

# Ai GROUP SUBMISSION

Driving Innovation, Fairness and  
Excellence in Australian Higher  
Education

JULY 2016



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## **About Australian Industry Group**

The Australian Industry Group (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 which we represent employ more than one million people. Ai Group members operate small, medium and large businesses across a range of industries. Ai Group is closely affiliated with more than 50 other employer groups in Australia alone and directly manages a number of those organisations.

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## Introduction

The Ai Group's key interest is a successful business sector to drive Australia's economy and it recognises the fundamental importance of a well-placed higher education sector in this success. The sector, in close collaboration with industry, needs to produce high quality, employable graduates in sufficient quantity to meet Australia's current and future labour needs. The current process of re-designing the policy architecture for higher education is crucial to Australia's future.

Whilst the Ai Group recognises that changes need to be made in order to drive a globally competitive, sustainable and innovative sector, policy uncertainty and instability have dogged the sector for too long now, with unresolved policy reforms first mooted in 2014.

Reforms were recognised as needed largely in response to rapid growth after the introduction of the demand driven system in 2009. It is essential that this current consultation process now results in the timely implementation of definitive new policy settings, including a sustainable funding model, that drive informed student choice, student access, the maintenance of quality and have an appropriate impact on VET sector training choices.

The Ai Group sees considerable benefit in viewing these issues in the context of a more integrated tertiary education system. It is important that the adoption of measures in the current higher education sector do not have a negative impact on the vocational education and training (VET) sector. It is the need of industry to be able to draw high quality employable graduates from both sectors. Further, it is less than fruitful to consider issues pertaining to higher education loan schemes in the absence of established funding models in both sectors in the wake of the introduction of demand driven funding approaches.

In its introduction, the consultation paper, *Driving Innovation, Fairness and Excellence in Higher Education*, provides a clear summary of the need for a system that drives innovation, provides information, choice and access for students, is affordable, builds in pathways, incentivises universities and offers quality assurance through regulation and sound funding. The consultation paper's introduction also makes a strong case for change, in particular in its reference to Australia's goal to re-position itself globally by strengthening its national innovation and science capability. The Ai Group agrees with the premise for change, stressing the now urgent need for decision and implementation. Ai Group notes the major concerns which focus on "*whether the universities can deliver education at the standard required in a context of rapid expansion and lower levels of student preparedness.*"<sup>1</sup>

Our response discusses the specific questions raised in the subsequent sections of the paper.

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<sup>1</sup> 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.

## Opportunity and choice

### The best options for students

The Ai Group notes the sector's significant growth in university undergraduate participation, particularly since the introduction of reforms in 2009.

In 1970 only 3 per cent of Australians held undergraduate degrees whereas now the figure is 37 per cent.<sup>2</sup> Overall domestic bachelor student commencements increased by more than 53,500 from 2009 to 2013 which is a 27.5 per cent increase.<sup>3</sup> Attributing the significant growth to the uncapping of undergraduate places, the Review of the Demand Driven Funding System<sup>4</sup> recommended a continuation of this approach and not a return to the capping of university places. Indeed, the review recommended an expansion of the system to include sub-bachelor courses and increase the eligibility for Commonwealth supported places to all higher education providers including non-university providers.

The Ai Group supports the student demand based funding system for higher education as a potentially effective mechanism for meeting industry's growing demand for skills and qualifications. A demand driven system has more flexibility and providers are not restrained by an enrolment profile and a capped Commonwealth grant. The system should be able to adjust continuously and automatically to meet needs assuming that young people make informed decisions about labour market opportunities.

However, Ai Group believes that in its current form it is impacting on the quality of graduates. Industry needs to be assured that students are best suited to the level and emphasis of the programs they are undertaking, and that they have the opportunity to undertake courses that are most relevant to them, thereby creating the best talent pipeline for the workforce.

Expanding access to sub-bachelor courses at public universities has the potential to drive demand into this level of course for students suited to these qualifications. The recent growth in university places has included students who would more typically become vocational education and training (VET) students and undertake sub-bachelor courses. The industry requires an appropriate supply of these of graduates to the workforce, in addition to bachelor level and above. Accordingly, an extension of access to sub-bachelor courses at public universities is not a high priority at this time. This extension should be deferred until the funding mechanism for higher education is fully determined and the funding relationship between higher education and VET is established.

There is also a need to provide effective pathways between the VET and higher education sectors. Those with initial vocational qualifications must be able to acquire higher - level university qualifications as they advance in the workforce. To date these arrangements have been ad hoc and localised. Universities Australia has reported that in 2008 only 9 per cent of undergraduate

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<sup>2</sup> A smarter Australia: An Agenda for Australian Higher education, Universities Australia 2013 – 2016.

<sup>3</sup> F Larkins, Trends in Student Enrolments for Australian bachelor Degrees: is the present growth strategy sustainable?, L H Martin Institute, 2015.

<sup>4</sup> The Hon Dr David Kemp and Andrew Norton, Review of the Demand Driven Funding System,

students were admitted on the basis of a vocational education award course.<sup>5</sup> The introduction of demand driven funding for sub-bachelor courses at public universities must bring with it adequate pathways from vocational education and training to higher education. At this stage this has not been established.

### **Postgraduate places to support innovation**

The Ai Group is actively involved, on behalf of business, in university-industry collaborative initiatives that are leading to more innovative Australian companies. The low level of collaboration, including for research, between higher education and Australian industry has been well documented. Australia has the lowest level of business to research collaboration among comparator countries within the OECD. Australia ranks 32nd out of 33 OECD countries for SME collaboration and last for large enterprises.<sup>6</sup>

To add to this Australia has an unusual situation in relation to research compared with other countries. Some 60 per cent of all researchers are based in higher education institutions and a further 10 per cent in specific research agencies. Only 30 per cent of Australian researchers are based in industry compared with much higher levels in other countries. In the United States 80 per cent of researchers are in industry, 70 per cent in Japan and 64 per cent in Switzerland.<sup>7</sup> Given this distribution of researchers it is particularly important for industry to increase collaboration with universities for research to assist the development of innovation.

This relatively low standing in Australia can be influenced by a more consistent system for the allocation of post-graduate places. Ai Group supports the suggestions put forward in the consultation paper to underpin a renewed system with identified principles and inbuilt reviews. As part of the establishment of such a system, regular prioritisation could be undertaken to take into account particular industry needs, for example those currently identified through the National Innovation and Science Agenda.

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<sup>5</sup> A smarter Australia: An Agenda for Australian Higher education, Universities Australia 2013 – 2016.

<sup>6</sup> Benchmarking Australian Science, Technology, Engineering and mathematics, Office of the Chief Scientist, November 2014.

<sup>7</sup> Science, Technology, Engineering and Mathematics in the National Interest: A strategic approach, Office of the Chief Scientist, July 2013.

## Fairness and equity

### Improving support for disadvantaged students

The demand driven system has been successful in increasing the volume of students participating in higher education to meet the growing demands of industry. However, given the explicit national target of 20 per cent of places for students with low socio-economic status by 2020 it is rating poorly. Ai Group supports the need for a review to determine how best to assist suited students from low SES backgrounds to complete degrees. As a proportion of the total student population, the participation by low SES students remains below parity. Nevertheless, the policy intention is to change the student demographic so that university entry becomes the norm for at least the top half of school leavers. This includes students who require greater educational support to achieve success.

The review must result in improved equity outcomes, in particular to counter the reduction in funding in the 2016-17 Federal Budget to the Higher Education Participation and Partnerships Program. Industry needs a skilled workforce with the most capable graduates drawn from all environments. It needs a diverse workforce that is better able to fuel local and global interaction, collaboration and innovation.

### Supporting the regional presence of universities

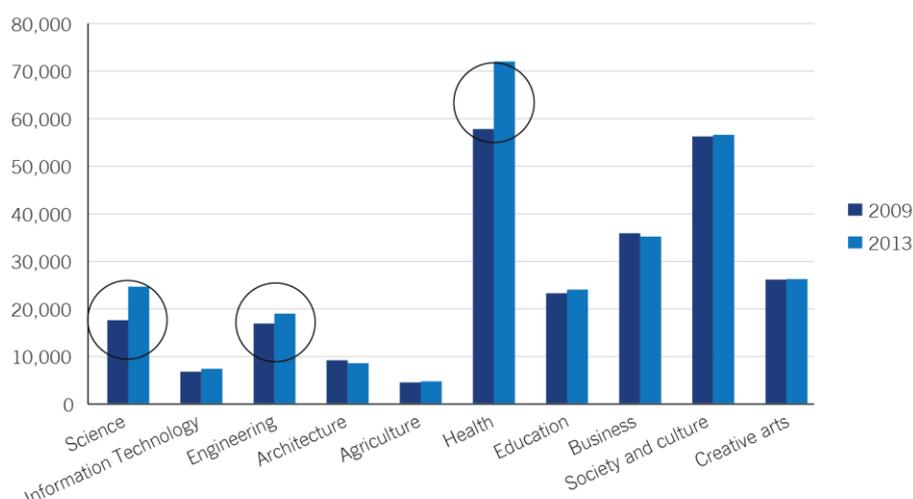
Related to the equity issue discussed above, it is essential that quality regional and remote teaching and learning is available to students. In considering its support for this learning, the Government should focus on virtual teaching spaces, networks (including with businesses and their facilities) and collaborative technology usage, augmented by physical spaces only. Innovative approaches to infrastructure must match innovations in the social and business world.

## Excellence and quality

### Flexibility to innovate

Industry is keen for matches between educational supply and workforce demands to be better monitored as failure to address the supply of skills where needed can severely risk business productivity and contribute to resource wastage. Increased student demand has not always aligned with industry demand. This is closely related to the persistent issue of skills shortages in the Australian economy. Ai Group's 2014 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 by occupational grouping. The results found that there were significant skills shortages in professional (20.4 per cent) and managerial (15.9 per cent) skills. These occupation areas occur at the higher end of the skills spectrum.

**Chart 1: Trends in tertiary admissions centre applications by broad field of education**



Universities need greater flexibility to respond to changes in student demand and the skill needs of the market. Within a managed demand driven system, Ai Group would support a degree of price flexibility under a scheme of incentives to allow for areas of excellence – seen as important generators in the development of greater industry capabilities. Given close cooperation with industry, these centres would be focussed on high level innovation needs and on growth industries for Australia.

Designing higher education areas of excellence can be part of a demand driven model providing the resulting fee increases permitted in the scheme are well monitored. Ai Group supports an

exploration of the suggested model raised by Dawkins and Dixon<sup>8</sup> under which government subsidies reduce as fees increase above a maximum.

### **More information for students**

Industry regards the quality of information provided to students as an important factor in developing graduates with the correct motivations, suitability and employability for specific industry areas/occupations. High-quality information is the beginning point for the effective operation of a market-based system such as now operates in higher education.

Additional government funding for the Quality Indicators for Learning and Teaching website and surveys is welcomed with all options raised considered worthy of development. Employers surveys must ensure they cover the breadth of industry areas and all sizes of business – small, medium and large – all of whom have differing needs and operations.

To date the increase in student places has revealed expansion across the full range of disciplines.<sup>9</sup> Increased demand has been concentrated in three main areas since 2009: health, engineering and science.<sup>10</sup> These are within the Science Technology Engineering and Mathematics (STEM) disciplines which have been the subject of considerable recent concern.<sup>11</sup> However, this seems to be the result of good fortune rather than good planning. Other STEM-related areas such as Information Technology and Agriculture have very little growth and are characterised by low levels of participation.

It is essential that industry's need for the skills generated by higher education are not lost in a system dependent on student demand that is not well informed.

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<sup>8</sup> Peter Dawkins and Janine Dixon, *Towards a Third Way in Higher Education Reform in Australia*, Victoria University 2016.

<sup>9</sup> 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, 2013.

<sup>10</sup> The Hon Dr David Kemp and Andrew Norton, *Review of the Demand Driven Funding System*.

<sup>11</sup> See for example *Science, Technology, Engineering and Mathematics in the National Interest: A Strategic Approach*, Office of the Chief Scientist, July 2013 and *Progressing Science, Technology, Engineering and Maths (STEM) Skills in Australia*, Australian Industry Group, 2015.

## Affordability

### A fair share for taxpayers and graduates

The Ai Group supports the principle of a student loan system, recognising that it reduces barriers to entry of higher education for capable students. These students are needed for industry to be innovative and competitive, by gaining the best possible graduates it can to develop a productive workforce. A student loan system has benefits for the whole community which is the basis of the shared cost by taxpayers and students.

In recognition that a student loan system into the future needs to be fair and affordable, Ai Group acknowledges changes need to be more closely considered. This includes a reduction of the Government's contribution, a small reduction in the Government grant per student, and a small increase in the maximum capped student contribution that institutions may charge. Relativities between disciplines of funding clusters also need to be explored and linked to priority industry sectors, including areas identified through Industry Growth Centres and the National Innovation and Science Agenda.

### An affordable loan scheme

Whilst in support of the expansion in higher education participation promoted by the demand driven system, Ai Group acknowledges the pressures this has placed on Australia's Higher Education Loan Program: the debt level, VET FEE-HELP blow-out, higher level and longer qualifications and post graduate qualifications. More debt repayments are less likely and there are questions around the broad public benefit for the taxpayer.

Ai Group supports a more uniform approach to the application of loan fees than currently occurs across HECS-HELP and VET FEE-HELP/FEE-HELP. Opportunities should be considered to implement a consistent and coherent loans scheme for tertiary education. In terms of the application of loan fees it would be appropriate to adopt measures which remove any sectoral disadvantage. Accordingly, the options to remove all loan fees or the implementation of a common 5 per cent loan fee should be considered.

### Changes to repayments and rates

It is essential that the architecture of the Australian higher education loan system supports relevant students to undertake higher education through a fair level of contribution and a reasonable repayment regime. Industry is best served by renewable lifetime limits in order that graduates may undertake further knowledge and skills development in the future – often required or encouraged by employers – or individually initiated as part of their own individual career aspirations. Any adjustment to the lifetime loan limit should not impede student participation in lifelong learning.

Ai Group considers some changes to repayment thresholds are necessary to re-engineer a sustainable system into the future. It would be appropriate to consider a reduction in the threshold for repayment to around \$40,000 per annum in tandem with a reduction in the repayment rate. It would be beneficial to undertake modelling around a repayment of 2 per cent.

### **Ai Group Driving Innovation, Fairness and Excellence in Higher Education**

Further, restrictions should be placed on loans for those who have permanently left the workforce since little public benefit can be gained from such study. Ai Group supports a review of the HECS-HELP benefit, further examining the Kemp-Norton research into the benefits of reduced repayments in identified occupations and regions. Industry supports the principle of a focus on priority occupations and regions, however the design needs a review if this benefit is to continue.

The introduction of a renewable lifetime limit on HELP loans is also worthy of investigation. This would remove the financial disincentive of upfront fees for those who wish to renew or upgrade their skills over the course of their working lives. In this way a debtor's loan balance could be 'refreshed' as debt is paid similar to the operation of individual learning accounts.

In terms of other proposed measures, the Ai Group supports the treatment of student loan debt like all other forms of debt.



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