

1 September 2023

Professor Mary O’Kane AC
Chair
Australian Universities Accord Panel

Dear Professor O’Kane,

Submission to the Accord Interim Report by Professor Brian P. Schmidt (personal capacity)

This response is not intended to be comprehensive, but rather focus on a few key areas where I have strong personal views.

Equity and Attainment

The Accord interim report has a laudable high target on higher educational attainment for Australia in the future, and for that attainment to be independent of socio-economic or cultural status.

An unsaid, but essential ingredient in progressing the targets is having students emerge from the secondary school system ready for university. The OECD’s PISA survey instrument shows Australia has gone strongly backwards over the past two decades in the fraction and diversity of students who are properly prepared for university.

Despite the challenges of graduating students from high school with adequate preparation, higher education in Australia can do more to even up the opportunities for all Australians. Key characteristics of a post-Accord system to do this include:

- All higher education pathways to be connected. Recommendation: a single AQF-like system across the whole system that includes separate streams on skills and knowledge; universal recognition of prior-learning; single income-contingent loan system across the whole system.
- A diversity of institutions and degrees and environments (including online and in-person) that combine different amounts of education and training into a broader range of different qualifications than currently exist. Having more than half the population attain researcher-lead-teaching bachelors is neither feasible, nor efficient.
- Funding of teaching to better reflect costs of location, cohort characteristics, field, and research intensity of program, rather than one-sized fits all. Universities need to be judged on success rather than commencing student numbers and normalized relative to student characteristics.
- Sufficient direct financial support for student living costs for those in need, so these students have adequate time to spend on their studies, especially in their first year.

Skills and Education

The Accord interim report focuses on skills attainment with little mention of education. Education and skills are integrally related, with higher levels of education generally required for taking on higher levels of skills. For example, across the past several years we have seen an increased focus on skills within Bachelor’s degrees, at the expense of time spent on their educational components. Internationally recognized degrees like the Bachelor (as well as PhD) should not be eroded through *requirement* of skills, but rather augmented with skills. Other

qualifications with different names could have a wide mix of education and skill levels to serve the needs of students and their employers.

Research

Our highly successful research export market has emerged thanks to the multicultural and stable environment, including visas/work-rights, the sector brings to international students, and the sector's strong international rankings which are strongly coupled to our research rankings. The coupling between student demand and income with research rankings has created a tight feed-back loop that has grown the market quickly.

But the export success of Australian universities has allowed the federal government to withdraw financial support for the sector (see latest ABS figures showing GERD for Australia has dropped to 1.68% of GDP compared to the OECD average of 2.7% of GDP) such that Australia's sovereign research capability is now propped up by international student fees that are highly concentrated in a single country.

Sovereign research capability is funded through Commonwealth grants (included in Category 1) as well as Agency investments (included in Category 2), and finally through the CRC program (Category 4). Overheads, paid through RSP Blockgrants, have fallen as a percentage over time, because the RSP pool of funding has remained static, while the range of things eligible for overheads has expanded considerably. This has made high cost areas of sovereign research capability in need of large cross-subsidies from other areas, and a systematic divestment in these areas (e.g. Physics, Earth Sciences).

While there are many reasons to grow the research base of the country, a relatively painless step to address the major issue of insufficient overheads on sovereign research could be achieved by a major overhaul of how research overheads are paid. This would be restricting the overhead pool only to Commonwealth grants in Category 1+4 research areas, and require MRFF to include overheads from its pool of funding. Finally, all Commonwealth agencies, should be required to pay out overheads at these same rates, on all research funding they commission (Category 2). A further nuance could be creating two or three overhead rates reflecting the costs of the different areas of research (by 2-digit code).

Programs to incentivize research with industry should be bespoke to achieve the goals of the industry policy of the country.

International Student Levy

A blanket International Student Levy will be counter-productive because it will decrease the competitiveness and therefore export income of the sector. This flows from fairly simple economic principles:

- While price responsiveness of Chinese students is relatively low, it is high for students from all other regional markets.
- The global market for international students is increasing in competitiveness.

A levy imposed by the government (which is at arm's length from the market) will be unresponsive to the market (noting different universities have very different market conditions), and will be less efficient than universities setting their own prices. With a levy, at best we could expect China to 'break-even' across the sector, but major impacts would happen in other markets. The market signaling of a levy adds a major negative signal (students are paying for something other than their education) which will be efficiently transmitted to students through the agents we all use to bring students to Australia. We would expect this to be particularly sharp in markets like India, but could well be negative in China. We should expect an international student levy, when summed across the whole of Australia, to lead to a smaller export market that is more highly concentrated into China.

A levy will require many universities to either raise more student income (through increased tuition and/or increased numbers) or lay-off people and stop capital works. Moral hazard may come into play as some universities might decide the transfer of funds from the levy could supplant their international student fee income.

Regulation and University Autonomy

Many of the ideas within the Accord change regulatory burdens and impact university autonomy. The final set of recommendations need to be viewed through the lens of overall regulatory burden, university autonomy, and the self-determination of students to make decisions they think are in their best interest. A total impact assessment of changes through the Accord should accompany the final report.

Yours sincerely



Professor Brian P. Schmidt AC