



16 December 2013

The Hon Dr David Kemp and Mr Andrew Norton
Review of the Demand Driven Funding System for Higher Education

Via email: DDSreview@education.gov.au

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Dear Dr Kemp and Mr Norton

Ai Group is a peak industry association in Australia which along with its affiliates represents the interests of more than 60,000 businesses in an expanding range of sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other industries. The businesses we represent employ more than 1 million employees.

The Ai Group welcomes the opportunity to provide a submission to this review of the demand-driven funding system in Australian higher education.

Developing a skilled workforce

The higher education sector is critical to Australia's future. Universities educate our leaders and workers of the future. They can facilitate new ideas which provide opportunities for industry innovation and therefore productivity.

Higher education produces workers with the advanced knowledge and skills required in the labour market. The skills learnt through higher education not only provide benefits for Australia's productivity, but they benefit the individual in terms of improved employment prospects with higher salaries, and thereby contribute to overall economic, social and cultural wellbeing. Employment is also higher for those with degrees whereas unemployment is most prevalent for those who do not complete secondary education.

The Productivity Commission highlights international studies showing that an additional year of education can raise the level of productivity by 3 to 6 percent for a country like Australia¹.

¹ Productivity Commission (2007), Potential Benefits of the National Reform Agenda, Research Paper, Canberra.

Australian businesses will require more high skilled labour in the decades to come. Some of the key indicators include:

- Professional and managerial occupations now make up one-third of all employment and are set to grow faster than average. Access Economics estimate annual growth rates to 2025 will be 1.3 - 2.5 percent for managerial employment and 1.6 - 2.5 for professional employment, compared with 0.7 - 2.0 percent for total employment growth.²
- Access Economics predicts that the average annual change in industry demand for bachelor-qualified workers will be between 2.9 and 4.5 percent every year until 2025.
- The trend toward an economy needing ever-higher levels of workforce skill has been particularly pronounced in recent years. A 2010, an ABS report found 54 percent of jobs created over the previous 5-year period were in occupations usually requiring a degree.³
- Recent modelling undertaken by the Australian Workforce Productivity Agency (AWPA) concludes that we are projected to have a deficit of higher-level qualifications (i.e. Diploma and above) from around 45,000 to 280,000 in 2025.⁴

These indicators suggest that the reforms to the higher education sector following the Bradley Review,⁵ which include the introduction of the demand driven funding system, are likely to achieve the necessary level of growth.

Industry Needs

The significant growth achieved to date due to the uncapping of undergraduate places is driven by student demand. An important issue to monitor as the reform progresses is whether this increased student demand aligns with industry demand. The Government has also introduced the *My University*⁶ website to provide greater information about institutions, courses and outcomes to assist student choice. High-quality information is an important factor in the effective operation of a market-based system such as has been introduced in higher education. The effectiveness of the new policy relies on student choices dictating the flow. Prospective students need to understand where employment opportunities lie so they are more likely to make rational and informed choices. Improved career advice to would also assist with this process.

To date the increase in student places has revealed expansion across the full range of disciplines.⁷ This includes the Science, Technology, Engineering and Mathematics (STEM)

² *Economic modelling of demand and supply*, July 2012, Report by Access Economics.

³ *New Jobs: Employment trends and prospects for Australian industries*, Skills Australia, New Jobs- All Industries Outlook Report 2010, skillsinfo.gov.au

⁴ Australian Workforce Productivity Agency (AWPA), 2012, *Future Focus Discussion Paper*, AWPA.

⁵ *Review of Australian Higher Education*, (Bradley Review), 2008.

⁶ <http://www.myuniversity.gov.au>

⁷ Conor King and Richard James, *Creating a demand-driven system*, in *Tertiary Education Policy in Australia*, Simon Marginson (Ed), Centre for the Study of Higher Education, University of Melbourne, July 2013.

disciplines and the development of employability skills, which have been the subject of considerable recent concern.⁸⁹¹⁰ Improved enrolments in STEM disciplines seem to be the result of good fortune rather than good planning. It is essential that industry's need for the skills generated by higher education are not lost in a system entirely dependent on student demand.

This is closely related to the persistent issue of skills shortages in the Australian economy. Ai Group's recent survey on *Employer's Workforce Development Needs* focused on the prevalence and location of skill shortages within workforces. Surveyed employers were asked to identify their experience of skill shortages in the past 12 months (2012) by occupational groupings. The results found that there were significant skills shortages in professional (20.4 percent) and managerial (15.9 percent) skills. These occupation areas occur at the higher end of the skills spectrum. Mismatches between educational supply and workforce demands need to be better monitored as failure to address the supply of skills in these areas can severely risk business productivity and contribute to skills wastage.

Maintaining consistent quality

Ai Group is a strong advocate for maintaining and continuing to improve quality in Australian tertiary education. Employers must have confidence in the quality of higher education provided to their current or potential employees. The introduction of the Tertiary Education Quality and Standards Agency (TEQSA) as the national regulator has been an important step in this regard. It is essential that TEQSA is supported in its endeavours to implement consistent quality across the sector especially in the current period of rapid expansion. This is important in the context of attempts to promote university autonomy, restrict the operations of TEQSA and characterise their operations as regulatory burden.¹¹

There are other quality concerns as well.

*"A major concern is whether the universities can deliver education at the standard required in a context of rapid expansion and lower levels of student preparedness."*¹²

Part of the Bradley reforms is the establishment of an explicit national target of 20% of places for students with low socio-economic status by 2020. To date there has only been a slight improvement from 16.1 percent of undergraduate students in 2008 to 16.8 percent in 2011.¹³ Nevertheless the policy intention is to change the student demographic so that university entry

⁸ See for example *Science, Technology, Engineering and Mathematics in the National Interest: A Strategic Approach*, Office of the Chief Scientist, July 2013 and *Lifting our Science, Technology, Engineering and Maths (STEM) Skills*, Australian Industry Group, March 2013.

⁹ Sydney Morning Herald, Employers unhappy with literacy and numeracy skills, 27 Feb 2013.

¹⁰ West Australian, Graduates lack literacy skills', 28 February 2013

¹¹ Universities Australia Submission to the Review of Higher Education Regulation, June 2013.

¹² Conor King and Richard James, op cit, page 17.

¹³ Cited in Conor King and Richard James, op cit, page 16.

becomes the norm for at least the top half of school leavers. This will include students who require greater educational support to achieve success. This concern about the impact on quality received public attention earlier this year in the context of university offers to students with tertiary entrance scores of 50 or less.

Ai Group notes that if universities are taking students with lower entry requirements, then we would expect that they would provide them with suitable levels of learning support to achieve the requisite outcomes. This assumes that the government's policy of encouraging growth through demand driven funding, is underpinned by adequate funding to support increasing numbers of students who are less well prepared for higher education.¹⁴

Impact on vocational education and training students

As indicated the growth in university places includes students who would typically become vocational education and training (VET) students. It is important to monitor the impact of this new growth on the VET sector and its supply of graduates to the workforce. In addition, there is the issue of providing effective pathways between the VET and higher education sectors. There is a need for those with initial vocational qualifications to acquire higher-level higher education qualifications as they advance in the workforce. To date these arrangements have been ad hoc and localised. The introduction of demand driven funding in higher education provides a new impetus to establishing adequate pathways from vocational education and training to higher education.

Conclusion

The Ai Group considers that a student demand based funding system for higher education is potentially a more effective mechanism for meeting industry's demand for skills and qualifications than the previous method. However, this new system has only been fully in place since 2012 and it is difficult to assess the full impact at this stage. There is certainly a need for close monitoring of the alignment of student demand to industry need, the impact on skill shortages, the impact on the VET sector and whether quality arrangements can be established and maintained.

Yours sincerely

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¹⁴ Vin Massaro, *TEQSA and the holy grail of outcomes-based quality assessment*, in Tertiary Education Policy in Australia, Simon Marginson (Ed), Centre for the Study of Higher Education, University of Melbourne, July 2013.