Dear Ms Chadwick,

Thank you for your letter of 24 December 2009 enclosing the Issues Paper: Review of Regional Loading - Issues for Regional Provision. The Vice-Chancellor has asked me to respond on behalf of the University as the issues canvassed in the paper fall largely within my portfolio of responsibility. I provide the attached comments for consideration by the department and the Reference Group and would be happy to discuss these further at any point during the review.

These comments have been prepared with input from the University’s Strategic Planning Office and faculties that either operate regional facilities, have a particular interest in educating students from rural and remote areas, that undertake research relevant to rural communities, and/or which educate and train students who graduate either to pursue careers in regional Australia or in fields that directly benefit regional industries and communities.

In summary, the University of Sydney strongly supports the Government’s commitment to reviewing the current regional loading scheme with a view to replacing it with a policy that allocates funding on a more logical and transparent basis, consistent with the broader policy framework the Government is developing for the sector.

Our assessment is, however, that if the student demand-driven system is to drive reform and innovation in the way intended by the Government, then rather than a separate, stand alone scheme to support regional provision, the funding currently allocated under the Regional Loading Scheme should be redirected for allocation through the Higher Education Participation and Partnership Program (HEPPP), through the Performance Funding Framework based on institutional specific targets negotiated with individual providers, or directly through transparent compact negotiations between providers (or collaborating providers) and the Commonwealth.

Such an approach would, in line with the Bradley Review’s findings, serve to reduce the overall number of small and often overlapping funding schemes. It would maximise the prospects for policy consistency, while ensuring that strong incentives are in place for all providers to focus their efforts on serving the needs of regional and remote Australia. It would enable individual institutions to contribute to regional provision in the most optimal
way, based on their individual context and strategies agreed with the Government through the compact process.

If you require any further information in relation to any of the issues raised in our submission, please do not hesitate to contact me.

Yours sincerely

Derrick Armstrong
Deputy Vice-Chancellor Education and Registrar

1. Support for the review

The University of Sydney is pleased that the Australian Government has committed to reviewing and replacing the current Regional Loading scheme. As the Bradley Review found, and the Issues Paper notes, there is no logical basis for the allocation of funding under the present scheme, and no discernable link between the levels of funding the scheme allocates to different providers and the actual cost of provision in different settings. As the Bradley Review also concluded, the same is largely true of the way that Commonwealth and student contribution amounts are set for the different disciplines clusters under the Higher Education Support Act 2003 (Cth) (HESA). In our view, the key to arriving at a more logical and consistent basis for supporting regional higher education provision, will be to ensure that the Review of Regional Loading links with the broader review of base funding levels for learning and teaching in higher education that the Government has committed to undertaking during 2010.

1.a Critical to get the financial incentives right

If the student-demand driven system is to underpin the achievement of the ambitious national higher education participation targets the Government has set, then the overall funding and regulatory framework for teaching and learning must provide positive incentives for providers to enrol and graduate domestic undergraduate students - whilst maintaining at least minimum standards of quality. Assuming that providers will respond rationally to the new operating environment, unless the total income they receive from additional enrolments exceeds the marginal costs of provision, there will be little incentive for them to increase domestic undergraduate enrolments, as doing so will only threaten their long term viability. Unless the financial incentives for increasing domestic undergraduate enrolments are positive, there is a risk that regional and metropolitan-based institutions alike will remain under pressure to pursue the higher rates of return that are achievable through enrolling international students and domestic postgraduate coursework students.

1.b Understanding actual costs will be vital

In our view, the starting point for both the review of Regional Loading and the Base Funding review should therefore be the same - the commissioning of detailed independent work on the costs of provision in different disciplinary and institutional settings. At present, the current regional loading scheme is based on the assumption that the costs of provision are higher in regional and remote settings, when that proposition has never been properly tested. Similarly, the Commonwealth Support Places (CSP) cluster funding model is based on untested assumptions about the costs of provision in different disciplines, and uniformity in costs between different institutions. The last substantial work on the actual costs of teaching in Australian higher education was undertaken by Access Economics five years ago. It proved inconclusive and we welcome the Government’s commitment to completing a comprehensive independent review of base funding during 2010.
2. The review should also consider research issues

We note too that the Issues Paper states that matters of research and research training are not to be considered under the Review of Regional Loading, because the Department of Innovation, Industry, Science and Research (DIISR) has responsibility for them. Given the inherent link between teaching and research and the Government’s desire for its reforms to result in a more coherent and consistent overall policy framework in support of higher education, we caution against the exclusion of research activities from a review concerned with ensuring the sustainability of regional higher education provision.

With specific measures such as DIISR’s Collaborative Research Networks program also designed to support regional providers, it is vital that any new regional loading scheme aligns with this and the Government’s other reform measures to achieve policy consistency and optimal outcomes. It is also important to include consideration of research activities in order to resolve the ambiguity that remains in the current funding model about the purposes for which Commonwealth Supported Places (CSP) funding can be used. In its Science and Innovation Budget Tables, DIISR continues to report an estimate of the Commonwealth’s support for higher education research activities through programs other than those directly targeted at research. For 2009-10 this figure, which is derived from Australian Bureau of Statistics data, amounted to $650 million. If CSP payments do continue to include a notional research component, then this will inevitably result in anomalies if, for example, CSP payments are to be allocated to vocational education providers, or other organisations that need not conduct research. Further, the transparent costing work that DIISR is currently undertaking in preparation for the introduction of the Sustainable Research Excellence (SRE) initiative is highly relevant to the sustainability of regional higher education provision, as it should for the first time allow meaningful comparisons to be drawn between the research costs of different providers. Transparent costing also offers a potential model and data set for estimating differences in teaching costs between regional and metropolitan settings. Further, DIISR’s development of Research Workforce Strategy also appears highly relevant to the long term sustainability of higher education teaching and research in regional settings.

3. Clarity about the policy objectives is essential

Turning now to some of the more specific issues raised in the Issues Paper, in our view, the starting point for the development of a policy to replace the existing Regional Loading scheme must be to clarify the objectives of the proposed policy intervention. The Issues Paper implies a need for a continued focus on supporting the physical provision of higher education courses in regional and remote Australia. However, it also draws links between the reform of regional loading and the Government’s social inclusion agenda, while recognising that there are many different ways of delivering education that benefits regional communities. Different policy responses will be required depending on whether the objective of the replacement policy is, for example, to: support physical regional provision in a student-demand driven system; improve access and success in higher education by all students from regional and remote areas; increase low SES participation from regional and remote areas; maximise the supply of skilled professionals to regional and remote Australia over the long term; sustain research capacity in regional settings; or a combination of these purposes.
4. **Focus on the purpose of facilities and programs rather than geographic location**

In our view, a key flaw in the design of the current regional loading scheme is that it fails to take account of the diversity of ways by which Australian higher education institutions contribute to the economies and communities of rural and regional Australia. For example, while the University of Sydney is metropolitan-based, it has a long tradition of providing courses, training and research that directly benefit Australia’s regions. Through faculties such as Agriculture Food and Natural Resources, Veterinary Science, Medicine, Dentistry, Nursing & Midwifery, Pharmacy, Health Sciences, Education & Social Work and others, we not only provide training in many regional settings, but produce graduates, many of whom take careers in regional areas, or whom go on to make significant contributions to regional communities through their research or other work. Our faculties of Agriculture and Veterinary Science, for example, have long standing teaching and research collaborations with the University of New England, while Veterinary Science has teaching collaborations with Charles Sturt University and our health faculties make considerable contributions to rural communities through training provided on our city campuses and through clinical schools in various locations in regional NSW. Many of our students across diverse faculties undertake professional placements in rural settings, with these programs requiring the investment of resources, staff and travel time to deliver regular on-site visits and to ensure effective supervision and support of students during their places. Yet only for medical students do we currently receive a loading to meet some of the costs of essential clinical placements. Here we note, however, that reforms are in the pipeline through the newly established Health Workforce Agency, to address shortfalls in funding for clinical placements in other health disciplines.

While our regional facilities may not satisfy the geographic or campus requirements of the current regional loading scheme, we incur many of the costs entailed in running separate small campuses that are claimed as the rationale for the current scheme. Specifically, these costs include: the provision of necessary student and administrative services on site; recruiting and retaining high quality staff in these locations; sustaining livestock and farm equipment; additional travel for staff and students; and the necessary duplication of infrastructure such as libraries, accommodation and catering services. Therefore, were the Review to recommend the maintenance of a separate regional loading scheme, we suggest that the definition of ‘regional campus’ should be changed to focus on the purpose of the facility rather than simply on its geographic proximity to a capital city and the way that the facility is used for the provision of educational services. It should be possible, for example, for a provider such as the University of Sydney to make a case for additional funding through regional loading in recognition of the value of the contribution it makes to Australia’s rural industries and communities and the additional costs it incurs, in operating facilities such as its Camden campus, an extensive network of farm sites and rural clinical schools.

5. **Demographic projections present both challenges and opportunities**

We further note the implications for both regional and metropolitan-based providers of the demographic projections contained in the report of the Bradley Review, combined with the Government’s desire to dramatically increase overall undergraduate higher education participation rates over the next fifteen years. With most growth in the target age group expected to occur in outer-metropolitan areas, alongside relatively slower growth in regional areas, a key challenge for regional providers will simply be to ensure they can maintain enrolments at sustainable levels. With many metropolitan institutions facing capacity constraints, pursuing strategies to increase enrolments at the postgraduate level, and with funding for new infrastructure limited, a key challenge for the sector and the Government
together will be how to ensure that more students from outer-metropolitan areas are able to access tertiary education. Here, the proposed introduction of better targeted and more generous income support arrangements for students should improve mobility, enabling more students in both regional and metropolitan areas to move away from their homes to pursue studies. Improving linkages between universities and vocational educational education providers in outer-metropolitan areas would also serve to enhance pathways to higher education from under-represented groups. These reforms, combined with improved measurement of SES status, low SES participation loading, low SES partnership funding, improved indexation and, longer term, a CSP funding model that more accurately reflects the actual cost of teaching in different disciplines and settings should, in our view, provide a powerful incentive structure which encourages all providers to enrol more students from such backgrounds.

6. Policy options: reallocate regional loading consistent with the Bradley Review recommendations

Additional incentives to support regional provision would be provided, with policy consistency maintained, by adding the funds currently committed for regional loading ($31.2 million in 2009) and any additional funding committed to support regional provision to:

- the Higher Education Participation and Partnership Program (HEPPP) to provide additional load payments for low SES enrolments, additional funds for innovative partnership programs targeted at regional provision; or to provide a ‘top up’ loading for low SES students drawn from rural and regional areas, and from outer-metropolitan areas;
- the Performance Funding Framework, for allocation to institutions based on the achievement of institutional specific regional provision performance targets agreed with the Government through compacts. Both input (participation) and output (graduate destinations to regional areas) could be built into the framework to drive desirable outcomes;
- compacts for transparent allocation following negotiations between providers, or groups of providers, about specific proposals to support regional provision.

In each case, the Bradley Review’s objective of consolidating the number of funding schemes in place for higher education learning and teaching would be satisfied. In terms of the Review’s other overall objectives for a more coherent funding framework: responsiveness to student choice, fairness; allocation by formula wherever possible; transparency and administrative simplicity - allocation through the participation component of the HEPPP would be most consistent. It would also provide institutions with a degree of funding certainty and a continuing line of funding. On the other hand, allocation through the Performance Funding Framework and/or compacts would provide greater scope for innovative approaches to regional provision to be pursued by institutions in partnership with the Government. Allocation through performance funding and compacts would also maximise the scope for institutions to contribute to the Government’s objectives for regional provision in different ways that reflect their individual strategic priorities and operating contexts.

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