

HIGHER EDUCATION REFORM FEEDBACK

SUBMISSION FROM CPA AUSTRALIA TO THE HIGHER EDUCATION GROUP

1 AUGUST 2016

CPA Australia welcomes the opportunity to provide feedback on the Government's higher education reform proposals, as set out in its discussion paper, *Driving Innovation, Fairness and Excellence in Australian Higher Education*.

CPA Australia represents its membership of over 155,000 professional accountants who work in diverse roles across public practice, commerce, industry, government and academia, throughout Australia and internationally. Our members are distinguished by their degree qualifications and additional education they undertake post-graduation.

Holistic reform of higher education is a critical public policy challenge. The quality of our future membership depends on the quality and accessibility of their educational pathways while, more generally, Australia's future prosperity is linked to its system of higher education. This submission:

- explains how the shortcomings of the higher education system are manifesting in accounting programs and pathways;
- recommends ways forward to overcome these shortcomings and realise the desired hallmarks of Australia's higher education system; and
- provides context for the discussion and recommendations by profiling the composition and growth of students studying higher education programs of accounting.

In the face of ongoing digital disruption, we conclude that it is imperative that the demand driven system is not only retained but further improved.

We also highlight concerns with the preferred new approach to fee deregulation - limiting uncapped fees to so-called 'Flagship' courses. We find this is a policy compromise which fails to address either funding certainty or provide for additional flexibility. Further, it's an approach which risks creating an undesirable two-tiered system of higher education.

Desired system hallmarks and CPA Australia policy positions

Desired hallmarks	CPA Australia's policy positions	maintain and enhance the demand driven system	minimise cross-subsidisation	enhance transparency	review Commonwealth funding contributions	support participation of under-represented groups
provides genuine choice		✓		✓	✓	✓
offers genuine pathways		✓				✓
ensures equity of access		✓			✓	✓
has incentives and flexibility to excel		✓	✓	✓		
guarantees quality via ... non-distortionary funding models and transparency		✓	✓	✓	✓	
is affordable and provides a ROI			✓		✓	✓

System challenges

In this section we share our insights, from the standpoint of accounting education programs and pathways, on how current higher education policy settings:

- distort choices;
- mute price signals and specialisation;
- limit pathways and tilt the playing field;
- provide differential levels of Commonwealth support;
- distort how funding flows within universities and cloud transparency;
- impede quality;
- impair affordability; and
- impact equity.

Distorted choices

Australia's higher education system distorts choices due to the:

- confinement of the demand driven system to bachelor degrees at public universities;
- inability to signal preferences through willingness to pay different fees for differentiated education services;
- differential prescribed contributions expected of students dependent on their selected field of education;
- incomplete information upon which students base their decisions, particularly with regards to how much of what they spend on their education is invested within their chosen field of study; and
- price sensitive behaviours of under-represented groups.

Muted price signals and specialisation

Under current arrangements, where quantities can increase but prices cannot, there is a perverse funding incentive for providers of Commonwealth supported places to achieve volume in all fields. The outcome is that providers deliver most fields on scale to an acceptable level, rather than a few to an exceptional level.

The upside is that students have a number of providers to pick and choose from. The downside is that there is not a lot to differentiate each or means of signaling preferences through students' willingness to pay.

Limited pathways and tilted playing field

The demand driven system provides funding support to students who choose to study bachelor degrees at public universities. No support is provided if students elect to study at private institutions. This sways decisions in favour of public universities. It tilts the playing field to their advantage, thereby blunting any competitive incentive to innovate and deliver excellence.

The current settings support direct school-to-university pathways, when for many indirect pathways via sub-degree programs may better support their participation and success. This holds particularly true for under-represented groups, notably students from low socio-economic backgrounds and Indigenous Australians. As evidenced in the discussion below on equity, the participation of Indigenous Australian in programs of accounting or other fields of management and commerce is particularly low.

Differential levels of Commonwealth support

Differences in the rates of subsidy that the Government provides for some fields of education over others are indefensible. In terms of Commonwealth funded places, the relative contribution local students are required to make towards the cost of their degree is as little as 21.8% for agriculture degrees and as much as 83.5% for accounting degrees. That is, the Commonwealth funding contributes only 16.5% towards the total tuition costs for accounting.

Given the relatively high cost of an accounting program, the downwards trajectory of domestic enrolments (refer [Attachment 1](#)) is not surprising.

Distorted funding flows and clouded transparency

A report released late last year by the Grattan Institute looks into the practice of universities to top up their funding for research from surpluses from teaching.¹ The report's authors estimate that universities earn up to \$3.2 billion more from students than they spend on teaching. Commerce courses contribute the largest share of these teaching surpluses – an estimated \$900 million – due to the high number of full fee paying international students they attract.

This estimate corroborates what accounting academics have been telling us for years: only a small fraction of what they receive from students is reinvested back into delivering a quality educational experience aligned to student preferences.

While students and their parents do not have visibility around the uses to which their contributions are put, what they can and do see are the consequential pressures on the quality of accounting programs.

Pressure on quality

Today's students are mobile and discerning consumers of higher education, spoilt for choice in the international education marketplace. To maintain and grow their number and calibre necessitates investments aligned to their preferences for high quality education services that advance learning, engagement and employability. The current practice of cross-subsidisation reduces budgets for these purposes and is placing at risk the earnings from higher education's top export performer – accounting.

While Australia has seven universities ranked amongst the top 50 providers of accounting and finance programs in the world, rankings are declining. As the table on the following page illustrates, there is one less Australian university ranked in the top 50 in 2016 than there was four years earlier and most find their rankings falling.

¹ Norton, A and Cherastidhas, I (2015) The cash nexus: how teaching funds research in Australian universities, Grattan Institute, November.

Australia no longer has any accounting and finance programs ranked in the top 10. In 2013 and 2014 there were two. The top 10 is now exclusively the domain of United States and United Kingdom based universities.

World rankings for accounting and finance

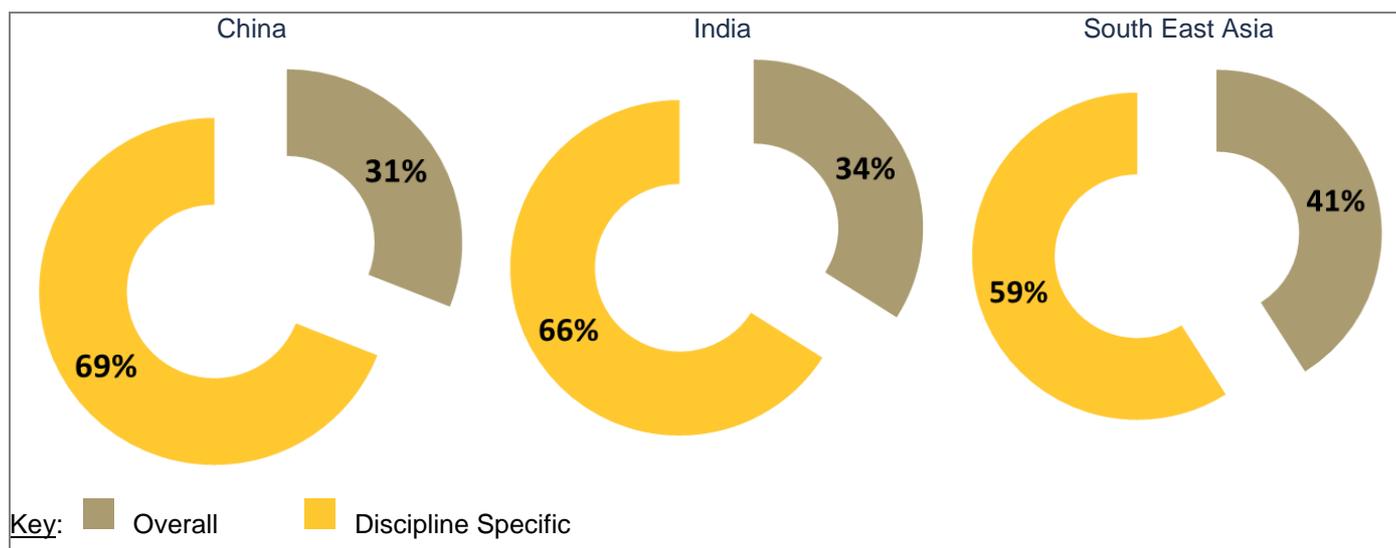
	2013	2014	2015	2016	Movement 2013 vs 2016
University of Melbourne	7	8	14	12	↓
University of Sydney	9	13	19	18	↓
University of NSW	12	10	12	13	↓
Monash University	18	20	32	24	↓
Australian National University	23	22	25	28	↓
University of Queensland	25	26	28	26	↓
University of Western Australia	44	51-100	51-100	51-100	↓
University of Adelaide	50	47	51-100	51-100	↓
University of Technology Sydney	51-100	51-100	51-100	49	↑

Note: There are other Australian Universities in the 51-100 category. The purpose of this table is to show Australian universities in the top 50 in any of the periods shown.

Source: QS World University Rankings, 2013-16.

Quality matters. In a recently released publication by higher education ratings agency, QS, the results from an extensive survey of internationally mobile students are reported.² Over 1800 students responded to the survey questions. In the countries where Australian accounting programs draw the vast majority of their international students – China, India and South East Asia – the biggest benefit associated with studying overseas that students identify is quality. Overwhelmingly, when judging quality it is the quality of students chosen field of study rather than overall institutional prestige that matters most. Depending on their country of origin, between 59% and 69% of respondents from the countries profiled below found the discipline-specific rankings more useful.

Usefulness of rankings



Note: The QS survey results for the United States, Latin America and Europe were consistent.

Source: QS Intelligence Unit, 2016.

² Karzunia et al (2016) *What Matters to International Students? Global Overview*, QS Intelligence Unit.

Global indicators of quality are reflective of national measures of student experience, as indicated by the University Experience Survey. The table below captures the outcomes of the last two surveys of accounting student satisfaction. While the percentage of accounting students satisfied with most facets *prima facie* appears high, when compared to the satisfaction of students in all 45 fields of education surveyed, one gets a different picture. The satisfaction ratings for accounting students rank amongst the bottom 15 fields across all facets.

Accounting student satisfaction

	2014		2015		Direction of change in rank 2014-2015
	Percent students satisfied	Rank relative to all 45 FOE	Percent students satisfied	Rank relative to all 45 FOE	
Skills development	76	39	76	41	↓
Learning engagement	50	43	50	43	→
Teaching quality	79	32	77	35	↓
Student support	71	31	69	33	↓
Learning resources	83	33	81	40	↓
Overall experience	78	30	76	37	↓

Source: Graduate Careers Australia and the Social Research Centre, 2015 and 2016.

The score and ranking of learning engagement is particularly low: only half of accounting students are satisfied, ranking this facet a dismal 43rd out of the 45 fields. This result clearly does not bode well from either a domestic or international student experience perspective. This is of particular concern given that reputation is largely a function of external indicators and word of mouth.

While the satisfaction and ranking of learning engagement has not got any worse over the two survey periods, neither has it improved. In all other cases the rankings have fallen.

If these trends are allowed to persist, students, whether local or from overseas, will increasingly prefer the offerings of traditional and emerging markets.

Affordability

The cost of education includes tuition fees, living costs, the cost of educational materials such as text books, medical costs, visa costs and other expenses. Among these tuition fees, living costs and visa costs are unavoidable for students enrolled outside their countries of citizenship. For students choosing to study an undergraduate business degree, such as accounting, once these unavoidable expenses are added together, as is done in the table on the next page, it becomes apparent that Australia is an expensive choice of study destination.

In 2011-12 Australia ranked second place behind the United States, due only to the relatively higher tuition fees in the United States. Australia is a more expensive place to live and has higher visa costs.

Malaysia and the United Arab Emirates are the least-cost destinations. As Australian universities, along with the United States and elsewhere, have campuses in these countries, students may preference these countries to obtain their Australian or American degrees.

A more recent survey by HSBC in 2014,³ which examines the cross-countries relativities for all fields of education combined, suggests that Australia has become an even more expensive place to study. Australia is found to be the most expensive education destination - above other tertiary heavyweights, notably the United States and the United Kingdom.

³ HSBC (2014) The Value of Education: Springboard for success.

The preceding discussion suggests there is scope for Australian providers to offer accounting programs at a more competitive price and/or to invest in the quality of these programs. The important proviso is that more of the funding that accounting attracts is retained and used within the school or department of accounting. Under current conditions the risk is that internationally mobile students will question whether they are receiving value for money and vote with their feet.

Cost of an undergraduate business degree in 2011-12

United States dollars

Country	Tuition fees	Living costs	Visa costs	Total cost
United States	29,952	11,304	140	41,396
Australia	23,541	15,237	565	39,343
United Kingdom	18,492	15,513	415	34,420
Canada	21,898	10,070	130	32,098
New Zealand	17,572	10,835	177	28,584
Malaysia	12,031	2,950	62	15,043
United Arab Emirates	13,746	7,328	136	21,210

Source: Iyanna, S. 2012, "A Comparative Cost Analysis of Undergraduate Business Degrees for International Students in Selected Countries", International Journal of Business and Management, vol. 7, no. 4, pp. 145–153.

Equity

A benefit of the demand driven system, and one of the reasons why CPA Australia has consistently supported its retention, is that it has enabled the increased participation of traditionally under-represented student cohorts. The table below illustrates the gains pre and post the introduction of the demand driven system.

Domestic enrolments

	2007		2015	
	number	share	number	share
Indigenous	8,081	1.2%	13,641	1.5%
Low SES	100,225	14.6%	151,910	16.3%
Regional and remote	128,569	18.8%	167,023	18.0%
Total domestic students	684,976		929,211	

Source: Department of Education and Training, Student summary time series, 2015.

While this is a good news story it is important to maintain perspective. Where at least Indigenous students are concerned, the gains have been off a low base and are relatively small.

If we narrow our focus to fields of education we find that Indigenous students are dramatically under-represented, comprising only 0.9% of the total, compared to 1.5% across all fields of education (Indigenous Australians' 3% population share).

Driving innovation, fairness and excellence

Prerequisites for driving innovation, fairness and excellence in Australia's higher education system and aligning with the Government's desired hallmarks for the system necessitates:

- maintaining and enhancing the demand driven system;
- minimising cross-subsidisation and enhancing transparency;
- reviewing the Commonwealth's funding contributions; and
- supporting the participation of under-represented groups.

Maintain and enhance the demand driven system

In 2008, in the context of a submission to the Bradley Review, the professional accounting bodies supported the introduction of the demand driven system in place of the planned system operative at the time.⁴ At the time, it was our observation that government had not been successful at managing or driving demand through planning. It is a slow and clunky instrument to respond to major economic changes and complex demands.

This continues to be the view we hold today. It is imperative that the demand driven system is not only retained but further improved. It is all the more vital when transformations in the higher education sector, driven by advances in digital technologies and globalisation, are enabling new and innovative models of delivery. The scale of some online and blended offerings is unlikely to have occurred in an environment where providers would have had to argue for the allocation of additional Commonwealth places. For example, Swinburne University and SEEK Ltd may never have joined forces to create Swinburne Online, as they would have struggled to argue for the many thousands of additional places necessary to respond to demand to be allocated.

For the demand driven system to be fully effective it is insufficient to deregulate by removing caps on the quantity of Commonwealth supported places, while leaving prices untouched. Logic dictates that course fees should be uncapped alongside the uncapping of student places.

In a perfect market for higher education this would see fees increase for programs that delivered the positive learning experiences desired by students. This would in turn provide the means to invest for the purposes of further enhancing those programs, thereby creating a virtuous cycle. For some providers this cycle may manifest itself most strongly in, for example, their mathematics programs. While in others it may be in accounting. Specialisation would be encouraged, enabling students to choose from a narrowed range of high quality offerings.

The reality is that the market for higher education services is far from 'perfect'. Income contingent loans mean that the majority of students are price insensitive, allowing for the possibility of fee hikes. The demand driven system applies only to bachelor programs in public universities, dampening competition. Differential levels of Commonwealth support will impact what is recovered through fees. Revenues are not retained and used to benefit programs in demand. And students and their parents are not well armed to make informed decisions regarding study choices.

These imperfections have been the undoing of proposals to deregulate fees. The discussion paper takes broad fee deregulation off the table, when the better approach would be to address the imperfections. This is the approach taken in the remainder of this submission and the intent of its recommendations.

The concept of a small number of high quality and innovative 'Flagship Courses', where select providers are given the freedom to set fees, opens the door to sub-optimal public policy outcomes.

The risk is that Flagship Courses are a halfway-house that provides little by way of a buffer to the Government's planned cuts, and limited flexibility. Flagship Courses risk creating a two-tiered system that exacerbates inequities between those who can afford to pay for prestige offerings, and those who cannot and have to choose from similar offerings elsewhere that are perceived to be of lesser value. It is conceivable that under-represented groups may be locked out.

⁴ Joint Accounting Bodies (2008) Submission to the Review of Australian Higher Education, July.

Recommendation:

That:

- fee deregulation for a few courses, and not all, is not pursued given its potential to further distort an already imperfect market for higher education; and
- fee deregulation is pursued in tangent with other reforms identified in the remainder of this paper designed to address the imperfections of the market for higher education services.

Extending the demand driven system to private institutions and sub-bachelor degree pathways is a logical enhancement of the demand driven system. It addresses the concerns highlighted in the discussion in the previous section regarding a tilted playing field that blunts competitive pressures to drive for innovation and excellence, and facilitates equity and fairness by enabling alternative pathways to higher education.

It is often argued that adjustments may need to be made to the Commonwealth's funding contributions to account for the reality that private institutions do not have to rely upon the surpluses from teaching to fund research. A better approach, as discussed next, would be to minimise the extent of cross-subsidisation that is prevalent within public universities.

Recommendation:

That the demand driven system be retained and extended to sub-bachelor degree pathways and private institutions.

Minimise cross-subsidisation and enhance transparency

The practice of cross-subsidisation is impairing the capacity of accounting schools and departments to invest the quality of their education programs. While many of these programs continue to be highly regarded, quality indicators are heading south. This does not bode well when Australian accounting programs are high cost relative to what is on offer elsewhere. The risk is that international students will look elsewhere, increasingly closer to their homes, negatively impacting the earnings from accounting - Australia's higher education sector's highest earning export product.

There are three roles that the Government can play to minimise cross-subsidisation and avoid this risk.

The first is through legislative amendment. The Higher Education Reform Bill had contained a provision that tuition fees must be "directly in respect of the provision of a unit". While ambiguous, the most obvious interpretation of this clause is that fees paid towards a field of education are retained and used within that field. Future legislation provides an opportunity for greater clarity regarding intent.

Recommendation:

That future higher education legislation contain a provision that fees paid towards a field of education be retained and used within that field.

The second is to facilitate informed decision making by enhancing transparency and accountability. CPA Australia was pleased for the opportunity to submit its views as the Higher Education Standards Panel deliberates on the transparency of admission processes. In our submission we supported the focus on indicators of performance and encouraged a broadening of perspective to value for money. That requires greater transparency and accountability regarding how student fees are spent to improve the quality of educational experiences. Information on the sources and uses of institutional funds need to be tracked more carefully and this information made publicly available. This will serve to better inform student and parent choices, institutional decision making, and the Government's monitoring of its higher education policy settings.

Recommendation:

That the sources and uses of funds for each field of education within each institution be tracked and made more transparent.

The third is to provide sufficient funding for research, thereby minimising the need to use the surpluses from teaching to fund research. Funding for teaching should be kept separate from funding for research in a demand driven system. Arrangements that create a temptation to move money between the pots, whether intentional or not, should be avoided.

Recommendation:

That the Government provides sufficient funding to support the research efforts of universities so that there is little need to call upon the surpluses better invested back into teaching.

Minimising the call upon the surpluses of teaching to supplement the funding of research within public universities has the added benefit of removing any need for differential levels of Commonwealth support should the demand driven system be extended to private providers.

Review the Commonwealth's funding contributions

It has been eight years since the Commonwealth's funding contributions were first highlighted as an issue. The Bradley review identified accounting among the disciplines identified as underfunded, and called upon the Government to address this situation.⁵ Three years later, the Lomax-Smith report found that the underfunding of accounting and other fields is a genuine issue that should be redressed.⁶

CPA Australia concurs and we are supportive of the discussion paper's call for views on the relativities between disciplines of funding clusters. To levy cuts across the system without first getting the fundamentals right risks exacerbating current funding distortions.

CPA Australia supports the delayed timing of planned cuts, as it is essential to allow time for an informed and well considered review of discipline specific contributions.

Recommendation:

That the Commonwealth's funding contributions to fields of education be reviewed ahead any cuts being made.

Support the participation of under-represented groups

Under-represented student cohorts, notably Indigenous students and students from lower socio economic backgrounds, are typically price sensitive cohorts. In an environment where income contingent loans mean that others are less price sensitive, there is a risk that any fee increase to compensate for cuts to the Commonwealth's contribution, or to respond to demand in a deregulated environment, will be a disincentive to the participation of under-represented students.

To ensure the reasonableness of fees charged for Flagship Courses the discussion paper suggests that the Government could either ask the Australian Competition and Consumer Commission (ACCC) to monitor and report on fees, and/or clawback funding support provided for courses where fees breach a threshold. While Flagship Courses are not supported by CPA Australia, both fee monitoring and funding clawbacks have merit and should be developed further as a means of ensuring reasonableness in an environment that fee flexibility applies in respect of all Commonwealth supported places, rather than a select few.

⁵ Bradley, D (2008) Review of Higher Education. Final Report.

⁶ Lomax-Smith, J, Watson, L and Webster, B (2011) Higher Education Base Funding Review, Final Report.

Recommendation:

That proposals designed to ensure the reasonableness of fees, including monitoring and government funding clawbacks, are further developed.

As its name suggests, the Higher Education Participation Program (HEPP), is designed to support the participation of under-represented students in higher education. It is, therefore, of concern that the Budget included an “efficiency dividend” from this Program. It is even more concerning given that this comes on top of “efficiencies” realised in the preceding two Budgets. The discussion paper records the Government’s intention to evaluate HEPP and through this process identify either changes that can be made or more effective alternatives that could be implemented in its place. Given the need to do more to support the participation of under-represented students, any revised or alternative approach should provide at least as much if not more support for these students as provided under current arrangements.

Recommendation:

That the recommendations of any future evaluation of HEPP maintain and enhance the level of support provided through current arrangements.

The Government’s commitment to working with stakeholders in the higher education sector is acknowledged. We look forward to engaging constructively as the review progresses and would welcome future opportunities to share our insights with the Minister’s expert panel. If you have any queries, please do not hesitate to contact Mary Clarke, Head of Education Policy, on 03 9606 9731 or at Mary.Clarke@cpaaustralia.com.au.



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Accounting in context

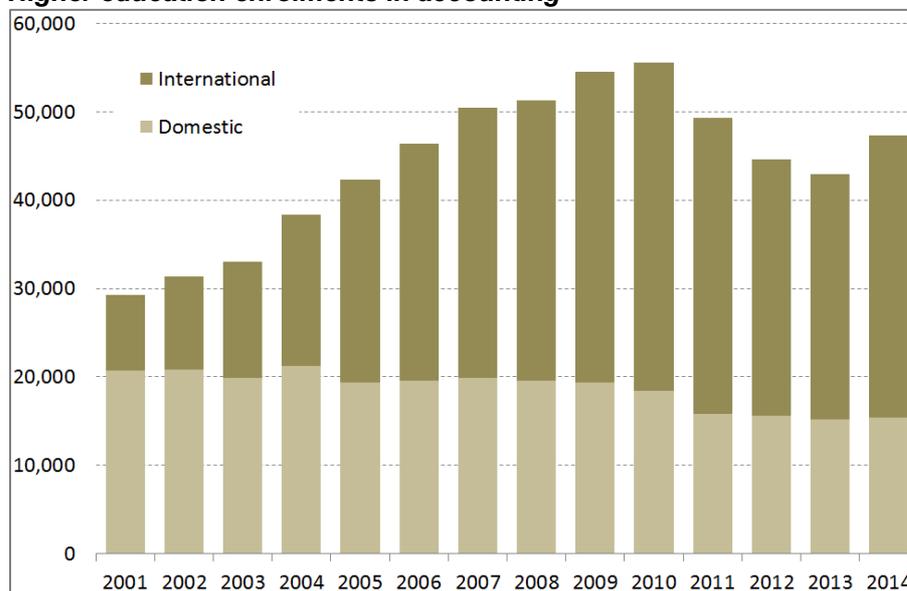
In 2014 more than 47,000 students were enrolled in accounting courses.

Two out of every three of these students were international students. This follows a return to growth in recent years as visa settings, perceptions and exchange rates have all taken a turn for the better.

The accounting discipline attracts the largest number of international students out of any narrow field of education in Australia.

Taken together, all Management and Commerce fields of education account for half of the students who travel from overseas to study in Australia.

Higher education enrolments in accounting



Source: DET special data request.

While international accounting student numbers are on their way up, domestic enrolments have been static to declining. The former is reason for cautious celebration; the latter is cause for concern.

The good news is that things can be done to both secure the growth of international student numbers and turn around the decline in domestic student enrolments.