

An abstract graphic consisting of a network of white lines connecting small squares, forming a web-like structure. To the right, there is a large, complex, multi-faceted geometric shape in shades of red and white, resembling a stylized flower or a cluster of triangles.

Where next for tertiary education?

How the COVID-19
crisis can be the catalyst
to reboot towards a
stronger sector

August 2020

Tertiary education comprises two main pathways for learning:

- Vocational education and training (VET) provided by registered training organisations (RTOs) including technical and further education institutes (TAFEs), dual sector institutions and private providers
 - Higher education provided by public and private universities and nearly 130 smaller non-university higher education providers (NUHEPs)
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Overview

COVID-19 has and will continue to change the world. The hard part for any government or organisation is to understand what happens the day after tomorrow, what the exit points are for this crisis, and what it means for the tertiary education sector in a post COVID-19 economy. This snapshot from PwC Australia aims to provide clarity for tertiary education executives who are looking to make serious choices now and over the next two years about their institutions and services in a post COVID-19 Australia.

Forces of change – challenge or opportunity?


The Australian tertiary education sector generates almost **\$30bn of export income**, employs more than 250,000 people, has greater than 4 million enrolments and is the nation's third largest export. Tertiary education providers play an integral role in the fabric of Australian society and culture and are a stimulus for innovation and creativity which underpin the economy. The recovery from COVID-19 will present a significant opportunity for the tertiary education sector to support the reskilling of Australians and accelerate the recovery. There will be major growth opportunities across digital education, stackable micro credentials and increased demand in many areas including health and wellness, digital, agriculture and logistics.



However, the sector is also experiencing significant financial challenges with estimates of the 2020 loss of international student income as high as \$4 billion with significant indirect economic impacts (e.g. tourism, consumer spending). The impact will be multi-year and extend beyond GDP and jobs into future innovation, technological and medical breakthroughs (e.g. COVID-19 vaccine) and therefore the national interest. These challenges will affect the ability of providers to deliver on their multiple purposes and potentially constrain their national contribution with Universities Australia estimating that for every \$1 invested in higher education research, \$5 is returned to GDP.

These are unprecedented challenges for tertiary education providers with disruption to campuses, restrictions to borders and migration to online platforms. However, the crisis is likely to lead to structural change in the economy as well as changes to the employment market which present many opportunities for this sector.




The speed of recovery, as this paper outlines, can be accelerated through the choices made by both governments and providers. The recovery will not be immediate but there is an opportunity for growth and to reframe the role of tertiary education. With a global tertiary education market of greater than 1 billion students, there is an opportunity for the nation's tertiary providers to gain global market share and take a prominent role in leading the national recovery.

PwC Australia has identified nine forces of change that may shape the post COVID-19 recovery phase of the Australian economy and the tertiary education sector's response. The nine forces have been informed by discussions with industry leaders and sector experts.

| Forces | Key implications | Core challenges |
|---|--|---|
|  Government involvement | <p>Government incentives to support upskilling of people in disrupted industries or transitioning to new roles will drive increased demand for executive education, micro credentials and VET qualifications.</p> <p>Government-funded infrastructure programs to stimulate the economy post COVID-19 (e.g. the Victorian Higher Education State Investment Fund) will provide an opportunity for universities to position research and education infrastructure projects (e.g. innovation precinct developments) as high return investments for the economy.</p> <p>State government support for international students has enabled many students to stay and continue to study in the absence of part-time employment and other support.</p> <p>The government has guaranteed Commonwealth Grant Scheme (CGS) payments for all higher education institutions in 2020. This gives higher education providers financial certainty to continue delivering education to students this year. However, proposed changes to funding from 2021 onwards, as part of the Job-ready Graduates Higher Education Reform Package, will push universities to reassess the viability of courses as demand for courses shifts.</p> <p>The proposed \$400m investment over the next 4 years to support regional and remote students to attend university and to drive investment in regional campuses will support economic recovery in the regions.</p> | <ul style="list-style-type: none">• Developing and marketing new offerings that comply with the government upskilling package and proposed Job-ready Graduates Higher Education Reform Package• Reestablishing a long-term and diversified international student pipeline• Innovating to enable growth within university and VET providers' highly regulated operating environment• Capitalising on the state's role as owner of TAFE's to drive reform• Tertiary education providers need to both influence this policy direction and respond to it. |

| Forces | Key implications | Core challenges |
|---|--|--|
|  <p>Consumer (student) behaviour</p> | <p>Physical distancing requirements have shifted classes online. Maintaining student engagement in the online environment for an extended period may be a challenge for some providers. It is expected that smaller, in-person activity will be able to return at some level from mid year and education and training providers should start planning for this. There are open questions as to the scale and pace at which this return occurs.</p> <p>Demand for courses will change to reflect the post-COVID economy with health, construction and technology-driven courses increasing in popularity while tourism, hospitality and arts-related courses may decline. The Job-ready Higher Education Reform Package will further contribute to this change in discipline demand - this may impact timetables, the teaching workforce and supporting infrastructure. Education providers will need to develop an accelerated approach to curriculum development to enable courses - and microcredentials - to be developed quicker for changing market needs.</p> <p>Stackable micro credentials will become increasingly important not just in the context of digitisation but in broader consumer behaviour and the obtaining of larger qualifications such as a Master's Degree.</p> | <ul style="list-style-type: none"> • Student expectations of blended delivery modes have changed including the future role of technology to enhance, not replace, in-person activities • Facilitating requirements for practical experience in areas including, but not limited to trade courses, traineeships, fine arts, music and STEM subjects • Managing timetabling and physical and virtual infrastructure to reflect changing course mix and support multi-channel learning whilst maintaining physical distancing • Responding to increased demand for industry-led fee for service training as businesses seek to reskill their workforces |
|  <p>Accelerated digitisation</p> | <p>Tertiary education providers have accelerated the shift to online learning, launching live streaming of lectures and consequently removing international barriers to competition. Prestigious global universities and industry-led education providers are now direct competitors in online content delivery. This competition is likely to increase with rapid digitisation and displaced delivery models.</p> <p>There are many instances of effective blended delivery, however, tertiary education providers will need to continue to invest in their edtech capabilities and education models by further blending online and face-to-face delivery to prosper in this new digital environment (and protect their intellectual property). Tailored offerings to meet the needs of different customer segments (e.g. stackable microcredentials) would further support student engagement and retention.</p> <p>Many vocational education and non-university higher education providers are teaching subjects online for the first time, enabling them to review their ongoing teaching and support model and associated capabilities and infrastructure.</p> <p>The digital disruption of many industries will precipitate further curriculum revisions but also offer opportunities for tertiary education providers to help industries transition and reskill for the new normal.</p> | <ul style="list-style-type: none"> • Developing high-quality interactive materials to enhance learning experience • Meeting ongoing student expectations around flexible multimodal learning • Reducing the digital divide and ensuring continued access to digital learning resources for less advantaged populations • Maintaining cybersecurity • Real-time curriculum revision to meet disrupted market needs • Increased competition as global providers have migrated content online • Students may perceive lower costs of provision and thus potential pressure on fees. |

| Forces | Key implications | Core challenges |
|---|--|--|
|  <p>Productive, flexible and distributed working</p> | <p>The majority of tertiary education provider employees have migrated to remote working with lectures live streamed and student support functions delivered from home environments. However, access to research facilities is currently limited and opportunities to share work at conferences and other events is diminished.</p> <p>Continued remote working presents opportunities for tertiary education providers to further explore geographically distributed workforce models.</p> <p>Changing market conditions mean workforce plans need to evolve to meet student and research demands whilst maintaining the employee value proposition. There is a need to continue upskilling teaching and learning staff to design and deliver engaging, effective online content and meet academic rigour standards required for Australian Quality Framework (AQF) and a positive student experience.</p> | <ul style="list-style-type: none"> • Maintaining effective student and research support functions from a remote workforce • Working with unions to improve flexibility of workforce to respond to changing market conditions • Reduced access to research facilities • Supporting staff and maintaining talent pipeline in the disrupted environment • Maintaining research funding with reduced access to facilities |
|  <p>Debt and capital</p> | <p>Tertiary education providers' balance sheets will be under pressure and many providers will look to pause capital investments to ensure they can continue to service their current debt and/or operate within their diminished financial position.</p> <p>Heavy investment in bricks and mortar is likely to be reduced with some institutions seeking to reconfigure their campuses to free up additional capital. Those institutions that are willing and able to invest will benefit from low interest rates.</p> | <ul style="list-style-type: none"> • Balancing longer-term investments with short-term funding challenges • Maintaining strong credit rating • Reviewing and reimagining campus footprint to reflect revised student model and free up capital |
|  <p>Resilient supply chains</p> | <p>As the economy suffers and unemployment rises, domestic student enrolments are likely to increase, with many mature-age students engaging in post-school education for the first time. Many universities will seek to increase enrolments beyond their Commonwealth-funded caps to provide incremental revenue. This will adversely impact enrolments and student profile in lower preference universities.</p> <p>Changed market expectations may challenge tertiary education providers' market offer and may help accelerate the augmentation of traditional tertiary education offers with greater non-accredited or skills-based propositions.</p> <p>International student enrolments will suffer a further reduction in the second semester as new students are unable to travel to commence studying in the second semester of 2020 as new students. Economic pressure in Asia combined with a reduction in English language testing facilities will delay recovery of the international student pipeline. Some international students may also avoid Australia following safety concerns in the wake of COVID-19.</p> <p>Businesses operating on campus or in support of the sector have been greatly affected by the transition to remote learning. Most onsite commercial operators have temporarily closed due to decreased demand. Student accommodation facilities (which disproportionately caters for first year and international students) have excess capacity as students no longer need to travel to study. A reduction in second semester of 2020 international enrolments is likely to put further pressure on their operations.</p> | <ul style="list-style-type: none"> • Building strong brand and market-aligned offers to strengthen student pipeline in a more competitive market • Failure of the ELICOS industry will reduce pipeline of international students • Closure of English language testing (ELT) facilities in Asia will reduce ability for students to complete visa requirements |

| Forces | Key implications | Core challenges |
|---|--|--|
|  Industry consolidation | <p>Significant variation in underlying operating performance across tertiary education sector exacerbated by impacts of COVID-19. Early signs of increased M&A activity amongst private providers (NUHEPs and RTOs).</p> <p>Potential opportunities for increased partial or full sector collaboration in addressing global market opportunities and international diversification.</p> | <ul style="list-style-type: none"> Enabling long-term financial viability of the VET sector Ensuring continued access and equity to higher education across all parts of Australia |
|  Migration | <p>Closing the borders from February 2020 locked out many international students intending to come to Australia to study, significantly impacting tertiary education revenues. Ongoing restrictions on international travel means second (and third) semesters are likely to be further impacted which will also be reflected in 2021 enrolments.</p> <p>Recent changes to immigration rules making it harder for students to remain in Australia post study were starting to affect enrolments pre COVID-19. This will continue to reduce Australia's competitive position in the global market compared to the UK and Canada which have made it easier for students to remain post graduation.</p> <p>There is an opportunity for Australia's tertiary education providers to gain global market share from other Anglophone countries if Australia is seen as being open for business relatively early, while continuing to effectively manage COVID-19. This opportunity could extend to include attraction of international talent in both management and research.</p> | <ul style="list-style-type: none"> Enabling international students to enter Australia under strict migration and quarantine requirements Supporting international students to remain post study to support growth of Australian economy Diversifying and growing international revenue sources Attracting international talent |
|  Tax reform | <p>R&D tax incentives will continue to support industry to engage in research with universities.</p> <p>State government payroll tax deferrals will support the sector with immediate cash flow.</p> | <ul style="list-style-type: none"> Continuing to work with industry to access R&D tax incentives |



Scenarios – potential implications

The forces of change could play out in a variety of ways. The future of Australia's economy will ultimately depend on government, business, and community actions. This uncertainty makes life difficult for executives who face serious choices now with potentially far-reaching consequences. To help inform these tough decisions, PwC has modelled two scenarios that could be envisioned for the Australian economy as we emerge from the mobilisation phase of COVID-19.

The first scenario, 'Fortress Australia', is characterised by insular decision-making and high levels of government intervention. It reflects the desire for insurance against future problems like those that the COVID-19 pandemic has exposed. While the second scenario, 'Enterprise Australia', reflects a 'go for growth' mentality where smarter regulation and accelerated digitisation enables private industry to grow. It assumes industry invests to help rebuild their organisations and consequently the economy. Each scenario is a distinct combination of plausible industry and government positions in response to the forces of change.



Fortress Australia

Description

Characterised by insular decision-making, strong border restrictions and high levels of government intervention in industry



Enterprise Australia

Globally-connected Australia where private industry carries the burden of driving growth out of the crisis

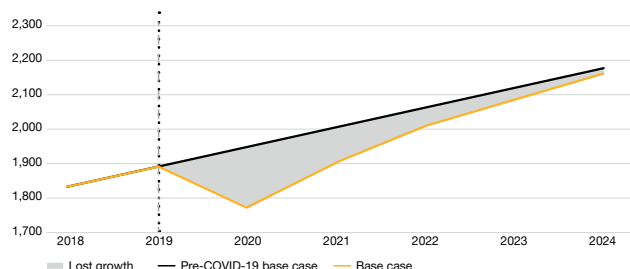
Main Impacts

- Continued closure/limitation of travel would make it difficult for international students to come to Australia
 - Shift in course focus to align with government requirements including increased investment in technology, engineering, health and broader partnering to upskill the government workforces
 - Associated changes to HECS-HELP and VSL schemes to match workforce requirements
 - Significant economic stimulus focused on priority (growth) sectors for the economy including but not limited to advanced manufacturing, health, resources and agribusiness
 - International presences may be considered to access Asian and Latin American markets
- Government would allow international students to come to Australia with strict quarantine and testing arrangements
 - Tertiary education providers would need to establish alternative revenue streams through industry partnerships, online and executive education
 - Decreased regulation may enable new EdTech operators delivering high-quality digital learning products and experiences to enter the market
 - Shift in course focus to align with industry needs including increasing digital focus (Med-Tech, Fin-Tech, Law Tech etc), applied medical research and sustainability

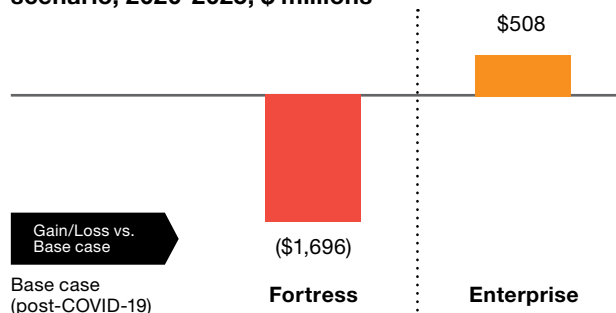
Economic implications

PwC estimated the economic implications of each recovery scenario on the Australian economy. In the 'Enterprise' scenario, Australia's education sector could see an additional ~\$0.5bn of activity to 2025, as opposed to the 'Fortress' scenario which would see a loss of ~\$1.7bn against the base case (or -\$2.2bn against Enterprise).

Gross domestic product by scenario, 2019-2030 (\$2019-20 billion)



Impact on education gross value added (GVA) by scenario, 2020-2025, \$ millions¹



| | | Fortress Australia | Enterprise Australia |
|---|----------------------|--------------------|----------------------|
| Directional Impact on P&L compared to base case | Teaching revenue | ▼ ▼ | ▲ |
| | Research revenue | ▼ | ▲ |
| | Academic cost | ➤ | ➤ |
| | Professional cost | ➤ | ▼ |
| | Net financial impact | ▼ ▼ | ▲ |

▲ Positive impact (increase in profitability)

▼ Negative impact (decrease in profitability)

➤ No impact on profitability

¹Values reported are total net impact vs. a base case over 2020-2025, real \$19-20, net present values discounted at 1% per annum

How to respond

There's no single, easy solution to the situation Australia finds itself in. Whichever approach Australia takes is likely to incorporate elements from each of the forces of change and scenarios. With this in mind, the scenarios and forces of change are as important as the economic outcomes modelled. Decision-makers should use them to understand the key opportunities and to guide the direction and focus of recovery plans.

'No regrets' responses

The tertiary education sector must act swiftly and decisively to invest in these significant opportunities with 'no regrets' moves. Each institution's response is likely to cover the following nine areas.

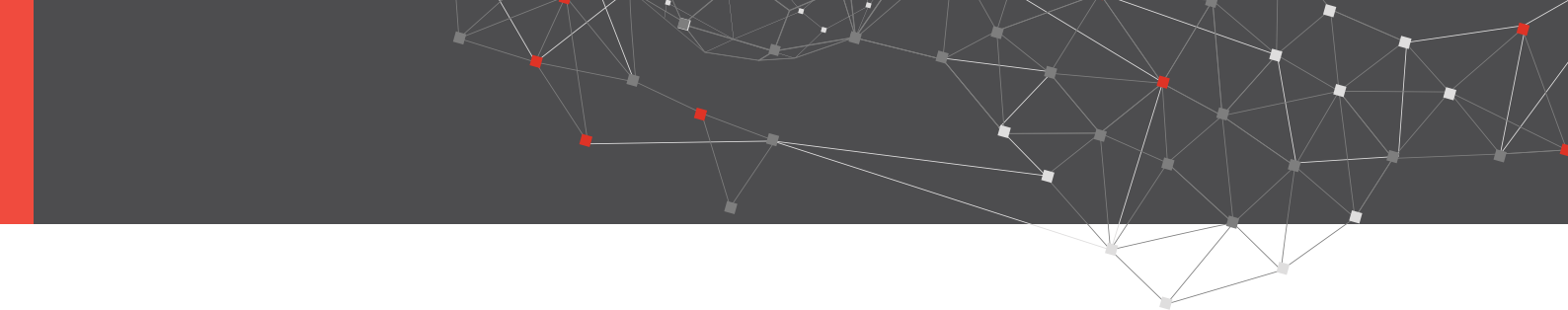
Reskilling for the post-COVID world: More than ever, Australia needs high-quality education to upskill the workforce, drive innovation and employment, and stimulate economic growth. Tertiary education providers can accelerate the national recovery through helping industries and citizens to reskill for the 'new normal'. Education providers can also be the catalyst for growth as well as being a catalyst for growth in priority sectors by training workforces to rapidly gain market share from global competitors. Universities and vocational education providers will need to rapidly re-orientate their offerings to meet the changing needs of government and industry to support the post COVID-19 infrastructure boom, enable large-scale digitisation of Australian industries and support community health and education needs. Education providers will also need to adapt to support reskilling of older Australians seeking to remain in the workforce.



Brand: Australia's tertiary education sector is critical to the nation's recovery and future innovation. The sector has many good stories to tell including high student satisfaction results, groundbreaking research, and industry and community partnerships. A collective effort to share these success stories and build the tertiary brand in Australia and globally will reap rewards and is needed more than ever.

Sharper focus: Ongoing financial pressure will force universities and vocational education providers to be clearer on their basis of differentiation and potentially expand their offerings (e.g. new courses, microcredentials and non-accredited propositions) in disciplines in which they lead the market. Universities should continue to future-proof research funding and improve the effectiveness of their investments through developing distinct areas of excellence and deepening industry partnerships. Vocational education providers should seek to build collaborative delivery models that rely less on location whilst minimising risk, supporting quality service, and enabling staff to focus on higher-value activities (e.g. student support).

Enhancing student experience: The rapid shift to online learning has dramatically changed the student experience. Campus life will need to be reimaged in order to establish a new vibrant student community. An evolving student body will now expect to be able to flex between virtual and in-person classes as their needs change. Universities and vocational education providers will need to leverage data collected from their learning management systems and other systems to adapt programs in order to improve student engagement, retention and learning outcomes. Students will seek to have their academic qualifications and learning capabilities ("badges") recorded digitally and be able to be accessed globally.



Workforce: Tertiary education providers will need proactive workforce and engagement strategies to evolve the workforce skills mix required to respond to the new operating environment and any changes to course portfolios or research. New skills will be required inside and outside the classroom to deliver an improved and mixed mode student experience, thus driving up engagement and attainment. Talent pipelines, both on and offshore, will need to be refreshed to ensure they align with revised institution focus areas.

Revenue stabilisation and diversification: Tertiary education providers will need to explore a range of opportunities to stabilise and diversify their revenue in a post-COVID environment.

- **International student pipeline:** Providers should continue to support international students in Australia to remain and continue to study. They will need to rebuild and diversify their international student pipeline while in parallel working with government to develop an approach that will allow international students into Australia with strict testing and quarantine conditions. This could provide significant opportunity to capitalise on Australia's record of successfully managing the pandemic.
- **Domestic students:** Educational providers will need to be proactive through targeted marketing and early offers to current year 12 students (and Australians reskilling) to strengthen their student pipeline in an increasingly competitive market.
- **Alternative revenue sources:** It will be essential to grow alternative revenue streams including online offerings for Australian and international students, executive education for governments, businesses and not-for-profits to train their workforces now and for a post COVID-19 recovery, and building industry partnerships.

Greater focus on financial management including cash flows, capital and key financial sensitivities will be required to provide a strong evidence base for future strategic decisions.

Focus on the core: Adapting to the revised revenue profile will require tertiary education providers to make substantial changes to their cost base including restructuring their workforce, reviewing their course portfolio and reprioritising IT and infrastructure investments. Digitising student and support services will further enable a more streamlined, student-centric and lower-cost experience.

Reimaging campus footprint: Education providers should review their physical infrastructure needs considering an ongoing blended learning model. Buildings will need to be more flexible in design to cater for constantly changing space requirements as pedagogy and course mixes evolve. Providers should also seek to monetise their on-campus assets and develop alternative delivery methods for non-core assets to create greater investment capacity for core research and education investments.

Build capability: Use this as an opportunity to collectively learn lessons from COVID-19 responses and build capability to be able to respond better and faster to the next crisis and position the sector for future success.

Examples observed in the industry so far



The sector has worked quickly to: establish the importance of its research to society in the wake of a pandemic; deepen industry partnerships; and financially aid international students seeking to remain in Australia while they study remotely.

| Example 1 | Example 2 | Example 3 |
|---|--|--|
| In an effort to shore up their future funding, universities have reiterated the vital importance of research in solving important problems like COVID-19 and in helping Australia recover from the economic downturn. | Holmesglen TAFE has deepened its partnership with Healthscope. The partnership provides Holmesglen students on campus with access to high-quality supported clinical placements across a range of health disciplines and settings. | After the Commonwealth Government confirmed its relief package does not apply to international students, many universities (and more recently state governments) have acted independently to provide student support funds to enable international students to remain in Australia and continue their studies. |

Emerging stronger

The sector has shown its ability to mobilise in the face of COVID-19, stabilising operations and shifting its students to remote learning. The next step is to develop tactical responses to strengthen financial positions and longer-term strategic responses to emerge stronger in the post-crisis economy. This strategising will depend on how Australia redefines itself after COVID-19, but will also depend on portfolio reviews, business models and organisational change. Those that can align their current responses to their long-term strategy should be in position to emerge stronger. PwC encourages tertiary education providers to consider your scenarios, stress-test them broadly and, in doing so, focus on the strategic implications over the coming years.

Prepare, respond and emerge stronger

| | Horizon | | |
|----------------|--|---|--|
| | Immediate Next 6 months | Medium-term 6 months to 2 years | Long-term 2+ years |
| Action | Mobilise | Stabilise | Strategise |
| |  |  |  |
| Key challenges | <ul style="list-style-type: none"> • Business continuity and return-to-work planning • Strengthen financial position and securing student pipeline | <ul style="list-style-type: none"> • Improve student experience • Diversify revenue • Longer-term workforce planning | <ul style="list-style-type: none"> • Differentiate in the market through clearly defined focus areas |
| Focus areas | <ul style="list-style-type: none"> • Manage liquidity risk • Enact return-to-work plan • Refine course portfolio • Contain costs by: <ul style="list-style-type: none"> • Reviewing professional and academic workforce to develop a more flexible and lower cost model for ongoing operations • Reducing discretionary expenditure • Build brand to strengthen student pipeline • Rebuild and diversify international student pipeline | <ul style="list-style-type: none"> • Seek to improve student engagement, experience, retention and attainment • Diversify revenue from international students (e.g. growth in online and executive education) • Develop approach to microcredential stacking • Strengthen industry partnerships • Build adaptive workforce and talent model for longer term • Streamline and digitise administrative activities | <ul style="list-style-type: none"> • Review size and shape of the institution • Refocus education and research profile • Realign capital plan |



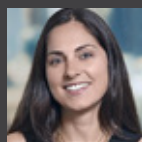
Contact us to find out more

During these challenging times, we can share data and insights to stress test your scenario planning and inform your strategic decision-making. Our purpose is to build trust in society and solve important problems. Get in touch to find out more.



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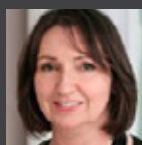
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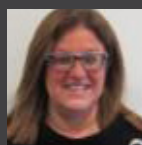
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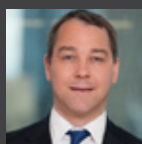
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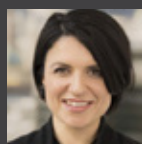
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