

The case for a *New Regional Deal*



**Southern Cross
University**



Australia needs innovative ideas and a smart workforce to create new industries that capitalise on the emerging new generational agricultural boom in Asia – offering huge opportunities to regional Australians.

In our regions, companies are setting up multi-million dollar enterprises in medicinal plant production and organics, but struggling to find the right workforce. At the same time, regional Australians have lower employment rates, lower income levels and poorer health outcomes than people in our capital cities.

The ***New Regional Deal*** outlined in this document offers to bridge the divide, accelerate the progression of thousands of regional Australians into higher education and create a workforce for the future.

We know there are thousands of talented, highly capable students in regional Australia who don't have the qualifications or sometimes the confidence

to get straight into university. They may have left school early, or have had to skip university for family reasons but by studying at their local campus, they can unlock tremendous potential.

We believe this proposal offers a rare opportunity to lower spending on a lifetime of welfare provision, help unemployed regional people into jobs, and create a valued regional workforce capable of building stronger regional communities.

There can be few better ways to invest Australian taxpayer dollars than delivering a ***New Regional Deal*** that will benefit all Australians.



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Introduction



Regional Australia continues to be one of the engine-rooms of Australian economic prosperity – with the growing ‘new generation’ agricultural and primary production sectors, cooperative businesses and ongoing resources activities helping to underpin the nation’s wealth.

However, that wealth often does not flow to those living in the same regional areas. Individuals, families and communities in regional Australia are too frequently being left behind. Australian citizens living outside the nation’s capital cities experience higher rates of unemployment, lower rates of economic development and higher rates of illness.

A **New Regional Deal** is essential. It can – and should – centre around universities as potent levers for social and personal uplift. Tertiary institutions are powerful

attractors of talent, of research nous and of workforce expertise. They are primary producers of graduates in essential industries, such as small businesses, the health sector, teaching and engineering.

They underpin creative and artistic communities. And they enable individuals to overcome disadvantage and to deliver a skilled workforce as well as the entrepreneurial innovation capable of leveraging it fully.

In brief, regional universities play a fundamental role in driving social and economic change in communities across Australia. But there are challenges. Regional areas have smaller populations and a declining proportion of younger people, making it more difficult for regional universities to grow as quickly as large capital universities. They are diverse. They are often more isolated. As a result,

regional universities do not have the economies of scale or the opportunities for lifetime cost efficiencies in student acquisition and retention that urban universities possess.

Southern Cross University therefore proposes that the policy concept of a **New Regional Deal**¹ should form the funding basis of a national regional higher education strategy.

As a major regional university, Southern Cross has identified significant advantages to the Federal Government, to taxpayers and – most importantly – to regional communities from the implementation of this approach.

¹ Many of the principles associated with this concept are drawn from the *Review of Regional Loading: Final Report*, Commonwealth of Australia, 2011.

The case for a New Regional Deal

The recently-stalled Higher Education Support Legislative Amendment (HESLA) bill was intended to achieve budgetary savings for the Federal Government. It was also intended to generate efficiencies in the higher education sector by exposing it to market forces. However, it was unlikely to achieve either of those aims — especially in regional areas of Australia — due to fundamental flaws in assumptions underpinning the proposed legislation.

By proposing a standard, across-the-board percentage cut to the operating budgets of universities — regardless of their circumstances — the HESLA bill failed the common-sense test. It also failed the fairness test. This was especially true in view of the fact that the same Federal Government had recently introduced needs-based funding in the school system to redress the inequality between regional and metropolitan schools². How could needs-based funding be appropriate at the secondary level but not in the tertiary sphere?

In addition, there is no way that a policy designed in Canberra, ostensibly to deal with major capital city institutions with more than 50,000 enrolments — 40% of whom are typically international students — can be attuned to the role and demands of running a true regional institution. Moreover, the New Regional Deal is predicated on the strategies endorsed by the Group of Eight universities earlier in 2017:

While there are a number of Federal government programs that provide targeted support for regional and remote students to attend university, regular review of these policy settings is required to ensure that interventions to support educational outcomes for regional students are well designed and adequately funded. Regional and remote students face many challenges accessing and succeeding at university.³

The Southern Cross example

To be specific: while most urban universities enrol 80% (or more) of their undergraduate students as immediate school-leavers, regional universities are different.

In the case of Southern Cross University — located in northern NSW and Southeast Queensland — fewer than **one in five** students enrol directly from high school (**19%**). The Southern Cross student body is **68% female** — far higher than the national average. The median age of students is **25**. Most have worked for several years before applying to study. **Nearly 5%** of the University's student body have a proud Indigenous heritage and **almost 10%** of

students are from an LGBTIQ background. Just **11%** are full-fee-paying International students. Approximately **28%** are studying via 100% online means. **72%** are the first member of their family to study for a university degree.

The total student body numbers **16,000** and the University has graduated more than **60,000** degree-holders since 1993 — many of whom live and work in regional Australia.

While each regional campus is unique, many share these particular tendencies towards mature, diverse, talented and promising first-in-family cohorts. And their levels of success are extremely high.



Tailored and sensible policy which recognises regional particularities is essential.

² See: John Dewar, *Without strong local campuses, the regions will suffer*. The Australian, 11 October 2017, p.28

³ Group of Eight Australia. *Group of Eight submission: Independent Review into Regional, Rural and Remote Education*. Canberra, 2017, p.2.

The role of the Regional Universities Network (RUN)

RUN, along with successive government reports and findings from other agencies⁴, has established the evidence-base and the argument for this case. In particular, from the regional students' perspective:

1. They are more likely to be from a low socio-economic status background and be non-recent school leavers
2. Those who complete Year 12 are much less likely to enrol in higher education and face greater disincentives because of costs and distance to campuses
3. Those attending a regional higher education institution are more likely to be female, older and caring for dependents (and thus less able to move to study)
4. They are more likely to study part-time and/or through online education or via flexible delivery modes and have higher attrition, and lower completion rates, than their metropolitan city counterparts
5. They tend to stay in regional areas for further study and employment once they graduate from a regional higher education institution

From a regional higher education institutional perspective, the evidence is that:

6. The cost of regional higher education provision is often greater than the funding provided by the Commonwealth
7. Regional higher education faces significant economic disincentives and diseconomies of scale

8. Regional campuses experience higher costs, particularly in their extensive provision of student support programs, and have fewer opportunities to generate revenue from discretionary sources such as international students
9. The enabling legislation for regional universities often requires them to contribute to the regions they serve and they often do so at their own cost. This can be significant when their regions are impacted by floods and fire and campuses become safe havens and relief centres.

The case for a **New Regional Deal** revolves around addressing a key national interest issue; namely, that "even after accounting for the popular share, students from rural areas are under-represented at universities".⁵ This requires an acknowledgement that there is an imperative for government intervention and additional funding for regional higher education – not for the sake of universities, but rather for the sake of the regional people that they serve. If a national participation target for 18-34 year-olds is 40% and the tertiary participation rate in regions like the Northern Rivers of NSW is approximately 20%, the case could not be clearer.

There is strong precedent for this recognised by all sides of politics. As the 2011 Larkins Review of Regional Loading indicates:

The economic disincentives for regional higher education provision create an incomplete market (a type of market failure). That is, thin markets and higher costs mean that higher education services are under provided by the market which could lead to less optimal regional higher education provision in the absence of government intervention⁶.

The important question to answer is:

If left to itself, would the market for regional higher education create better long term results for students and regions than would be the case if there was government intervention... the answer is no – without the government playing a role, long term results for students and the regions would be poorer... Faced with this market shortcoming... government intervention in the form of cost subsidies and incentives to institutions or to students may be appropriate.⁷

⁴ See, for example: Cherastidham, I. and Norton, A. (2017) *Submission to the Independent Review into Regional, Rural and Remote Education*. Grattan Institute, Melbourne.

⁵ Cherastidham, I. and Norton, A. (2017) *Submission to the Independent Review into Regional, Rural and Remote Education*. Grattan Institute, Melbourne, p.3.

⁶ *Review of Regional Loading: Final Report*, Commonwealth of Australia, 2011, p.5

⁷ *Review of Regional Loading: Final Report*, Commonwealth of Australia, 2011, p.6.

Economic and employment benefits of a New Regional Deal



In addition to lifting higher education participation rates in regional communities, the economic benefits that accrue from government subsidies and incentives to regional higher education institutions and students are profound and include:

1. Enhancing workforce skills development, particularly with the 15-24 age group, in order to meet regional skills demands
2. Contributing to regional growth and development, particularly through addressing the youth unemployment and under-employment challenge
3. Encouraging major employers to make significant investments in their regions
4. Connecting regions with national and international developments
5. Fostering research and technology transfer to meet regional and national needs
6. Providing access to higher education for people wanting to remain in regional communities
7. Building social cohesion within and between regions – with universities taking a key leadership role in informing and shaping the future of their communities.

Reducing unemployment and expanding the skilled workforce

Regional universities also play a key role in addressing regional unemployment, workforce and skills shortfalls. For instance, the tuition cost to the taxpayer of educating a young 'first in family' Australian student in a regional area with a Bachelor of Nursing degree is approximately \$20,500 per year for three years; or a total of just over \$60,000.

Depending upon relevant thresholds, the student repays approximately 32% of that public investment through deferred HECS/HELP. So the true cost to taxpayer of educating that individual citizen is ultimately approximately \$42,000.

The question to ask is this. What is the cost to the taxpayer of an individual from a regional community who — for various reasons — spends a decade or more on Centrelink benefits and who is either underemployed or unemployed for long periods of their life? That figure far exceeds the cost of that university education, by a multiple of 4-10 times.

Recent research indicates that people with a degree earn about 22.5% more per hour than those with a Year 12 qualification on average, after controlling for an array of external factors⁸. This is a clear indicator of the potential value of post-secondary education to regional Australians, who have a significantly lower level of educational attainment compared to urban dwellers.

Since post-school education is also the best bulwark against long-term unemployment, turning those at risk of prolonged unemployment into citizens equipped and able to undertake a career is essential, both in ethical, as well as economic terms.

Recent data indicate that, while the national youth unemployment rate of 15–24 year olds currently stands at 12.2 per cent (twice the national average), more than 258,000 young people in the labour market are still unable to find a job with "the malaise of unemployment persist[ing] in many rural and regional locations".⁹ High youth unemployment rates in regional communities tend to persist: 10 regional and rural communities in the top 20 in 2016 were in the top 20 in the previous year, each having youth unemployment rates ranging from 18 to nearly 30 per cent.

The Foundation for Young Australians¹⁰ indicates that youth unemployment and under-employment is costing Australia \$11.3 billion annually with regional and rural communities having a disproportionate share of this burden.

Therefore, regional universities have a major role to play in meeting the challenge of youth unemployment and the proposed New Regional Deal will be a seminal policy instrument in this regard.

⁸ Bankwest Curtin Economics Centre Educate Australia Fair? Education Inequality in Australia Focus on the States Series, No.5, June 2017 p.44

⁹ Australia's Youth Unemployment – Snapshot March 2016, Brotherhood of St Laurence, Melbourne, 2016.

¹⁰ Foundation for Young Australians (FYA) 2016, Renewing Australia's Promise, FYA, Melbourne, 2016.

The Rationale for a New Regional Deal

In 2004, the Commonwealth Government, in recognising the disparities in costs for regional higher education institutions, introduced the concept of “regional loadings”. Indeed, successive government reviews have found that:

... there is a disparity of costs between regional and metropolitan campuses due to thin markets, diseconomies of scale, opportunity costs and higher costs for construction and information technology. The research also identified that regional campuses face a disparity in revenue compared to metropolitan universities.¹¹

Subsequently, a regional funding formula was developed and used to make allocations to regional universities, although there were inconsistencies and criticisms of the initial formula. A review of the formula in 2009 sought to address these issues with regional loadings adjusted accordingly in 2011.

At the time, it was argued that, because a range of other government funding initiatives were already directed at regional higher education institutions (HEPPP, EIF, Structural Adjustment Funding, Enabling Load, and so on), there was far less need for them to receive significant additional funding by way of a regional loading. With the revised regional loading arrangement provided as part of this funding approach, the average funding enhancement across the universities that shared the loading was only \$1.22m, which has only varied marginally since the revised formula has been in place.

With Commonwealth Government budget constraints now in place, and the revision or abolition of a range of funding initiatives that were current when the last review of the regional loadings was completed (HEPPP, EIF and Structural Adjustment Funding), many of these initiatives oriented towards supporting regional universities have been terminated. As a result, there is an urgent imperative to review the concept of regional loadings and to recast it more comprehensively as a New Regional Deal.

Although there is currently a real focus on higher education funding and policy, what has not changed significantly is the fact that unless the Commonwealth Government provides additional cost subsidies and incentives to regional higher education institutions and their students, the long-term results for students, for regions and for Australia as a whole are likely to be dire.

The loss of these regionally-focused funding initiatives means it is now demonstrably far more expensive to operate a university in a regional area than in an urban one, due to diseconomies of scale, increased cost of recruitment, smaller local pools of students and increased difficulty of attracting international students to regional areas.

This has led to a serious imbalance between regional and urban universities, estimated to equate to approximately \$50 million per year, based on the differential in costs and the total student cohort currently enrolled in regional universities. Simply to get back to parity, regional universities require a higher allocation of funding per student to compensate for the higher costs incurred – well in excess of what is now allocated through regional loadings.

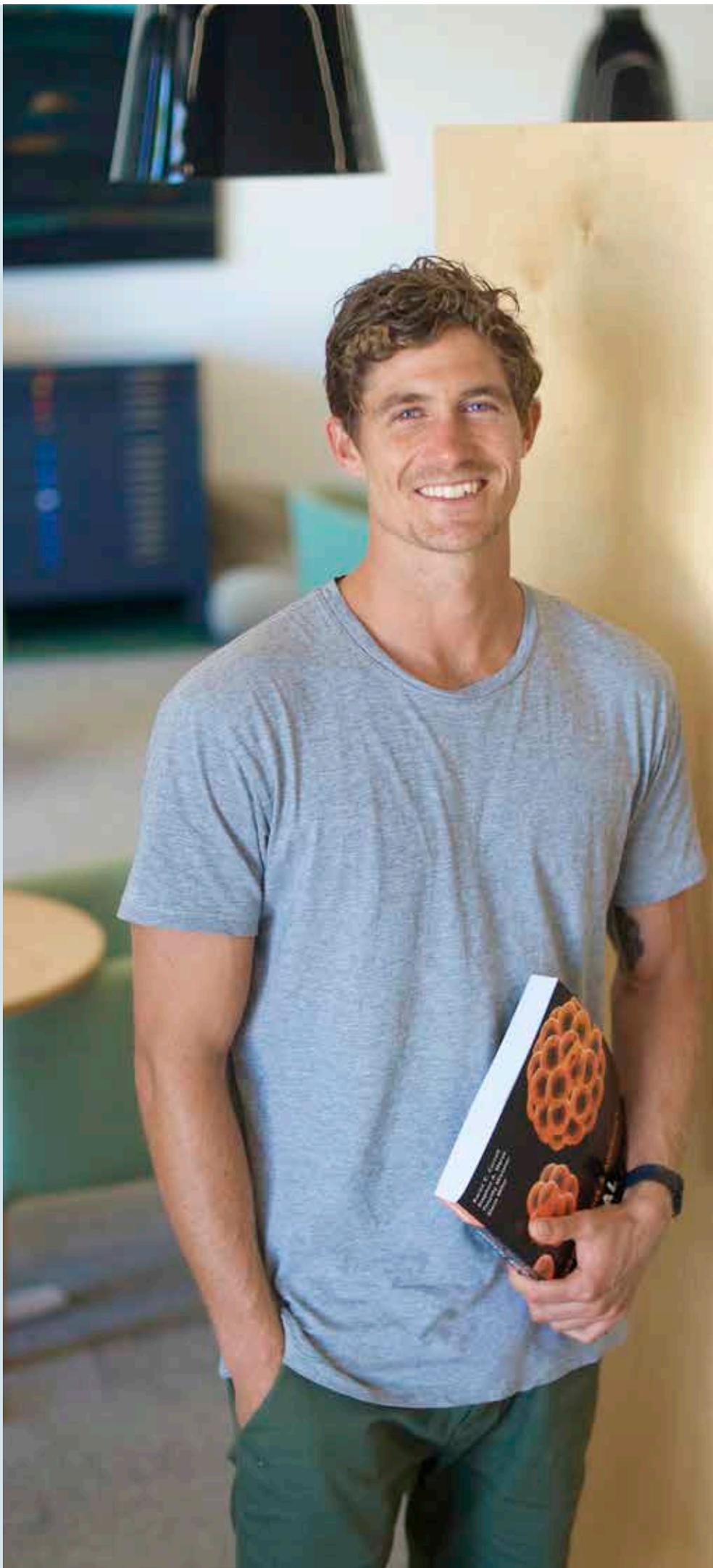
Therefore, we propose that the Federal Government should allocate an indexed Regional Adjustment fund of \$50 million each year for four years to redress funding inequity for regional universities, divided proportionately between regional campuses.

In addition, a new regional loading formula should be developed, so that universities with the greatest need get access to a higher marginal funding rate per student on a transparent basis which takes account of each university’s circumstances.

What we propose

We propose a **New Regional Deal**, comprising:

1. **Guaranteed Regional Pathways:**
Allocation of 10,000 Commonwealth Grants Scheme (CGS)-supported places in regional enabling courses, distributed according to regional need and demand – providing pathways to higher education for students with talent and ambition who are currently unprepared to begin a degree.
2. **Increased Quantum of University Places:** A commitment of \$50 million per year for four years to address the chronic underfunding of regional campuses, in recognition of the higher operational costs in regional areas;
3. **Revised Regional Funding Formula:** An improved regional loading formula to provide certainty of allocation to regional university campuses in recognition of the higher costs of regional delivery.



How it will help



A **New Regional Deal** will:

1. Increase regional higher education participation rates for students
2. Increase low SES education participation rates
3. Increase access and opportunities for Indigenous people through higher education participation, research and development
4. Break intergenerational barriers to higher education for thousands of students and their families, breaking the cycle of welfare dependency and leading to enhance regional employment and skills development
5. Meet regional workforce needs, with a particular focus on the 15-24 age group
6. Enhance bridging, enabling and support programs for students
7. Improve the sustainability, quality and efficiency of regional higher education
8. Minimise the burden of HECS/HELP debt for regional students
9. Support the research and capacity-building function of regional universities
10. Boost regional social and economic, social and artistic development through research, engagement and innovation
11. Generate significant positive total savings both for taxpayers and for the Commonwealth.

The design of a *New Regional Deal*

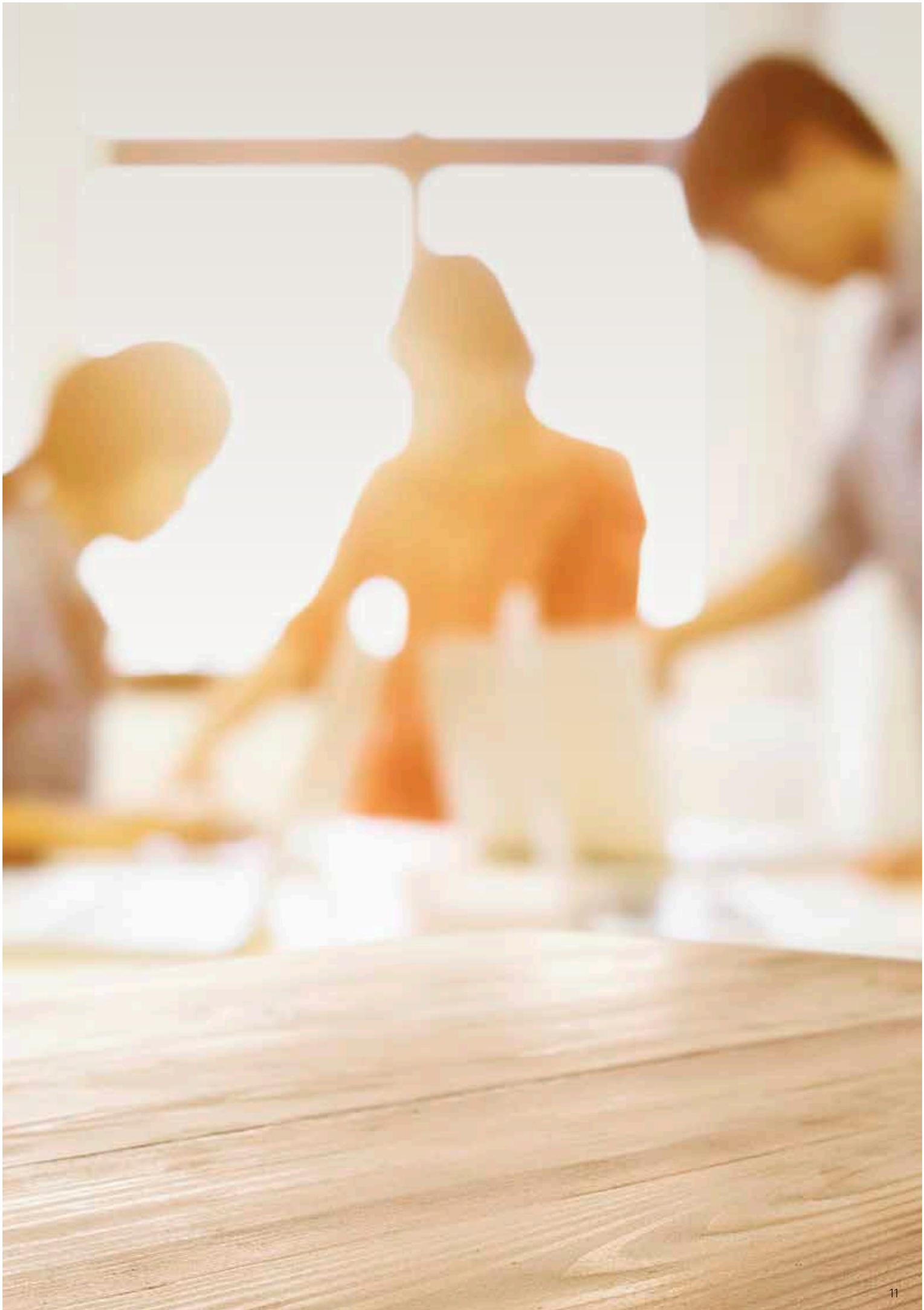
Building on the earlier work of the 2011 *Review of Regional Loading* the **New Regional Deal** would increase the quantum of funds available and replace the existing regional loading formula with a more comprehensive funding formula made up of the following elements:

1. A *weighting* for each regional higher education campus based on location, remoteness/geographic criterion, student load (both undergraduate and postgraduate as EFTSL)
2. A *weighting* for regional higher education institutions which are regionally headquartered as determined by a remoteness/geographic criterion
3. A *weighting* for the graduate employment outcomes of the institution
4. A *weighting* for the proportion of non-recent school leavers amongst commencing students; that is, a higher weighting for more of these students
5. A *weighting* for the undergraduate student attrition rate at its regional campuses – that is, a higher weighting for lower attrition
6. A *weighting* for the number of Indigenous students enrolled at its regional campuses – both undergraduate and postgraduate
7. A *weighting* if the enabling legislation of the institution mandates that it must contribute to and support the region(s) it serves

The increased funding and better targeted allocation of funds will be supported by the provision of **10,000 CGS-supported** enabling places for regional universities. These places enable students who have departed school at Year 10 to transition most effectively into further TAFE or University programs. They are essential to the success of this program.

The need for this support is manifest. The timing for this decision is now. Regional universities are clearly operating at a significantly higher cost structure compared to urban universities, and yet they offer key opportunities to transform the futures of thousands of Australian families in regional areas.

A New Regional Deal is the answer.





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