

THE CASE FOR A REGIONAL HIGHER EDUCATION POLICY FRAMEWORK

Keynote Address

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1. INTRODUCTION

When the new 'demand-driven' policy environment comes into effect next year, the closure of one or more regional universities is entirely possible. Indeed, it is the deliberate intent of the new policy framework to produce winners and losers. To quote Denise Bradley, the architect of demand-driven higher education:

"a demand-driven system could see a shift of students and funding toward those institutions that wish to grow and that can attract increased numbers of students. This is precisely what is intended: to allow funding to shift between institutions in response to student demand and to create a system in which each institution's funding is determined dynamically by the quality of its performance rather than by an historically-based system of centrally-planned student load allocations". (p.156).

In view of recent DEEWR data regarding the preferences of regional students, this is an ominous warning. Consider the following:

- a) In the 2009 academic year, 80.7% of regional students gave a metropolitan university as their first preference application for university.
- b) The percentage of applicants with a first preference for a metropolitan university, who were not offered a place at a metropolitan university and instead accepted an offer at a regional university: 0.7%.

It seems that regional students prefer to study at metropolitan universities but metropolitan students are not inclined to travel to regional universities. Meanwhile universities across the country have been massively over-enrolling students at discount rates so that when the caps come off in 2012 they will have stored up large numbers of students who will become eligible for the full Commonwealth government subsidy. Given the apparent preferences of prospective students, how will regional universities compete if the supply of metropolitan university places continues at the existing or, perish the thought, accelerated pace post-2012? If the intent of demand-driven education is that "each institution's funding is (to be) determined dynamically by the **quality of its performance**" (emphasis mine), doesn't the available evidence suggest that the future of regional universities will be determined by their geographical location rather than their performance?

Before proposing a policy framework to promote regional universities in the era of demand-driven education, let us look briefly at what we mean by 'regional universities' before going on to consider why they are worth preserving.

2. WHAT IS A REGIONAL UNIVERSITY?

Oddly enough, the first policy issue requiring resolution is: what precisely *is* a regional university? Which universities qualify and which do not? If we don't know who the intended beneficiaries of our policy framework are to be, how can we possibly construct initiatives to promote them? This issue has taken on increased significance with the rise of the regional independents in the last federal election. Suddenly it matters whether or not universities, hospitals, Councils and private businesses are classified 'regional'.

The regions at last have political influence as evidenced by the prioritization of regional initiatives across a range of portfolios in the latest federal budget.¹

The DEEWR definition of 'regional university' is governed by the Australian Standard Geographical Classification of remoteness, which is administered by the Australian Bureau of Statistics, and is based on the accessibility of services, defined largely in terms of distance. Under the classification scheme, there are 4 levels of regionality as follows:

1. Inner Regional
2. Outer Regional
3. Remote Australia
4. Very Remote

DEEWR draws on this schema for constructing its various funding programs but does not apply the system either literally or consistently. Consider, for example, the differences in eligibility for:

- a) Regional university loading
- b) Youth allowance, and
- c) The Regional Priorities Round of the Education Investment Fund

A. Regional Loading

The following table shows how regional loadings vary according to remoteness for all universities except Charles Darwin University, which receives a 15% loading even though it qualifies under the ABS scheme for only the 10% outer regional loading. Among other quirks of the schema is the fact that the city of Townsville, which is pushing towards 200,000 people and contains comprehensive health and social services is classified as 'outer regional' while Armidale, with a population of 26,000, minimal social services and a small, ramshackle hospital with few medical specialists is considered 'inner regional' even though accessibility of services is supposed to be the measure of remoteness. Moreover, UNE's regional loading is not paid according to the schema anyway because our loading has been discounted to take account of the large number of distance education students we enrol.

Remoteness	Loading (L)
Remote and very remote	20%
Darwin region	15%
Outer regional	10%
Inner regional	5%
Major city and overseas	0%

B. Youth Allowance

Under the Youth Allowance eligibility criteria there are some special provisions for regional students that do not line up with the regionality continuum. Specifically:

- For students from all regional zones there is a partial relaxation of the eligibility such that the children of parents who earn less than \$150,000 per annum can satisfy the independent work requirement through part-time rather than full-time work, and
- In the case of students who must move more than 90 minutes by public transport away from home to attend university, Youth Allowance includes a relocation scholarship paid at one of 2 (not 4) rates, depending on degree of remoteness.

C. Regional EIF Round

Finally, in the Regional Round of EIF, the Commonwealth has come up with a whole new category they call, “regional cities” so as to draw in cities like Geelong and others that DEEWR is yet to identify in its draft guidelines.

In summary, then, there is no neat, binary division between regional universities and the others. Not only does the Australian Standard Geographical Classification regard regionality as falling on a continuum but DEEWR varies both its eligibility criteria and level of funding depending on the scheme.

For this reason, the formation of what is still an informal collaboration between VCs whose universities are headquartered in regional cities or towns is a potentially important development if it leads to greater clarity about who’s in and who’s out of any regional university policy framework. Under the VCs’ scheme, the following universities would qualify for membership of a regional university alliance despite considerable variation in their entitlement to DEEWR’s regional university loading:

Regional Group	Regional loading
Central Queensland University	3,315,584
Charles Sturt University	7,519,546
James Cook University	12,367,660
Southern Cross University	3,792,641
The University of New England	3,953,833
University of Ballarat	2,956,736
University of Southern Queensland	4,145,757
University of the Sunshine Coast	-
Subtotal	38,051,757

Source: Final report of the Review of Regional Loading; Table 3 and the option at adds \$30m per year (ie doubles) the regional loading total amount.

Note that one of the Vice-Chancellors' regional grouping – University of the Sunshine Coast - is ineligible for regional loading altogether.

3. ARE REGIONAL UNIVERSITIES WORTH PRESERVING?

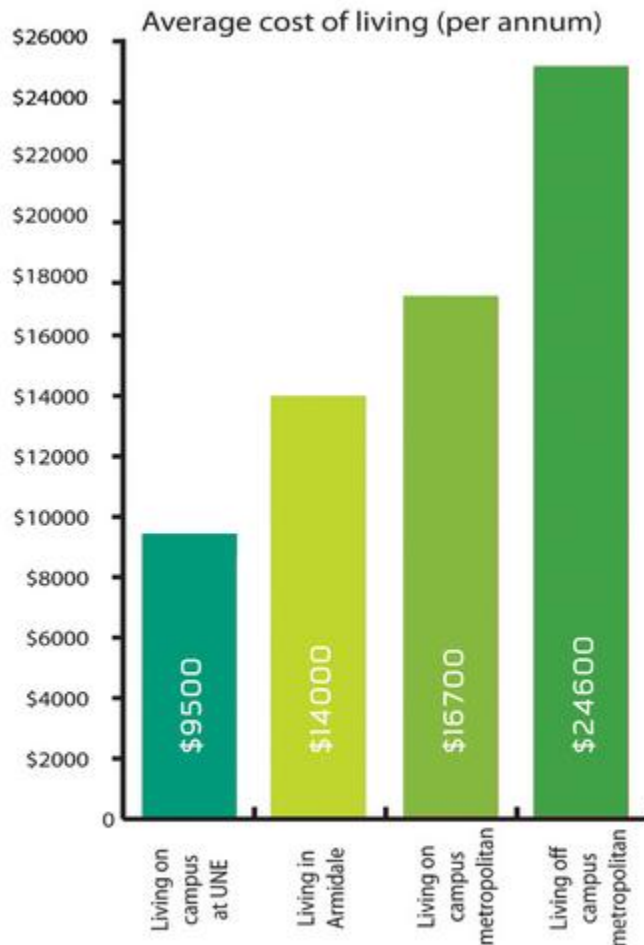
Notwithstanding the definitional confusion, there has been considerable debate over the years about what should be expected of regional universities and whether they deliver on those expectations. The volume went up on the debate following the release of a Grattan Institute report purportedly showing that regional universities make very little difference to regional economic development. The problem with this debate is that there is no agreement in the research literature or for that matter in public policy on the role of regional universities beyond teaching students and conducting research. This means that commentators can be for or against regional universities depending on what expectations they have and what variables they choose to measure. And in this regard, it is not self-evident, at least to me, that regional universities should have any responsibility at all for regional economic development. Indeed, I will argue later in the paper that I am not alone in this view - the Commonwealth government itself displays little or no interest in the contribution of universities to their regions.

Rather than weigh into this highly fraught area of public policy at this point, let me approach the issue by posing the counterfactual: what would happen to the regions if their universities were to close down? Once we know what regional universities actually do, we are in a much better position to debate whether anything more or different should be expected of them.

While the specific effects of regional university closures would necessarily vary from region to region, some generalizations are possible and I will come to those later. Let me lay the groundwork for those generalizations by considering the case with which I am most familiar - the University of New England in Armidale – where around 80% of our students study by distance education and the remaining 20% are on-campus students.

Students

First, what would be the effect on students if UNE were to close down? Of the 1200 domestic students who commence study on the Armidale campus of UNE each year, it is reasonable to expect that around 200-300 would not have gone to university at all if it were not for UNE's recruitment and pathways programs, and low-priced college accommodation. We know this because our student survey data show that at least 100 of our commencing students could not afford to study outside of Armidale because of the associated relocation and living expenses. Around 200-300 students say that they would be able to relocate but would be under significant financial stress to do so. In support of this perception, consider the following diagram, which shows that the annual cost of living at a UNE college is \$9,500 compared with \$14,000 to live in the town of Armidale, while at a metropolitan city it is over \$16,000 on average for college accommodation and \$24,600 for private accommodation.



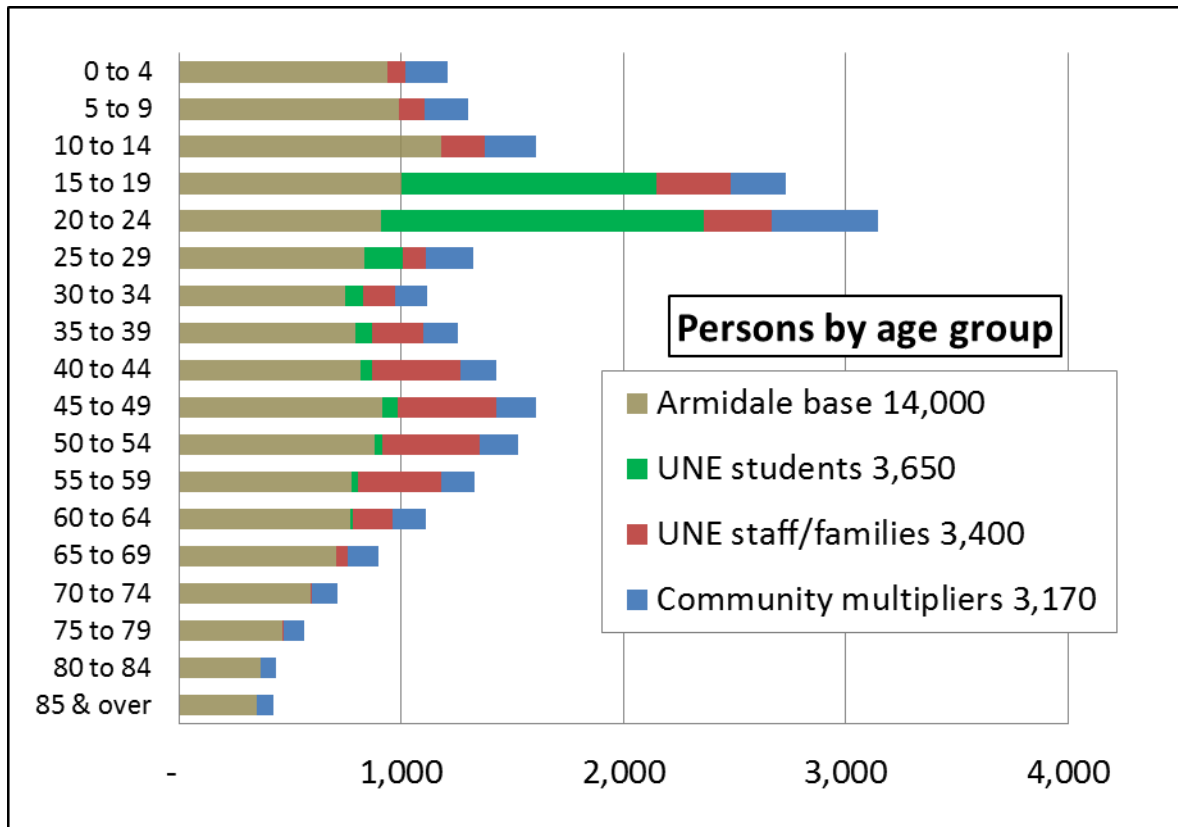
Source: Data compiled from selected public and private sources and is approximate only.

In addition to the financial data, we know from our admissions records that each year that a further 200 or so students are only able to gain access to university education because of UNE’s pathways program or alternative entry scheme.

As for UNE’s distance education students, around 1500 of them are within range of a UNE Access Centre or UNE’s main campus and receive enhanced services and social contact opportunities through these centres. It is arguable that many or most of these students would not participate in distance education without the support of a UNE Access Centre in their town.

Demography

The closure of UNE would also have significant implications for the demography of Armidale as illustrated by the following slide. This graph shows the “Armidale base”, which is obtained by starting with the current (2009) ABS age demographic for Armidale (plus some Dumaresq Shire residents to incorporate the hobby farm belt associated with Armidale) and subtracting out the student age profile, the staff profile and their families, and the community multipliers associated with UNE.



As this slide illustrates, removing the university from Armidale would dramatically reshape the demography of the region, turning it into a retirement village except for the presence of school children attending one of Armidale’s elite boarding schools, assuming of course that those schools survived the closure of the university.

Employment

Turning now to effects on the Armidale and neighbouring regional workforce, we know that 78% of UNE's on-campus graduates (from any home address) secure their first job in a regional area (table below)

On-campus student Graduate employment destinations 2005-2009	
Armidale local	14.4%
New England/North West region	13.8%
Other regional destinations	49.4%
Metropolitan areas	22.4%
Total on-campus students	100.0%

and 72 % of all graduates (on-campus and distance education) who come to UNE from the local hinterland catchment area go back to regional areas for their first job – 43% back to their home region.

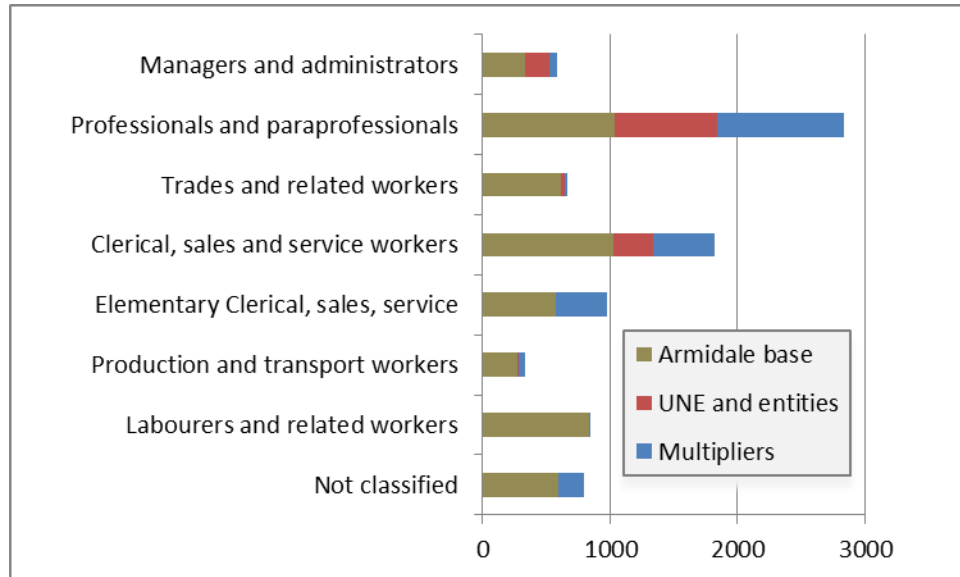
Location of first employment	Total for LGAs
Employed in the Home LGA	43%
In another LGA in the region	13%
In other regional areas	16%
Metropolitan areas	28%
Total	100%

The University of New England itself employs 13% of the workers in Armidale, and when multipliers are added, the dependency of the local economy on UNE for jobs rises to 1 in 4. In total, the University of New England contributes, directly and through multipliers, 32% of the local economy. This degree of dependence on UNE is a comparatively stable factor, although because the education industry tends to be counter-cyclical, dependence on the university rises when times are tough and provides the city with a degree of insulation from the short to medium term effects of drought and other seasonal economic downturns.

In addition to education, UNE's research and development work adds around 300 skilled persons (direct employees and families) plus multipliers to various businesses in Armidale. UNE's major productivity contribution through research is in animal science and the university conducts around 30% of all the university-based R&D in the field of animal production sciences in Australia.

Not only would the number of jobs decline markedly if the university were to close but the type of employment would be very different. The academics and professional staff of UNE bring partners who are themselves professionals and paraprofessionals, such as teachers, accountants, medical staff and

academics from other universities. Using the methodology described earlier, the following chart demonstrates the effect of UNE on the mix of employment categories in Armidale.



Housing and Other Capital

The average housing price in the surrounding cities and towns of Tamworth, Inverell, Glenn Innes and Tenterfield is \$216,000, while in Armidale City it is almost 25% higher at \$268,000. Without UNE's presence, almost one in three houses would be unnecessary, so it is reasonable to expect that house values would fall to a figure closer to those of the neighbouring towns. Indeed, Armidale has lived experience of this. When UNE fell on hard times in the early 1990s and some 200 jobs were lost (around 15%) at the university, housing values in Armidale fell by around 20% in one-year.

This loss of capital value would not be confined to housing, of course. If UNE were to close, its capital assets worth around \$500 million today would become virtually worthless without a university to occupy them and the write-down would flow through to the State government's balance sheet.

By extrapolating from other towns in the New England region, it is also reasonable to expect that Armidale's retailing capacity would only need to be around half its current level. The Bunnings and BigW stores in Inverell, for example, are roughly half the size of Armidale's and if Armidale's population declined from 26,000 to around 14,000, as the foregoing analyses suggest, the city would no longer have sufficient demand to attract businesses from out of town and a proportion of the retailing activity would be lost to the nearby city of Tamworth.

Schools

Education is the major industry in Armidale and UNE is only one of the education providers in town, albeit the largest. In addition to UNE there is a substantial TAFE presence, two private girls' schools, one

boys' school, a catholic high school, two public secondary schools, numerous primary schools and a Steiner school. Without UNE and its multipliers at least one of the private girls' schools would no longer be needed, and the public secondary schools would need to merge.

Culture

Because the university attracts students, academics and their families from all over the world, Armidale is a very multicultural city. For artists, musicians and scholars, the city offers a wide range of cultural opportunities. The city has its own symphony orchestra, for example, and the New England Regional Art Museum houses the internationally acclaimed Hinton and Coventry collections. There is an Aboriginal Cultural Centre and Keeping Place in Armidale, along with the Newling Centre which is owned by UNE and provides a focus for performing arts and the resident New England Theatre Company. Numerous other theatres also present live performances throughout the year. Sporting teams and recreational clubs of various kinds also depend on the university for their viability.

In summary, then, we can infer from this list that the role of this regional university extends to that of:

- a) A major business generating tax and other revenues;
- b) A gateway for marketing and attracting inward investment in the private sector;
- c) A generator of new businesses and source of advice and expertise for multiple purposes including support for existing businesses;
- d) An enhancer of local human capital through graduate retention,
- e) A provider of content and audience for local cultural programs, and
- f) An alleviator of pressure on metropolitan housing and infrastructure.

But at what cost are these benefits obtained? Is it worth the cost to tax-payers to invest in regional universities to perform such functions? To answer this question, it is necessary to know what *additional* funding flows to the University of New England that would not otherwise be diverted to alternate universities in the event that UNE were to close. We need to ask the question this way because federal government policy is to grow, not shrink, the number of graduates in Australia so it would be necessary to fund places for all of the students who were displaced from UNE. From this viewpoint, the additional cost to tax-payers of subsidizing UNE is \$3.8 mil. in recurrent funding or the value of UNE's regional loading. Assuming our students went elsewhere, all of UNE's remaining funding would be diverted to other universities.

Given all of this, the wonder to me is that regional universities should be expected to do anything more than *exist* to justify themselves. As with their metropolitan counterparts, the core business of regional universities is to teach their students and conduct research and we have seen that in the execution of these duties, they make very significant material and cultural contributions to the regions in which they reside. Why should regional universities be required to do anything more than that? When was the last time you saw a media outlet or research institute examining the contribution of the University of Sydney to the Sydney Local Government Authority as a measure of the University's contribution to economic

activity? The very idea is absurd yet is precisely the logic of the Grattan Institute report into regional universities which concluded that regional universities are not pulling their weight.

PROMOTING REGIONAL UNIVERSITIES

If we accept that regional universities are worth preserving and that they face a significant challenge in the post-2012 environment through the combination of student preferences and uncapped places, it is disappointing that no government, state or federal, or opposition anywhere in Australia has yet developed a regional education policy. To be fair, the federal government recognizes that regional universities will have a fight on their hands post-2012 and has introduced a number of measures to help them compete. The Structural Adjustment Fund, for example, is intended, “to assist universities that may otherwise struggle in the new student demand driven system to be introduced in 2012. The challenges are likely to be particularly acute for universities serving regional and outer metropolitan areas”. Similarly, the Regional Round of the Education Investment Fund has been timed to enable regional universities to make capital investments as the funding caps come off. But the problem with such programs is that they are non-recurrent and, more importantly, provide no demand-side initiatives. No doubt this is because the Commonwealth government is ideologically opposed to interfering with market forces in this way, notwithstanding its logically inconsistent policy of preventing universities from increasing the price of any of their course offerings.

In contrast, a regional education policy would actively encourage students to choose regional universities and would reward universities for contributing to regional development priorities. These objectives could be achieved with minimal cost to the federal government in the following ways.

1 *Proposal One: Reduce HECS for Students Attending Regional Campuses*

The following table presents a simplified summary of university revenue broken down by funding source for regional and non-regional groupings in the 2011-2012 financial year.

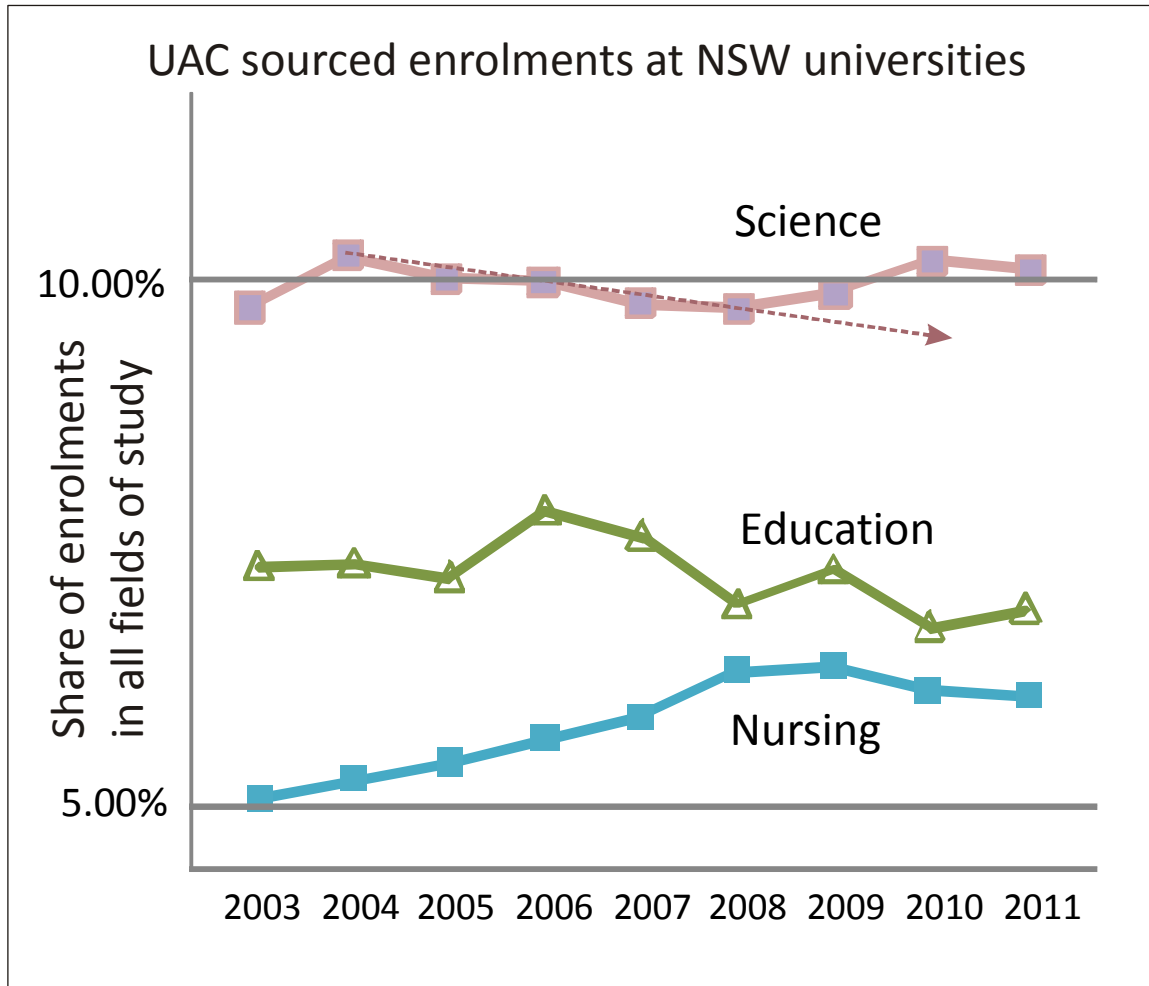
Funding Source	VCs' Regional Grouping	The Rest	Total
CGS base	547,052,852	3,755,020,792	4,302,073,644
Student payments into HECS ¹	206,565,227	1,627,082,012	1,833,647,239
Government advances for HECS	171,759,365	1,352,921,673	1,524,681,038

In this table, HECS revenue has been divided into two lines. The ‘Government advances for HECS’ line is the amount of money the Commonwealth will need to appropriate in 2011-2012 to cover students’ deferred HECS payments, while the ‘student payments into HECS’ refers to the trust fund into which deferred HECS-HELP loan repayments are deposited after being deducted using the taxation system as a vehicle to deduct it from graduates’ salaries alongside income tax payments. Since the Government

¹ Student payments into HECS-HELP Trust Fund including up-front current payments and deferred repayments.

advances payment is an outgoing anyway, it could be used to provide a financial incentive to attend a regional university. If the Commonwealth were to forgive its HECS advances to regional university students, it could produce an approximately \$4,000 per EFTSL reduction in HECS to the VCs' regional grouping without jeopardizing government cashflows. And in the longer term, any reduction in the HECS-HELP Trust Fund would be offset by recent increases in HECS fees and the dramatic increases in student numbers.

The following chart presents what we know about the effect of reducing HECS on student choice.



This chart shows what happened in the fields of nursing, education and science when the Commonwealth government lowered HECS. In the cases of nursing and education, HECS was reduced by \$1,000 in 2008 provided that graduates worked in those fields for a number of years. As we can see, the reduction made no discernible difference to demand. In contrast, the reduction in HECS for science that was introduced in 2009 was set at \$3,250 and was unconditional. In this case, the results have been much more promising. In short, the available evidence suggests that an unconditional reduction in HECS of around \$3,000 will influence students' career choices, and it seems reasonable to propose that a student's choice of career would be more difficult to influence than their choice of university. This

makes the \$4,000 per regional EFTSL that is available to the government look very attractive indeed as an incentive to attend regional universities.

2 Proposal Two: Tie Regional Universities' Performance Funding to Regional Development

Under existing government policy, there is no incentive for regional universities to contribute to regional development. From a financial viewpoint, it matters not whether our region benefits from UNE's presence, which suggests that the Commonwealth government sees no role for universities in regional economic development beyond their core business of teaching and research. This situation could be easily remedied if our Compact performance funding were to be tied to our contribution to the work of Regional Development Authorities. At present, all universities will be held to precisely the same performance measures despite the fact that the whole purpose of Mission Based Compacts is for universities to negotiate distinctive missions with DEEWR. But the imposition of a uniform set of outcome measures will inevitably drive universities towards uniformity as they seek to maximize their scores on measures that determine their performance funding.

In the 2011-2012 financial year, there is almost \$12mil in contestable performance funding available to regional universities and instead of allocating that funding according to a set of undifferentiated performance measures, the money could be made to flow to universities in accordance with their contributions to the work of Regional Development Authorities (RDAs). RDA is a partnership between Australian, State, Territory and local governments to strengthen regional communities. RDA consists of a national network of 55 committees which are made up of local leaders who volunteer their time to work with government, business and community groups to deliver better services to their regions. The committees work with their communities to find ways to deal with the economic, social and environmental issues affecting them. The Australian Government funds these committees and so do State, Territory and local governments in some jurisdictions.

The RDAs have 5 key roles:

1. Consultation and engagement with the community
2. Informed regional planning
3. Whole of Government Activities
4. Promotion of Government programs
5. Community & economic development

In New England, our local 'Northern Inland RDA' has identified 6 priorities:

1. Regeneration of regional communities
2. Value adding enterprise clusters
3. Integrated and improved health care
4. Investment in infrastructure and education
5. Re-engaging aboriginal communities
6. Environmental achievement

Each one of these regional priorities could be turned into university-RDA projects from which performance indicators could be derived and used to determine UNE's share of mission-based performance funding.

CONCLUSION

In conclusion, it is fair to say that Commonwealth higher education policy today is dominated by a single idea – competition. The government has put its faith in the free (or, more accurately, the partly free) market to deliver quality educational and social outcomes. All of the government's funding programs are designed either to escalate the level of competition or to level out the playing field in readiness for competition. Even the government's objective of growing the number of low SES students participating in higher education is to be achieved through competition as universities vie for HEPPP funding by increasing their share of the pool of low SES students.

Apart from some one-off assistance to help regional universities compete, existing policy settings display a distinct lack of interest in the fortunes of regional universities. This is surprising for a government that has prioritized regions through such mechanisms as the Regional Sponsored Migration Scheme (RSMS) under which employers in regional or low population growth areas of Australia can sponsor employees who are foreign nationals for a permanent visa to work in Australia. The government is clearly not averse to promoting regional development but in the case of higher education policy appears dazzled by the lustre of the free market.

References

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ⁱ http://cache.treasury.gov.au/budget/2011-12/content/download/ms_rural_and_regional.pdf