time poor and have poor preparation for tertiary learning. Other countries have much larger enrolments in practically-oriented courses normally of two years.

In 2006, only 72% of all Australian 19 year olds had completed Year 12 or equivalent. The rate of completion was 77% for females and 68% for males. That represents an attrition rate of one in four females and one in three males.

The most 'at risk' group are those young people who have left secondary school without completing Year 10. In 2006, 7% of 15–19 year olds had left school without completing Year 10. The incidence of non-completion of secondary schooling varies according to the location of students. Very low rates of completion are found among Indigenous youth in remote and very remote locations.

Completion rates in higher education are also less than optimal. The apparent completion rate across undergraduate courses is around 67%. Some 20% of domestic Bachelor Degree students drop out by the beginning of the second year of study.

Broadly, Australia is in the position where almost one third of an age cohort does not finish secondary education and where one third of those who start higher education fail to finish. We do not know about persistence and success rates in vocational education. That sector, while having an important role in preparing people for particular occupations, also has the default role of absorbing the bulk of those for whom the other sectors have not delivered. This is no basis for a competitive economy and an inclusive society.

Adding 1.7 million people to the stock of the tertiary qualified population would cost around \$36 billion at current average unit costs excluding capital. General taxpayers cannot be expected to meet all the costs. To accommodate the participation of new groups, while catering for the further skilling of those already tertiary qualified and addressing the need for qualitative improvements, there will need to be learner co-investment together with efficiency gains from smarter use of the capital stock and communications technology. To raise the cost-effectiveness of the nation's investment in education, much greater attention must be given to student readiness and learning productivity across the entire system.

# OUR PROPOSALS FOR MEETING THE NEED

The main ways of meeting the need are through reform of the structure of tertiary education and associated improvements in its cost-effectiveness, and a concerted effort to engage with communities to encourage wider educational participation.

## Structural reform

Structural reform involves removing impediments to learning and knowledge flows across the internal sub-sectoral boundaries of the total education system, and between tertiary education and wider communities. There is more to be gained from an overall improvement in system cost-effectiveness than continuing to focus only on internal institutional efficiencies.

The removal of the 'binary divide' in the late 1980s has given rise to emulation among universities but with the regrettable outcome of de facto stratification and, with a few exceptions, a disjunction between the Higher Education and Vocational Education and Training sub-sectors. The potential yields of diversity and mission concentration have become smothered amid policy drift by institutional confusion of status and recognition with level of awards offered.

Most importantly, this disorganised system blocks the pathways needed by diverse learners. A more integrated model is required to enlarge options for students.

Consideration should be given to the development of tertiary education 'systems' comprising different types of institutions united by a shared mission and overarching strategic plan. We envisage that individual institutions within a system would retain their status, ownership of their assets, governance arrangements and qualifications awarding powers. A Board of Regents or similar high-level body would be responsible for strategic planning and coordination, and the formulation of system policies.

An important policy would be that students within a system have rights to articulation and credit

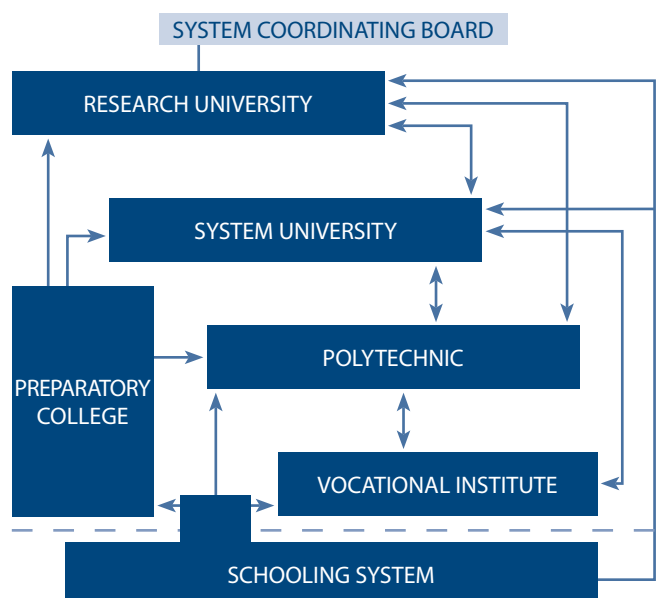
transfer. In particular, a student who completes a preparatory program would have an entitlement of entry to an award course in the system. That is, the system would have a duty of care to the student. We believe this approach to joined-up offerings will widen opportunities for potential learners and be more effective in enabling their success than stand-alone, institution-specific efforts to increase the participation of students from diverse backgrounds.

The system model also allows for efficiency gains in purchasing, administrative services, information and communications technology, and capital investment. The approach also opens up possibilities for consolidation to help Australia achieve more internationally competitive scale in key areas.

The member institutions of a system might include:

- one comprehensive research university;
- a system university strand (having multiple entities);
- a polytechnic strand (having multiple campuses);
- a vocational institute strand (having multiple campuses); and
- tertiary preparatory colleges (at multiple sites).

Figure 2: An illustrative systems model for tertiary education



Higher degree research programs would be offered predominantly through the system's research university, while other member institutions would focus on their areas of strength. The system university might have a focus on undergraduate and graduate education and professional development, catering for people wanting to upgrade or broaden their skills. The polytechnic might focus on the white collar areas of vocational education. The vocational institute might focus on technician and trades training. Enrolment growth should occur predominantly through institutions that focus on providing accessible, high quality, cost-effective undergraduate education. The approach would be designed to avoid 'mission-creep' and expansion of research capacity that comes at the expense of productivity and undergraduate growth.

We envisage that Australia could sustain perhaps 10 such systems, a number of them crossing State/Territory borders. Students would be able to move across systems should they wish to do so. Universities and other tertiary institutions would be able to cooperate beyond their own systems.

Experience indicates that mandated arrangements rarely work well. Public tertiary education institutions should be invited to form into systems, and the Government could offer establishment grants to facilitate their formation. Not all institutions need to be within a system, and those that prefer to stand alone should remain able to do so.

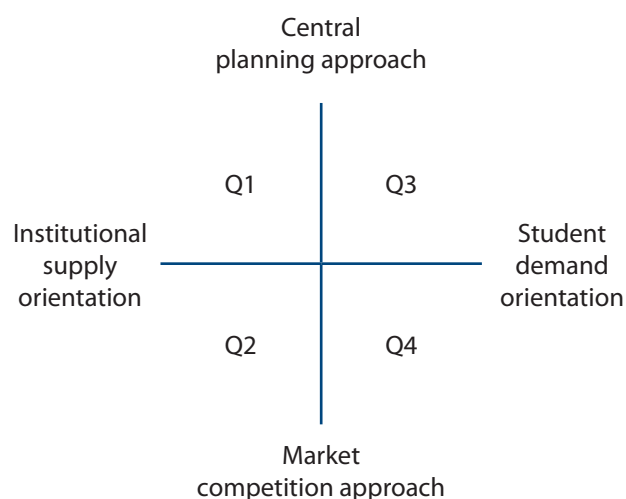
### Rethinking basic assumptions

Over the last few years we have seen increasing diversification on the supply side, both in higher education and vocational education and training, and in non-award education, training and professional development, including the rise of private providers and public-private partnerships, as well as corporate, vendor, professional and other suppliers of training accredited in various ways. Many universities and other tertiary education colleges are operating in competitive and commercial markets at home and abroad.

An imperative is created by this dynamism to rethink the basic policy assumptions that derive from a previous era of primarily state-bound, public-sector institutions catering for professional groups in a hierarchical labour market.

*Figure 3* depicts four basic approaches to tertiary education financing. Each quadrant reflects a different purpose for funding and a different philosophy of funding as well as different funding mechanisms.

**Figure 3: Tertiary education policy and financing models**



The main policy purpose of a Q1 approach is to establish and maintain educational institutions (e.g. through block funding for an agreed range of activities and/or outputs). The main policy purpose of a Q2 approach is to obtain service provision (e.g. through procurement via competitive tendering). The main policy purpose of Q3 is to enable access for those who can benefit from higher education (e.g. through rationed scholarships). The main policy purpose of a Q4 approach is to meet the varying needs and preferences of individuals (e.g. through flexible tuition pricing and student loans).

The Dawkins reforms of 1989 adopted a supply-side planning approach (Q1) in terms of government funding of higher education institutions through block grants for a profile of student enrolments, with normative government funding rates per student place and controlled tuition prices through the Higher Education Contribution Scheme (HECS). Initially it was envisaged that graduate volumes would be shaped through the profiles process to meet projected labour market requirements but that approach was abandoned early in the light of deficient central forecasting.

Subsequent policy changes have increased the role of student preferences (Q4) through the student contribution scheme (HECS) and growth in fee-paying students—international and postgraduate

students and domestic undergraduate students (curiously about to be prohibited in public universities). Hence, funding through the Q1 model now represents less than half of higher education income, yet the Q1 policy model of central control of supply persists, jarring up against the operation of market mechanisms and creating frictions and anomalies for students and educational institutions.

In order for policy and financing to be coherent in the contemporary, marketised environment—nationally and internationally—ideally there needs to be a deliberate shift from the supply side to the demand side in terms of the management of student enrolments.

## Learning entitlements

Broadly we can distinguish four types of potential tertiary education learners: (I) tertiary-ready recent school leavers; (II) not-yet-tertiary-ready recent school leavers; (III) tertiary qualified adults; and (IV) adults without tertiary qualifications (whose readiness for tertiary learning is not necessarily known in advance of some form of participation). The main challenge is to increase the participation of groups (II) and (IV).

Current financing policy settings apply inequitably across these four types. Type I students mostly are able to obtain a taxpayer-funded tuition cost subsidy and access an income-contingent loan (HECS-HELP) with a “student learning entitlement” (SLE) initially up to seven years, with a further 2.5 years in each subsequent decade. Type III students may access the unused part of their SLE, depending on the nature of the course, or obtain an income-contingent loan (FEE-HELP) to undertake further undergraduate or graduate studies, or directly pay tuition fees. Type IV students can access HECS subsidies and loans if they gain admission to a higher education award course with an approved institution. The residual of the Type IV group and the bulk of the Type II group do not enjoy the same benefits as those in the other groups.

The current learning entitlements for Type I and Type III people should continue. Perhaps the SLE should be capped at seven years to make room for additional support to be provided to others. Consideration should also be given to income tax rebates for tertiary education expenses, including courses undertaken for upskilling related to current employment and courses undertaken to prepare for change of employment.

Additionally, an option for Type II and Type IV people is an incentive entitlement to a ‘tertiary preparedness program’. For instance, along the lines of the competitive model for the provision of employment services (though not necessarily as a condition of eligibility for benefits), a tender might be called for selecting providers who can offer services to raise the readiness of individuals to undertake successfully a VET or HE Diploma or an Associate Degree program. Individuals wishing to participate in the program could indicate their interest by taking either ACER’s UniTEST or Special Tertiary Admission Test (STAT). Selected providers could be paid a flag-fall amount for taking on each participant together with a performance payment reflecting the rise in the participant’s test score, with the aim being to achieve a score that enabled the participant to gain admission at a TAFE or university or other accredited tertiary institution to an award course.

Alternatively, an ‘open-access’ approach could be taken, where people seeking to prepare themselves for further learning can obtain customised services through a dedicated preparatory college. Tertiary preparation colleges could be established through a competitive tender process, involving existing education providers and new operators, and including options for distance education.

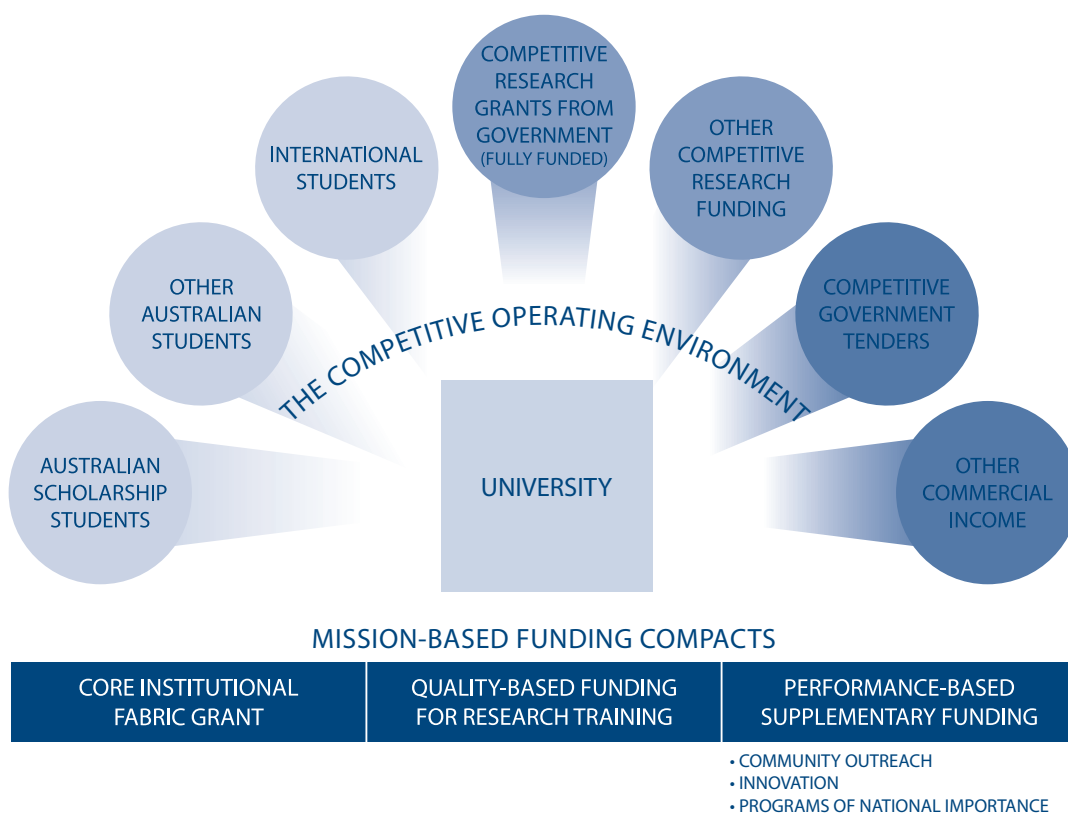
## Student-driven financing

Ideally, government support for students seeking to undertake initial studies leading to a diploma or higher award (within either the higher education or vocational education and training sectors of the Australian Qualifications Framework) should be allocated directly to students in the form of scholarships, on a national order of merit basis.

*Figure 4* illustrates this approach as it might relate to a university.

Students who are offered scholarships should be free to choose the programs they want at an accredited institution of their preference, and have access to income-contingent loans to close any gap between the value of their scholarships and the tuition prices set by institutions. Student choice should ideally be exercised across public and private institutions. The students should be the ones that decide the trade-offs they want to make between relevance, convenience, quality and price. An open policy framework that maximises their choices is more likely than a closed one to give rise to increased responsiveness and innovation for the

Figure 4: Student-based financing model applying to a university



benefit of students.

Year 12 results, complemented where necessary by the ACER's UniTEST, could be used to determine annually a national order of merit for recent school leavers. The ACER's STAT could be used to determine a national order of merit for other prospective students.

Tertiary Education (Preparation) Scholarships could be available also for those applicants who do not meet the cut-off score required to obtain a scholarship, and for those who do gain the offer of a scholarship but need further preparation in the field of their choice in order to gain entry to an award course of study.

This approach has particular advantages from an equity perspective. First, the opportunity for enlarged funding through growth in the student co-investment enables institutions to enrol greater numbers of students and improve educational quality.

Second, UniTEST and STAT scores can be linked to student identifiers and background indicators and provide information, for instance, about the number of students from low socio-economic backgrounds

who are capable of succeeding in tertiary education. Scholarship allocations and associated tracking arrangements could provide enhanced information about the equity mix of students, and their progression and success rates. Currently such information is lacking.

Third, it would be open to government to weight scholarship values to encourage wider participation of particular groups. Additionally, this model offers new ways and means for government to influence tertiary education responsiveness to changes in labour market requirements. Government might, for instance, expand the number of scholarships it offers and/or increase the value of scholarships taken up in particular disciplines.

This model avoids the 'two-queues' problem that arose with the previous Government's approach to permitting full fee places outside quotas of funded places. Under the Go8 preferred model, scholarships would be allocated according to merit rather than means.

Fiscal control could be exercised by the Government's determination of the number and value of scholarships.

## A modified, institution-based, model of financing

A variant on a broad demand-side financing model is to allocate funding envelopes to institutions for a set of their student enrolments. Pricing flexibility under this model might be offered on the condition that institutions meet certain performance criteria regarding student access (see *Figure 5*).

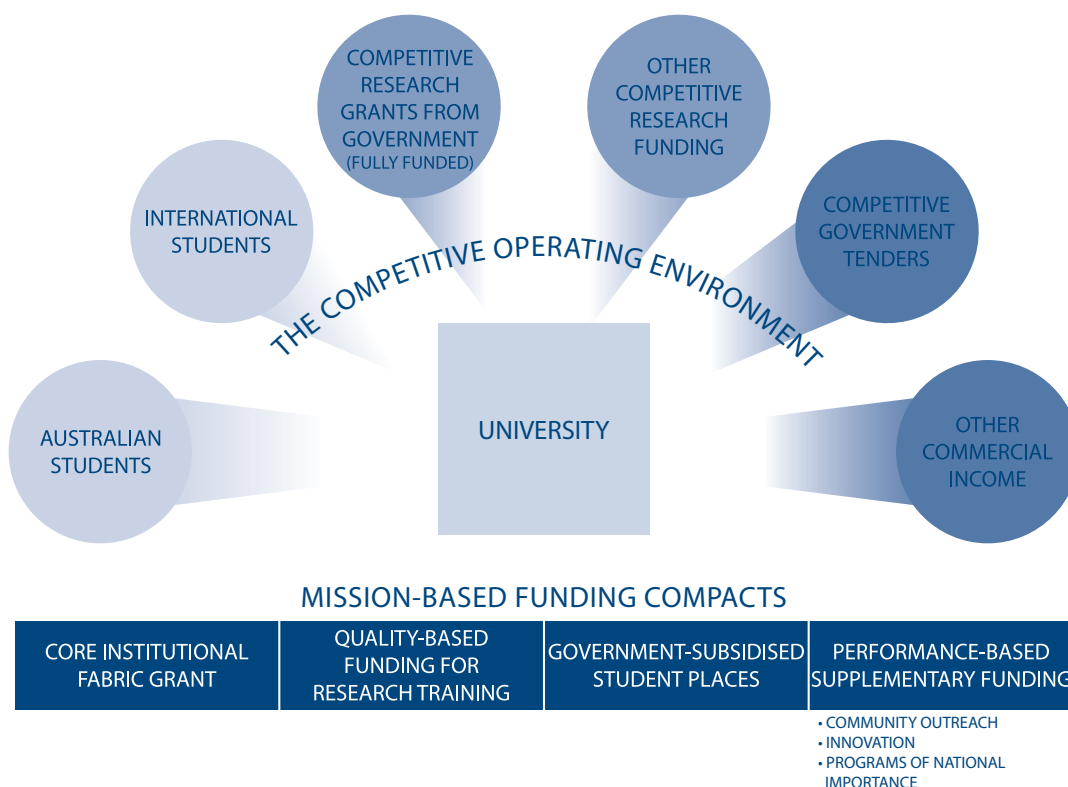
Given the magnitude of the challenge of drawing in new learner cohorts, it may be reasonable for the Government to expect, in return for increased institutional flexibility, a commitment to increase the access and success of students from disadvantaged backgrounds or other designated groups.

The Go8-preferred, student-driven financing model envisages tuition subsidies being portable as scholarships to any accredited tertiary provider, VET and HE, public and private. This model would promote much greater institutional diversification within the overall tertiary education sector and offer wider choices for diverse learners.

The modified, institution-based financing model limits to universities the allocation of funds for government-subsidised student places. The limited model might provide a bridge to the more open model over time. For instance, institutional eligibility for government-funded student places, could be extended to TAFEs and other tertiary education institutions, along with income-contingent loans for enrolled students.

As a general principle, whichever model is adopted, the ratio of government to student contributions by field of education should reflect a sharing of the costs. The higher education ratios currently bear no such relationship. The Productivity Commission ought to be asked to undertake a contemporary analysis of the costs of teaching. The Government contribution should be adjusted in the light of the findings according to a transparent cost-sharing principle. Future indexation of government funding should be related transparently to actual cost drivers. Institutional pricing decisions also could be compared in the public domain with the Productivity Commission’s schedule of costs.

Figure 5: Institution-based financing model applying to a university



## Mission-based funding compacts with universities

Both the student-driven and institution-based models of financing discussed above may be seen to be consistent with the originally stated role for compacts:

“to give Australia’s universities the freedom necessary to form and implement strategies for their future role in competitive markets, while safeguarding public good benefits for the Australian community.”<sup>2</sup>

Compacts in this view are means not ends, and they represent a sub-set of a university’s functions rather than the whole. Compacts could be negotiated along the lines of the recent COAG reforms to special purpose payments to the states, with a core grant for a base level of activity and a performance-based supplement for agreed additional activities.

Hence, a university compact would have a core fabric grant, reflecting the conditions of the institution in its area and location-specific costs associated with its teaching and research functions.

Another payment could be allocated for research training based on evaluations of research performance quality; that is the allocations would be informed by the Excellence for Research in Australia (ERA) initiative.

The performance-based supplementary funding through compacts could support community outreach, innovation and programs of national significance (such as retention of classics, languages, physics or other fields of scholarship for which student demand may be low).

In view of their potential importance, it is necessary to agree some basic principles for the operation of compacts. The Go8 has identified six main principles:

**The Autonomy Principle:** Universities are responsible for determining their missions, and they need greater operating autonomy in order to function effectively and competitively in local and international markets.

**The Fitness for Purpose Principle:** Public funding should be sufficient to the task, and it should be provided in ways that enable each university to pursue its distinctive mission and to excel in what it does best.

**The Accountability for Outcomes Principle:** Universities have a reciprocal responsibility to explain their purposes, and to report publicly on how well they have performed against their own goals and the performance standards expected of them. The terms of accountability should be clear and measurable, and agreed at the same time as the compact is negotiated.

**The Simplicity Principle:** Compacts, including associated performance reporting, will be agreed in relation to block grants on a broad not detailed basis, will involve less regulation, and will lead to a reduction in the current administrative and reporting burdens of universities.

**The Transparency Principle:** Decision making in respect of compact agreements and funding will be open to external scrutiny, and based on a fair application of consistent rules.

**The Predictability Principle:** Compacts will provide the capacity for universities to plan ahead; they will be resourced according to published criteria, and changes to funding will be based on known parameters.

## Widening participation

A major challenge is to recruit and encourage a new cadre of prospective students—particularly adult learners who may see the cost of tertiary education as a barrier, who may be struggling with competing work and family obligations, and who lack adequate preparation. Additionally, it is necessary to improve the quality of early childhood education and schooling so that greater numbers of the next generation of school leavers can participate in tertiary education.

The task of attracting and supporting new participants in tertiary education requires dedicated work not only with schools but also with communities and families. Experience in other countries indicates that long-term efforts are needed to build trust and communication channels, to break down misconceptions, and to lift aspirations and readiness.

<sup>2</sup> Macklin, J. (2006), *Australia’s Universities: Building our future in the world*, Australian Labor Party, Canberra.

The provision of high quality advice and guidance on careers and career pathways starting before Year 10 is essential. The 'Designing Careers' institute of New Zealand's Crown Agency Career Services, which has piloted the concept of individual learning and career plans for all Year 10 students, and 'at risk' students in Years 11–13, has merit.

Particular measures are required to improve the access and success of Indigenous students. Experience suggests that special attention needs to be given to: recruitment and admission processes, involving families and communities at early stages; a case management approach to student learning support; personal encouragement; structured pathways; and continuous performance monitoring.

We fully accept the responsibilities of Go8 universities to enable equitable access to higher education. It is important, not least for encouraging people to aim higher, that individuals from disadvantaged backgrounds can achieve at the highest levels. We are obliged to the communities that support our universities to be responsive to and inclusive of their varying needs. We are keen to make special efforts, using the resources available to us, to extend participation from disadvantaged and other communities. We are also mindful of the limits to cross subsidising community outreach action in ways that diminish the quality of teaching and research, given the shortfall between funding provided and actual costs.

We are attracted to the simplicity and effectiveness of the Widening Participation program funded through the Higher Education Funding Council for England. It recognises that additional incentives are required to make the gains needed. It functions as a performance-related block grant that allows institutions discretion over the use of funds to support those activities that make a difference. A new funding stream along the lines of the English approach could support additional activities for universities to reach out to communities and enlarge student participation.

## Quality enhancement

Our vision for a national tertiary education system envisages a coherent framework for institutional accreditation. We propose that there should be a single national approach to accreditation.

Consideration should be given to ways of reducing duplication between government and professional body accreditation.

In our view, greater attention needs to be given to assuring the community about educational standards. The Australian Universities Quality Agency has not managed to address the quality of learning outcomes. The community does not know how much standards in one place differ from those in another.

The OECD Education Directorate has initiated a project for Assessing Higher Education Learning Outcomes, and feasibility studies are planned over 2009 and 2010. It would be beneficial for Australia to participate in the project. Go8 universities are particularly interested in pilot testing options for evaluating learning capabilities in the field of Engineering. There would seem to be opportunities for testing in other disciplines as well.

Importantly, there needs to be a more inclusive dialogue across Australia about the capabilities of graduates, including technical competencies and general skills for work and further learning. The discussions ought to embrace the views of employers.

## Student income support

Reform of the student income support arrangements will be a necessary, though not sufficient, part of addressing equity of access to tertiary education. Income support is particularly important for student persistence and success.

The Socio-Economic-Status (SES) postcode data used to measure trends in access are widely acknowledged to be fundamentally flawed. The postcode approach needs to be replaced by a mechanism that links data about individual students to data about parental educational attainment and income. Without such a change, the data upon which policy decisions are made, and performance tracked, will continue to count students from affluent families, living in low SES postcode areas.

The last significant changes to the student income support system occurred in 1998 when the Government rolled a number of different payments, including AUSTUDY into the Common Youth Allowance. The arrangements have not been subjected to a proper Government initiated review since 1992. Despite a number of parliamentary

inquiries since then, very little has been done to improve arrangements for financially struggling students.

Anomalies abound as a result of the incremental way that changes have been made. For example:

- While Commonwealth equity-based scholarships are exempt from the student means test, benefits provided by universities and the private sector (whether cash or in-kind) are treated as income. This serves as a major disincentive for their provision and was a factor in the Go8's decision to discontinue an equity and merit scholarship scheme from 2007.
- Payment rates differ depending on whether the student has come straight from school, or a period of unemployment. Until recently, students over 25 were ineligible for rent assistance, whereas younger Youth Allowance recipients received it.
- The most common way that students now access the 'independent' rate of assistance is through workforce participation, with anecdotal evidence suggesting that many students from affluent families now access support this way.

Given the high cost of student income support to the taxpayer, it is crucial that payments are strictly targeted to assist students in the greatest financial need. The key criterion should be the financial circumstances of the student and the capacity of the family to support the student. Therefore, the Go8 does not support calls for the age of independence for income support to be reduced from 25.

Consideration should be given to offering students the option of adding accommodation rental costs to their income-contingent loan for tertiary education. However, we do not support extension of the loan for other discretionary, non-tuition purposes.

If the panel is unable to determine the reforms to student income support that are necessary, we recommend that it formally recommend to Government that a separate independent review of the student income support system (including international benchmarking) be undertaken as a priority.

### System steering

Compacts negotiation needs to be arms-length from government and informed by performance information and good judgement. There are three main reasons: the need for decision making

transparency; the need for discriminating judgement; and the need for sustainability of reform.

First, and consistent with the transparency principle, there is the need to avoid even the perception of opaque deals being made through negotiated arrangements.

Second, the natural tendency of public servants, and some would argue their proper role, is to be even-handed administratively, when what is called for in the initial compacts process is the exercise of discriminating judgement in relation to mission, capacity and performance. It is unreasonable to expect public servants to make these calls by themselves, and at least, they should have the benefit of support from people with experience and credibility in the academic and business worlds.

Third, the process of reform needs to continue past the direct involvement of the immediate ministerial and other players. It is necessary not only to monitor performance against undertakings but also to remember the rationale for particular arrangements being agreed. Otherwise, the checks on drift are too weak to sustain the intended reform.

Consideration ought to be given to the formation of a transition advisory body to work alongside the public service to help develop coherent responses to the several concurrent reviews of aspects of tertiary education policy and financing coming together at the end of this year.

Such a body might be formed at least for an interim period, including the first round of compact negotiations, to help drive structural reform. If it works well, the Government would have the option of building on the approach to design a more contemporary regulatory framework for tertiary education, along with a capacity to monitor developments and advise on the need to address gaps or deficiencies in service provision.

Additionally, a professional capacity needs to be built for providing accessible information for students on labour market trends, course options, and institutional performance.

***As the status quo is clearly unsustainable we urge the review panel to seize the opportunity to put forward a bold proposal for tertiary education reform in the national interest.***

# BACKGROUND

In June 2007, the Go8 issued a policy discussion paper, *Seizing the Opportunities – Designing new policy architecture for higher education and university research*. The paper proposed replacing the existing centrally controlled supply-oriented model of university funding with a more dynamic model of ‘balanced incentives’ to steer the future development of a diverse, high quality sector.

We reiterate here the principles outlined in the 2007 paper:

**Scale and scope:** The overall size of the higher education sector should be driven primarily by student demand and choice. Australia’s public investment in research should be commensurate with internationally competitive levels.

**Concentration:** Investment in basic research capability should be allocated on the basis of research strength, with performance verified through international scholarly assessments. Targeted investment should enable some Australian universities to take a place among the leading universities in the world.

**Access and equity:** The opportunity for higher education should be fairly distributed among the Australian population. There should be no up-front financial barriers to participation.

**Choice:** Students should be able to undertake courses that interest them in the institutions of their choice. Their learning options should not be limited by provider interests.

**Diversity:** Higher education policy and funding arrangements should encourage differentiation in the role and operations of institutions. Diversity should be reflected in learning options and methods, costs and prices, service quality, and outcome standards.

**Quality:** All Australian higher education qualifications should testify to at least a minimum acceptable standard of learning outcomes. Australia’s highest standards of educational attainment should be benchmarked against international comparators.

**Responsiveness:** Universities should have the scope and flexibility to respond to changing circumstances in competitive markets. Industry regulation, while protecting consumers and ensuring probity, should not stifle innovation unless it is anti-competitive or harmful to the community.

**Fitness for purpose:** Higher education policy should be about educational purposes, not a proxy for immigration or fiscal policy objectives. Regulatory policy should be about educational outcome standards and regulatory measures should be proportional to risk.

**Autonomy:** Policies should recognise the academic autonomy of universities regarding selection of students, curriculum and pedagogy, accreditation of awards, research and publication, academic freedom of expression according to scholarly norms, and operational autonomy through self-governance.

*Seizing the Opportunities* outlined eight main proposals:

- i. An Australian Tertiary Education Commission, to function as an independent, intermediary agency between government and tertiary education institutions, and being responsible for planning, resource allocation and regulation in respect of post-school education throughout Australia.
- ii. Student-driven higher education, through a universal entitlement to income-contingent tertiary education loans and national scholarships allocated directly to students on the basis of merit.
- iii. Mission-based block funding of universities, developed along the lines of the proposed ‘funding compacts’.
- iv. National investment in university research, through national competitive grants and block funding to universities, along with a series of ‘hub & spokes networks’.
- v. Performance-based block funding for research, tightly targeted on the basis of national research priorities and institutional research strengths.

- vi. Research quality evaluation capable of identifying and rewarding the best research wherever it occurs.
- vii. A dual system of assistance for research students, aimed at raising the number of domestic research degree students.
- viii. Transition management arrangements providing institutions with as much stability and flexibility as possible.

We remain of the view that these eight broad building blocks are important to the new policy framework that is needed to help Australia sustain quality and responsiveness in higher education and university research. However, developments over the last year, not least the change of Federal Government, lead us to modify elements of the policy design, particularly for managing the medium-term transition from current arrangements to the longer-term destination.

There are various public policy factors likely to affect the future of tertiary education in Australia. They include:

- aspects of the COAG agenda for productivity, especially in respect of education and training;
- the review of the Australian Qualifications Framework;
- the Skills Australia initiative;
- the (as yet unsettled) review of post-VSU arrangements;
- the review of the Australian taxation system;
- demands emanating from new policy commitments in the fields of early childhood education and schooling (including the development of a national curriculum);
- demands arising from a higher and more diversified immigration program;
- the Government's broader social inclusion agenda;
- the Government's commitment to improve the living conditions of Indigenous Australians;
- demands that may flow from greater attention to health prevention strategies and changes to the delivery of health and medical services;

- other demands that may flow from adjustments to global economic and environmental pressures, including changes in the skills and understandings needed in the general workforce; and
- demographic and other changes affecting the tertiary education workforce itself.

Additionally there are six concurrent exercises that more deliberately have been designed to influence future policy and financing for tertiary education:

- the Review of Australian Higher Education;
- the Review of the National Innovation System;
- the Excellence in Research for Australia (ERA) initiative for assessing the feasibility of a validated metrics approach to the evaluation of research quality;
- the Education Investment Fund;
- the Learning & Teaching Performance (Improvement) Fund; and
- mission-based funding compacts with universities.

## Context

Education contributes to economic growth and improves individual wellbeing. It also plays an important role in fostering and maintaining a positive and cohesive society.

Higher levels of educational attainment are associated with increased employment opportunities and higher incomes. The changing structure and growth of the Australian economy is increasing the demand for a diverse, skilled workforce, and higher levels of educational attainment are required to meet this demand.

## Australian Social Indicators and Tertiary Education<sup>3</sup>

Australia has one of the highest levels of life expectancy at birth (males 78.9, females 83.6) and healthy life expectancy (males 70.9, females 74.3) in the world.

High levels of labour force participation (71.3% males, 57.2% females) and employment, with comparatively low unemployment (5.0%), provide the basis for a strong economy.

<sup>3</sup> ABS Cat. No. 4102.0, *Australian Social Trends*, 23 July 2008.

Australia has internationally comparatively high levels of enrolment and attainment in education (82.5% of 15–19 year olds and 33.2% of 20–29 year olds enrolled; 23% of persons aged 25–64 with Bachelor degree or higher and a further 9% with another tertiary certificate, diploma or other qualification) and scaled reading literacy (males 495, females 532), mathematical literacy (males 527, females 513) and scientific literacy (males 527, females 527) all close to or above the OECD average of 500.

Health care is of high quality, with expenditure approaching 10% of GDP, and Australia has an income support system for those who are disadvantaged. There is a good stock of housing, with an average 2.51 persons per household, 3.06 bedrooms per dwelling, and only 2.8% of households having insufficient bedrooms.

These measures paint a picture of broad social wellbeing in Australia. But, underlying that, there are groups within the Australian community for whom social disadvantage is real and multi-dimensional, affecting health and morbidity, employment and income, housing, and educational attainment (or lack of it). Social disadvantage is significantly intergenerational. Children of disadvantaged people often have deficits, initially in health status and educational attendance and attainment, and leading on to other dimensions.

For many of the Indigenous population, some migrants to Australia, some with disabilities, some from dysfunctional families, social disadvantage is real.

Comprehensive data are not available on all disadvantaged population groups. The recently published ABS Social Trends provides some measures for Indigenous persons.

- Of persons aged 20–24, 43.6% had post-school qualifications, compared with 23.7% of Indigenous persons (an increase from 16.6% in 2001).
- 66.3% of Year 5 Indigenous students reached national benchmarks for reading, compared with 88.4% of all students.
- 66.0% of Year 5 Indigenous students reached national benchmarks for numeracy, compared with 90.3% of all students.

As well as the socio-economic factors which impact on educational attendance and attainment, Australia's geography is a significant factor, with rural and remote areas not formerly having ready access. Some universities have offered education by correspondence for many years. However, with internet connections reaching 64% of Australian homes, distance education is becoming more attractive and achievable, with the very remote areas reaching 42% connected.

The educational attainment of the Australian workforce is considerably below world leaders. In 2005, two thirds of the Australian population aged 25–64 years had no post-secondary education qualification, and greater than one third (35%) had attained less than upper secondary education (see *Table 1*).

**Table 1: Educational attainment of persons aged 25–64 years, selected countries, 2005 (%)**

Country	Below upper secondary education	Upper secondary & post-secondary non-tertiary education	Tertiary Type B education	Tertiary Type A and advanced research programs	Total
Australia	35	34	9	23	100
Canada	15	39	23	23	100
Japan	n.a.	60	18	22	100
Korea (south)	25	44	9	23	100
New Zealand	21	52	7	20	100
Sweden	17	54	9	21	100
United Kingdom	14	56	9	21	100
United States	13	49	9	29	100

Source: OECD (2008), *Education At A Glance: OECD Indicators*, 2007, Paris.

In 2006, 72% of all 19 year olds had completed Year 12 or equivalent. The rate of completion was 77% for females and 68% for males.

The most 'at risk' group are those young people who have left secondary school without completing Year 10.

In 2006, 7% of 15–19 year olds had left school without completing Year 10. The incidence of non-completion of secondary schooling varies according to the location of students. Very low rates of completion are found among Indigenous youth in remote and very remote locations (see *Tables 2 & 3*).

**Table 2: People aged 25–64 years, level of highest non-school qualification by remoteness area, 2006**

Level of highest non-school qualification	Major cities (%)	Inner regional (%)	Outer regional (%)	Remote (%)	Very remote (%)	Total(d) (%)
Above Bachelor degree(a)	7.5	3.9	2.9	2.7	2.2	6.2
Bachelor degree	19.1	11.3	9.9	9.7	7.8	16.5
Advanced diploma and Diploma	10.3	8.5	7.6	7.2	5.8	9.7
Certificate III and IV	16.7	22.0	21.2	20.3	16.3	18.2
Certificate I and II	1.2	1.5	1.4	1.4	1.8	1.3
Total with non-school qualification(b)	56.9	49.5	45.0	43.2	35.6	54.0
Total non-Indigenous(c) with non-school qualification(b)	57.1	49.9	45.8	45.6	47.8	54.5
Total Indigenous(c) with non-school qualification(b)	37.8	33.0	27.5	21.9	14.5	29.4

(a) Includes Postgraduate Degree and Graduate Diploma/Graduate Certificate. (b) People who stated they had a non-school qualification but did not state the type of qualification, or for whom the type or level of qualification was inadequately described, were excluded prior to the calculation of percentages. Includes certificate not further defined. (c) Excludes those who have not stated their Indigenous status. (d) Includes those in Migratory Australia and those who had no usual address. *Derived from ABS 2006 Census of Population and Housing.*

**Source:** ABS Cat. No. 4102.0, *Australian Social Trends*, 23 July 2008.

**Table 3: People aged 15–19 years who had left school(a), selected indicators by remoteness area, 2006**

Remoteness area	Did not complete year 10(a) (%)	Completed year 10/11 (%)	Completed year 12 (%)	% attending educational institution		
				Total(b) (%)	Of those who completed year 12 (%)	Of those who did not complete year 12(a) (%)
Major cities	5.9	28.5	63.4	100.0	66.2	27.0
Inner regional	9.4	42.4	46.0	100.0	47.4	26.8
Outer regional	9.7	45.8	42.0	100.0	37.2	21.9
Remote	13.6	47.1	36.0	100.0	22.8	15.0
Very remote	35.9	36.1	21.8	100.0	16.0	5.9
Australia(c)(d)	7.4	33.2	57.1	100.0	60.6	25.6

(a) Excludes those who did not state whether or not they were attending an educational institution or did not state the type of educational institution they were attending. (b) Includes those who stated they did not attend school. (c) Includes those who stated they had left school but had not stated the highest year of schooling completed. (d) Includes people in Migratory Australia and those who had no usual address. *Derived from ABS 2006 Census of Population and Housing.*

**Source:** ABS Cat. No. 4102.0, *Australian Social Trends*, 23 July 2008.

Another issue needing focus is the imbalance between males and females in educational attainment, with 68.8% of males and 80.1% of

females who commence Year 7/8 continuing to Year 12—a consistent differential now for over a decade.<sup>4</sup>

<sup>4</sup> Source of data: ABS Cat. No. 4102.0, *Australian Social Trends*, 2008.

## Education participation rates

Many young people continue in full-time education immediately after completing compulsory schooling, either in post-compulsory schooling or in other forms of education, such as VET. In May 2006, 69% of 15–19 year olds were in full-time education (including 52% still at school). Some young people return to full-time study following a period of absence after completing compulsory schooling. In the 20–24 years age cohort, excluding persons still at school, 25% were

undertaking full-time tertiary study and 12% were undertaking part-time tertiary study (see [Table 4](#)).

Many people aged 25 years and over return to study, to upgrade their skills or to gain new skills, often while employed. Some 6% of all persons aged 25–64 years in May 2006, were studying part-time at a tertiary institution, compared with 2% studying full-time.

Australia's stock of qualified people largely reflects investments made before the expansion of the knowledge based economy (see [Table 5](#)).

**Table 4: Education participation rates(a), May 2006**

	Age group (years)		
	15–19 (%)	20–24 (%)	25–64 (%)
Attending school	51.6	*0.2	-
Attending tertiary (b)			
Full-time	18.4	24.7	1.9
Part-time	7.5	12.0	5.6
Total	25.9	36.7	7.5
Attending	77.5	36.9	7.6
Not attending	22.5	63.1	92.4

\* Estimate has a relative standard error of 25% to 50% and should be used with caution. - Nil or rounded to zero (including null cells). (a) Persons aged 15–64 years. (b) Educational institutions other than schools.

Source: ABS Cat. No. 6227.0, *Education and Work Australia*, 2006.

**Table 5: Employed persons, level of highest non-school qualification (a), selected characteristics, May 2008**

Occupation (c)	Post-graduate Degree	Graduate Diploma/ Graduate Certificate	Bachelor Degree	Advanced Diploma/ Diploma	Cert. III/IV	Cert. I/II	Cert. n.f.d	Without non-school qualification	Total (b)
	'000	'000	'000	'000	'000	'000	'000	'000	'000
Managers	78.2	44.1	256.3	132.7	205.1	57.0	17.8	431.3	1233.3
Professionals	258.7	175.3	971.8	260.4	94.9	25.1	12.1	239.1	2057.4
Technicians and trades workers	12.3	10.6	85.5	111.4	744.5	76.1	25.8	497.9	1571.6
Community and personal service workers	10.0	18.4	88.1	148.9	190.0	49.8	34.3	368.5	918.6
Clerical and administrative workers	28.9	23.2	198.0	163.1	219.0	155.4	32.2	785.9	1616.1
Sales workers	9.6	7.5	75.4	63.4	108.1	51.5	18.4	609.3	949.2
Machinery operators and drivers	*3.3	*2.3	20.7	23.9	133.0	36.8	12.5	451.3	688.6
Labourers	*3.3	*4.7	42.3	42.4	151.0	57.3	17.3	762.6	1086.2

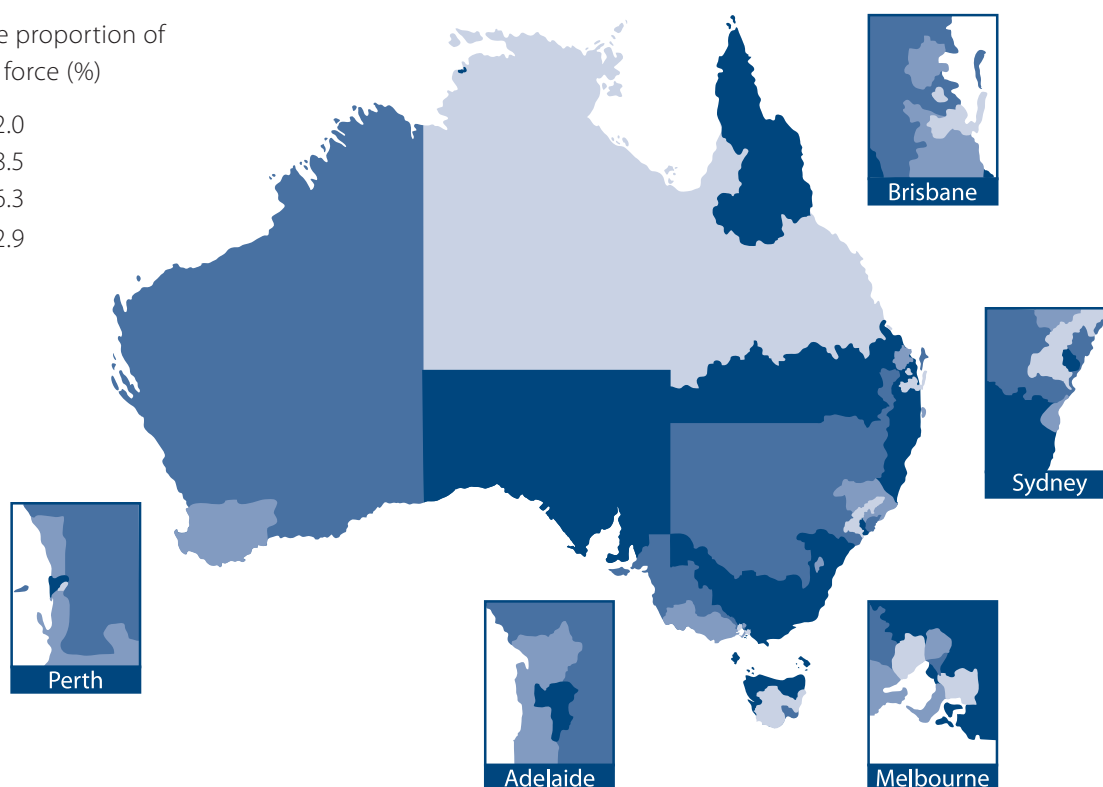
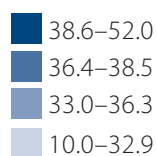
(a) Non-school qualification refers to educational attainments other than those of pre-primary, primary or secondary education. (b) Includes persons whose highest non-school qualification was at a level not determined. (c) Occupation classification change effective since 2007. For further details, see paragraphs 18–20 of the Explanatory Notes, *Education and Work Australia*, ABS Cat. No. 6227.0.

Source: ABS Cat. No. 6227.0, *Education and Work Australia*, 2006, p.19.

Different regions have different age profiles.

**Figure 6: Proportion of the Labour Force aged 45 years and Over by Region, July 2005**

Mature age proportion of the labour force (%)



*Source:* ABS Cat. No. 6291.0.55.001, *Labour Force Australia*, Detailed—Electronic Delivery, 2005.

**Table 6: Projected age dependency of Australia's population, 2010, 2030, 2050**

Year	Population younger than 15 years and older than 64 years ('000)	Population older than 14 years and younger than 65 years ('000)	Ratio of age dependent population to workforce active population (%)	Number of workforce active persons per age dependent person
2010	6,976.4	14,423.6	48.5	2.06
2030	9,765.8	15,534.2	62.9	1.59
2050	11,368.0	16,632.0	68.4	1.46

*Source:* ABS Cat. No. 4102.0, *Australian Social Trends*, Data Cube, 2008.

Australia is moving from a position where there are currently just over two people of active working age for every age dependent person, to a position about forty years ahead when there will be fewer than one and a half people of active working age to every age dependent person. Australia's age dependency ratio (the number of persons aged 0–14 years plus 65 years and over divided by the number of persons aged 15–64 years) is projected to increase from 48.5% in 2010 to 68.4% in 2050 (see **Table 6**).

Age related changes are exacerbating skills shortages across different occupations (see **Figures 7 and 8**).

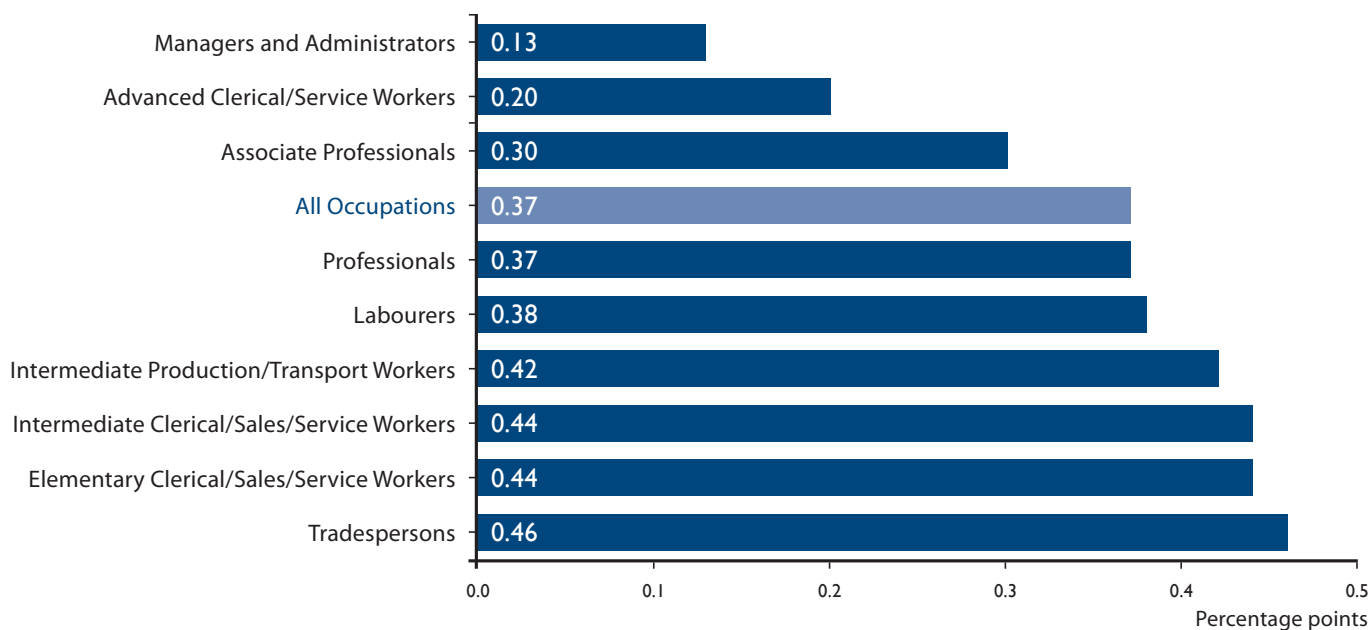
It will be necessary to achieve higher rates of productivity through investment in human capital. Current rates of productivity growth fall well short of international comparators (see **Table 7**).

**Table 7: Productivity growth rates, selected countries, 2006**

Country	Productivity growth (GDP per hour worked) 2006
Australia	0.5
Canada	0.8
United States	1.0
New Zealand	1.1
United Kingdom	2.4
Ireland	2.2
Finland	3.2
Korea	3.4

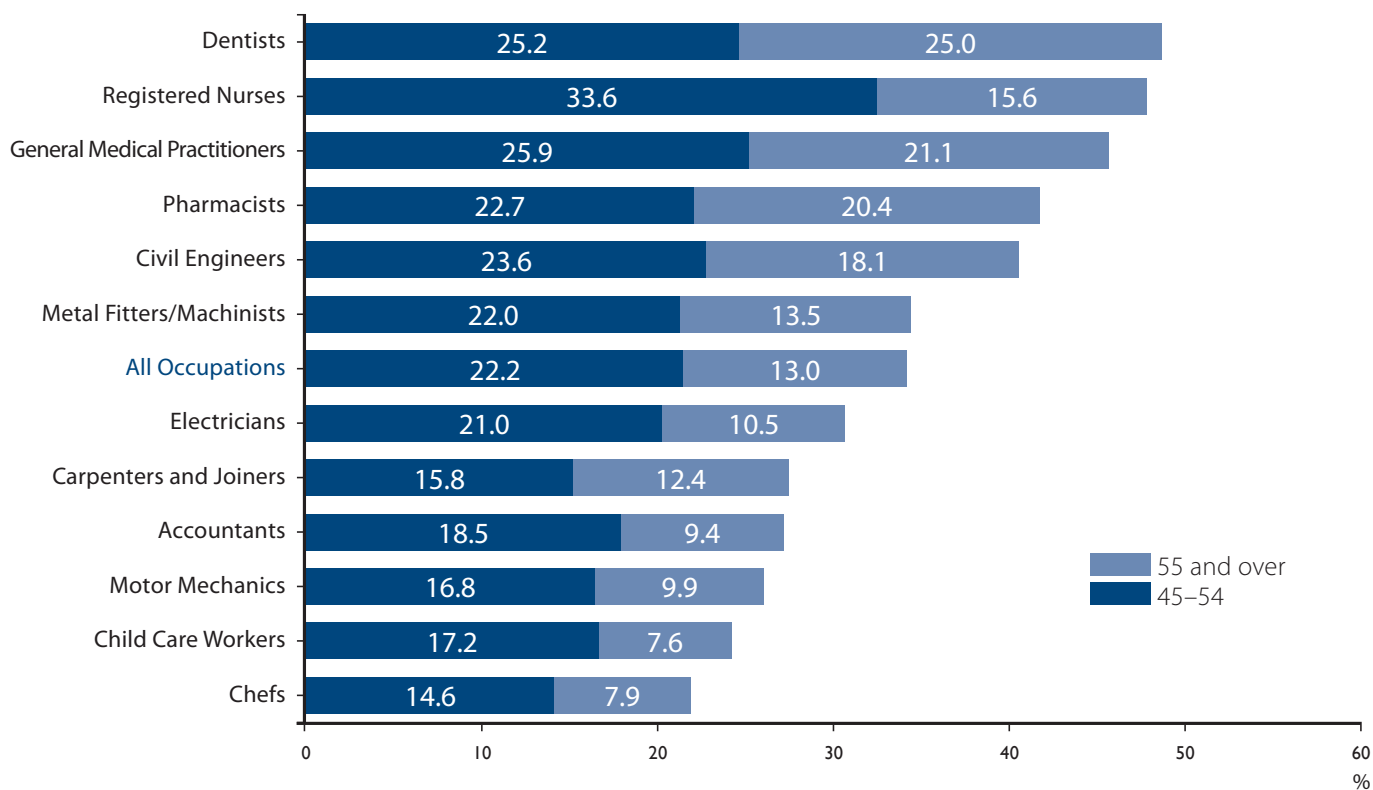
*Source:* OECD, GDP Per Hour Worked, OECD StatExtracts, stats.oecd.org, accessed 23 July 2008.

Figure 7: Forecast reduction in average annual employment growth (percentage points) due to population ageing, by occupation, 2004–05 to 2009–10



Source: Centre of Policy Studies, MONASH model forecasts. The occupational grouping for this chart is the ABS's ASCO major groups classification.

Figure 8: Age profile (45 to 54 years and 55 years and over), selected skill shortage occupations



Source: ABS, Labour Force Survey, annual average data, 2004.

## Apparent higher education completion rates (completions compared with commencement)

The student attainment rate is a complex measure to estimate from official DEST/DEEWR statistics. Courses vary in length, and some students interrupt or vary their courses. As a first approximation a four year average was assumed. The proportion of students who commenced in each of 1993, 1994, 1995 and 1996 and who completed in 1996, 1997, 1998 and 1999, were calculated and averaged. The results are as follows:

**Males 64%**  
**Females 68%**  
**Total 66%**

The proportions, across different fields of study, are shown in **Table 8**.

**Table 8: Higher education completion rates**

Field of study	%
Agriculture, Animal Husbandry	49
Architecture, Building	71
Arts, Humanities and Social Sciences	61
Business, Admin., Economics	78
Education	68
Engineering, Surveying	57
Health	77
Law, Legal Studies	80
Science	65
Veterinary Science	82

**Source:** DEEWR, Higher Education Student Statistics, various years.

Several questions arise, including:

- to what extent is student drop-out affected by the predominant Australian model of early specialisation?
- to what extent is student non-completion a consequence of student turnoff through uninspiring teachers?
- to what extent does student non-completion reflect a mismatch of student readiness with course performance expectations?
- to what extent is the apparent non-completion rate affected by student decisions to change courses?

## Definitions

The OECD defines tertiary education with reference to the program of study leading to a recognised qualification:

*International statistical conventions define tertiary education in terms of programme levels: those programmes at ISCED<sup>5</sup> levels 5B, 5A and 6 are treated as tertiary education, and programmes below ISCED level 5B are not. In some countries the term higher education is used more commonly than tertiary education, at times to refer to all programmes at levels 5B, 5A and 6 and at times to refer only to those programmes at levels 5A and 6. An additional complication is presented by the practice, in some countries, of defining higher education or tertiary education in terms of the institution rather than the programme.*

Programs at level 5 must have a cumulative theoretical duration of at least two years from the beginning of level 5 and do not lead directly to the award of an advanced qualification (those programs are at level 6). Programs are subdivided into 5A, programs that are largely theoretically based and are intended to provide sufficient qualifications for gaining entry into advanced research programs and professions with high skills requirements, and into 5B, programs that are generally more practical/technical/occupationally specific than ISCED 5A programs. Programs at level 6 lead directly to the award of an advanced research qualification. The theoretical duration of these programs is three years full-time in most countries (e.g. Doctoral program), although the actual enrolment time is typically longer. These programs are devoted to advanced study and original research.

<sup>5</sup>The International Standard Classification of Education (ISCED) provides the foundation for internationally comparative education statistics and sets out the definitions and classifications that apply to educational programs within it.

