

Submission in support of objection to SSD8449 – need for Economic Impact Assessment

This submission addresses the following items with respect to an objection to SSD8449 on behalf of Top Education Group Ltd trading as Top Education Institute (TOP):

- A brief overview of TOP's profile and footprint
- Establish the appropriateness of economic appraisal to assess the impact of the proposal
- Indicate that complex and detailed assessments of costs will be necessary to support an appropriate economic appraisal of the impact of the proposal.
- Potential negative economic impacts are identified as they may pertain to TOP, which are yet to be adequately considered in the current EIS.

This submission has been prepared by Glenn Fahey of the Institute for Public Policy and Governance at the University of Technology Sydney. Glenn is an economic analyst with experience in government, commercial consulting, and academic research. He holds a Bachelor of Economics and a Master of Economics. He has performed economic modelling and appraisal of the nature described in this submission.

Top Education Institute

- TOP currently has approximately 1,000 full time equivalent students for their Bachelors and Masters studies (offering 23 accredited Higher Education award courses) – with a very large international contingent.

- Student enrolments have grown considerably since 2005 (growing from just 53 full time equivalent enrolments to over 1,000).
 - TOP expects to expand its operation and has proposed to increase its student capacity to 1,500 full time equivalents.
- TOP's programme offerings to students include business (including executive education), and law.
 - Importantly, TOP became the first and only accredited private non-university law school in 2015
- A valuable association exists between TOP and PricewaterhouseCoopers (PwC) Australia.
 - In particular, TOP and PwC Australia have entered into an Alliance Agreement to work together to develop industry relevant executive education programs.
 - This also means that PwC will work closely with TOP to deliver Student Career Development Program (SCDP) to enhance the student learning outcome and lifelong skills among other things.
 - This association includes PwC's acquisition of a 15 per cent stake in TOP.
- TOP is a financially viable operation, enjoying favourable income growth and operating profits in recent years (see Figures 1 and 2).

Figure 1. Annual incomes and expenses (TOP Education Institute) (\$m), 2005 to 2017.

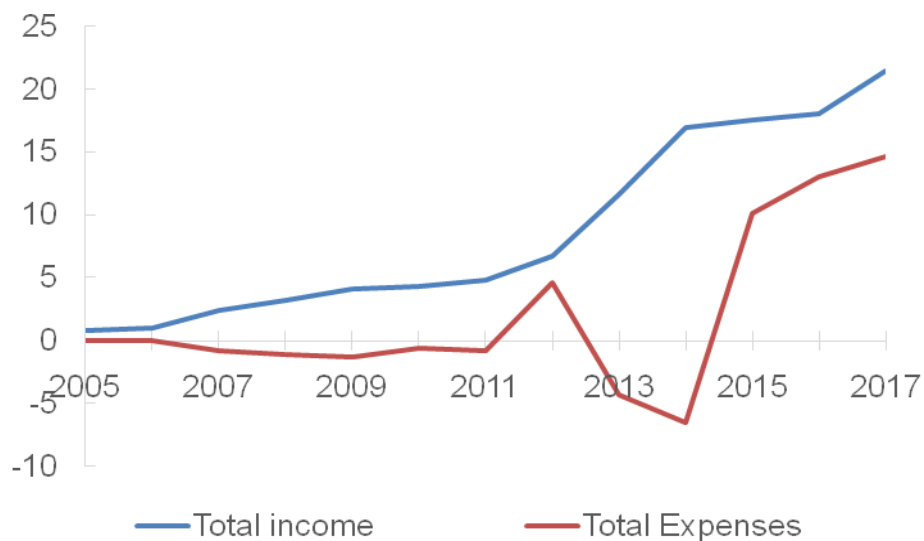
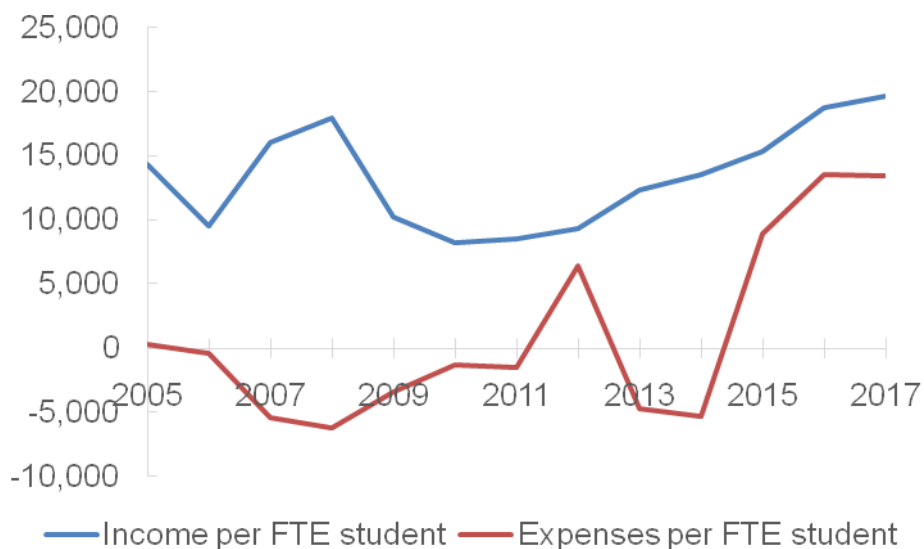


Figure 2. Annual income and expenditure per FTE student (TOP Education Institute) (\$), 2005 to 2017



TOP has clear competitive advantages and uniqueness present in their product offering to the market.

- For instance, TOP is the first private higher education provider nationally recognised in China in 2010.

- The product offering of TOP value-adds for consumers compared with alternative non-university offerings as a result of its association with PwC in particular and its collaboration with Chinese universities and Chinese enterprises.
- The primary competitors to TOP are business-focussed non-university higher education providers, although the conventional university sector also represents potential competition for at least some of its student population.
- In 2015, TOP was ranked third in terms of international onshore student equivalent full-time study load amongst business-focused private non-university higher education providers – enjoying 7.8 per cent market share.

According to the audited reports by PwC (2005-2015) and then by EY (2016-2017), TOP has in the past years:

- Generated income \$112,563,567; we note that about 90% of its students are international students without Australian Government's funding support;
- Spent \$26,860,848 employee benefits; we note it hires about 50 full time equivalent Australian local staff now;
- Paid \$11,177,039 tax

It is necessary to fully assess the economic impact of the proposal, particularly with a view to determine the potential costs associated with the loss of, or disruption to, operational activities of TOP.

Expectations from an economic impact assessment

- An economic assessment as part of an Environmental Impact Statement (EIS) is based upon the requirements from the Secretary of the Department of Planning and Environment (SEARs).
- The economic assessment involves a cost-benefit analysis (CBA) (and occasionally an additional local area analysis – a residual component of the CBA), which accounts for both quantitative and qualitative estimations of economic flows.

- CBA is the preferred method for economic appraisal within NSW government. A CBA assesses the net public benefits of decisions, based upon quantification and valuation of the full range of potential impacts that might arise from a project.
- An economic assessment is an important because it considers whether the benefits of a proposed project are likely to exceed its costs.
- Both internal and external benefits and costs for the broader community are examined, with respect to project under examination.
- This includes the benefits and costs associated with a range of units of analysis– namely, individuals (employees and consumers), firms (those directly and indirectly impacted upon – this could include entire industries in some instances), and government (can include each level – often, in NSW, we are concerned with the state as the appropriate unit of analysis) at a minimum.
- NSW Office of Financial Management stipulates that an economic appraisal ‘should be undertaken at the earliest possible stage in specific project development, before any planning commitment, real or implied, is given to a particular option.
- The NSW government has indicated that ‘agencies should use the NSW Government Guide to Cost-Benefit Analysis when assessing all significant projects, programs, policies and regulations’¹.
 - Under these guidelines, in the context of economic impact, the preferred method for deriving estimates to support CBA is computable general equilibrium analysis (CGE) – though it recognises that CGE ‘may not always be directly applicable to individual programs or projects’². That said, significant projects – with the capacity to alter a local economic environment are generally feasible for this methodology.

¹NSW Government (2017).Policy and Guidelines Paper. NSW Government Guide to Cost-Benefit Analysis, TPP 17-03, March 2017.

²(ibid, p. 66)

- Here are the necessary steps for CBA that are prescribed under these guidelines:
 - Define the base case and develop options
 - Identify and forecast costs and benefits
 - Value the costs and benefits
 - Identify qualitative factors and distributional impacts
 - Assess risks and test sensitivities
 - Assess the nett benefit

Potential economic impacts for consideration in the assessment of this application with reference to TOP

- The potential economic costs that may be associated with disruption of operating activities of TOP at its long establishment of education use at the Locomotive Workshop, which is since 2002, and there is no guarantee such approved education establishment could continue. This should be further investigated in consideration of the relative net benefits associated with the proposed, before proceeding. This would require the opportunity to collect and analyse relevant information.
- Possible costs could be calculated with respect to impacts upon:
 - Consumers, and potential consumers, of TOP (students)
 - It can be appropriate to further identify these same consumers as secondary customers through their consumption of other goods and services in non-competing markets.
 - Firms (this includes TOP, TOP's competitors, as well as organisations who are beneficiaries of students belonging to, or having utilised, TOP's services),
 - Government (this can be all levels of government, though it may be appropriate to estimate only state-level).
 - The appropriate timeline for which these costs ought to be forecasted should be equivalent to the expected period of benefits for the associated development project.

Critical information necessary to support empirical analysis of economic impact

- An economic impact assessment of this nature requires collection of observational data, particularly from surveying of the student population – as the relevant information is not readily apparent and not retrievable from secondary data sources.
 - This is because the relevant parameters must be derived specifically from, for instance, the preference functions of the consumers in question, rather than implied from secondary data sources.
 - This requires time to collect and analyse data to be suitable for an economic appraisal.
- Examples of parameters to support measurement of costs include the following:
 - The proportion of students of TOP that would not demand higher education if this provider discontinued or was disrupted.
 - That is, the probability that a student at TOP consumes higher education, and when faced with alternative consumption choices, would demand zero education. This is important because it establishes the rate of substitution in consumption and is a critical parameter in analysis of this sort modelling. This is because students who display identical preferences for alternatives to TOP can be directly supplied by alternative producers – ie these students will demand higher education elsewhere, be it in Australia or abroad.
 - Projected base case growth scenarios of TOP.
 - This is based up on expected growth scenarios on a ‘no change’ assumption – i.e. prior to knowledge of the proposed development.
 - The feasibility of TOP’s future operations under the scenarios of: eviction, relocation, retention.
 - This would require assessment of risk-weighted estimates for each scenario.
 - Projected net economic profit generated by TOP relative to the estimated economic profit generated from an alternative.

- It would be appropriate to generate estimated economic profits of the alternative to TOP. In this instance, the projected economic profit of the proposed retail activity would be compared to the projected economic profit of TOP. If the projected economic profit of TOP is greater than that of the alternative, this is accounted as a cost in the analytical model.
- The economic valuation of the alliance between TOP and PwC
 - This includes intangible networks that could be impaired if TOP's activities were discontinued temporarily.

Disclaimer our advice is based upon client provided information. We did not have access to audited financial statements or student records for verification purposes