



Forward impact of COVID-19 on Australian higher education

Wells Advisory was commissioned by TEQSA in July 2021 to undertake the analysis presented in *Forward impact of COVID-19 on Australian higher education*. The purpose of the analysis was to broaden understanding of the impacts of the COVID-19 pandemic on Australia's higher education system.

The analysis provides TEQSA with a contemporary snapshot and additional contextual information to complement TEQSA's own information sources and existing work, including the extensive data collections analysed through TEQSA's risk assessment activity.

The analysis confirms our understanding of the role that the pandemic has played in accelerating many of the trends and changes that were already occurring in Australia's higher education system, in particular the shift to blended and online delivery of programs. These have combined with other structural impacts of COVID, including moves to diversify international student delivery away from the dominance of inbound (and substantially on-campus and face-to-face learning) to hybrid models that will increasingly incorporate the delivery of Australian higher education awards online, offshore and through third party arrangements. In part, this shift has been driven by the desire to support and retain students who have been unable to enter Australia, but has also been viewed as an opportunity to reach additional cohorts of students. With this diversification comes heightened risks related to the rigour of third-party arrangements, the management of agents and the quality of the delivery and the student experience.

These trends and other issues discussed in the report, including impacts on the short to mid-term ongoing financial viability of providers, highlight emerging and additional risks to the quality of higher education and the integrity of the sector. For example, TEQSA is already seeing emerging behaviours within the sector around competition for students and admission practices which may undermine recent gains made through the admissions transparency work of the Higher Education Standards Panel and TEQSA.

TEQSA considers that the report provides useful insights into trends and developments in Australia's higher education sector as a result of the COVID-19 pandemic, setting these in the context of higher education policy reforms that have recently taken place or been announced.

The issues identified in the report raise the likelihood of a period of ongoing uncertainty for the sector with the potential for increased risks to the delivery and quality of higher education and its consequent impact on students and the reputation of the sector. It is also incumbent upon TEQSA to consider the impacts and challenges for its regulatory model and practice in assuring the government and community of ongoing excellence in Australian higher education.

TEQSA publishes the *Forward impact of COVID-19 on Australian higher education* in the interests of further engagement with the sector, government and broader community.



Report

TEQSA

Forward impact of COVID-19
on Australian higher
education

October 2021

Wells
Advisory



Table of Contents

Executive Summary	2
Transnational education 2.0	3
Digital and last-mile innovation	3
Specialisation and pivot	3
Consolidation and closure	4
Considerations	4
Purpose of this report	5
Understanding the impact of COVID-19 to date	6
Defining a structure for the Australian higher education market	6
Context for COVID-19 in Australia	9
International students in Australia	12
Estimating downturn and core evolution for international on-shore enrolments	14
Re-opening of Australia's international border	16
Student experience	17
Financial impact of COVID	19
Revenue impact	19
Profitability	20
Research-focused universities	21
General universities	23
Private providers	24
Revenue student fees	25
Policy settings for Australian higher education	25
Job Ready Graduates and funding for short courses	25
Research funding and future focus on commercialisation	26
Provider category standards and new regulatory focus on outcomes	27
Future for Australian higher education	29
Forecasting international students	29
Other revenue sources	32
Provider-level impact and risk	32
Strategic responses	33
Transnational education (TNE) impacts and trends	34
Online and digital	36
Discipline economic viability	39
Operating structures and service providers	40
Market diversity, consolidation and sale	41
Concluding remarks	41



Executive Summary

The COVID-19 pandemic continues to be a major disruption across Australia, both in terms of our economic activity and our daily lives. There is substantial uncertainty about the long-term effect of the pandemic, and of Australia's response, in terms of how a massive public health response will lead to changes in our economy and our relationship with the rest of the world.

What is certain, however, is that the closure of Australia's international border has had a uniquely powerful impact on one of our previously most successful industries – international education. For the higher education sector, this impact will be felt over multiple years – unlike short-term travel associated with tourism, education for international students is in effect a pipeline model, in which commencing students translate into multiple years of future enrolments. The missing cohorts from late 2020 and 2021 – and potentially into 2022 – will have an ongoing impact. The key question is understanding both the scale of this impact, the consequences for institutions within the sector, and strategic considerations for the sector as a whole. Revenue from international students cannot easily be replaced – Australia's domestic market has been stable for many years, and current policy settings will lead to a net reduction in direct funding for teaching (for those institutions in receipt of Commonwealth Supported Places). Research funding may not be sufficient to cover the cost of delivering research projects, and, in the short term, revenue from commercial activities (including commercialising research and innovation) is unlikely to be a replacement for international students. And there are increasingly important participants in the higher education sector who contribute to the diversity and growth of Australian higher education who are focused on education, rather than research.

The impact of COVID-19 will be uneven across the sector – different levels of exposure to international students, and different delivery models (including pre-COVID investment in transnational education) will lead to varying outcomes. Although the impact on universities as well-known public institutions attracts media coverage and commentary, there are a substantial number of non-publicly-funded institutions, including three universities (Bond, Torrens, and Avondale, from July 2021), who are facing similar impacts. What we observe in considering responses is:

- The publicly-funded universities face the most significant structural challenges. Universities are both the most impacted in terms of volume, and also have significantly greater challenges in adjusting costs to match falls in revenue, with large, industrialised, full-time and permanent workforces as their major expense.
- Most private for-profit institutions have reacted swiftly to changing enrolment patterns, and have been active in identifying opportunities to pivot rapidly to securing enrolments from domestic students, existing on-shore international students, and exploring novel delivery models. Operating at smaller scale, with more flexible workforce arrangements, has been a strategic advantage in ensuring viability, at least in the short term. Some private for-profit institutions are highly exposed to the border closures.
- Mission-based not-for-profit institutions, including faith-based institutions, appear to have been successful in maintaining connections with current and future students, and are likely to be able to combine smaller and more agile operating model advantages with a close connection with students to maintain their engagement with future student pipelines. These institutions have also tended to have little exposure to international student downturn.

There are significant questions about the long-term impact of COVID-19. On one view, the re-opening of international travel at sufficient volume to return students could lead to a rapid resurgence of the sector, albeit from a significantly lower point than previous 2019 highs. This would disregard the potential for the pandemic to lead to structural changes in how higher education is delivered, and in international education in particular. These potential changes



flow both from our national response to the pandemic and institutional strategic responses. But if we pin our hopes on this optimistic scenario, there is a real risk that we have not implemented the types of risk controls that would be necessary under other less favourable scenarios.

Looking ahead, the major changes to higher education delivery are likely to include:

Transnational education 2.0

COVID-19 has forced reconsideration of how education can be delivered off-shore. Previous countries which were regarded predominantly as source markets for the Western education providers are now becoming destinations in their own right. China is the leading example of this. Travel restrictions have triggered the development of in-country partnerships to commence international students in off-shore hubs, including in China, working in partnership with private services companies, and foreign universities. Australia is not the only innovator in this area – multiple UK-based institutions operate from campuses and hubs in China and Malaysia, for example, and US-based colleges have launched global partnerships with location providers. COVID-19 has forced institutions to be more flexible in where a degree can be provided, and it is likely that these models will be perceived as lower risk for students even once travel is possible. Partnerships with overseas delivery hubs and institutions that involve 1+2, 2+1, or even 3+0 models for offshore / onshore study are likely to become more permanent features of international education.

Digital and last-mile innovation

As universities have been forced to move programs online due to domestic travel and social movement restrictions, there has been an accelerating uptake of service arrangements with external companies who accelerate and facilitate digital delivery. The 'online program manager' and online content development market is growing rapidly, offering more cost-effective mechanisms for universities (in particular) to rapidly develop and implement new online course offerings. These providers work across multiple partner universities, and achieve positive financial outcomes from operating at scale across these institutions. For an individual university partner, the benefits are clear, in that OPM and other last-mile-to-customer service providers (across student experience, course content, and related student-focused services) may be more cost effective or enable marginal costs to scale more flexibly with revenue. From a sector perspective, however, these service companies may raise the risk that they offer an essentially similar service and experience across multiple university partners. For students, this reduces genuine choice between options, if what appear to be multiple degrees offered by distinct providers are in fact substantively similar due to a shared program manager.

Specialisation and pivot

Each individual institution will respond to economic drivers to ensure its financial survival. With reduced international student enrolments, institutions turn naturally to the domestic Australian market. At the same time, the lack of international student revenue reduces average revenue per student, and may mean that some areas of academic study are no longer financially viable. On an individual provider basis, decisions to identify areas which are loss-making without international student revenue, and then pivot to areas of stronger domestic demand are reasonable and align to principles of responsible management and governance. The core challenge is considering the impact for Australia's higher education sector in total if similar decisions are made across multiple providers. An example of this risk is 'health' as a broad disciplinary area. Health and related field degrees are considered to be attractive to students



as they can lead to professional accreditation, and future employment in areas of workforce demand (such as nursing, particularly in palliative and aged care). The implication may be that previously broad institutions (universities) choose to specialise and concentrate around broadly similar fields of education and research, and close or substantially reduce other, less attractive areas. Simultaneously, new entrants to and current private institutions within the sector may pursue a similar pivot. Overall, this may reduce opportunity for students, and may reduce the availability of some subject areas in some geographies. It may also raise risks to quality in thinly resourced areas or in areas pushed towards teachout.

Consolidation and closure

The majority of private for-profit providers do not publicly disclose detailed financial data. This means that a definitive identification of providers most at risk of closure or failure is not possible. However, it is likely that providers who had a substantive or majority enrolment from international students will face financial stress as a result of the pandemic. This may, in some cases, lead to decisions to wind up or dispose of registered higher education institutions. This will clearly lead to some degree of risk for students. Although there are protections (i.e. via the Tuition Protection Scheme and teach-out arrangements agreed with the regulator), this will naturally lead to disruption for students and may have a longer-term brand impact for the Australian sector. That said, there are as yet no clear examples of a major failure of a provider in the Australian market as a result of COVID-19. Private for-profit institutions have responded rapidly to transform operating models and reduce costs, including staffing, to conserve cash and ensure business survival. It is more likely that some entities may choose to strategically exit the Australian higher education market.

Considerations

The future responses from policy makers and regulatory agencies may wish to consider include:

- The need for agility and flexibility in responding to the ongoing pandemic, which could include maintaining the novel undergraduate certificate as a permanent feature of the Australian Qualifications Framework (AQF) to provide a useful short-course 'buffer' for institutions. Agile responses could also be supported by pursuing greater certainty about the status of off-shore student visa holders with respect to post-study work rights and future migration, enabling institutions and students to act with confidence.
- How to enhance financial monitoring of providers, with an emphasis on increasing the tempo of information provision to TEQSA and identification of likely risks, as well as increasing financial buffers
- Effectiveness of institutional planning for ongoing uncertainty about future recovery, particularly given the short-to-medium term reduction in CGS funding for universities which will create additional financial pressure
- Mechanisms for engaging in new delivery paradigms to ensure quality and sustainability, across both off-shore / TNE developments and digital / platform developments, and including greater trans-national recognition arrangements
- Monitoring to ensure that decisions at institution level – particularly around disciplines with significant exposure to international students – do not reduce choice for students or reduce Australia's research capacity.



Purpose of this report

This report provides an analysis of future impact of the COVID-19 pandemic on Australia's higher education sector. The main driver of these impacts is the closure of Australia's international border, preventing the movement of international students into Australia. This has had a significant impact on total enrolments across the sector, and subsequent reduction in revenue for higher education institutions. In aggregate, multiple analyses form a consensus view that the major impact of continued border closures will occur across 2022 and 2023, and there is substantial uncertainty about the future return of international students to Australian higher education. Higher education student pipelines are multi-year, and so with three years of impact (2020, 2021 and 2022 a certainty) so far, the pipeline will take an absolute minimum of the same number of years to re-build (2023, 2024 and 2025).

This report presents a number of core insights to support consideration of what the impact of COVID-19 will be, and discusses how this might alter Australian higher education from a sector perspective. The report:

- Presents a summary analyses of impact of the pandemic on Australian higher education, focusing predominantly on the reduction in international students and enrolments
- Sets out a set of estimated future scenarios and impacts across the sector, highlighting institutions at risk of significant financial impact over the next five years
- Identifies key strategic responses which are being pursued by institutions in response to border closures, including internal reorganisation / restructure, investment in online and transnational education models, and emerging trends in responding to economic drivers (particularly for domestic students)
- Discusses strategic implications for the sector, particularly in terms of how institutional strategic decisions will impact sector diversity, delivery models, the experience of higher education for students, and Australia's research capacity



Understanding the impact of COVID-19 to date

The purpose of this section is to summarise the known impact of COVID-19 on the Australian higher education sector. The impact of the pandemic has been complex, rapid and pervasive, across multiple sectors. Higher education in Australia is particularly challenged by the ongoing closure of Australia's international border, and the subsequent downturn in international students. In addition, public health responses in Australia have led to successive and recurrent restrictions to daily life, forcing many students to study online and radically altering the student experience for local and international students.

The purpose of this section is to set out what is known currently about the impact of COVID-19 on Australia's higher education sector. Necessarily, much of this impact is centred around the financial consequences of reduced international students. There is substantial risk, uncertainty, and ambiguity about how this aspect of the sector will evolve, and a general view across providers (including universities and non-university institutions, public and private) that the major impact of reduced international students will emerge in 2022 and 2023 due especially to pipeline effects.

The core impact of the COVID-19 pandemic is clearly on international student enrolments and revenues. Whilst this can be considered a fundamental driver of responses across the sector, our view is that there are substantive distinctions in how different elements of the sector will respond to the ongoing impact of the pandemic. This view is supported by the early evidence. This reflects both the different operating models across the sector, and the distinctions in economic drivers that different types of providers respond to in making strategic decisions. To some degree, these responses reflect the overall structure of the Australian higher education market. This is both a matter of the provider categories in which higher education institutions operate, and the influence of the funding structures embedded within the Higher Education Support Act 2003 (as amended). This market structure effect is critical to estimating the future impact of the pandemic on Australian higher education.

Defining a structure for the Australian higher education market

There are a number of key lenses through which to define Australian higher education – across regulatory and funding structures, as well as ownership and business operation structures. Funding and regulatory standing are, to some degree, interdependent, but the separation of regulatory and funding administration and decision-making processes has a significant influence on how the sector can be conceptualised. To characterise higher education in Australia, a combined view is required, which incorporates both a regulatory and funding perspective on providers, as well as the characteristics of providers within the system. This perspective focuses on how regulatory and funding instruments intersect in terms of student-related drivers.

- Sector regulation, including provider categories, determines basic market access (i.e. the right to operate) and conditions under which products can be offered to the market
 - Given the role of TEQSA in administering decisions under the Education Services for Overseas Students (ESOS) Act, this includes both permission to operate as a higher education institution, as well as access to international students on-shore, although these are enabled by separate legislative powers
- The main sector funding instrument, HESA, is arguably more influential on market access, as it determines access to funding (via the Higher Education Loan Program, HELP, and the Commonwealth Grants Scheme, CGS) for domestic students and institutions



- HESA status has a critical influence on the economic drivers faced by providers – including access to loan schemes for domestic students and direct funding for Commonwealth Supported Places

Rather than viewing the sector in terms of solely provider categories (i.e. University, University College, Institute, and Overseas University), or HESA status (Table A, B, C, or approved provider), a combined view emphasises the constraints and opportunities faced by different provider types across both funding and regulatory settings. This is summarised in the table below.

	Provider category	HESA status	CSP students	Domestic fee-paying students	International students
Publicly funded universities	Australian university	Table A	Total CGS grant capped by individual funding agreement	Postgraduate only, with some exceptions – with access to FEE-HELP	Yes
Non-funded universities	Australian university	Table B	No current CSP allocations	UG and PG students, FEE-HELP with no loan fee	Yes
Non-university providers	All other categories	Defined as an 'approved provider' by Ministerial determination	Limited CSP allocations in selected circumstances	UG and PG students, FEE-HELP with loan fee (currently deferred)	Yes

This perspective, however, potentially over-simplifies the view of the Australian higher education sector – it is not the case that all non-university providers are inherently similar, despite facing similar market access and funding settings. There are multiple ownership structures, and missions, represented within this group. Similarly, universities are themselves diverse – both the established mission-based groups across the sector (including the Go8, ATN, RUN, IRU) and in terms of scale. In addition, not all institutions operate solely in higher education – many higher education providers are also active in the vocational education and training (VET) sector (including the large dual sector providers).

In order to characterise impact of COVID and future evolution in the sector, we suggest that providers are usefully understood by combining both their scale, ownership and mission, and their relevant regulatory and market access settings. This view allows a more nuanced anticipation of how different types of institution are likely to respond to the future impact of COVID, based on the economic drivers and incentives which operate within those institutions. Based on this view, we suggest that the following categories are a way to understand the Australian higher education landscape. In our view, there is a key distinction between research-led or research-focused universities, and a 'general' publicly-funded Australian University, in terms of how COVID may affect these organisations in the future, and the responses that can be observed. The Group of Eight (Go8) universities are a case study for a research-focused institution in Australia – and have also been highly successful prior to COVID in attracting large numbers of international student enrolments. These institutions are arguably more dependent on tuition-related revenues to subsidise and fund research than other universities. They represent, as an indicator of sector impact, both a key point at which the major impact of COVID-19 will be felt, as well as an exemplar of how financial challenges are being managed within the University sector. This is discussed in the summary of financial impact and strategic responses in 2020 set out below.



Institution category	Overview
Research-focused universities	Prototypically represented by the Go8, research-led / research-intensive universities have significant grant revenue from research activities, and mainly sustain non-funded research costs (including costs associated with externally-funded research) from teaching revenue.
General universities	More focused on teaching revenue with a relatively lower proportion of direct research revenue to the research-led group, these institutions have a diverse range of settings, institutional contexts and structures, and include both urban and regional institutions
Mission-based	Faith-based, not-for-profit and discipline-specific institutions that focus on a particular cohort (either based on religious connection or professional association). This includes universities (Divinity, Avondale, Bond), as well as University Colleges (NIDA, AFTRS, Moore). Most providers have access to FEE-HELP for domestic students, with some exceptions for niche providers for whom this has not been necessary.
Established for-profit	For-profit providers with access to FEE-HELP funding for domestic students, with a mix of focus across international and domestic students in terms of student cohorts. This includes Torrens University Australia (and associated corporate group institutions included in Think).
Emerging and international-focus for-profit	For-profit providers without approval to offer FEE-HELP to domestic students – in some cases, this reflects strategic decisions made by the institution, and in some cases this reflects relative immaturity of the institution (i.e. not yet approved but intending to seek approval).

As suggested above, a key consideration is the impact of funding and economic drivers for future responses to COVID. This is discussed further in future implications (see subsequent section, below).

Context for COVID-19 in Australia

It is clear that COVID-19 has, and continues to have, a major global impact. This impact is pervasive, arguably greater in scale, reach, depth and range of impact in the major global economies than almost all major global catastrophes that have preceded it in the last 20 to 30 years. In comparison to the 2008 Global Financial Crisis, for example, COVID-19 has led to greater day-to-day change in the way that we live, particularly in Australia. Whilst COVID-19 is not the sole strategic driver to consider in the context of Australian higher education – considering, for example, the rise of digital innovation, the economic and geopolitical ascent of China and India, and the increasing impact of climate change – there are specific changes that have flowed directly from the pandemic. These include:



Health: Significant public health response and expense, albeit not the level of acute hospital system impact as other nations



Stimulus: Large-scale public fiscal stimulus at unprecedented levels, taking Commonwealth net debt to an expected peak of \$980.6b or 40.9 % of GDP in 2025¹. Unprecedented relaxation in fiscal restraint has received bi-partisan support; balanced budgets are no longer a primary goal. Long-term impact on future Commonwealth spending remains uncertain.



Domestic borders and restrictions: Unprecedented since federation, the introduction of widespread internal State & Territory border controls, stay-at-home orders, and other extreme restrictive measures and controls. The future duration of these measures is uncertain; the national roadmap² defines vaccination thresholds but not specific timeframes.



International borders: Similarly unprecedented restrictions on international borders, including banning Australians from leaving Australia for temporary travel (with limited exceptions) and since March 2020 banning foreigners from entering Australia. There has also been a tight quota system for returning Australians and mandatory two-week quarantine. These restrictions have seen the complete cessation of overseas migration and entry of persons on visas, a cohort that saw net entry to Australia of more than 200,000 people per annum. This freeze will have extensive impacts on the Australian economy, society and specific sectors, such as education, heavily reliant on international students coming to Australia to study. Closed borders have also dramatically impacted the Australian in-bound tourism market. There is a notable relationship between international education and tourism (known as edutourism) which creates elevated exposure here from closed borders. Similarly recent changes relaxing fortnightly work limits, up to 40 hours per fortnight, for onshore international students working in tourism and hospitality indicate significant flow on and unintended economic impacts³. Recent data shows that for 2019-20, 77,900 temporary higher education visa holders arrived, by contrast 27,700 persons arrived under the permanent skilled visa category, family visa contributed another 20,600⁴.

¹ https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview202122/

² <https://www.pmc.gov.au/national-plan-transition-australias-national-covid-response>

³ <https://www.rba.gov.au/publications/bulletin/2020/dec/pdf/the-covid-19-outbreak-and-australias-education-and-tourism-exports.pdf>

⁴ <https://www.abs.gov.au/statistics/industry/tourism-and-transport/overseas-arrivals-and-departures-australia>



China: Although not strictly related, Australia's call for an investigation into the origins of COVID 19 appears to have tipped the balance of China-Australia relations, with China introducing a 'trade war', and issuing increasingly alarmist warnings to its people about Australia⁵. These developments have had major impacts on industry sectors the subject of tariffs (e.g. wine and barley), and have the potential to be extended, for example in the area of tertiary education. The China market is by far the biggest and most lucrative source market for Australia's universities and restrictive action by the Chinese government would be highly problematic. There is simply no replacement market for China. There are some signs of second level action by the Chinese Government, such as restrictions on use of third-party arrangements in China, and warnings issued to Chinese students in relation to Australia⁶. This diplomatic and trade rift appears to be long term and can be expected to be a major factor over the next 5-10 years for Australia. It will have both direct sector impacts, including price, but is likely to also have much wider indirect impacts in economic, political and defence terms.



Political landscape: COVID 19 has seen a dramatic shift in the Australian political balance – not between parties, but between the Commonwealth and States. State Premiers have taken on increased prominence and exerted arguably more power and influence. The Prime Minister sought to establish an orderly approach through National Cabinet, an informal meeting of leaders, but this has gained only partial traction. It is particularly challenging for sectors that rely on a national representation and international trade, such as international education. There has been a large investment of time and effort expended planning pilot projects for returning international students. To date these efforts, fragmented across States and Territories, have struggled, raising further concerns within the sector. Even with pilots about to commence, they pertain to very small numbers compared to the 300,000+ international students who were here each year prior to COVID 19.



Digital: The rise of digital as a practically necessary response to closed borders, closed workplaces and individuals wanting to avoid taking risk by going out more than absolutely necessary. For consumers, there has been a major rise in demand for consumer technology (computers, TVs etc). For workplaces this has seen a major shift online, to working from home (WFH). For some sectors, such as knowledge workers, this has been relatively seamless, with the adoption of zoom meetings. For others, such as health treatment, there has been a hybrid adopted, such as telehealth plus more limited face-to-face consultation. But for many industries, WFH is not an option. This has included, for example, major parts of the food and retail sector, restaurants and cafes, construction and property, personal services and gyms. This is a two-speed economy and society – those able to carry on and those halted in their tracks. For higher education, COVID 19 restrictions in Australia coincided with the start of the 2020 academic year. This resulted in a sudden shift to online teaching. While largely achieved, quality was not always maintained⁷. Nor did this mode meet the requirements of all courses (e.g. clinical

⁵ <https://iit.adelaide.edu.au/ua/media/1479/wp04-economic-coercion-by-china-the-effects-on-australias-merchandise-exports.pdf>

⁶ <https://theconversation.com/students-in-china-heed-their-governments-warnings-against-studying-in-australia-141871>

⁷ <https://files.eric.ed.gov/fulltext/ED610395.pdf>

courses), nor of all student cohorts. Online was also not possible for much of the research-based activity of universities, especially in the STEM fields⁸.



Building and property boom: There has also been a further trend triggered by both the stay-at-home conditions and the digital technology progression. This is the major rise in home improvement and changeover, including demand for home furnishings, major increases in home renovation (despite supply chain issues), demand for larger homes and for homes in the regions. For a generation aged late-20's to early 40's, we seem to be witnessing the end of a long trend towards living in inner urban areas in apartments. Many in this segment of the population are now looking to move to houses on the urban fringe on a larger block, or to regional and coastal areas, depending on either work-from-home arrangements or finding employment there. Despite the pause in migration, the Australian property market is in the midst of a COVID 19 related boom that is nationally pervasive, and covers both cities and regions⁹. Its focus is centred on houses, not so much on apartments or commercial property. These are major societal shifts.



Mental health: Beyond the direct health impact on individuals who have contracted COVID 19, there has been a significant associated rise in patients with mental health problems. Stress, anxiety, uncertainty, confinement, not being able to see friends and family, and the impact generally of the pandemic on the community and those we know has led to significant rises in suicides, especially youth suicides, in calls to help line services, and in presentations to medical practitioners. These developments are impacting student and staff populations. We are now into the 20th month of COVID 19 in Australia and there is significant organisational and community fatigue (Biddle & Gray, 2021). There are reports of high turnover and staff drop out in some sectors, despite the uncertainties for employees seeking employment. This situation will likely have long-term consequences.



School learning: A further significant impact, and one that will most immediately impact universities, is the impact of COVID 19 on schools in Australia^{10,11}. There is widespread concern for the impact on learning attainment levels and wellbeing of senior students nearing their matriculation point. This year is the second cohort to matriculate with the impact of the pandemic on their educational journey. With compounding effects, this issue has the potential to have widespread, long-term and profoundly personal consequences for a generation of young people, here and around the world. What will be the impacts and how can we help restore the deficits and support these cohorts?

Of general relevance to considering the pandemic in context, however, is that it is necessarily unique. Whilst some parallels can be drawn to prior pandemics, there are no contemporary analogues of a pandemic that includes developed nations. Put simply, the most salient impact of COVID-19 is a significant increase in uncertainty, risk, and change¹². Whilst the need for organisations to cope with change and uncertainty is not novel, a combination of direct

⁸ <https://www.mdpi.com/2227-7102/10/10/291>

⁹ <https://home.kpmg/au/en/home/insights/2021/07/covid-19-impact-australian-property-market.html>

¹⁰ https://www.monash.edu/_data/assets/pdf_file/0006/2705748/perception-of-australian-schooling-2021.pdf

¹¹ <https://www.pwc.com/au/government/government-matters/covid-19-education-how-australian-schools-are-responding.html>

¹² https://melbourneinstitute.unimelb.edu.au/_data/assets/pdf_file/0004/3562906/Coping-with-COVID-19-Rethinking-Australia.pdf



financial impact (via international students)¹³, operational change (via enforced online and distance education), and the unprecedented scale and duration of the pandemic mean that the challenges for the higher education sector are significant. It is likely that some institutions will navigate change effectively – and some will struggle to adapt quickly. The obvious question that arises is what the net impact of each individual organisation's path through uncertainty will be for Australian higher education, and its associated impact on students and the broader Australian economy and society.

International students in Australia

As noted above, the critical impact for Australian higher education is tied to the downturn in international students. At the outset of considering this impact, it is worth noting a key feature of international education in Australia which made it uniquely vulnerable to conditions imposed to manage risk to public health, including border closures. Delivery models for international students are constrained (noting that this has been adjusted, at least temporarily, as a response to the COVID-19 pandemic). One of the key benefits for international students who choose to study in Australia is the opportunity to work, and subsequently migrate as permanent residents. To do so, international students must hold an appropriate student visa, and study 'on-shore' in Australia. The ESOS Act and associated framework requires students to attend face-to-face in-person classes (with some limited opportunity for online or distance learning). Combined with the well-described attractiveness of the international student market in Australia, these restrictions have meant that there has been little opportunity for providers to innovate in delivery models, and little economic incentive to do so. As a result, in early 2020, international education in Australia was in effect almost entirely delivered in-person, focused around the movement of students from home countries to Australia. It is worth noting that this is not dissimilar to student visa requirements (or equivalent entry / residence permits) in other major destination countries, particularly the English-speaking markets (UK, US and Canada). The requirement to deliver face-to-face to international students, arguably, set up a situation where the higher education sector was uniquely vulnerable to disruption from any restriction to student mobility. There were relatively few Australian institutions who had made serious investments in delivering Australian education in countries other than Australia. Although by 2019 approximately 54,000 equivalent full-time students are recorded in off-shore campus locations (Department of Education and Training 2019 data), a substantial number of these students are delivered via partnership, or contracted third-party arrangements, with Monash University, RMIT University and some private for-profit institutions (such as SP Jain) as notable exceptions. Equally, external and multi-modal (i.e. via distance and digital) delivery to international students was a small component of the total Australian higher education market; 17,500 equivalent full-time students¹⁴, compared to 375,800 equivalent full-time students studying in internal modes.

The economic benefits of international education have been described extensively in multiple sources – in terms of supporting more than 240,000 jobs (Department of Education and Training 2018 data), and more than \$30b in export income¹⁵. Intangible benefits have been discussed, but are obviously more challenging to define; analysis of the Group of Eight conducted by London Economics (published in 2018) highlights non-quantifiable benefits to on-campus life contributed by international students, but focuses more on tuition, direct spending, and economic multiplier effects of international student revenue to large

¹³ Marshman, I. & Larkins, F., 2020, Modelling Individual Australian Universities Resilience in Managing Overseas Student Revenue Losses from the COVID-19 Pandemic. University of Melbourne Centre for the Study of Higher Education.

¹⁴ This does not include students at international campus locations.

¹⁵ Consistently shown in Australian Government estimates, Department of Education and Training across 2016 to 2018, noting some interruptions in research published by the Department.



universities. The most direct impact, however, is tuition revenue for providers. Direct tuition for international students in higher education is approximately 20% of total sector revenue; VET courses and other non-higher education courses taken by international students are in addition to this. International student tuition fees are significantly higher than for domestic students (with some, rare exceptions), and international enrolments have (prior to the pandemic) been growing in volume compared to a static domestic market. Prior to 2020, therefore, delivering degree programs to international students represented a high-yield, high-growth market, with strong barriers to entry for new competitors due to Australia's higher education regulatory settings, and relatively limited pressure to innovate to compete against emerging online education options. For the research-led and general universities, in particular, international students were the most effective mechanism to expand undergraduate teaching programs, as places for domestic students are fixed under a 'capped' Commonwealth Supported Place (CSP) system.

Comparative yield – or revenue per student – is a critical matter for considering future impact of COVID-19 in relation to international student numbers. Despite constituting only a relatively small share of total sector revenue – less, in total, than government grants and domestic student tuition (including student contributions for Commonwealth Supported Places), international students make an overweight contribution to margin for providers. This is of particular importance for publicly-funded institutions (i.e. those in receipt of Commonwealth Supported Places). To achieve financial sustainability, providers essentially seek to achieve an appropriate mix of revenue across their activities. For teaching-focused institutions, or for teaching activities within research-intensive universities, this is achieved through profiling a mix of student types across core market segments, aligned to the revenue per student and student volumes available in each segment. The impact of international students is not only total contribution to revenue for a particular provider, but also the increase in average revenue from teaching-related activities. For institutions with the broadest range of activities across teaching, research, and other mission-driven activities (such as engagement with relevant communities, including via religious or other vocations), this impact is intensified, as teaching-related revenue is used to underpin and cross-subsidise these other activities. In particular, the use of teaching revenue (both from international and domestic students) to fund research activity in universities is a generally accepted feature of Australian higher education¹⁶.

Although, as discussed above, teaching modes for on-shore international students have been relatively constrained to traditional, face-to-face teaching, there has been substantial innovation in how this teaching is delivered. This refers to the use of third-party teaching arrangements, and the development of foundation or pathway study programs. Third-party delivery arrangements mean that students are enrolled with and study an award program with an institution, but many – or all – of the services associated with that program (including campus facilities, student support services, and teaching delivery) may be provided by a 'third party'. Third-party arrangements typically involve an Australian university and a private, for-profit contracting delivery company. In some examples these entities may be separately registered as institutes of higher education, and the contracting arrangement may be related to rights to use a brand or to guarantee an articulation / entry pathway from one provider to another. Other third-party arrangements may be with a non-registered entity, or a corporate group which includes some registered higher education entities (which may or may not be related to or directly involved in a third-party agreement). A common model for third-party delivery is the establishment of a branch campus that is substantively managed and provided by the third-party company. These third-party campuses are typically focused on international

¹⁶

https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp2021/Quick_Guides/UniversityResearchFunding



students – VU Sydney is an example which makes its international focus explicit. Pathway or foundation programs are distinguished by being non-accredited / non-award programs, and (similarly to third-party delivery of higher education award courses) can vary significantly in terms of how a delivery entity (a pathway provider) is connected to a target university. This includes subsidiary companies (eg UNSW Global) or historically affiliated entities (eg Trinity College, University of Melbourne). It is worth noting that both foundation / pathway programs and third-party delivery arrangements do not necessarily focus solely on international students in all cases. However, a focus on attracting international students, combined with relatively short course durations and therefore a reliance on a pipeline of new international students, mean that this segment of the higher education sector is likely to be significantly exposed to any downturn in the overall number of students in Australia.

Estimating downturn and core evolution for international on-shore enrolments

In order to consider both the impact of known reduction in international students in Australian higher education, and potential future scenarios, a number of factors must be included. Clearly, Australia's international border policy will be of central importance to any future recovery – it is clear from published data on onshore international students that there has been significant reduction in new international students taking up places in Australian universities¹⁷. However, there is substantial uncertainty about when changes to border restrictions will occur, what potential volume of students might be able to travel to Australia (i.e. under quarantine capacity limits), and whether the impact of COVID-19 in general has dampened appetite for international study, either specifically for Australia or more broadly. There may be differences between source markets, linked either to differential treatment of particular countries based on COVID-19 risks, vaccine deployment and approval¹⁸, or to in-market changes in demand for Australian higher education. These future scenarios and sector responses are discussed further in the subsequent section, below.

This section presents a central statistical model at individual country level based on monthly data published by Austrade. This data is a monthly time-series from 2002 to June 2021, and provides a relatively robust indicator of how COVID-19 and border closures have impacted on-shore international commencements and enrolments. Based on this time-series, we project future enrolment and commencement using an ARIMA methodology. This approach is sensitive to seasonal movement in time-series, and provides a relatively un-biased approach to estimating potential evolution. This approach, however, does not take into account externalities and changes in policy settings which will be of critical importance to how the international student market will evolve.

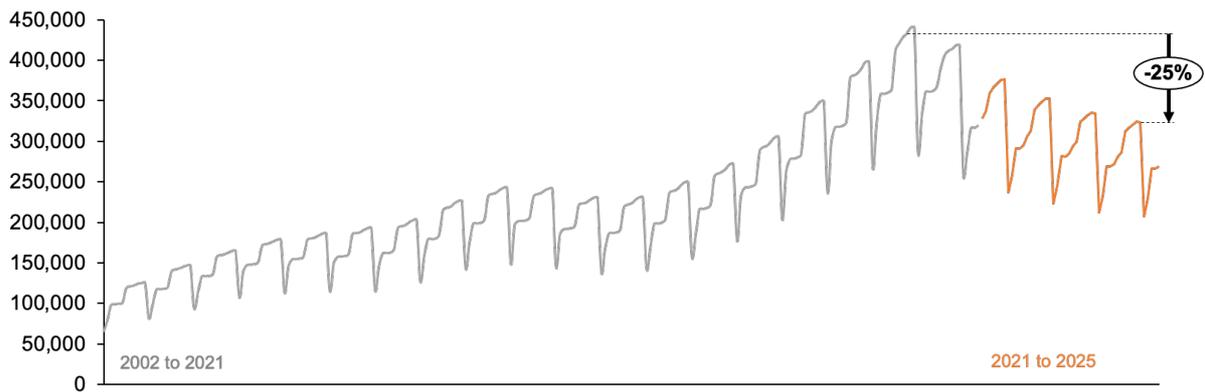
The underlying model is sensitive to movements at country (market) level, as well as commencing and returning students. Illustrating underlying differences between countries is a key insight in how students from different source countries have responded to Australia's border closures. In total, this approach suggests that if current emerging trends hold, international onshore enrolments will decline by *at least* 25% in total across the sector. This assumes that recovery during 2022 is possible, and that this means a return to prior growth trends. Significantly greater impact is possible. This is a significant reduction from enrolment peak in 2019. New (commencing) international student enrolments in Australian universities have nearly halved since 2019. According to the Department of Education, Skills and Employment (DESE), the main sources of international students in 2019 come from China (36%) and India (14%), but enrolments have since fallen 22% and 52% respectively in 2021 compared to 2020.

¹⁷ Derived from published Austrade international student enrolment and commencement statistics.

¹⁸ This is further discussed in future reopening, below.



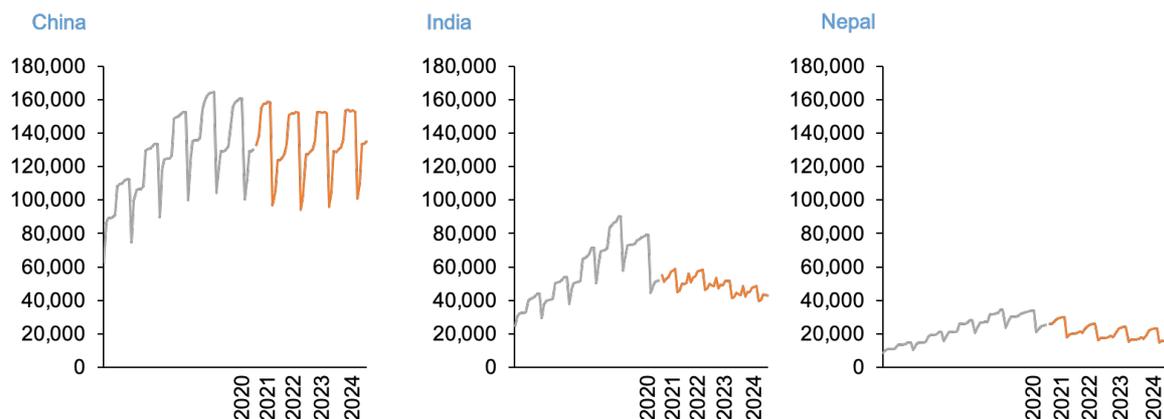
Figure 1 | Projected international student enrolments (2002 – 2025)



Source: ARIMA model forecasting using Austrade MIP and DESE National dataset. Actuals (to mid 2021) shown in grey. Projections 2021 to 2025.

Forecasting suggests China is more stable and demonstrates a more persistent seasonal trend. Alternatively, under this model, students from India are not expected to return back to 2019 levels and instead will oscillate around a lower base. Projections within each year for smaller markets (notably Nepal) may be over-influenced in this model by seasonality in the total projection rather than historical trends and appear to undergo a slight decline in student enrolments from 2019 levels.

Figure 2 | Projected international student enrolments (2016 – 2025)

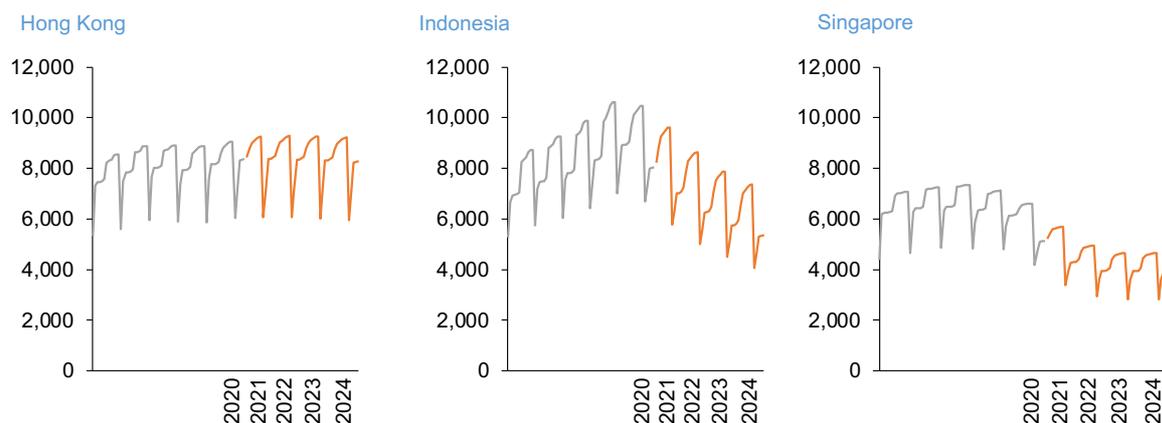


Source: ARIMA model forecasting using Austrade MIP and DESE National dataset. Actuals (to mid 2021) shown in grey. Projections 2021 to 2025.

Hong Kong is expected to act similarly to China and maintain its student enrolments. Whilst Indonesia and Singapore are expected to undergo ~30% reductions in commencements from 2019 to 2024.



Figure 3 | Projected international student enrolments (2016 – 2025)



Source: ARIMA model forecasting using Austrade MIP and DESE National dataset. Actuals (to mid 2021) shown in grey. Projections 2021 to 2025.

The impact of future scenarios based on modelling international data will be differential across institutions – the emerging picture from early 2021 indicators, based on qualitative input from select institutions, is that down-turn in enrolments is unevenly distributed across institutions. The core hypothesis for this differential impact is institution exposure to source markets – typically, the larger, research-intensive institutions (including the Go8) have been more exposed to China, rather than India, as the major source country for students. The relative resilience of international enrolments from China – leveraging both TNE evolution and willingness to study online – is likely to be a key contributor to mitigating short-term impact.

Re-opening of Australia’s international border

Recovery of the international student market is unlikely without a resumption in the capacity for students to travel to Australia. The Commonwealth Government has announced an intention to allow international travel for vaccinated Australian citizens and permanent residents without restrictions from the end of November 2021 (as announced by Prime Minister & Cabinet in October 2021). It is likely that, in line with restrictions for Australian citizens, future resumption of inbound arrival for temporary entrants (including international students) will also require vaccination. As of October 2021, the Therapeutic Goods Administration (TGA) has included the two of the vaccines in use in India (Covidshield, manufactured by the Serum Institute of India under licence from AstraZeneca) and China (Coronavac, manufactured by Sinovac) as ‘recognised’ vaccines. This means that people who have been vaccinated with either of these products will be recognised as ‘vaccinated’ for the purposes of travel to and within Australia.

Whilst this is a positive evolution, there remains substantial uncertainty about when large-scale arrival of international students will be possible. As of October 2021, there is only one international student arrival pilot disclosed by the Department of Home Affairs, allowing up to 250 international students to arrive per fortnight into New South Wales¹⁹ from December 2021. Victorian plans (not yet approved by the Commonwealth, nor published formally to the sector) are likely to be at similar total numbers. This is, clearly, far below the capacity required to restart the education sector. It is more likely that the international education sector will need to wait until at-scale travel into and out of Australia is possible, with the present managed

¹⁹ See <https://covid19.homeaffairs.gov.au/international-student-arrival-plans> for current information.



quarantine programs replaced by at-home quarantine or no quarantine for vaccinated arrivals. It is possible that this will occur prior to the approval of specific arrival plans for international students, although approval of at-home quarantine based on pilots may mean that education providers (notably universities) with access to student accommodation facilities may be able to create larger arrival programs. Domestic capacity in quarantine arrangements and other policy settings alone are only one part of the puzzle that needs to change, however. Australia's international aviation links also need to resume at-scale. International flights to and from Australia, pre-pandemic, totalled approximately 4 million seats per month (data from the Department of Infrastructure, Transport, Regional Development and Communications). In July 2021, this stood at 0.75 million. Rapid return of international students would assume both supportive Australian policy settings and the return of available flight and quarantine capacity into Australia. Both are uncertain. Recent announcements regarding changes to quarantine requirements for New South Wales (reported with a projected date of November 1, 2021) suggest a more rapid reopening is possible, once Australian border restrictions are harmonised with state-based quarantine requirements.

In addition, any re-opening of the Australian border could be, from the perspective of future students, inherently uncertain. Australian governments at both jurisdictional and Commonwealth levels have demonstrated willingness to enact stringent public health measures which radically impact on student experience. The Doherty Institute modelling which has informed some National Cabinet discussion of pandemic response does not explicitly address international travel, but does contemplate ongoing public health safety measures and the availability (and effective operation of) test-trace-isolate-quarantine responses to new infections (as noted in the Doherty Institute Interim Report to National Cabinet 17th September 2021²⁰). Future international students may be hesitant to re-commit to study until there is clearer commitment to 'COVID Normal' public health measures which allow a 'normal' (i.e. in person) higher education experience.

In this regard for prospective international students, Australia currently compares poorly to other English-speaking destination countries which have resumed face to face education and have 'open' borders, despite ongoing pandemic conditions. Recent research released by IDP Education²¹ showed 79% of prospective students would only consider overseas on-campus options; 18% would consider commencing online before moving to on-campus. Only 10% of students surveyed would choose either fully online or partnership (in-country / transnational) delivery. Some caution is warranted in interpreting these results; the majority of respondents identified India as their current country, with less than 50 total responses from China.

Student experience

Although the impact on future international students is dramatic, the day-to-day experience of students in Australian higher education has likewise been significantly changed by COVID-19. All institutions have had at least some periods of restriction to face-to-face learning and teaching; some, particularly those in Greater Melbourne, have had long-running periods of significant lockdowns. The student experience has moved rapidly from a predominantly campus-focused activity to online. Initial indicators from the 2020 Quality Indicators for Learning and Teaching (QILT) student experience survey point to an overall decline in student experience, across both domestic and international students.

²⁰ <https://www.doherty.edu.au/news-events/news/doherty-institute-modelling-report-for-national-cabinet>

²¹ Presented to the Australian International Education Conference, October 2021



QILT results show that overall quality and experience results declined across both major student segments in 2020. International students gave a positive rating of 63% to their educational experience, down 12% from 2019 (Figure 4); whereas domestic students were down 9% to an overall ‘quality of entire educational experience’ rating of 70% (Figure 5). Learner engagement by international students reported an even larger decline, down from 59% in 2019 to 49% in 2020 (Figure 4).

These results are, potentially, in line with expectations, in that students are less satisfied with a ‘replacement’ online experience compared to the planned-for on-campus and in-person model. Declining student satisfaction, however, increases risk for institutions and for the sector more broadly. Lower engagement in learning can be linked to lower student performance and poorer outcomes²². Institutions might expect that as public health restrictions ease, students will be able to return to in-person teaching; the challenge for the sector will be effectively identifying and supporting those students who have been particularly adversely affected by online learning. The risk for the sector is that lower engagement and satisfaction across 2020 and 2021 leads to increases in attrition and failure.

Figure 4 | International student education experience 2019-20 (% positive rating)

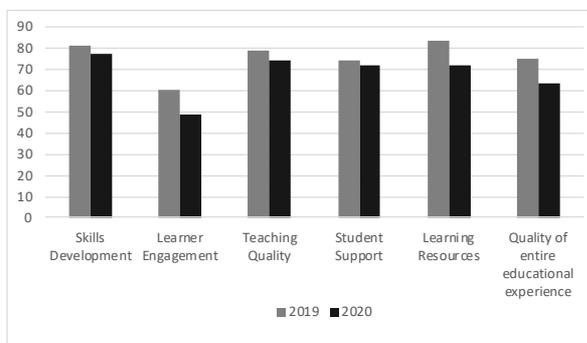
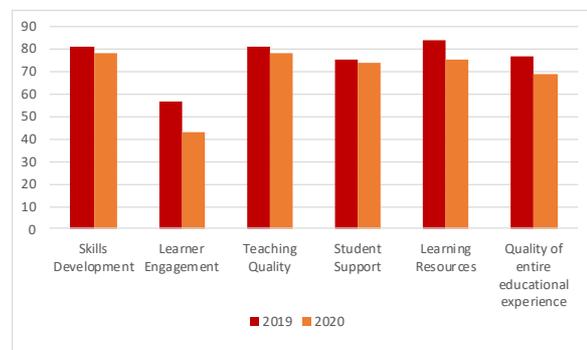


Figure 5 | National student experience 2019-20 (% positive rating)



Source: QILT Student Experience Survey 2020

Downward trends in student satisfaction may also impact future recovery. Current international students have been vocal about dissatisfaction with online learning, including submitting a petition citing poor quality of teaching and mental distress amongst international students (February 2021). Future students may be further discouraged from returning to Australia if the sector’s reputation is damaged by poor experiences during or resulting from the rapid transition to online learning.

To recover, institutions will need to think about how best to support students’ returning to in-person learning and lower public health restrictions, as well as how to continue to engage students in a higher education system which is now more likely to utilise online delivery. Student welfare strategies will need to be adapted, and institutions are likely to need to confront challenges associated with returning to work and study across their students and staff. Monitoring and responding to early indicators of ongoing student impact will be critical; as an evolving and near-unknown lifetime event, the medium to long-term impact on students of the pandemic is inherently uncertain, and good quality evidence both to understand these impacts will be necessarily delayed. In the meantime, both current and future students will need to be supported as they return to more ‘usual’ study and working routines, key in promoting mental wellbeing, which then creates shared values, community connections and

²² See, for example, Lawrence, J., et al (2021). <https://doi.org/10.5204/ssj.1914>



reduces loneliness²³. A range of student welfare strategies is needed to better incorporate international students into the social fabric which they learn.

Financial impact of COVID

International students are a significant source of revenue for higher education institutions. Prior to the pandemic, revenue from international students accounted for 27% of university revenue²⁴. For private providers, precise percentage of international student revenue (compared to domestic students) cannot be estimated as few private institutions are required to publicly disclose detailed financial data. In general, private providers who focus exclusively on education are more reliant on student revenue than universities. Some not-for-profit institutions have historically been in receipt of government grants which account for substantial proportions of overall revenue²⁵. Overall, universities account for the majority of the Australian higher education sector by revenue and by total students – more than 90% of students in total are enrolled in a university rather than a private provider, and more than 95% of domestic students²⁶. Third-party arrangements between universities and private providers, however, increase the effective role that private companies play in delivering higher education in Australia. Both campus-focused providers and online program managers operate within these contractual arrangements; precise quantification of the scale of these partnerships is challenging as they are not required to be publicly disclosed. Third-party arrangements that focus on satellite campus networks or delivery on behalf of a university within another provider however are typically focused on international students, and are likely to be highly exposed to the downturn in students due to COVID-19 restrictions. Prior to COVID-19, sector experts estimated that between 10% to 15% of university-enrolled international students overall attended a third-party campus, although the significant variation in how such third-party arrangements function means that this could range from the provision of teaching facilities and some student services, through to a comprehensive delivery including recruitment, enrolment processing, and content delivery²⁷.

Revenue impact

The short-term financial impact of COVID is discussed in relation to specific groups of providers in the following section. In aggregate, the immediate (2020) impact on universities was approximately 5% in total revenue from 2019, representing a \$1.9 billion reduction.

²³ <https://internationaleducation.gov.au/International-network/Australia/InternationalStrategy/EGIPProjects/Documents/ORYGEN%20-%20International%20Student%20Mental%20Health%20and%20Physical%20Safety%20June%202020.pdf>

²⁴ This figure is derived from DESE financial statistics. These reports use a standard reporting definition which may vary from figures presented in individual institution annual accounts.

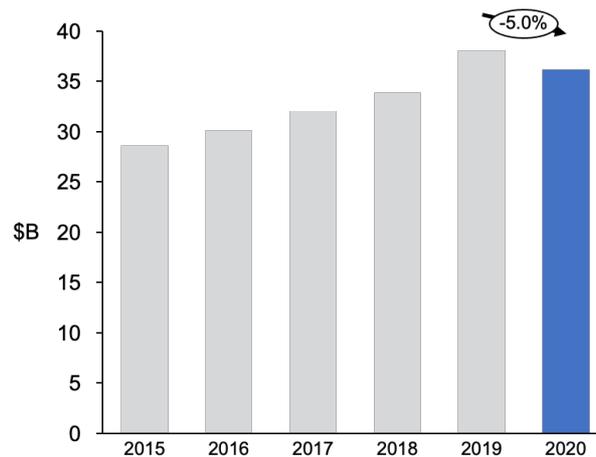
²⁵ A public analysis of sector finance was released by TEQSA based on 2017 data which provides further detail.

²⁶ Sector averages 2012 to 2019, approximate share only.

²⁷ We note that third-party arrangements are within the scope of sector regulation, and that multiple models for scope of third-party delivery arrangements can be compliant with required standards.



Figure 6 | Consolidated revenue (Universities)



Source: Financial statements from higher education providers.

The impact of closed borders in 2020 was damped by timing of border restrictions; by March 2020, the majority of commencing students for semester one had arrived, accompanying returning students intending to continue or complete their studies. This substantial cohort of students already on-shore in Australia is effectively a ‘cushion’ for the sector against immediate reduction in revenue (unlike sectors dependent on shorter-term visitors, such as tourism and accommodation). For higher education, however, the impact of closed borders will be longer-term, as current students complete without a continued pipeline of commencing students to replace them. This is most likely to be acute by early 2022; by this stage, assuming continued downward trends in commencements in 2021, only students in the latter stages of undergraduate degrees (3+ years in duration) will be continuing. Postgraduate coursework programs are typically shorter – generally 2 years and often structured to enable faster completion (i.e. through intensive or burst-mode study). Short-term visible impacts on universities and other institutions understate the future risk faced by the sector from missing international student revenues.

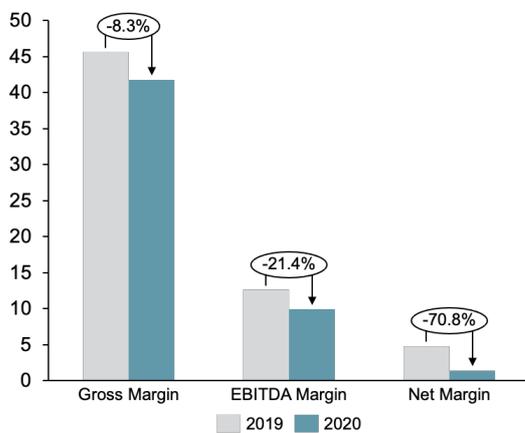
Profitability

Whilst there were revenue falls, universities still reported positive underlying EBITDA in 2020. A 21% EBITDA decline and 70% net margin decline occurred overall – but within positive operating margins. Whilst net profit margins on average are positive, the use of averages mask negative net margins for some universities.

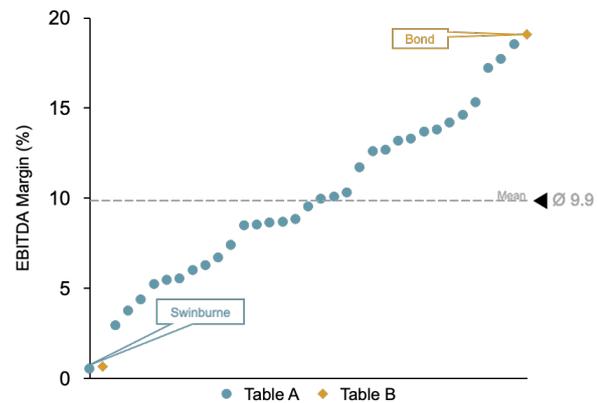


Figure 7 | Profitability metrics

Average profitability – 2019 vs. 2020



EBITDA margin spread - 2020

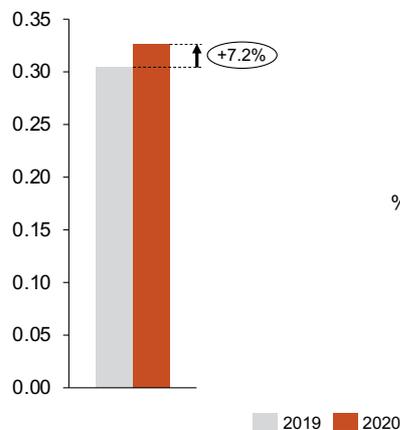


Source: Financial statements from providers who released financial reports in 2019 and 2020.

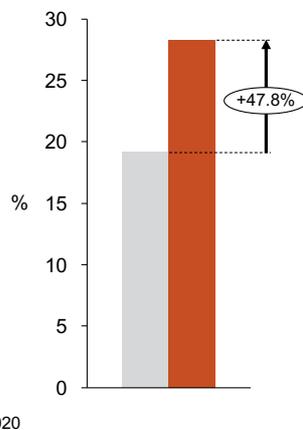
The sector increased debt in 2020, particularly of interest-bearing liabilities as a percentage of overall liability positions. Universities have been relatively low debt entities – some institutions in 2020 may be taking on debt to fund operating expenditure.

Figure 8 | Solvency metrics

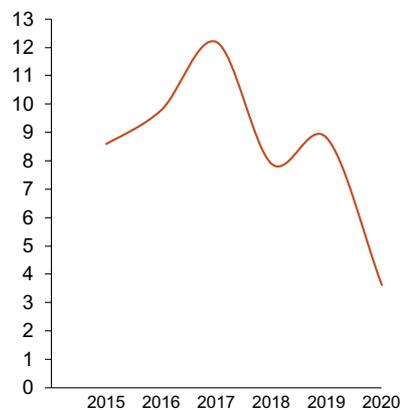
Debt ratio – Liabilities / Assets



Interest bearing liabilities %



Interest coverage ratio*



*Interest coverage ratio: EBIT / Interest paid

Source: Financial statements from providers who released financial reports in 2019 and 2020.

Key strategic impacts on finances for provider groups are discussed below.

Research-focused universities

Universities with strong research programs include Australia’s largest, and arguably best-resourced, institutions. The Group of Eight exemplify this segment of Australian higher education. These institutions benefited most significantly during 2020 to 2021 from additional research funding allocated by the Commonwealth Government (in a one-off uplift to research support grants), as well as increased direct research funding for COVID-19-related research



programs. The challenge for institutions with large research operations is that direct grant-based research funding and contracts are restricted in the purpose to which funds can be directed. Revenue from teaching, including from international students, is a critical source of discretionary funds within these institutions, enabling allocations to off-set unfunded research overheads and to sustain research across uneven and unpredictable grant funding periods. The core challenge for these institutions will be to address long-held assumptions about the necessity to cross-subsidise research from teaching activities. Ensuring the economic sustainability of research operations will be critical for these institutions.

The inclusion of grant-based funding and other sources – including endowments – which are either restricted or outside institutional strategic control is a confounding factor in analysing financial outcomes for these large institutions. In addition, continued success in research efforts will persist into 2021 and 2022, given the long lead times for many research projects and funding schemes. This means that research-focused universities will need to simultaneously manage reductions in discretionary income whilst delivering against complex obligations to research funders and partners.

The response by large universities to the revenue challenges created by COVID has been swift. The sector has rapidly implemented a range of cost cutting and cost freezing exercises ranging from capital program holds, travel limits through to large scale redundancies and wage increase deferrals. Each university has differed in the level of detail and approach taken to messaging and managing structural changes required. The table, below, provides a highly summarised snapshot of Go8 response measures as discerned from public statements.

Figure 9 | Go8 snapshot of staff and budget

UNSW	USYD	Adelaide	UQ
<p>~493 redundancies, including 265 forced redundancies.</p> <p>25 % reduction in management and faculty consolidation (eight to six)</p>	<p>Voluntary redundancy process</p> <p>Hiring freeze, travel ban and suspended capital works</p> <p>Unknown number of casual staff reductions</p>	<p>130 staff reduction</p> <p>Surplus of \$41M in 2020*</p> <p>Predicted shortfalls of \$22M in 2022 and \$47M in 2023</p>	<p>66 redundancies made</p> <p>A controversial spill and fill process in the School of Architecture ended up in FWC and was replaced with a VR scheme and consultation</p>
UWA	ANU	Melbourne	Monash
<p>Structural Reform Program</p> <p>~300-400 staff reduction to achieve \$40M budget reduction</p> <p>Focused on social sciences, brand, marketing & recruitment and the library</p>	<p>ANU Recovery</p> <p>~465 total job losses, including 250 VR / VS</p> <p>Pay cuts for 'top leaders'</p> <p>Deferred staff pay rise</p> <p>Travel limits, limits on contractor use</p> <p>Increased borrowing, debt limit raised to \$800M (plan to borrow up to \$615M)</p>	<p>450 permanent staff job losses, 2020</p> <ul style="list-style-type: none"> Academic and professional Unknown number of casual and fixed term staff <p>\$330M capital works deferred</p> <p>Est. \$1B revenue loss over three years 2021-2023</p> <p>24,000 international students in 2019</p>	<p>~754 jobs: 277 redundancies, 238 fixed term and 239 casuals (Source: Business Insider)</p>

Source: Fitzgerald, B, 2020; Ross, J, 2021; van Dalen, J, 2021; Duffy, C, 2020



General universities

The challenge for universities outside the research-focused cohort is more stark. With smaller grant-funded research operations, these universities also attract lower shares of research block funding from the Commonwealth Government, and are more reliant on direct revenue from students. As this group excludes the Group of Eight, general universities in Australia also do not have significant endowment funds which provide some alternative sources of cashflow to larger institutions (noting that these funds are often heavily restricted and purpose-specific). However, the impact across individual institutions will be highly diverse; international student revenue ranges from as little as 2% up to 45% of total institution revenue across this group. Institutions with lower exposure in total will need to consider how to address changes to margin and sustainability of some areas; the historically more-successful institutions (i.e. those with greater exposure to international students) will be forced to make larger adjustments to operations, including reduction in staff. Previously commercially-successful and margin-positive third-party arrangements with private partners, which are a feature of universities within this category, are likely to be rethought. Given that these operations often have a strategic focus on driving greater volume of international students, these partnership arrangements are likely to rapidly reduce in revenue, and represent an economic trade-off for institutions unwilling to share revenue on reduced volume of students. However, institutions who have utilised these commercial arrangements to achieve greater international student revenue may be able to respond quickly and with lower risk to their substantive operations.

It should be noted that it is particularly difficult to establish comparable information on reduction in positions, as opposed to staff numbers, and similarly a focus on redundancies tends to mask loss of casuals and contract staff. The issues with quantifying the higher education workforce are well known. The DESE Staff data collection estimated the workforce at 130,000 as at March 2020 with the 2021 data due for release in September. However, the DESE Staff data excludes casuals, which comprise a significant proportion of the academic workforce. The ABS Jobs In Australia collection puts the workforce at closer to 210,000. Estimates of workforce loss similarly vary from 17,300 (Universities Australia, estimated 2021) to 12,000 (estimated by the NTEU, 2020) to just 4,000 (analysis conducted by sector expert, Andrew Norton, 2021).

As the sector is grappling with right-sizing and reshaping organisational strategy and structure to suit emerging trends, there have been a range of commentators recommending solutions, as an example, the three foci set out below:

Figure 10 | Strategic directions – adapted from Marshman and Larkins strategic directions (previously referenced)

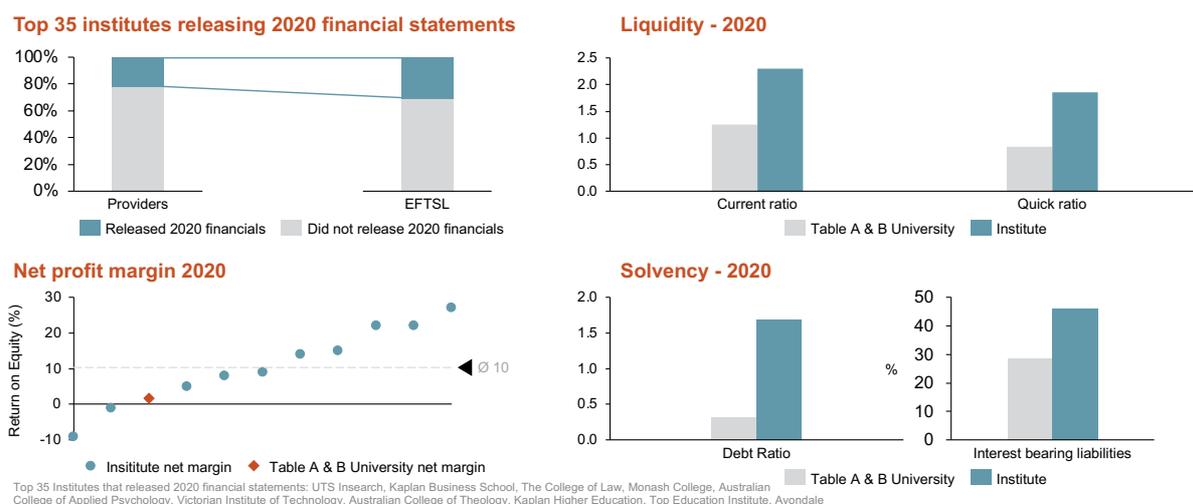
Capital focus		Recurrent operational focus	and		Workforce structural focus	and	
Delay or scaling back of uncommitted capital works and other major projects		A rationalization of course and subject offerings to ensure individual program viability over the longer term			Workforce reductions to reflect the changed future requirements		
Reappraisal of infrastructure requirements for a post-COVID-19 environment Particular focus on multiple campuses and financial viability		Rigorous review of “other expenditure” costs. Possible areas for savings include travel, entertainment, use of consultants and marketing expenses			Reappraisal of head office structures and remuneration levels, with a view to consolidate roles		



Private providers

Publicly disclosed or released results suggest that the non-university entities are in relatively good financial standing. Within the top 35 institutes by EFTSL load, 10 released 2020 financial statements. These providers account for 26% of total Institute of Higher Education EFTSL. These institutes have stronger net margins, higher short-term assets, but higher levels of debt than the average Australian University.

Figure 11 | Non-University profitability, liquidity and solvency metrics



Source: Financial statements from non-university providers who released financial reports in 2019 and 2020.

There are limited public data for the majority of private institutions. Most are not required to report public financial results, limiting analysis of outcomes for these groups. Anecdotal evidence from the experience of the sector suggests that outcomes are highly diverse, and strongly driven by the specific countries to which a provider was exposed and subsequent strategic action by the provider. Some institutions, responding quickly to Commonwealth funding of undergraduate certificates in areas of national priority, have secured increased numbers of domestic students. In particular, institutions focused on health and related disciplines benefited most from funded places in undergraduate certificates, given the relatively high rate of CGS funding for these courses. Generally, anecdotal evidence from the sector in 2020 and 2021 suggests that:

- **Mission based** providers have sustained strong engagement with student cohorts, and have maintained (and in some cases increased) student numbers, including from international students.
- **Established for-profit** institutions have been able to benefit from funded undergraduate certificate places. Institutions with existing strong domestic focus have been insulated from direct international student downturn.
- **Emerging and international-focus for-profit** institutions are obviously most vulnerable to reductions in international students. Of particular note, newly-registered institutions are not able to immediately offer access to FEE-HELP loans for domestic students as this requires a separate application and approval from the Department of Education, Skills and Employment (Commonwealth). Without access

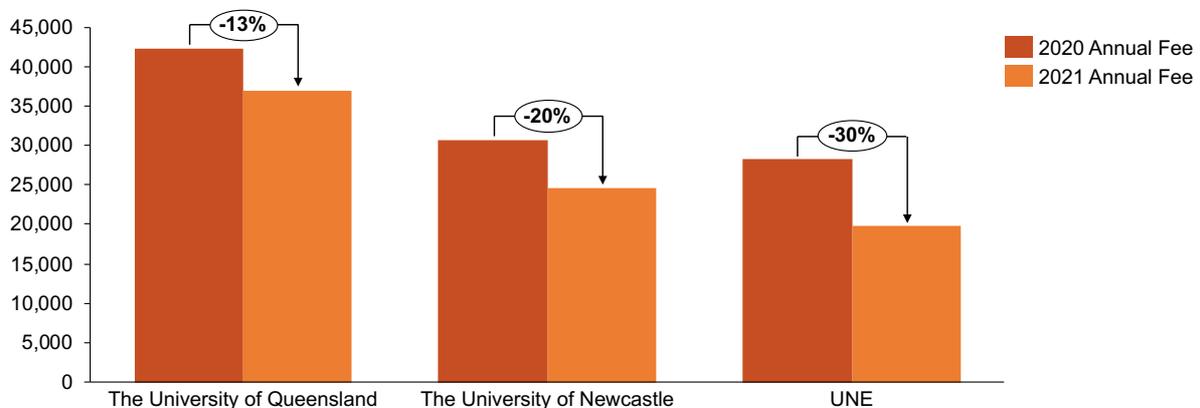


to this scheme, these providers are at a significant disadvantage in offering courses to Australian domestic students compared to either universities (at postgraduate level) or established institutions.

Revenue | student fees

For international students, the impacts of COVID-19 have resulted in some universities steeply discounting courses for international students (Study International, 2021) through a combination of i) upfront discounts (up to 20%), and/or ii) scholarships and bursaries of up to 75% of fees (e.g. Swinburne University International Excellence Undergraduate Scholarship), as noted in Figure 10, Bachelor of Commerce fees. There have been reports of student complaints about paying full fees while receiving only online education, claiming this was of lesser value. This development is likely to see further discounting, especially for international students based overseas.

Figure 12 | Bachelor of Commerce / Bachelor of Business fees



Source: Information from the websites of the respective universities.

Reduction in marginal return from international student revenue will place pressure on margin and reserves held by institutions. Universities will need to either reduce delivery to students (i.e. within reduced revenue) or use reserves to fund shortfalls. Reductions in margin from students will place downward pressure on EBITDA and operating margins, which may increase risk for institutions of negative operating margin.

Policy settings for Australian higher education

In addition to the impact of COVID-19, 2020 and 2021 have seen major policy shifts that will impact future changes in the sector. Major changes to funding policy at the Commonwealth level, referred to as the *Job Ready Graduates* (JRG) package, clearly have a more significant impact for the publicly-funded institutions. COVID-19 response has had a more broad impact across both the historically public-funded institutions (i.e. the research-intensive and general universities) and other groupings within the sector.

Job Ready Graduates and funding for short courses

The key shift for publicly-funded institutions is radical change to student contribution rates and associated Commonwealth Grant Scheme allocations for Commonwealth Supported Places. In net nominal dollars, the combined impact of these changes will lead to an estimated 3.6% reduction in CGS payments to the sector by 2024-25. This reduction in direct teaching funding



is off-set to some degree (in aggregate) by increased allocations to other administered programs related to higher education – total funding will increase marginally by 0.3% by 2024-25 (Australian Parliament House, 2020). In both cases, however, it is clear that this funding is a reduction in real terms, likely below both general inflation and the specific inflationary pressures faced by universities with high labour costs and enterprise agreements with pre-agreed salary increases in excess of and unlinked from inflation indicators. JRG also makes significant change to pricing – in terms of student contributions – for CSP students. Social science areas have increased in effective price, with only a marginal contribution from CGS allocations. It is clear that JRG is intended to align CGS support to areas in which there is a policy-linked understanding of a public return from supporting future graduates (rather than a private return to the student). However, JRG has embedded significant flexibility for institutions in managing their overall allocation of CSP students (and associated CGS payments), by creating flexibility to allocate places across levels of study and degree programs. Universities, essentially, must manage within a financial envelope, rather than within a more tightly controlled student place profile.

2020 also saw two significant policy changes which were specifically linked to supporting the higher education sector through COVID-19. In April 2020, a new qualification was added to the Australian Qualification Framework (AQF) – the ‘undergraduate certificate’ (Australian Qualifications Framework Addendum No.3). Operating across AQF levels 5 to 7, and required to be linked to a full Bachelor degree pathway, the Undergraduate Certificate is a 6-month full-time equivalent higher education qualification which can be accessed with school-leaver qualifications. The intent of the UC introduction was to enable students displaced from work by the pandemic to enrol and complete a short course. Although intended to be a time-limited inclusion in the AQF, the undergraduate certificate continues to be available for students – and may represent a way for higher education institutions to engage with student demand for shorter, specifically skills-linked qualifications and compete with micro-credentials and other short courses. Linked to the introduction of the UC was the allocation of Commonwealth Supported Places to both publicly-funded institutions (i.e. Table A) and non-publicly funded institutions. This marked the first time, in particular, that Commonwealth Supported Places were made available in private, for-profit institutions. In 2021, 55,000 places in total have been allocated to providers for undergraduate certificate short courses – this equates to 27,500 equivalent full-time students (EFTSL), with total funding for each provider dependent on the discipline (and hence CGS allocation) associated with that student load (HEP & NUHEP funding agreements, 2021)²⁸.

Research funding and future focus on commercialisation

Although, as discussed previously, the most notable impact of COVID-19 on the sector can be seen in international students, research is a fundamental component of Australian universities. Research funding is predominantly driven by Commonwealth budget allocation of approximately \$3.7b (2020/21, excluding COVID-19 support funds), and is structured into:

- Block grant allocations to universities, largest single item in research investment (pre-COVID approx. \$1.9b), but equating to approximately \$45m per institution (not reflective of actual allocations)
- Competitive grant funding, principally through the Australian Research Council (ARC), the National Health and Medical Research Council (NHMRC) and the Medical Research Futures Fund (MRFF)

²⁸ The future of the undergraduate certificate is discussed further in the final section of this report.



Research is also supported by Commonwealth investment in smaller competitive grant programs (administered via relevant portfolio departments). An additional \$1bn was allocated to universities via the Research Block Grants in 2020/21, as specific COVID-19-related support for university research activities. However, Commonwealth research funding policy strongly suggests a future focus on commercialisation, industry co-investment, and returning value from innovation. An expert panel convened in 2020 called for public submissions by April 2021 into a future University Research Commercialisation Scheme— a report has not yet been publicly released by the Australian Government.

The key observation for research funding for universities however is that it is not generally regarded as sufficient to meet potential appetite, and that it structurally does not cover the full cost of delivering research. In the first case, increasing competition for limited numbers of grants has reduced success rates across the sector substantially; whilst a competitive grant allocation process presupposes both successful and unsuccessful outcomes, success rates are reported as low as 9% - 10% for core ARC and NHRMC grant rounds²⁹. Clearly, there is more appetite for research funding than is currently met by the core schemes. Without considering the question of full economic costing of research activity (which is beyond the scope of this discussion), grant schemes are not necessarily structured to cover all associated costs of a particular research effort – although schemes and grant types vary, there are restrictions on salary support for some investigators, restricted levels or proportions of costs which can be borne by research grants, and only an indirect link between the scale of research grant-funded activity and the downstream allocation of research block grants on the basis of historical grant levels. The net effect for institutions participating in competitive grant funding rounds is that the funding presupposes the capacity of an organisation to meet costs not directly funded by the grant itself – and also presupposes the capacity of an organisation to fund the substantial cost of application with uncertain outcomes. These will be key considerations for universities facing future financial pressures (discussed further in future implications, below).

Provider category standards and new regulatory focus on outcomes

In July 2021, new provider category standards were implemented by the sector regulator, TEQSA. These new standards represent both an evolution of Australia’s definition of what constitutes an entity that provides higher education, and introduce specific new drivers that will influence providers and hence sector evolution in parallel to ongoing COVID-19 impact.

Focusing specifically on Australian-based institutions (i.e. disregarding the category of “Overseas University”), there are now three provider categories:

- Australian University
- University College
- Institute of Higher Education

The ‘institute’ category broadly replaces the previous ‘higher education provider’ category, and does not represent a strategic shift for the sector as a whole. ‘University College’ and the new definition of the ‘Australian University’ however are rapidly emerging as critical strategic drivers.

The introduction of explicit standards for research quality at all Australian Universities is being regarded as a strategic risk for some universities. Generally, this risk is being understood in terms of prior results from the Excellence in Research for Australia (ERA) assessment

²⁹ See, for example, <https://theconversation.com/covid-has-left-australias-biomedical-research-sector-gasping-for-air-145022>



(2018)³⁰. Concern about research output and performance may influence strategic decision-making. Institutions who can clearly identify risk to their future likelihood of meeting defined research standards will need to consider how to invest in research capacity and boost performance. Universities facing financial challenges may consider how selective reduction in active disciplines may effectively narrow scope, concentrating around areas of strength.

University Colleges are an entirely new category for Australia. These institutions share many of the features of an Australian University in learning and teaching, in that they have the authority to self-accredit their programs and have the right to use specific reserved nomenclature in the institutional titles. However, University Colleges will not face the same expectations for research output and quality. The implication of this interstitial category is that some current Australian Universities with marginal or below-threshold research performance may be more naturally suited to the University College category. In addition, the University College category will be utilised by a new pathway to a 'greenfields' Australian University. The creation of a specifically identified mechanism to found a new 'Australian University' has stimulated interest in new private investment in the sector, although this appetite has been moderated by the impact of COVID-19.

³⁰ Noting that TEQSA has explicitly noted that there are broader factors that will be taken into account in reviewing research performance and quality.



Future for Australian higher education

Forecasting international students

International student enrolment downturns are the major trigger for significant change in Australian higher education. Considered at a sector aggregate level, the other major sources of teaching-related revenue – domestic students (either on a full-fee basis or via Commonwealth Supported Places) – is fundamentally stable. Whilst there are substantive differences between institutions, and cyclical competitive evolution of student preferences, total domestic students have been relatively unchanged over the past 4 to 6 years. Thus, whilst for individual institutions there may be substantive change in revenue linked to domestic students from year to year, at a sector level international students have been the primary driver of growth at sector level.

The core challenge for future scenario planning for international enrolments in Australian higher education is the continued uncertainty about border closures and the concurrent influence of competitor countries. As noted in this discussion, enrolments have increased significantly in the UK; qualitative commentary from agent networks within the sector suggest that international student recruitment channels are actively switching students to ‘open’ countries – this is echoed in IDP Connect research which demonstrates willingness for students to change country destinations, based on access to in-person education. In our view, uncertainty about border closure and re-opening affects:

- Timing of any international student recovery, based on when large-scale temporary and permanent migration pathways to Australia are possible; and,
- Scale of recovery, referring to the likelihood of international students returning to Australia in similar numbers to 2019.

There are initial indications that international movement in and out of Australia may resume by 2022, at least to some degree (based on public statements about national re-opening plans issued by the Australian Government). Recently-announced changes in New South Wales and Victoria (as at October 2021) to introduce shorter-duration or eliminate quarantine requirements for vaccinated travellers highlight that rapid changes to restrictions in capacity are possible. These policy decisions have a clear impact on the potential scale of any recovery, and will in effect act as a rate-limiter on the international student market. . It may also be that students return at different rates to different States and Territories, based on conditions and policy decisions in each jurisdiction. In our view, the level of uncertainty in these decision process and policy directions is significant, and a future recovery point is challenging to predict. That said, these factors are generally regarded by many higher education institutions as the critical elements to a future recovery of the international student segment.

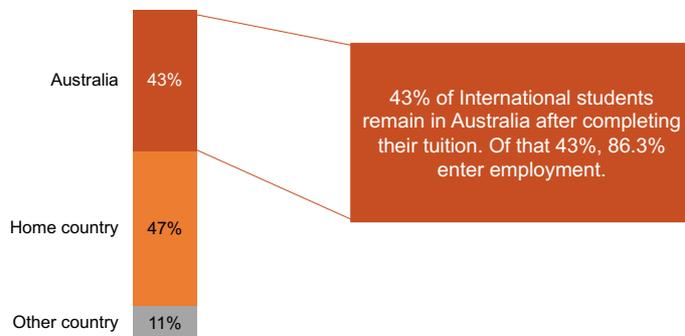
Student recruitment agency IDP conducted a recent survey with 6,000 prospective international students and found that only 10% of students wanting to come to Australia were willing to study online fully (Duffin, 2021). However, only 4% of students will withdraw from future study entirely without improvement to border situations more generally; the majority of students are willing to at least consider commencing online. More challenging for Australian institutions is willingness to shift study destinations; 39% of respondents are willing to change countries to access face-to-face teaching earlier. The UK and Canada, whose borders have remained relatively open to students, are likely to pull ahead of Australia in the international student market. For example, UK applications from non-EU students were up 9.5% at 30 June 2020 deadline and a further 14.4% up at 30 June 2021 (UCAS, 2021).

This view, however, does not provide a full picture. As, and potentially more, fundamental to the future recovery of the international student market will be the nature of international



education models, and the demand from future students. It is clear that migration pathways to Australia are a critical driver of international student demand – 43% of international students remain in Australia after completing their studies, with the majority of those taking up full-time employment in the Australian labour market.

Figure 13 | International student destinations and outcomes



Source: ACER Longitudinal study of international students

The implication of this for future recovery is whether Australia’s macroeconomic conditions are likely to support the attractiveness of migration pathways, via higher education. Whilst choice of specific institution within Australia is likely to be influenced by a range of individual student factors (such as attractiveness of specific course options, reputation and ranking of provider, pricing, delivery models and location), the attractiveness of Australia as a destination country is a key influence across the sector. There are, as yet, no indicators as to whether Australia’s management of the pandemic, either in terms of overall economic performance or in public health response, will be seen as a negative or positive by students. The limited data available from international student surveys (including conducted and released by Navitas as a provider, and IDP Connect) suggests that students are generally supportive of public health measures (such as quarantine requirements), but do not clearly indicate whether a ‘COVID safe’ country (such as Australia) will be more or less attractive once international travel resumes.

In addition to change in volume over time, there is evidence (as noted in the previous discussion) that there are downward pricing pressures for international student fees, reducing yield per student for those who are continuing or commencing study online. Separately, pressure to maintain at least some volume of students has led to widespread use of scholarships and other recruitment incentives to secure enrolments. These factors place further downward pressure on revenue from international students.

In combination, future scenarios for international students in Australia need to consider both downward revenue pressure (i.e. price reduction and increased recruitment costs) and sharply reduced volumes. As illustrated in the statistical model of enrolment and commencement data, there are distinctions between source countries – and this may be replicated in recovery, as resumption of travel to Australia may be differentially managed depending on current COVID-19 infection / transmission rates in source countries, and the specific vaccines which are in use in those countries³¹. Recovery rate will also rely heavily on student choices and attitudes to study in Australia; Chinese students, in particular, may be influenced by geopolitical tension

³¹ The Therapeutic Goods Administration (TGA), as previously noted, has determined that two of the current vaccines in widespread use in India and China are recognised in Australia for the purposes of international travel. Vaccination is likely to be required for inbound visitors / temporary residents, but travel corridors / port-of-origin restrictions are as yet undetermined.



between China and Australia and/or direct intervention by the Chinese government to restrict or discourage on-shore study in Australian Universities.

In order to estimate total sector impact, we use a linear regression model to estimate impact on total international student load based on movement in international enrolment and commencements. This ties lagged student data (i.e. actual student enrolments reported to DESE) to the more contemporary data reported by Austrade (based on Confirmation of Enrolments for international students). This is the basis for three future student scenarios:

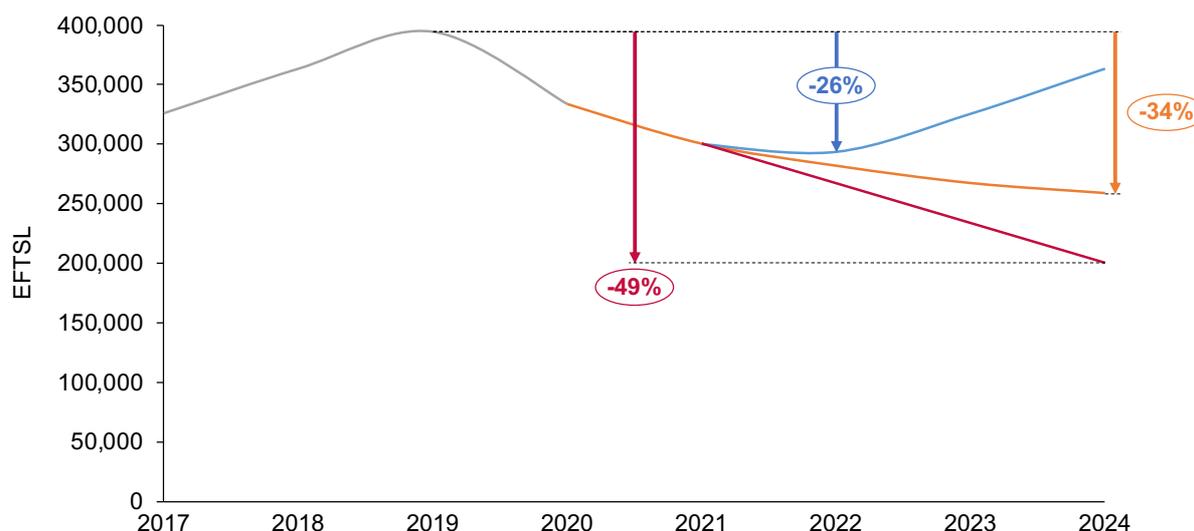
The **positive recovery** scenario assumes that prior market growth can be replicated once international borders are re-opened. Recovery will not be immediate, but will follow identical growth to 2015-2019. International border reopening is phased from mid-2022.

The **middle scenario** extends observable trends in the estimated data as a central measure; this assumes that the 'peak' 2019 international student market will not return, and that the sector is likely to stabilise over time at levels similar to 2014-2015.

The **extended disruption** scenario assumes that extended border closures lead to an irretrievable collapse of the international student market. This scenario assumes that current decline will continue, with no tendency towards market stability.

These estimates of total volume are summarised below:

Figure 14 | International student scenario forecast (Wells Advisory estimates)



By 2024, total revenue across the sector could have a range of significantly variable outcomes. Including scholarships / recruitment incentives in a similar category to discounting, revenue per student could fall at the same time as significant reduction in volume. This is unlikely to impact all providers, moderating potential impact across the sector. Notwithstanding this, in a worst-case scenario, total revenue loss in the sector could exceed 50% based on the combined impact of reduced yield and smaller enrolments.

This level of collapse is unlikely – but the speed of the future recovery, and how this will impact individual institutions, is substantially unknown. Based on a likely resumption of travel and relaxation of border restrictions in 2022, overall volume of international students will have shrunk by 25% to 30% from 2019.

The impact of this loss, however, is not simply the point-in-time reduction from peak enrolments. Equivalent full-time student load is cumulative – indicating the total volume of study taken by students across the sector. This means that the 'missing' students are a



cumulative impact on the sector. Cumulative, across 2020 to 2022, therefore, this represents approximately 250,000 to 300,000 equivalent full-time students less than expected; approximately \$6.25b to \$7.5b in lost revenue across the sector prior to recovery.

Other revenue sources

Individual institutions have variable trends in research income, domestic student enrolments, and revenue from other sources (including commercial activities, endowments, and other ancillary operations). At sector level, however, it is worth noting that there is relatively little change in total revenue from sources other than international students. Domestic student enrolments, including fee-paying students, have been essentially flat from 2015 to 2019, and there is only limited movement in core university-directed research funding from Commonwealth sources.

Provider-level impact and risk

Anecdotal reports across the sector highlight that the short-term impact has been uneven. In some cases, institutions are experiencing increases in demand for specific courses from both international and domestic students, leading to capacity constraints within part of an organisation and loss-making areas within others. Anecdotal reports across the sector highlight that a significant challenge is managing uncertainty; making decisions about how to adjust costs that have been set and planned against expected revenues which are likely to be substantially lower than planned. As highlighted in the above projection of positive recovery scenarios, the lowest point for the sector is yet to come. Against this total sector context, individual institution outcomes may vary substantially from past experience, as different source countries and intermediary agents respond differentially to the re-opening of the Australian border and international education sector.

Key impacts across different provider groups are summarised below.

Institution category	Overview
Research-focused universities	Most exposed to China as a source market, past success means that these institutions face the most significant structural challenges. Core issue is scale of reductions required whilst delivering against historically-agreed research contracts which require cross-subsidy.
General universities	More likely to be exposed to India, and likely to have seen rapid and deeper reduction in revenue in 2020 and 2021. Will continue to reduce expenditure on staff and reorganise to reduce operating footprint.
Mission-based	Mixed exposure across international source markets; faith-based providers in particular most likely to have maintained enrolments and (in some cases) grown in 2020.
Established for-profit	Domestic-focused providers in niche areas continue to grow in 2020 and 2021, including with benefit of Commonwealth Supported Places for short courses. Providers with exposure to international markets rapidly restructure and explore alternative markets, including pivot to focus on domestic students.

**Emerging and international-focus for-profit**

Most vulnerable to downturn in international students; without access to FEE-HELP these providers are unable to attract substantial numbers of domestic students and are most likely to be at risk of institutional failure.

Whilst it is clear that historic numbers of international students – and hence international student revenue – are an indicator of which specific institutions are most impacted in the short term, the risks associated with COVID-19 are likely to be more complex to monitor and identify. Changes in revenue need to be understood against the context of how the institution has responded, the availability of short-term financial resources (where required) and the robustness of future planning against uncertain recovery scenarios. Similarly, risks for institutions are not only financial. Student fees are the most important source of discretionary income for education institutions, meaning that these funds can be used within the institution to invest in services for students, including welfare and learning support, rather than requiring funds to be used for research or capital programs (as is the case with some Commonwealth and State government funds).

Adequacy of planning within institutions, including greater diversity and risk tolerance in future revenue and expenditure scenarios, will likely be critical determinants of which institutions thrive and which struggle over 2022. In addition, disruption of commencing student patterns may mean that there are substantial shifts in which institutions and discipline areas are more attractive to future students, as well as the modes and locations of study. There is unlikely to be a 'one size fits all' response from institutions; some may choose a more risk-tolerant approach, and plan for a rapid and competitive return of international students. For these institutions, the adequacy of funds to maintain operations, and well-calibrated decision points to control institutional risk will be important. Institutions who chart a more risk-averse path may be more focused on ensuring economic sustainability of operations within more predictable and stable domestic funding sources. Particularly for universities and university colleges taking this approach, ensuring that these institutions plan for and are able to meet expectations to conduct research, teaching, and community / social engagement activities will be important³². Institutional governance, already of critical importance to institutional performance and regulatory standing, will take on an even greater importance, ensuring that there is a clear accountability and control of institutional decision-making across these critical periods. Institutions will need to consider how they demonstrate that their governance and management practices are ensuring that the right levels of oversight and consideration are being applied to decisions about how to respond, the adequacy of future plans for revenue and expenditure, and monitoring of emerging evidence for performance against those plans. Ongoing attention to current students and ensuring that changes to operations within institutions continue to ensure high-quality learning and teaching for students, both domestic and international, will be important.

Strategic responses

Institutions face different constraints and challenges in considering how to respond to reduced international student revenue. These responses will be shaped by:

- The relative scale within an institution of international student revenue relative to other sources;
- Flexibility of institutional operating models to scale down to adjust for changed conditions;

³² i.e. in line with the relevant Provider Category Standards



- Access to alternative markets, notably domestic students in Australia, digital delivery platforms, and transnational education.

Market exposure will also be a critical determinant of responses required by institutions – as noted in the previous discussion, it is clear that China is (at least in 2021) a more resilient market than India or Nepal. In the Australian context, this translates into a moderation of impact for the larger, research-led institutions who have been most successful in attracting Chinese students. This section discusses some areas in which there are likely to be key strategic questions for Australian institutions, and suggests some areas of future evolution for the sector.

Transnational education (TNE) impacts and trends

As discussed previously in this paper, international education in Australia has been predominantly on-shore. Australian higher education models for TNE have been described in a paper by Croucher et al (2021)³³, identifying the two primary forms – offshore campus-based and offshore online.

TNE has developed over a number of decades, and usually involved either a direct- or branch-campus provision (such as RMIT in Vietnam, Monash in Malaysia, or Swinburne in Sarawak), or involved partnership arrangements with (primarily) Asian universities creating a pathway to study first in Asia followed by study in Australia (most typically 2+2 arrangements). In preparing students for this pathway, often additional services and support were provided, including English language programs, to better prepare students for the Australian study phase. In 2018, the authors noted that there were some 84,227 students identified in the HEIMS data collection as studying offshore. Most of these were in Singapore, Malaysia and China (in that order). Notably local regulatory hurdles have impeded Australian institutions striking TNE partner arrangements in India.

As a response to COVID, TNE arrangements have become more important for Australian institutions. In parallel with rapid shift to online deliver, Australian institutions have also pursued alternative and supplementary models for delivery to students outside Australia. Study hubs, in China and other key Asian countries, offer a way for students to commence or continue Australian degrees with enhanced access to in-person facilities and support.

These arrangements have included:

- Shared facilities backed by jurisdictional governments, such as the Victorian Government “Study Melbourne” hubs (currently operational in Shanghai and Kuala Lumpur, virtual in India and planned for Ho Chi Minh City)
- Commercial arrangements on a per-institution level with private companies either delivering services directly or brokering arrangements with local higher education institutions, such as partnerships delivered by AEMG (an Australian-based international education company) and Study Group (a multinational education services company) in China
- Institution-instigated study hubs and focus on branch campuses, including existing successful international campuses of RMIT and Monash Universities, distributed locations for SP Jain, and ANU’s China study hub network.

Study hubs and other arrangements are a hybrid; branded as ‘learning centres’ or ‘drop-in facilities’, these locations do not offer traditional campus-based teaching and learning. Support

³³ Croucher, G, Elliott, K, Yencken, E, & Locke, W, 2021, Australia’s higher education delivery offshore and online – trends, barriers and opportunities, <https://melbourne-cshe.unimelb.edu.au/research/research-projects/international-higher-education/trends,-barriers-and-opportunities-of-australias-higher-education-delivery-offshore>



arrangements can include pastoral support, study facilities, and other support services (such as academic support and English language tuition).

These facilities have an additional cost on top of accompanying online delivery, generally still provided from the 'home' institution. In addition, price at equivalent levels to onshore education may not be sustainable in these settings; although to some extent masked by the use of scholarships, there is some anecdotal evidence of reductions of as much as 20% to 25% for students studying in 'study hub' settings compared to onshore education. This raises questions about the sustainability of these settings.

The advantage for institutions pursuing study hubs is preservation of a pipeline of students who will be able to rapidly transition back to onshore Australian study, in theory meaning a faster return to previous international student enrolments (or, potentially, exceeding prior success).

These TNE arrangements have frequently been rapidly developed, and the design of services, governance settings, and policy frameworks may need to be evaluated as students move through these settings to ensure that they provide equivalent quality in learning outcomes. Australian higher education institutions will need to be accountable for students in these settings, and will need to pay close attention to evolving policy settings for student visas and post-study work options as borders re-open. The extent of service scope will strongly influence the role of third parties and the host institution in assuring quality in these settings; in our view, larger Australian universities (e.g. the Group of Eight, in particular) are likely to be cautious about placing much responsibility for content delivery in the hands of third parties. By contrast, some universities may be more willing to contract for a much wider range of services, including academic delivery (i.e. localisation of content and classroom-based teaching).

As global travel resumes, there are likely to be two counter-vailing forces of relevance to Australian higher education which may moderate recovery of the international student market. The first is opportunity for conventional on-shore international education in countries such as the UK, Canada, and the United States. With open borders and rapidly normalising day-to-day life, study in these countries may be more attractive. The second is the prospect of more permanent and radical TNE models. As price discounting and scholarships for at least some, if not all, of an Australian university degree delivered overseas becomes accepted, students may actively seek '2+2' or even '2+1' study pathways, minimising the time spent in Australia. The relationship between TNE study and visa status for future work in Australia (or in competing English-speaking nations) may be critical macro-level drivers for how this evolves. However, it is likely that the opportunity for innovative partnerships and commercial development of TNE will encourage greater development of this aspect of Australian higher education than previously seen, as commercial operators who have developed successful business models in response to COVID seek to preserve revenue streams.

Looking forward, we anticipate:

- TNE will continue to expand offshore as a means of providing superior service quality and student experience, of reinforcing premium pricing, and as a means of providing a connection point for cohorts that may otherwise face high risks of attrition or defection.
- TNE will likely evolve rapidly to include multi-jurisdictional coverage, supported by partners with regional and potentially even global networks. Offering a hybrid mode of online education, supported by local services, local academic support and creating a hub where students can meet other students will become a permanent option, but will require careful calibration of service offerings, scale, and cost allocation assumptions about the home campus in Australia. In effect, will Australian universities be willing to reduce costs in Australia to support the development of new services in Asia?



- Universities will need to become adept at finding and working with high quality partners to help create seamless deployment and to implement appropriate assurance and monitoring regimes.
- More fundamentally, universities will need to re-position within a restructuring value-chain, recognising both downstream and upstream competition is emerging.
- TNE will grow as part of a much broader trend towards Asian countries becoming more self-sufficient and seeking engagement with Western universities on a more equal footing. This is likely to require Western universities to accept that the 2+2 sending model, where the Western university is the lead partner, is nearing its use-by date. A re-conceptualisation of the relationship is likely to require more engagement in Asia by Western participants, and in this, the new TNE developments are a positive development.

Online and digital

Digital delivery has accelerated in response to COVID-19, both within higher education and across virtually all sectors of the economy which are capable of digital service. Higher education is extremely fortunate that online education is both possible and has been in the process of being developed over the last two decades. This contrasts sharply with sectors which have been unable to make such a transition. Rapid switch to online learning in early 2020 may have saved institutions from domestic attrition and international student defection, to some extent, emerging evidence (e.g. from QILT) suggests that quality may be wanting and student experience less than universally positive. It is unclear that the two student cohorts (domestic and international) are happy to accept online delivery ongoing, or at least in its current form. Indeed, the rapid shift with – in some cases – band-aid-like solutions may have done longer-term damage given a predisposition in some parts of the market to perceive online education as inferior.

Australasian Council on Open Distance and eLearning (ACODE) has mapped recent developments and surveyed Australian universities about this, including their anticipated trajectory³⁴. In a November 2020 ACODE workshop it was suggested that some universities may not necessarily go back to face-to-face lecturing in the same way they had done so before, finding that some of the options they had adopted during 2020 were suiting them quite nicely. These options included: lecturers holding regular Zoom or O365 Teams sessions with their students, pre-recording shorter more focused forms of delivery through various lecture capture systems, or recording sessions in dedicated do-it-yourself studios. In some cases, lecturers simply used their mobile phones to record content and shared that through the learning management system or Teams. A survey of institutions was run in late 2020, and the results (still applicable in 2021 in our view) were quite dramatic:

- Only 32% of institutions expected to return to campus lectures in 2021
- Even fewer (22%) said they would be returning to campus-based full lecturing beyond 2021, with 14% indicating they would not be returning to lectures at all, and a further 16% un-decided.

But these developments have also occurred in a broader context of pedagogically-led reform of teaching and learning, shifting from teacher-centred learning to learner-centred, from classroom to flipped classroom, from low engagement to high engagement, and from delivering curriculum content to delivering roadmaps, frameworks and opportunities for

³⁴ Sankey, M, 2021, Australasian Council on Open, Distance and eLearning (ACODE), Returning to lectures in 2021, https://www.acode.edu.au/pluginfile.php/9235/mod_resource/content/7/white%20paper.pdf



applied learning. Shifts away from the traditional lecture are as much about these reforms as in recent times the restrictions of COVID 19.

It is useful to also contextualise the rise of digital within broader related technology developments, including MOOCs, micro-credentials, and non-accredited continuing education. There is fierce competition to higher education coming from firms like Linked-In Learning, EdX, Google and Amazon. To date, this has predominantly been in (following Australian classifications) 'non-award' education. Higher education institutions will need to consider whether this distinction is meaningful for students – if the tightly regulated and carefully constructed hierarchies within the Australian Qualification Framework (for example) matter for students, compared to a well-known brand offering a 'certificate'. Comparison could be drawn here to the established professional education practices in medicine, for example, where largely un-regulated³⁵ continuing education activities are routinely delivered by medical education companies and by device or drug manufacturers. In the main, competition from alternative education providers has yet disrupted the sector, but collectively they are creating a cumulative effect.

The advent of the undergraduate certificate and the Commonwealth's creation in 2020 of a special program of CSP places for both public universities and – for the first time ever – for private providers, was a case in point. Many of the public universities were slow to see the wider context of this policy development, instead only seeing a lack of Government support for the sector in terms of headline exclusions such as Job Keeper. Indeed, the short course development, namely a new AQF award (undergraduate certificate) and CSP funding for both UG certificates and the established graduate certificate, provided impetus for joining more traditional program environments with the rapid innovations occurring in the micro-credentials, and hitherto non-award space³⁶.

Digital innovation within universities is also being spear-headed by private companies. Online program managers (OPMs) and content development companies offer faster development, digital-led student recruitment, and cost-effective student management to universities. Examples include SEEK (later Online Education Services) partnering with Swinburne to offer Swinburne Online Keypath International, a firm that recently listed on the Australian Stock Exchange, and numerous education start-ups such as Studiosity (a student experience / support platform, part-acquired by OES), Curio (a learning design and digital tutor solution agency), and Flux (a student assessment tool). Forward momentum for these services has been accelerated by the COVID-19 context, with universities more willing to seek lower-cost and faster options for transforming digital delivery. Estimates of overall industry growth suggest that increased reliance on online learning during COVID-19 has contributed to a 5% increase in annual revenue growth for online program managers – from 13% CAGR to 18% CAGR³⁷. For universities, this represents a trade-off between maintaining or increasing student volume whilst agreeing to significant revenue sharing with an OPM (between 40% and 60%). Whilst some 'ed tech' innovations are adjuncts to what might be considered a core learning and teaching competency held within a provider (i.e. as typified by a learning management system or a student support platform), OPMs can create a 'white label' market for effectively pre-packaged degrees and courses which are made available under the auspices of multiple institutions.

In parallel, student recruitment has been undergoing a digital disruption. International recruitment has shifted largely online, and simultaneously there has been an emergence of recruitment platform aggregators; firms that aggregate large numbers of recruitment agents

³⁵ In terms of education regulation, i.e. TEQSA, ASQA.

³⁶ We note that the undergraduate certificate currently expires at the end of 2021. A review commissioned by the Commonwealth is underway.

³⁷ <https://www.holoniq.com/notes/100-new-opm-bootcamp-and-pathway-partnerships-in-q1-2021/>



into portals and channel prospective students to universities in the West. Examples of these include Applyboard, Adventus, Study Portals, and a local Australian firm Educo's Accelerate. These platforms are similar to digital disruption in other sectors (notably travel and accommodation providers) that use algorithms to manage consumers to service providers. What may be seen as a step-change in efficiency and reach for institutions may introduce risks for students and institutions in terms of facilitating genuine choice and selection between programs; emerging conversations about the fairness and equity of machine learning and algorithm-based online tools highlight the sometimes hidden and poorly understood risks of bias inherent in these areas.

A fundamental question for the sector will be the extent to which these digital disruptions become ongoing features of higher education, and what impact that might have on students. Improving the efficiency of higher education operations could at least in theory mean that institutions become more financially sustainable, using smarter ways to work to deliver high quality (particularly within the constraints of fixed domestic undergraduate funding rates). Moving away from large, in-person lectures is not necessarily a detriment to student learning; what is critical is that these changes are accompanied by appropriate pedagogically-informed planning. As for institutional risks, the adequacy and engagement in these processes of governance (i.e. academic governance, such as academic boards / learning and teaching management committees, and so forth) will likely be the distinguishing feature for institutions which succeed in digital innovation and those which struggle to maintain quality. Attention to leading indicators of student outcomes, such as leverage platform-specific measures of student utilisation (e.g. monitoring log-in and utilisation rates, for example) may be useful features to include in institutional quality monitoring practices, alongside more conventional measures such as progress, attrition, assessment outcomes, and student feedback.

The use of OPMs and other providers is likely to become more commonplace, and there is potential for these arrangements to expand across more than niche-focused and specific course offers (which has been, to date, the common implementation model in Australia). As outlined above, these providers typically work on a revenue share basis, and it is more likely that universities will partner with OPMs than private institutions. This is because universities are more likely to see benefits from higher volumes of students at reduced marginal revenue (with similar reductions in marginal cost for those students). Operating at smaller scale, and particularly in for-profit institutions, with greater focus on optimising financial return, private institutions may not see these benefits as compelling. Universities are likely to see:

- Increased reliance on online delivery, both locally and offshore
- Increased use of online student recruitment, including online channel management
- Competition will force more universities to appoint specialist OPM partners to help them identify and secure market opportunities, faced with the challenge of consumer perceptions, product innovation, and speed to market
- COVID 19 will speed up the on-set of full digital competition, including from non-traditional players, and even for those universities insisting that their campus-based experience will continue to attract a cohort of students, this will increase competition and reduce market share (or at least preference share)

Institutions may need to consider how they communicate to students about the role of OPMs and other providers in the development and delivery of courses. There is no evidence to date of student dissatisfaction with specific courses that have been delivered in collaboration with OPMs (and there may be at least some evidence of superiority of experience and quality, in some cases). However, students may in the future see a difference between courses which are developed by an institution (i.e. traditional academic development) and those which are designed substantively by expertise outwits the institution. Similar to questions of strategic



responses to COVID-19 more broadly, a baseline expectation for institutions is that risk, permanent changes, and impact on student learning have been considered by academic and (as required) corporate governance. The most positive outcome for students in general may be that institutions chart highly unique paths through digital disruption, with some opting for greater and more permanent adoption of online delivery, with others focusing with even greater attention on in-person delivery. This would mean greater choice for students across higher education providers. Policy settings for international students (once returned) will be key considerations; as discussed previously in this report, requirements for face-to-face learning combined with the importance of international students for growth means that institutions are *de facto* constrained to conservative models of classroom-based instruction. From a policy perspective, reconsidering this may be of significant value to the sector in general.

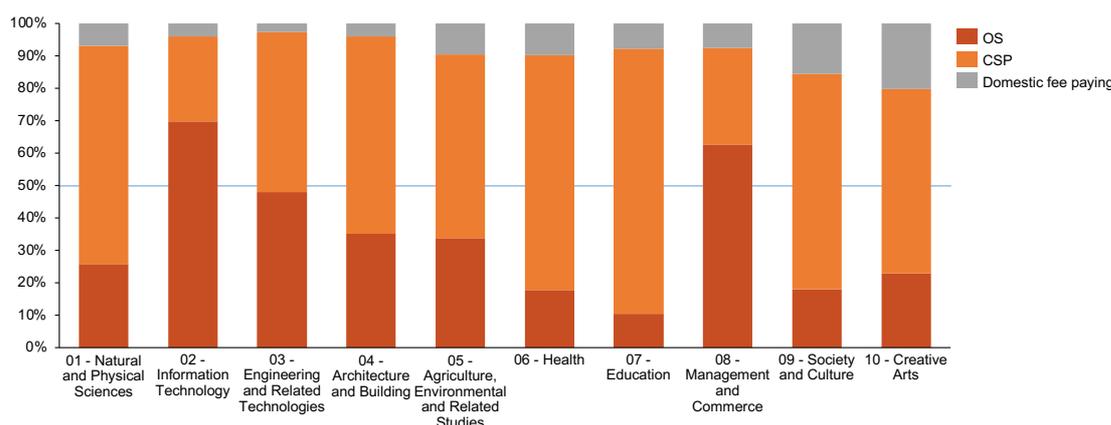
Discipline economic viability

Mission-based and for-profit providers typically face lower operating costs and are more efficient in delivery than general and research-intensive universities. There are two core drivers for this:

- Typical scope for Australian Universities includes high-cost disciplines;
- Typical Australian University academic activity spans teaching, research, and a range of organisational and externally-facing roles.

Research-intensive institutions, in particular, have typically aimed to ensure that all academic staff within the organisation are ‘research active’ (with specific, local definitions). Challenges of research funding and cross-subsidy have been discussed, above. Teaching to high yield international students enables this cross subsidy, and reduction in international student revenue may push some specific discipline areas in some universities into financial unsustainability. The typical operating model of a university may mean that, without international students, it is challenging to achieve financially sustainable operations in some disciplines. This is illustrated in the following figure.

Figure 15 | Courses by major discipline area, all providers (2019).



Source: DESE, Wells Advisory analysis.

This summarises total course load by major discipline code, assigning each unique course at a university or other provider to a single field of education. This analysis is useful as it more closely matches student choices for areas of study, whereas actual enrolments reflect how



individual units of study are allocated to specific disciplines. This course level analysis suggests that more than 50% of students (by full-time equivalent load) in information technology and management and commerce courses are international, followed by engineering and related technologies. These areas are reliant on international students, in that the scale and capacity within those discipline groupings have been designed around substantial international cohorts.

As individual institutions respond to declining international enrolments, they will make strategic decisions about how to manage areas with declining revenue. For each institution, these decisions will be responding to pricing (i.e. availability and levels of Commonwealth funding, student willingness to pay, particularly for domestic postgraduate students for universities) and volume (i.e. evidence of demand). There is some risk that this will lead to similar decisions being made on the basis of shared, relatively open data about higher education enrolments and student demand. Health and related discipline areas are emerging as a key focus for multiple institutions, in response both to workforce needs in Australia and to demand from domestic students. At a sector level, however, there is some risk that decisions around concentration, specialisation, and focus on more viable/sustainable discipline areas have the net effect of reducing the scope of courses available to students. Similarly, considering non-university (Institutes), the need to shift from international students as a critical revenue driver towards domestic students may entail a similar focus on health and related courses³⁸.

Looking forward, we anticipate:

- Pressure for universities – particularly the general university group - to consider concentration and specialisation
- Active pursuit of courses in areas of higher domestic demand, leading to potential bottlenecks with accreditation bodies and professional placements in health and education
- Some risk to the sector as a whole of reduced availability of courses and reduction in research / knowledge capacity in some areas, including IT and technology-related fields (engineering), if institutions choose to strategically exit these disciplines

Operating structures and service providers

As outlined in the preceding discussion, the use of third-party or otherwise contracted / subsidiary entities to establish pathways, branch campus, or foundational program delivery has been a feature of the Australian higher education sector. Many of these programs are focused on international students. Emerging evidence from the sector suggests that contracted service providers who are not delivering an accredited award program have been severely impacted by reduced commencing international students. These programs are short duration, and rely on new commencing students to sustain their operations. Without international students, and without registration / accreditation of a relevant course in their own right, third-party providers or branch campus operators have not been able to secure alternative revenue streams to offset lost international students.

At the same time, universities are seeking to identify ways to reduce costs in line with anticipated revenue shortfall. With few or no new international students, the universities may be questioning the value of third-party arrangements, particularly if students can be access courses online, and thereby reduce the need for branch campus networks. In short,

³⁸ Change in course scope / accreditation of a new course would require regulatory approval.



universities are 'protecting the core' and seeking to only adjust core expenditure (i.e. on staff) when necessary.

This applies to existing arrangements. At the same time, there are examples both during COVID-19 across early 2021 of new third-party agreements being reached. Institutions are actively seeking to expand to new locations, including through seeking partnership / contracting providers. Disruption of existing agreements appears, at this stage, to be limited to contracting entities who were not registered with TEQSA and did not offer a qualification awarded by the institute (with co-branding).

Market diversity, consolidation and sale

This refers specifically to the privately owned segment of the sector. Although there has been some discussion historically of university merger (e.g. between UniSA and University of Adelaide) there is no current clear evidence that university mergers are being seriously contemplated. In addition, there is no indication of sale / acquisition process which would be specifically linked to COVID-19. However, it is clear that the longer gap until recovery, there greater likelihood of some providers failing. This could then lead to acquisition and consolidation (potentially), via the purchase and turnaround of a 'troubled asset'. Within this context, it is worth noting that the mission-based institutions, particularly those which are faith based, appear to have been successful (based on available information and selected validation with experts) at maintaining student numbers. This is likely related to personal and community-linked reasons to study with those institutes.

Concluding remarks

It is clear that the impact of COVID-19 on Australian higher education is yet to fully emerge. 2020 financial results and early indications of 2021 suggest that the majority of institutions, particularly the publicly-funded universities, have maintained revenue within a relatively narrow margin from prior levels. Substantively, this has been buoyed by the willingness of students to continue or commence online, and a large number of students already in Australia prior to border closure. Universally, however, the consensus view across the sector is that the full impact of continued border closure will be felt across 2022 to 2024, as current students complete degrees, and there are few opportunities to recruit and commence new students.

There is substantial uncertainty about how this impact will evolve – this report therefore identifies a combination of qualitative insights into how institutions are responding, and discusses the implications for the higher education sector. In this, we suggest that the impacts are likely to be differentiated across both different specific institutions, and also across different types of institutions.

Although this report has focused on higher education institutions, COVID-19 has also seriously impacted primary and secondary education in Australia. In the short term, students in final or penultimate years of secondary education have been granted accommodation through special consideration or other mechanisms in selection and assessment processes³⁹. Longer term, however, there is some risk that there will be long-term impacts for children and young people who have faced disrupted education. These are likely to be both challenging to predict, and uneven. Serious disruption in early years may lead to life-long disadvantage and poor outcomes⁴⁰. Higher education institutions will need to consider their role, long after the

³⁹ Noting that these vary across States and Territories, as applicable.

⁴⁰ See, for example, <https://www.unicef.org.au/blog/unicef-in-action/coronavirus-hidden-impacts>



immediate impact of the pandemic, in ensuring that these experiences do not translate into lost opportunities for life.

From a sector perspective, however, we suggest that there are a number of key emerging indicators of future evolution which need to be considered.

These implications are the consequences of several drivers, either caused or accelerated by the pandemic:

- **Lower International Student Numbers and Revenue.** DESE's publication of university financial reports shows a large increase in the revenues received from international students since 2009, with most of the increase occurring between 2014 and 2019, when it increased in real terms from \$5.2bn to \$10.1bn). In 2020, the revenue fell in real terms by approximately \$870m (8.6%). This decline is expected to accelerate as the supply of onshore international students dries up. Even with some recovery, we expect the decline to stabilise at around a 25% decline.
- **University Funding Models.** Australian universities subsidise research activity through other fund sources, most notably international student fees. University reporting of finances does not facilitate determining the exact level of subsidy, but an inspection of previous analyses and a comparison of research expenditures reported by the ABS with the financial statements of universities indicates the subsidy to be significant – more than 20% of research expenditure. The government's supplement of \$1bn effectively doubling the research support program, is a one-off amount for 2021. The impact of the Job Ready funding reforms is uncertain. There is little evidence of the impact the price signals will have – with arguments that they may even have the opposite impact to that intended by the Government.
- **Financial Sustainability.** The reduction of international student revenues in 2020 has resulted in a significant reduction of safety margins reported in their 2020 financial statements. Real income has declined by 6% since 2019. The ability to absorb further shocks without change to expenditure base is now very limited.
- **Centrality of Higher Education to Australia's Research Ecosystem.** ABS statistics (formerly catalogued 8111.0) indicates that Australian Universities account for over one-third of national research expenditure. The ABS also reports a steady increase in the level of university research activity over time. Research and innovation are increasingly central to economic prosperity.
- **Reduced Global Barriers to Entry.** Merging technologies, virtual reality, the advent of digital by design providers, non-traditional knowledge driven industry giants with strong brands (for example Google and Amazon) are all threatening the traditional primacy of universities. Knowledge content has been democratised and is available everywhere.
- **Changed Attitudes to Online Delivery.** The massive uptake of online education required in the response to Covid will have lasting effects. For example, "Teachers' Perceptions of Large-Scale Online Teaching as an Epidemic Prevention and Control Strategy in China" (Xiaozhe Yang, ECNU Review of Education, May 7, 2020).
- **Global competition.** Australia's closed-border policy has diverted international students to competitor markets, including the USA, UK, and Canada. Whilst there is debate as to the long-term impact of this, it can only be negative to Australia.
- **Student Mobility.** The pandemic has accelerated the pre-existing trend of qualifications travelling to students rather than students travelling to them. This trend



is further magnified by the need for continuous education in a rapidly changing world. It is not practical or feasible for most learning to take place on campus.

Implications

Regulatory and Government Policy Considerations

University funding models

There is an apparent disconnect between the current government university funding model and the requirement for universities to undertake research and be central to Australia's knowledge economy. The forecast ongoing reduction in international student fees will likely force consideration of this issue. Known drivers of quality research include the organisation of quality researchers into groups of critical mass, and strong discipline-competitive levels of investment.

Design of the national research eco-system

The reduced ability of universities to cross-subsidise research from international student revenue will alter the current funding and regulatory regime that incentivises all universities to undertake research in all areas they teach into. If Australia aims to continue to fully support research intensive teams, hard questions need to be re-asked in the new funding reality. Nationally, government policy will need to consider how to appropriately encourage levels of critical mass to optimise national research outcomes.

Focus for the regulator

The drivers outlined above are fundamentally altering the nature of higher education. Australian students will increasingly be able to access "higher education like" levels of education by a range of providers nominally outside of TEQSA's scope. Does the national regulator have a role to protect these students? To what extent should, and can, TEQSA support Australian higher education providers innovate in this new market dynamic to successfully compete in the new global marketplace?

Facilitating commercialisation of research

The Australian higher education sector has placed a high reliance on international student revenue. The pandemic has exposed the risk associated with this. Universities and other providers must diversify their portfolio of income streams. One such area that can be aided by Government policy is with respect to research commercialisation. Universities will need to work with the government and each other to be more effective at monetising IP and developing commercial revenue.

Optimising access for future students

The down-stream impact of COVID-19 on school-age children will only emerge over the next decade. Institutions will need to consider, over the long term, how to identify and support maintaining equity of access to higher education opportunities, and how policy settings can support this beyond short-term interventions in contemporaneous selection processes.



University Operating and Business Models (operations and finances)

Diversified Income Streams

Take up of the Covid Higher Education relief support package – supporting university delivery of short courses – illustrated the sector’s renewed appetite to engage new income streams. Facilitating commercialisation of IP and industry engagement, discussed above, is also relevant. However, more income innovation will be required, which will require support from both the regulator and Government. Examples may include facilitation for entering new student markets, and flexibility in the ability to deliver Australian accredited qualifications or dual offshore and in languages other than English.

Cost efficiencies

Universities will reduce the cost of doing business. This will need to be achieved without compromising academic quality and standards. A stronger understanding of what drives costs, and their link with advancing the purpose of the institution, will need to be developed. Staffing levels will continue to be affected, particularly those in non-student and non-research facing roles.

Higher Education Market (both demand and supply)

Diversified Income Streams

The massive uptake of online education required in the response to Covid will have lasting effects. For example, “Teachers’ Perceptions of Large-Scale Online Teaching as an Epidemic Prevention and Control Strategy in China” (Xiaoze Yang, ECNU Review of Education, May 7, 2020) reports significant changes in attitude towards online teaching.

More generally, institutions will respond to the changing attitudes to travel for study that have been accelerated by the pandemic. Various characterised by market analysts and thought leaders as “work from anywhere, learn from anywhere” or “qualifications now travel to students”.

Continuous learning and job-ready skills

Whilst the Covid Higher Education Support package was a temporary response to a crisis, we believe the trend towards continuous learning and the acquisition of job ready skills has gained significant extra momentum from the pandemic. Delivery of micro-credentials through remote delivery, as building blocks to full university qualifications will accelerate.

Sector and ‘Brand Australia’



Reputation and rankings

A reduced ability to invest in research will impact the global rankings of Australian institutions. The lag in data utilised by the key ranking schemes means that this impact is not apparent in the latest release of rankings. However, given the large weight given to research, and the sensitivity of the published rankings to small changes in the data, the impact over time may be significant.

Whilst the impact would obviously vary from institution to institution, we have modelled a 20% reduction in the research-related QS input metrics – which we feel is realistic given the cross-subsidy. A typical Australian university's ranking would decline by about 35%. For example, a ranking of 100th would decline to about 135th.

In addition to the optics of such a reduction, there is a clear correlation between an institution's ranking and the international fees it charges. Correlation analysis by StudyMove indicates a greater than 83% correlation, which is consistent by research undertaken by Larkins and Marshman for the CSHE of the University of Melbourne. To simply match current revenue levels, the universities would have to teach more students. Put another way, Australian universities would need to lower fees to compete. Based on the StudyMove regression analysis the reduction for a university going from 100th to 135th would be about \$1000 per student per annum.

Destination Australia

Australia has historically been seen to 'punch above its weight' in international education, driven by strong performance in rankings for universities and positive post-study outcomes for students. Providing assurance to future students about the attractiveness of Australia as a destination will be critical to supporting recovery. This is likely to need to include:

- Consideration of future potential evolution in individual institution reputation, based on changes in research-based rankings
- Careful consideration of policy settings as borders reopen, to ensure that students who have 'stuck with' Australian institutions are fairly treated with regard to student visas and post-study transitions
- Reconsideration of how policy requirements for international education constrain or promote innovation and value for students.