



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

STANDING COMMITTEE ON EMPLOYMENT, WORKPLACE  
RELATIONS AND EDUCATION

**Reference: Higher Education Endowment Fund Bill 2007**

FRIDAY, 31 AUGUST 2007

MELBOURNE

BY AUTHORITY OF THE SENATE



## **INTERNET**

The Proof and Official Hansard transcripts of Senate committee hearings, some House of Representatives committee hearings and some joint committee hearings are available on the Internet. Some House of Representatives committees and some joint committees make available only Official Hansard transcripts.

The Internet address is: **<http://www.aph.gov.au/hansard>**

To search the parliamentary database, go to:  
**<http://parlinfoweb.aph.gov.au>**

**SENATE STANDING COMMITTEE ON  
EMPLOYMENT, WORKPLACE RELATIONS AND EDUCATION**

**Friday, 31 August 2007**

**Members:** Senator Troeth (*Chair*), Senator Marshall (*Deputy Chair*), Senators Barnett, George Campbell, Fisher, Lightfoot, McEwen and Stott Despoja

**Participating members:** Senators Allison, Bartlett, Bernardi, Birmingham, Boswell, Boyce, Bob Brown, Campbell, Carr, Chapman, Cormann, Crossin, Eggleston, Chris Evans, Faulkner, Fielding, Fifield, Forshaw, Hogg, Humphries, Hutchins, Joyce, Kemp, Ludwig, Lundy, McLucas, Ian Macdonald, McGauran, Milne, Moore, Murray, Nash, Nettle, O'Brien, Parry, Patterson, Payne, Polley, Robert Ray, Sherry, Siewert, Stephens, Sterle, Stott Despoja, Trood, Watson, Webber, Wong and Wortley

**Senators in attendance:** Senators Barnett, Marshall, Stott Despoja and Troeth

**Terms of reference for the inquiry:**

To inquire into and report on: Higher Education Endowment Fund Bill 2007

**WITNESSES**

**ALLPORT, Dr Carolyn, National President, National Tertiary Education Union ..... 45**

**ARTHUR, Dr Evan, Group Manager, Innovation and Research Systems Group,  
Department of Education, Science and Training ..... 30**

**GREENSLADE, Mr Alan, Branch Manager, Future Fund Branch, Red Tape Division,  
Department of Finance and Administration ..... 30**

**GREGOR, Mr Bruce, Principal, Mercer Investment Consulting ..... 13**

**LARKINS, Professor Richard Graeme, AO, Chair Elect, Universities Australia,  
Member, Group of Eight ..... 1**

**NETTE, Mr Andrew, National Tertiary Education Union ..... 45**

**SMITH, Mr Bradley, Executive Director, Federation of Australian Scientific and  
Technological Societies ..... 21**



**Committee met at 9.23 am.**

**CHAIR (Senator Troeth)**—Today the Senate Employment, Workplace Relations and Education Committee is conducting a public hearing on the provisions of the Higher Education Endowment Fund Bill 2007 and the Higher Education Endowment Fund (Consequential Amendments) Bill 2007. The bill establishes a perpetual endowment fund to generate earnings for capital expenditure and research facilities in higher education institutions, taking into account the advice of an independent advisory board. The committee notes that the government will be consulting universities about the design of the funding program over the coming months.

I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee and such action may be treated by the Senate as a contempt. I also remind witnesses that giving false or misleading evidence to the committee may constitute a contempt of the Senate. Witnesses may request that part or all of their evidence is heard in private. I welcome any observers to this public hearing. I would also ask that people in the hearing room ensure that their mobile phones are either turned off or switched to silent.

**LARKINS, Professor Richard Graeme, AO, Chair Elect, Universities Australia, Member, Group of Eight**

**CHAIR**—I welcome our first witness, Professor Richard Larkins, representing both Universities Australia and the Group of Eight. For the *Hansard* record, would you please let us know the capacity in which you appear today?

**Prof. Larkins**—Thank you. I am appearing representing both Universities Australia and the Group of Eight. I am the incoming chair of Universities Australia, due to become chair of that group on 1 January 2008. I am also a member of the Group of Eight vice-chancellors and have been asked by the chair of that group to represent the Group of Eight today.

**CHAIR**—Thank you. The committee has received your submission. Do you wish to make any amendments or alterations to that submission?

**Prof. Larkins**—No. We stand by the two submissions.

**CHAIR**—I invite you to make a short opening statement and then we will move to questions.

**Prof. Larkins**—I would like to thank the committee for giving me the opportunity to appear before it. The first statement that I would like to make is that I am speaking concurrently to the interests of both Universities Australia and the Group of Eight Universities. I think the positions of the two groups on the matters before the committee are identical. Therefore, I have been asked by both groups to speak concurrently to the committee. The first thing that I would like to say is that Universities Australia and the Group of Eight welcome the fund and regard it as quite a historic event. It is a very significant addition to the funds available to support the activities of universities and, if properly managed, as I am sure it will be, and with further infusions of funds, it has the capacity to

make a substantial difference to the capacity of our universities to be internationally competitive.

My overarching comment and what I would like the committee to take away from our presentations is that the sector is very grateful for the initiative and regard it as a very appropriately constructed initiative in the sense that there is a body of money that has been put aside and it is only the earnings on that money that will be used. This is something that will have a capacity to build over time and to provide ongoing support without a use-by date, if you would like to use that expression. I want to leave the committee with that comment. I do not want any accusations that what I say beyond this point will be taken as any indication of a lack of gratitude of the sector or a lack of appreciation that something is being done in a positive way.

**Senator MARSHALL**—It sounds like there is a ‘but’ coming.

**Prof. Larkins**—There is a ‘but’ coming. I think it is necessary to view it in the context of the funding of the sector over the last 12 years or so since the system of indexation, which was initiated by the last government in 1995 was put into place. This system of indexation has been based 75 per cent on the safety net adjustment of salaries and 25 per cent on CPI. It has been delivering to the sector something between 1.5 per cent and 2 per cent per annum at a time when the real costs have been increasing by something like 6 per cent per annum. This is in the context of a progressive decrease in the government funding of the sector. Even taking into account the greater contribution through the increased HECS contributions by students, it has still led to a substantial decrease in actual dollar terms in the funding per student over that time. This is at a time when the funding of universities in international settings has been increasing, either through government funding or through the combination of government and private funding. Particularly in the universities in our immediate region, and notably in China, there has just been a huge investment in the higher education sector. That is just a background statement that we have made as Universities Australia and Group of Eight submissions in relation to the election, and this provides accurate data in relation to the real situation of the funding per student of government supported students in the sector.

That has led to an increase in the student to staff ratio from 14:1 to 20:1 over that period. It is true that over the last three years with the additional 2.5 per cent per year conditional upon meeting HEWRRs and governance requirements there has been an increase in the university funding that has paralleled the increase in cost over that three-year period, but it has been dependent on meeting a range of additional compliance requirements over and above those expected in other industry sectors.

I should also place the fund in the context of the requirements in relation to capital works and the backlog of maintenance in our sector. It is very accurate data that has been collected by the Tertiary Education Facilities Management Association, which has been audited by a selective process of following up in detail some of the institutions submitting information, and there is a backlog of deferred maintenance of something like \$2 billion in the sector, with the sector spending something like 2 per cent to 2.5 per cent of the asset replacement value of \$26.5 billion on maintenance each year against a recommended level of 4 per cent. There is a shortfall of something like \$400 million each year in the amount of money that is being spent just to maintain existing facilities and to refurbish those. Although the additional infusion of

money is very much appreciated and goes some way towards redressing the historical shortfall over the last 11 years or so, it still does not place us in a position to be really competitive with the huge infusion of funds through Asia, Europe and North America. That is the background 'but' statement, if you like. I guess my next statement relates to our wishes with respect to some of the things that have not yet been specified with respect to the HEEF legislation.

The first is just a reiteration. I know the minister and DEST officials have also stated this, but it should not substitute for existing schemes. I think we are concerned that the NCRIS, or the National Collaborative Research Infrastructure Strategy, funding of approximately \$100 million per year is due to end after 2010, and we would like to see that continued. We think there is a very strong case for that to be continued for a slightly different purpose. It would be a pity if effectively a quarter of the money available through this HEEF scheme is actually a replacement for terminating the NCRIS scheme. Similarly, I do not think the CDP, or Capital Development Pool, funding is built into forward estimates beyond 2011. We would be very keen that they be maintained or else we would find that a large amount of the dividend from HEEF would be eaten away by replacing those schemes. I would like to have it on the record that we would like to interpret these statements by the minister that it will not replace existing schemes as a willingness to consider the continuation of the NCRIS and CDP schemes into the future.

We would make the generic statement that the mechanisms of allocation, which have not yet been spelt out, should be fair and transparent. The role of the minister should be absolutely transparent. Where final decisions by the minister differ from those of the advisory board, the reasons for that difference should be absolutely explicit. We would ask for a defined time at which applications are made and a process that is made absolutely clear before the allocations start.

There is mention of preference being given to situations where there is matching funding. One of the big problems for the sector is that so much of the money that we compete for is dependent on matching funding, and this leads to the ability of universities to have any discretionary funding that is not needed to be used in some way for matching funding to be progressively reduced. Even in the situation of competitive funding through ARC and NHMRC, the infrastructure support for those grants through the RIBG, the Research Infrastructure Block Grant, and the IGS, the Institutional Grant Scheme, has been progressively eroded in relative terms. There has been almost a fourfold increase in NHMRC funding since 2000, which is a wonderful increase. We are highly appreciative of that. There has been a twofold increase in ARC funding, but at the same time there has only been a 25 per cent increase in the block funding. The Productivity Commission recognised this deficit between the increase in the block funding versus the increase in the ARC and NHMRC schemes. What it means is that as universities are more successful in obtaining these grants, they actually have much more difficulty in running the university and need much more cross-subsidisation from other areas of the university to provide the support that is required for those schemes. Matching funding would be yet another constraint that would mean that an amount of money that would otherwise be used for teaching, for example, would have to be diverted into situations where they support allocations from this fund.

Finally, we would like to recommend that consideration be given to having part of the dividend from the HEEF directed towards replacing some of the ongoing need for the maintenance and refurbishment, bearing in mind the difficulties that universities have in maintaining and refurbishing the capital that they already have and the gap between the 2.25 per cent that is currently spent in terms of asset replacement value and the four per cent that is required. So either by relating it to asset replacement value or to the EFTSL or to the total budget or some other way that the government may wish to consider, it would be an extreme benefit that instead of having to jump through more hoops in a competitive way, some consideration be given to a proportion of the fund being allocated on a formulaic basis to address some of the ongoing needs in terms of replacement of capital. Whatever mechanisms are decided on, we would like the compliance requirements to be reduced to a minimum. We have a huge problem now with compliance. Every new scheme that comes up has very stringent compliance requirements, which leads to a huge amount of time being spent by the university staff in meeting these compliance requirements. We would ask for a minimum with respect to compliance. That is the end of my opening comments and I thank you for listening with patience.

**CHAIR**—Thank you. Could you tell us some of the views among your fellow vice-chancellors regarding—I will not say discrimination—the amounts of funding being given to universities. For instance, would there be a view among either the Group of Eight or Universities Australia that priority may be given to universities with a higher research profile?

**Prof. Larkins**—The comments in relation to the descriptors for the purposes of the fund relate to both capital infrastructure and research infrastructure. We have just recently had the annual working party or working meeting/retreat—I do not like the word ‘retreat’—of Universities Australia over the weekend. There is surprising uniformity, or at least the external world would regard it as surprising uniformity, in relation to research. We think that excellence should be supported wherever it is. It is not confined to the Group of Eight. It is spread throughout the sector in different degrees and different proportions. Research needs more support. I think we would all say that a component of the funding should be used to support research and that should be based on research excellence wherever it is in the sector. The thing that does define the university sector in Australia and distinguishes it from other forms of post-secondary educational institutions is that they all do research and it is just a matter of degree. We do celebrate that combination of research and education and I think all the universities would support the idea that research infrastructure funding such as HEEF be distributed on a basis of merit. We also recognise a broader capital requirement which is not research related and which relates to basic teaching facilities and would relate to the total asset replacement value that the different universities in the sector have. Although we can make much of differences in emphasis I think that overall the university sector would support the comments I have made, and the fact that both Universities Australia and the Group of Eight are happy for me to come along as a single person to represent the sector indicates that there is not as much disparity in views as sometimes portrayed in the media.

**CHAIR**—My question is further along those lines. Some of our universities, for instance, ANU, Melbourne and Monash already have global profiles. Do you see the HEEF having a role to play in further strengthening the positions of those universities?

**Prof. Larkins**—We need a system where universities are able to compete internationally and that is best achieved by having more money for infrastructure in the sector in general, and having it directed towards areas of international excellence, again wherever they are in the sector. I do not believe in the view that a small number of universities should receive a very large amount of the funding, irrespective of their performance. It should be related to performance. The best way to get differentiation in the sector is by supporting international excellence in research and allowing universities to either achieve that across a wide front or a relatively narrower front. We do need to have our leading universities more internationally competitive with the best in the world. But we also need our regional universities to be able to support research activity that is relevant to the local regions, helps the economic development of the local regions and, again, can engage internationally. I think all our universities, as defined by the current protocols, are internationally engaged quite substantially. This is one of the things that we perhaps do not make enough about. At the Skilling Australia workshop that I spoke at earlier, chaired by the Chief Executive of CEDA, the Committee for the Economic Development of Australia, he made the point that he could not see why there was so much more micro regulation and requirements in relation to universities compared with any other comparable-size export industry. Along with tourism, we are approximately the third most significant export industry in the country, with \$9.8 billion of export earnings and \$10.2 billion for tourism. The only two above that are coal and iron ore. He said that any other part of the Australian economy that was contributing that amount, firstly, would not take the degree of criticism that the sector receives from government and, secondly, the degree of micro regulation. Even if you consider us from that point of view, I think we would say there is a huge international contribution that we make.

**CHAIR**—Also, the Group of Eight submission refers to anxieties that funding allocations might be influenced by political considerations. Could you suggest what they might be?

**Prof. Larkins**—I think that inevitably when mechanisms of allocation are not transparent there is a perception that some of the allocations are made to support the interests of one or other party in marginal electorates. I am not saying that happens, but there is definitely a perception that happens. Therefore, we would ask for very transparent mechanisms that make it clear that the decisions were being made on the basis of independent advice from the advisory board. The way the bill is configured at present it gives a lot of power to the minister, whoever he or she may be, and so we must avoid perceptions of parochial or government or political interest involved in decision making. It should be open and transparent.

We have had recent experience of advice from the peer review system and the Australian Research Council being overturned by the minister—not the current minister. That creates a lot of mistrust in the system. For the confidence of the sector it is important that we have open and transparent mechanisms.

**CHAIR**—Senator Marshall.

**Senator MARSHALL**—Notwithstanding your opening comments about being grateful for anything, is this the best way to use a \$6 billion investment?

**Prof. Larkins**—I think it is a very good way to use it. I do not want to try to think whether there are alternative ways that might be marginally better. We totally support the idea that a fund is being set aside with the capital that is not being used and only the net returns on that capital are being used. It is an investment into the future. I think too much of what has happened in the past has been time limited. For example, we have had a period of growth in research funding but then faced an enormous decrease at the end of that time. The beauty of this fund is that it is something where the corpus is maintained so there is an assurance of ongoing returns from that into the future. And directing it towards capital and major research infrastructure is a very appropriate use of dividends. I have outlined the backlog in terms of maintenance and refurbishments. We have argued that rather than confining it to new capital development and new research infrastructure we would like some of it also able to be used for refurbishment and backlog of maintenance as well. This is a bit of a variation from the description of what the fund would be used for. There is no question that research is incredibly expensive and to have the funds to be competitive internationally requires additional government funding. We do not have the degree of industry involvement in research, particularly in more fundamental or basic research that is necessary if we are really going to make the quantum leaps forward in knowledge that are required to address some of the huge issues facing the country and the planet.

**Senator MARSHALL**—Will this address those needs?

**Prof. Larkins**—It will partially address them. Again, it is so easy to sound ungrateful that it is a drop in the bucket or to use any expression along those lines. It is more than that. It does make a significant difference, but more is needed as well.

**Senator MARSHALL**—I know your reluctance to be ungrateful. What do you expect the dividends to be?

**Prof. Larkins**—The dividends will be that we will be better able to be competitive internationally to maintain the reputation of Australian universities, to get more of our universities in the very top rank, and to also have more of our universities lifting to a level where they are able to contribute to regional economies and regional development as well. I think the whole sector can improve and lift.

**Senator MARSHALL**—I was talking about the financial dividends. What is your expectation?

**Prof. Larkins**—We would expect something between \$400 million and \$500 million per year to go into the sector. We have a backlog in terms of the deferred maintenance of something like \$2 billion, so it would take a long time even if it was all directed towards that. We have an ongoing requirement for research infrastructure and for new buildings to support that, so it would be at least that much again.

**Senator MARSHALL**—I guess the question that I want to ask is: if the dividends are not in the order that you have expected over a year or over a cycle, what does that do to your forward planning and the budget? Does that then leave a further shortfall? Would you expect that to be made up from other sources or does that just mean we continue to go backwards?

**Prof. Larkins**—We would go backwards during that time. You have made a very good point about one of our big problems. Our university, for example, does its budget for next year

and so much of the new money that has been coming into the sector that has to some extent arrested the relative decline that we have had over a significant period of time is very much dependent on particular schemes such as the Workplace Productivity Program or the CASR, Collaborate and Structural Reform, the Learning and Teaching Performance Fund and so on. There is a substantial amount of money in those funds. They are competed for each year and we find out in about December what might be happening for the next year. In fact, sometimes we do not even find out until the actual year itself. We have to compile budgets now and we have to do those on the basis of the money we know is coming, which means that we have to cut back a whole lot of initiatives and strategic directions we would be going in because we cannot be sure that we will have funding for that.

One of the things that we would ask about this fund is that commitments were made beyond the immediate next calendar year on perhaps a rolling basis so that we had some ability to budget into the future. Given that it is dependent on earnings it is a little bit hard to see exactly how that would be done. But one of our very big problems is our complete inability to budget responsibly given that we do not know about the windfalls that are not built into any formula system but that are competed for each year. It is quite a difficult issue.

**Senator MARSHALL**—If the market actually delivers a negative return to the fund and it falls below \$6 billion, are the earnings distributed or do they have to go back until it is topped up to the \$6 billion?

**Prof. Larkins**—This is not explicit in the bill as I have read it, but I think the intent is to maintain a real value adjusted for inflation or CPI of the corpus. So that would mean in a negative year that there would be no return.

**Senator MARSHALL**—Or maybe the year after and after that if it needs to rebuild?

**Prof. Larkins**—It is possible.

**Senator MARSHALL**—I have seen this happen with my own superannuation.

**Prof. Larkins**—Yes. The universities at the moment are terribly dependent on returns from their investments. We are not the only ones. Of course, all of the superannuation funds and a whole range of other forms of leveraged balance sheets would be very dependent on the markets. I think we have all been living in a situation where fortunately the returns over recent times have been very positive. We would accept, as we would have to, that using this form of distribution of funds is dependent on the return on financial investments.

**Senator MARSHALL**—Thank you.

**Senator STOTT DESPOJA**—It is good to see you again. The last time we were here a few years ago we had a similar situation, which is debating legislation without the relevant guidelines, or at that stage I think it was regulations. Do you think it is an issue that we are dealing with a fund of this nature, this much money, with huge implications, that you do not have the guidelines and the administrative information before you?

**Prof. Larkins**—Obviously the more precise the legislation can be with respect to what the fund is to be used for and the mechanisms of its allocation the better. We would hope that before too long those guidelines were available. As I have said in my submission, we would

want those to be as precise and transparent as possible, but at the same time we do not want a huge compliance burden set up for the universities.

**Senator STOTT DESPOJA**—Was Universities Australia consulted in the lead-up to the budget announcement or indeed the preparation of this legislation?

**Prof. Larkins**—No. As far as I am aware, it was not made aware of the precise details, so it was a pleasant surprise, the particular form of this announcement.

**Senator STOTT DESPOJA**—I am aware of the consultations that have taken place. Professor Sutton was in Canberra recently and met with the minister.

**Prof. Larkins**—Yes. Because of a security alert at Melbourne airport—

**Senator STOTT DESPOJA**—That is right. You stood us up.

**Prof. Larkins**—I can assure you that it was not through any willingness to do that.

**Senator STOTT DESPOJA**—I understand that obviously there are discussions with the minister now. There are a couple of recommendations from UA and also the Group of Eight that obviously the committee will consider. But when you refer to accountability and transparency, clearly one of the recommendations you have is in relation to the findings of the advisory board being made public. I do not know about the rest of us but we will be moving that as an amendment in the Senate, and I would hope that the government might perhaps beat us to it. Do you know if you have had any feedback from government on that particular idea or recommendation?

**Prof. Larkins**—No, I am not aware of any feedback from government on that. In fact, I am pretty sure there has not been any feedback on that.

**Senator STOTT DESPOJA**—You referred to the efficient allocation of funds with the reference to the Group of Eight submission. I noted the comments here about various options being available. One of the options that is referred to was:

... rather than distribute the funds purely on an application based process, a significant proportion of say 50 per cent of funding available each year could be allocated as block grants to institutions, based on an independent assessment the total Asset Replacement Value of the building and infrastructure stock ...

Given the chair's question about potential favouritism for particular research institutions or the Group of Eight specifically, would that not lead to favouritism for the Group of Eight, given that the Group of Eight control around \$13 billion of that estimated \$26.5 billion?

**Prof. Larkins**—It is recognising the fact that over and above any requirement for new facilities there is an ongoing cost of maintenance for facilities that is broadly related to the asset replacement value of those facilities. The formula that the Group of Eight suggested was one that would be addressing some of the shortfall that all universities face in terms of the maintenance and refurbishment of existing stock. The asset replacement value seems to be the best proxy for that. There are more assets, if you like, on a per capita of student load basis in Group of Eight universities because of the greater infrastructure that they have for research, but this does not alter the fact that there is a requirement for maintenance and refurbishment of those facilities. It is one reasonable way of calculating it that relates most accurately to the true cost of just maintenance of those facilities.

**Senator STOTT DESPOJA**—What about regional institutions? That is another issue that was brought up in the submission. That also might reflect Professor Chubb's comments, and it may even touch on your political comments or the perceptions of political favouritism. I am just wondering about the concerns that you have with regional institutions. Is that something that you can elaborate on?

**Prof. Larkins**—I do not think that it is a matter of having concerns about regional institutions. Professor Chubb was making private comments in the address that he gave. I think we all recognise that regional institutions serve a very real purpose and that there are extra costs associated with relatively small university campuses. For example, my own university can see the difference in relative costs that we have in our Gippsland campus, for example, compared with our larger central campuses.

I think what we are saying overall is that what we want is transparency. We would like a recognition of what factors are being used as the basis of allocating funds or determining what funds should be allocated. It should bear in mind the need for us to have competitive universities internationally with respect to research but also bear in mind the relative needs that other universities have as well.

**Senator STOTT DESPOJA**—Please, Chair, I do not mean to misrepresent or paraphrase; Professor Chubb actually did attend a function a couple of weeks ago at which he was host and speaker, along with David Murray coincidentally as well, and he reiterated some of those concerns publicly. I have one last question. You have echoed concerns that a lot of the organisations giving evidence here today have about the potential for the HEEF to substitute or replace existing schemes and the need, as you have said, not only to prevent a shortfall in funding but wanting to ensure continuity of some of those schemes given the lack of forward estimates commitments. Is that something where you have asked for an assurance from the minister? Is that perhaps one way to address that issue, to get a written confirmation? Obviously it would be nice in red-letter law as well.

**Prof. Larkins**—We have certainly had a verbal confirmation of that. I think the ambiguity relates to those funds that are due to expire. There would be a reasonable expectation that, given the need for those funds on an ongoing fund, there would be a renewal of those funds, such as the NCRIS and CDP. In a literal sense you could say that it is not replacing anything and those funds were due to expire, but in a practical sense since there is about \$170 million per annum in those two funds and we might expect with the \$6 billion something like \$400 million, almost 50 per cent would be eroded if those funds were not renewed. There is a process that has to be followed when the funds have not been built into the forward estimates, and there is a little bit of a debate about this. I am certainly a little uncertain about CDP and whether it is in forward estimates. By total chance on my way here this morning I met Colin Walters, who was having a meeting in our city campus and who said he thought but was not sure that CDP was in forward estimates. That is why I am putting forward a little bit of uncertainty about that. I would like to have it checked in an verified way that CDP is not in forward estimates. I know NCRIS is not in forward estimates and it has certainly been a most valued fund, although very dependent on co-commitment of funding, and again causing quite a lot of financial pain on the institutions that receive benefits from it. Like a number of other things, it costs us money to get money. Nonetheless, it is an additional infusion into the

system. We would hate to see NCRIS cut out at the time that the HEEF was coming fully online.

**Senator STOTT DESPOJA**—I might ask the department about that.

**Prof. Larkins**—Yes, I think you could get confirmation from the department on whether CDP is in forward estimates. I know NCRIS is not.

**Senator STOTT DESPOJA**—Thank you.

**Senator BARNETT**—Thank you for your commendation of the overall endowment fund. I appreciate that. The minister at the time of her second reading speech indicated that the \$5 billion for the endowment fund was approximately double the current or existing funds invested in endowment funds and investments by the university sector. Is that broadly correct? Have you got any estimates that you can bring us up to date with in terms of the current status of investments and endowment funds in the university sector?

**Prof. Larkins**—They are two separate components, which makes it a little bit hard for me to give a total amount in the sector. There are formal foundations or endowment funds that the universities have. I think that would be about \$2.5 billion. Our longest established universities have approximately \$1 billion in their endowments but the new universities have very little. For example, Monash has \$150 million, which is better than most, but Melbourne and Sydney would have about \$1 billion. The whole sector may have something like \$2.5 billion. Most of the universities would also have in their current accounts, separately from the endowments, additional investments. In Monash's case it would be about the same amount again as that in the endowment fund or foundation and, taking that into account, I think it would approximately equal the amount of money that universities have in endowments or investments.

**Senator BARNETT**—I am interested in your current approach to getting more endowment funds for your universities, apart from this government initiative. I am also interested in your view on philanthropic donations, gifts or whatever to the universities. I am advised based on my reading of different references that in Australia it is roughly two per cent but that for other comparable universities it is up to 15 per cent or 20 per cent of their income. Do you have a view as to the importance of that and its growing importance in the years ahead?

**Prof. Larkins**—It is undoubtedly an area that the university sector recognises as one where a lot of work needs to be done. I think most of our universities are working very actively to develop those areas. There is a deficiency of expertise in the fund raising area to help the universities in this country, and certainly in building up our advancement division at Monash and the fund raising activity we have brought a number of people from Canada where we hope that the cultural fit is not so far apart as it is in the US. The vast majority of the universities are public like ours. There has been a culture change in Canada and we would hope that we would be able to make a similar culture change here. Indeed, there has been a substantial success by a number of universities in recent times in increasing philanthropic support.

There is an issue in using this fund as a magnet to attract philanthropic support. We find that the people who want to give money to our universities do not want to give it to a

university per se. They want to give it for particular activities within the university, whether it is research going on into cancer or whether it is research into motor accidents or some particular aspect in the humanities or whatever. We find that the more general and non-tied the philanthropy is, the less likely we are to be successful. For example, in my case, Monash University has been very successful in money being donated towards specific activities within Monash University. So if the idea is that the industry or private givers would give money to the higher education endowment fund to support the sector, I think that is just one more level removed. I think alumni sometimes want to support their university. More often they want to support the part of the university where they were or with scholarships to support disadvantaged students from similar backgrounds to their own or specific areas of research. I do not know that it is going to be a huge attractor of new philanthropic support.

If the requirement in relation to allocations from HEEF is dependent upon large philanthropic support, then that would certainly be a disadvantage for some universities, which would find it hard to attract that money. By and large, the newer and smaller universities have a lot more trouble getting substantial philanthropic support than the longer established ones.

**Senator BARNETT**—I am interested in your thoughts on the possibilities of incorporating future endowment funds that you might be able to raise privately or elsewhere and whether they can be injected into and managed in an appropriate way under the government's HEEF endowment approach, and your suggestions on how we can make it flexible or better so that it actually can happen.

**Prof. Larkins**—There are issues about having tied funds going into the endowment fund, which limits its flexibility with respect to that. Some of the smaller institutions that do not have a lot of experience at managing endowment funds may find it helpful. The larger ones certainly now have very expert financial management of their endowments and other investments, and I would not see it as particularly attractive in that setting. It is certainly possible with some of the smaller universities that are less familiar with managing those funds. They might find it helpful. Although I think right through the sector there is an underestimation of the degree of financial expertise that has been brought into the sector. Our university is very reliant of the chief financial officer, who has come from the private sector where he has been operating at a very high level. All of the large universities would have similar expertise. Then they are supported by a treasury management team that do have a lot of experience in working with some of the fund managers to deliver very high returns, in good years at least, on investments and which are benchmarked against the industry standards. We cannot see a huge potential in a majority of our universities to have their endowments managed by the higher education endowment fund.

**Senator BARNETT**—I understand the minister is going to be seeking the views of the advisory board in terms of how to make it more flexible, amenable and encouraging for your sector to invest and ensure tax deductibility and things like that for different parts. I guess you are looking forward to having a dialogue with the advisory board?

**Prof. Larkins**—We are very happy to have a dialogue. I guess the point I am making is that the vast majority of institutions in the sector have fairly sophisticated ways of managing the funds that they have and it is hard to see, given the benchmarking that is done in relation

to industry best practice, given the fact that tax deductibility is already there for donations and unless there are some special provisions made in relation to providing special tax arrangements for the higher education endowment fund compared with the usual tax arrangements for charitable foundations of various sorts, how there is a huge potential. But we are very happy to have a dialogue to see what might be possible in that way.

**Senator BARNETT**—Thank you.

**CHAIR**—You mentioned earlier the bureaucratic load on universities and also the compliance level associated with different programs. If the other grants programs that are at present run by the department were subsumed into the higher education fund so that it became the main vehicle for running those programs, would you see that as an improved measure?

**Prof. Larkins**—I am not sure that the higher education endowment fund would be the best way to do that. We do require some certainty and predictability about budget outcomes. If it were entirely dependent on the vagaries of the international investment market, it would make it even harder for us to budget than it is now. I can only reiterate what I stated before. There is so much money that is uncertain until very late in the budget process and sometimes even after the budget process that universities undertake is completed that to have another major uncertainty introduced into the system for what becomes to a significant extent recurrent operational funding would be extremely difficult.

**CHAIR**—Is it correct that most of those grants that are run by DEST are on a three-year budget cycle or on an annual?

**Prof. Larkins**—On an annual basis. In the last budget the intent of entering a three-year cycle for the Commonwealth Grants Scheme was put forward, but that does not affect the competitive funds that we have, such as workplace productivity or what is going to be the DASR—the Diversity and Structural Adjustment fund—which replaces CASR, the Collaboration and Structural Reform fund. I am not sure if I mentioned the Learning and Teaching Performance Fund. They aggregate to a significant amount of money. Once we receive the money we do have discretion, for some of them at least, like the Learning and Teaching Performance Fund. Not knowing whether you are getting that in the next year is a real problem. That will not be altered by the three-year funding cycle of the Commonwealth Grant Scheme. We hope that the legislation to be introduced for the new discipline clusters and the removal of requirements in relation to limits on fee based students, for example, would place more flexibility into the system, but the guidelines have now come out with phased changes over time that require negotiations around individual students and basically continue into the future. There has not been the hoped-for deregulation from the last budget in terms of the actual implementation of those programs.

**Senator STOTT DESPOJA**—Do you believe that the composition of the advisory board should be in the legislation?

**Prof. Larkins**—Yes, I think it should be. I think it is a key factor. We want people with expertise in the sector. We want people without a conflict of interest and obviously we want it to be an apolitical body.

**CHAIR**—Thank you very much for appearing before us today.

**Prof. Larkins**—Thank you for your courtesy in listening to me.

**Proceedings suspended from 10.23 am to 10.34 am**

[10.34 am]

**GREGOR, Mr Bruce, Principal, Mercer Investment Consulting**

**CHAIR**—Welcome. Thank you for making yourself available to answer questions on the Higher Education Endowment Fund Bill provisions. Would you like to make a brief statement to begin with?

**Mr Gregor**—Yes, I would, if I may. After that I am happy to answer any questions, of course. By way of a brief background, Mercer Investment Consulting, the firm where I work, is an adviser on long-term investment portfolios to a wide range of institutions. My role in Mercer is that I am a specialist on advice to university endowment funds and other foundations. Our firm advises a number of Australian universities on their endowment and long-term funds. I have colleagues in other countries who provide similar advice and with whom I chat from time to time.

Our firm also advises superannuation funds, as you may be aware. However, there are distinct differences in the advice we give to endowment versus superannuation funds. Unlike superannuation funds endowments have no defined liabilities and time horizons to which to match the investments. Instead of focusing on liabilities the investment policy of endowment funds is a balance between two things: firstly, the growing of the fund value over the medium to long term so that it keeps pace with inflation and can do the good work in the future to the same degree that it currently can and, secondly, having an annual spending rate from the endowment which provides meaningful annual payments to the beneficiaries and yet allows the fund to grow in perpetuity.

In the formal development of investment policies for endowments there is usually an obvious link between the specifications of the investment objectives and the long-term average level of spending supportable by the investments asset allocation. Some endowments have simple spending formulas which act as a guide. Others employ a fully discretionary approach. Some endowments have actually adopted specific spending formulas that they follow every year which are self-adjusting to annual volatility in investment markets and inflation.

Universities have varying experiences in how their endowment funds have emerged. Some have gradually built up modest funds from donations and bequests from alumni. Others have had large single bequests of property and assets that have started them off with a bang, like the HEEF. Some may have managed the funds with conservative policies in their early years before adopting the more conventional long-term investment policies.

Based on a recent survey we conducted the average asset allocation of a selection of Australian endowment funds is around 70 per cent in growth investments—that would be shares and property; typically, that would be about 60 per cent in shares and 10 per cent in property—and 30 per cent in defensive assets, which would be bonds and cash. For the Australian universities we surveyed in 2005 the long-term investment objectives are equivalent on our calculations to targeting long-term returns in the range of inflation plus four

to six per cent per annum in the long term. By the term 'inflation' we imply the CPI as the measure of inflation.

Endowments in the US, which is the home of the most well-known endowment funds, have similar asset allocations. They have similar amounts in growth assets but they tend to have less in property and a bit more in unlisted investments, hedge funds and the like. The average spending rate for university endowments both here and overseas is typically around 4½ to five per cent of the fund values averaged over the long term, but that percentage compared to the value of the assets can vary greatly as the volatility of the assets values varies from year to year and the annual spending amount stays more stable from year to year.

Based on work that I have done in developing investment and spending policies for endowment funds and foundations I have one specific observation on the wording of the Higher Education Endowment Fund Bill 2007. I must admit I read the bill and the recent media release about the extra funding, and I gather there are some extra provisions around what is in the bill to support the earnings that will emerge in the early years, so my comments acknowledge that there may be other explanations for what I am about to say. But what I read in the bill relates to the restriction on the maximum grant rules in subclause 47(5). Based on my understanding of the bill this provision would prevent any grant being made if the market value volatility of a long-term investment allocation caused the balance of the HEEF at any 1 July in the early years to be below the dollar amount of government contributions to the HEEF account. The possibility for long-term growth portfolios of a negative annual return is generally accepted to be about a one in five possibility, 20 per cent. This is likely to constrain the design of the investment mandate to a very defensive asset allocation in the early years of the fund. If my understanding of the bill is correct, the grants which might be given in the early years might be low compared to what I gather is the general expectation of grants emerging from this fund at the level I indicated earlier as typical for endowment funds—that is, between four per cent and six per cent of the fund value.

They were my comments from reading the bill. I would be happy to take any questions on the investment and financial aspects of the fund.

**CHAIR**—Thank you. In your experience with present endowment funds do you think it is likely in Australia that private benefactors and corporations will contribute funds to this fund?

**Mr Gregor**—I guess that would be speculation on my part. There has certainly been evidence of benefactors contributing to universities in various ways, some to establish the names of the institutes and to build facilities and others to put money into the universities own endowment funds. Those activities seem to have a broad range of connections. They can be through people who have attended universities and achieved phenomenal success through their entrepreneurial abilities. They can be through people attracted to the work of endowment funds generally who see it as a convenient home for their money to go to. It is conceivable, given the size of the HEEF fund and based on my observation that in the US the bigger endowment funds typically perform better in investments than the smaller ones, that as the reputation of HEEF grows it may well attract people who see that as a convenient way of contributing to education.

**CHAIR**—I am certainly not casting aspersions on yourself, but what do you believe is the level of expertise in this country with managing endowment funds such as this one may well become?

**Mr Gregor**—I think there is quite a high level of expertise. It is very specialised and probably present in a narrow range of people and firms. My interaction with university finance committees is that they are aware of how the best funds are managed and they do apply the principles pretty much as I have explained them in the note. Certainly, the Future Fund infrastructure that has been set up seems to me to be staffed by very capable people with expertise that would equal anything elsewhere in the world. I would think that the capability is there but it is probably very thinly spread.

**CHAIR**—You do not need to comment on this if you do not want to, but you would assume that the advisory board would have a reasonable range of expertise on these matters, not particularly in management of endowment funds but of a much more general nature?

**Mr Gregor**—I guess I would give some qualification to that. I think it would depend on the quality of the investment mandate that is given to them and in particular the attention that is given to the level of spending that is expected and is likely to emerge from the fund. I think those two things are critical; there is a tension between them and they are quite different to what job they would be doing with regard to superannuation liability funding.

**CHAIR**—With your comments about similar funds in the United States and possibly other countries, is the endowment fund similar to those in the way that it has been set up in terms of management, ministerial oversight, injection of funds and that sort of thing?

**Mr Gregor**—I guess, generally, the governance has some similarity to the funds over there, but there are some obvious differences. It is a question of what the future flow of support to the fund might be. In the US some of the larger endowments contribute quite a large proportion of the expenditure of the universities. The average is I think about 10 per cent. I think Yale is now at about 35 per cent. Where you have a dependence on the flow of support like that and where the cost of maintaining those sorts of universities is really above the general economic growth and inflation level, there is a dependence on a flow of future bequests as well as maintaining the real value of the fund. From that point of view, there would need to be some funds added in the future.

**Senator STOTT DESPOJA**—Do you mind if we go back to the comment you made in your opening remarks about clause 47(5), relating to accumulated nominal earnings? Can you just run that past me again? When you talk about this being a potential constraint, as I understand it, on the investment and the idea that that would mean a defensive strategy, I am assuming you are referring to cash or bonds, as you did in your opening remarks. What are the implications exactly for the fund as a consequence of your interpretation of that section?

**Mr Gregor**—To give an example, if in the first year the money was invested and the return was, say, eight per cent and there was an intention to distribute five per cent every year and inflation was three per cent, then you could distribute five per cent and you could use the three per cent to upgrade the value with inflation and everybody would be happy and everything would work out perfectly. If, however, the money was invested immediately in the long-term portfolio allocation with 60 per cent in the share market and the share market were

to fall by, say, 20 per cent in the first year, then obviously the remainder of the portfolio allocation is unlikely to make up that deficit and you could see a return of zero per cent or less in the first year. My reading of that clause is that if the valuation at the beginning of the financial year 2008-09 showed the value to be less than the \$6 billion that has been put in, then no grant could be made in that first financial year. That is my interpretation. I am not implying that is what the government intends, but that is my interpretation of the bill.

**Senator STOTT DESPOJA**—Thank you, because that might be something that we chase up ourselves. I want to ask about a different clause of the bill, clause 16(4)(a). This relates to:

paying or discharging the costs, expenses and other obligations incurred in connection with the establishment, maintenance or operation of a bank account of the Future Fund Board, where those costs, expenses or obligations are not covered by—

basically other relevant clauses. Given that clause in this legislation, can you explain what those costs might involve? It seems quite broad in some respects. I am wondering what they may refer to. I am happy for you to take this on notice as well. They may be fairly simple things but I am just curious as to what they might include.

**Mr Gregor**—This, I guess, goes to the operations of the agencies and so on, but it does appear to talk about the bank account. It would be hard to imagine that there was anything unusual coming out of running a bank account but there could be depending on where the bank account is, I suppose. But I cannot really comment any further than that.

**Senator STOTT DESPOJA**—I might just ask about the philanthropic issue because it has been raised by the chair. I do not know if you heard the last question to Professor Larkins from Universities Australia as well, but he doubted that there would necessarily be an increase in philanthropic activity partly and understandably because people want to go into scholarships or do other things. Would there be a particular advantage in investing in the HEEF as an individual or as an entrepreneur? For example, if I fund a scholarship would I want to keep that scholarship at Adelaide Uni or would I want to put my money into the HEEF? Would there be benefits in doing one over the other?

**Mr Gregor**—I think it is going to depend on the personal circumstances because people do their bequesting based on their own circumstances. Some people want their name to be associated with an award and they want it to be associated with a discipline that has helped their family or their own career. They are more likely to go directly, I would imagine, to an institution where they have control over that. I would see it as difficult for a national fund like HEEF to maintain records of individual awards and administer things like that. I would see that as probably being impractical. But just to give an example of where it might happen, you may have recently seen where Warren Buffet gave a lot of his wealth to the Bill and Melinda Gates Foundation because he thought that, rather than pick anywhere to spend it, they could do it as well as anybody else. If the fund is seen as not being politicised and is operating well and producing good returns, it may well attract somebody who has a lot of money and who just wants to have a general addition to education.

**Senator STOTT DESPOJA**—Thank you.

**Senator BARNETT**—I want to ask about the overseas experience and your understanding of how these sort of things operate overseas? Can you share your expertise with us in terms of

managing the funds and maintaining the real value? You have commented on that in your previous answers.

**Mr Gregor**—They have varying experiences, but they generally attract a high level of expertise. There is generally little in the way of bad governance from the stories you hear about them. The larger ones have certainly been able to maintain their real value. I think they are seen as being some of the more successful investment funds, certainly in the US. Some of that is because they have attracted high-quality people to work in their investment departments and to attract investment opportunities that others cannot attract. The smaller ones have probably had a similar experience to general institutional funds like superannuation funds, but generally they have maintained their real value. I think the longer term experience of performance of funds both here and in the US is that they have produced real returns probably at the current measurement of time ahead of the five per cent real return level. But we have had a very strong period in markets over the last three or four years, so that may average back towards the five or six per cent that you might normally expect. But they are generally looked on as being successful.

**Senator BARNETT**—In your earlier answer you have referred to the volatility that may occur over a one-year period or a short term. I assume you would agree that these things need to be considered over a longer term? This is like the Future Fund; it is for the future. An endowment fund is long term. What is your experience when you look at the practicalities in overseas experience with funds like this and how they are managed in the long term, their maintenance of real value in the long term and their access to funds over the real value of the fund?

**Mr Gregor**—My comments also extend to the long term. They have maintained real value. Regarding my comment in relation to volatility, I do not want it to be interpreted as a problem for the fund. I see it as just a problem in the early years of the fund versus the expectations people have for the fund. The most successful foundation, not quite the largest but probably the most successful in its operation, is the Yale Foundation. It went through the 1970s with almost no return during that decade yet continued distributing money to the university and saw its value actually fall by about 60 per cent in real terms over that period. Inflation was quite high as well. But it was aware of what was going on and it was able to recover from that. Because of the severity of that period it did have to make some departures from what its regular spending formula was. But to see a fund that has coped with probably the worst period from an investment point of view that I am aware of, it does show they are resilient to those time frames if they are well managed.

**Senator BARNETT**—Do you have any views with respect to the possible attraction of philanthropic investments from others that may be able to be linked in with such an endowment fund?

**Mr Gregor**—I do not think I have much to add to the comments that I have already made on that area. I think it is a matter of wait and see how the reputation builds and how the performance builds and whether that does attract donations.

**Senator MARSHALL**—I want to come back to the returns and how that may work. I think you indicated to us that the experience with these sorts of funds is that they would return

inflation plus four to six per cent based on a 70/30 ratio of growth versus defensive assets. Coming back to what you said earlier—that in the early years it may need to be more defensive—I am just trying to work out how that would happen. The only way that would happen is if you then build up the asset base above \$6 billion to give you some leeway in later years so you could be more aggressive in the investment strategy. Does that mean that the actual returns above the \$6 billion plus CPI may not be distributed in the early years to the universities?

**Mr Gregor**—That is the concern but it is really only a concern that relates to the provision that I highlighted in the bill. I guess at face value I see that provision as unnecessary because I see that the principles in the bill that underlie how the maximum grant is calculated do address that. There is an intention implied in the bill in 24(3) to maintain the real value in the medium to long term and an intention to have a stable level of distribution. I would see adherence to these principles preventing distribution of an excessive amount in the first year, knowing what impact that is likely to have on the long-term growth in the fund. If the provision in 47(5) were taken away I would not really see a problem occurring in the early years of the fund, as long as the investments can be invested in a short space of time. It is a substantial sum of money, so there would have to be a comment from the Future Fund board on whether they could do that. I would not see a problem in starting off at a reasonable level of distribution, albeit maybe a little lower than you would expect in the longer term.

**Senator MARSHALL**—I guess that is the point I want to explore, because there are two ways of approaching it. As a funds manager you want to look after the fund in the longer term and make sure that it retains its value and grows at the right rate, where the purpose of the fund, though, is to provide an income stream to universities. So, of course, the question of maximising the return without undermining the integrity of the fund is important. We have had figures put to us that the earnings could be anywhere between \$300 million to \$450 million a year, which in itself is a fairly wide discrepancy. The intention is to have that money distributed, so if we kept distributing all the money above CPI growth each year we would then have to have an ongoing conservative investment strategy. Is that right? I guess my question really is: what is the difference between a 70/30 growth-defensive strategy which delivers an average of inflation plus four to six per cent? If you move to a defensive strategy, would that be inflation plus a certain percentage?

**Mr Gregor**—A defensive strategy is more likely inflation plus about two per cent. But, if I may elaborate, regarding the example that you gave there of maintaining the real value, I do not see the endowments that I see operating as looking at religiously maintaining the real value every year. They would have modelled what expectation there would be and expect it to wander around with a long-term trend developing over five to 10 years of maintaining the real value.

**Senator MARSHALL**—But the long-term trend, of course—if it is a conservative investment strategy—is the real value plus inflation plus two per cent. That is the long-term value, because I think you also indicated that there is a 20 per cent chance of having a zero or negative return. We have seen that and experienced that. If it is a significant negative return it may take a couple of years to even bring the fund back to its initial value. My concern is that this fund is supposed to have an ongoing secure return stream for universities to do those

things that they have identified, which is infrastructure maintenance and new infrastructure development, and I am just trying to get a picture on how reliable this income stream actually will be and what will be the real extent of it.

**Mr Gregor**—In the endowments I have seen and modelling we have done, you can expect some variability in that income stream. But what we generally do is develop a spending formula that is slightly at the conservative end of what you expect the investment performance is going to be but with an expectation that if the growth is beyond that it will pick up that spending and rise above what your expectation is. You might see it varying somewhere between four per cent one year and seven per cent another year compared to the value of the portfolio. Of course, the value of the portfolio is varying as well, so you have got a number of things going on there in how you measure the amount. But, typically, people would look at spending in dollar terms as being reasonable and stable from year to year and picking up the real growth as you go year by year. This spending formula and investment strategy is an iterative process. It is not an exact science where you can press the button and get the answer from the beginning.

**Senator MARSHALL**—What we do know is that, as you have said, with a conservative investment strategy the expectation is inflation plus two per cent.

**Mr Gregor**—And that implies a two per cent distribution rate permanently and not growing beyond inflation.

**CHAIR**—As there are no further questions, thank you very much for appearing before us today.

**Mr Gregor**—Thank you.

[11.02 am]

**SMITH, Mr Bradley, Executive Director, Federation of Australian Scientific and Technological Societies**

**CHAIR**—Welcome. The federation has lodged submission No. 6 with the committee. Do you wish to make any amendments or alterations to that submission?

**Mr Smith**—No.

**CHAIR**—I now invite you to make a short opening statement and we will ask some questions.

**Mr Smith**—Thank you to the committee for the opportunity to comment on the HEEF Bill. I want to reiterate some of the comments that were made to you earlier in the day by Professor Larkins. The first thing is that we certainly welcome the additional funding for capital and research infrastructure. As we point out in our submission, there has been a steady decline over the years in investment in research infrastructure and teaching and learning infrastructure and, notwithstanding the previous comments about the two per cent, this fund will hopefully assist greatly in refurbishing and reversing the erosion of the quality of infrastructure in Australian universities. It is also important to point out, as did Professor Larkins, that over the last 10 to 15 years the decline in the infrastructure investment in Australian universities has been going against international trends where there has been a marked increase in investment in the university and research sector, particularly in China but also in other areas in our region like Singapore, Malaysia et cetera who are all trying to build themselves up to be hubs of higher education and research in South-East Asia or Asia more broadly.

While we welcome the creation of the fund, we are concerned with a number of elements in the bill. First of all, we are concerned at a lack of transparency and accountability in the process. Any future minister of either persuasion could control all stages of this process, including the selection of the advisory board, the selection criteria and the capacity to select grants or to not accept advice from the advisory board. While there will be tabling of some of those areas—they are not just allowable instruments—I think there is a problem with the perception of that process which should be taken seriously. There is also at this stage a lack of clarity as to the relationship between the HEEF grants and other programs, for example the NCRIS which was talked about earlier today. I note that in the second reading speech the minister commented along the lines that it was clear what this was going to be for but we are yet to see that. Is this going to target gaps in the current program? Are there going to be requirements that this is for research infrastructure under or over \$5 million or \$10 million, or whatever? These sorts of details will need to come out in the guidelines. At this stage that lack of clarity is an issue.

One of the major areas of concern that FASTS has with the current funding regime that is relevant to this provision is that there are lots of pots being put aside for specific purposes. There are all sorts of funding programs with different criteria and so forth. This has created a very high level of compliance costs and opportunity costs in the sector as they make application for various funds. In one sense the HEEF will be another area in which there will

be a compliance cost and also an opportunity cost in making application. I am certainly not suggesting that there should be *carte blanche* where we give the money to universities and let it alone, but we do need to give serious consideration to the costs and inefficiencies that wash through this sector at the moment because of the micromanagement, as it has sometimes been described, of universities through government programs and lots of small pots. I can flesh this out a bit later. We suggested as part of this that funding should be partially a block grant to the universities, but the universities must provide a plan, with KPIs against that, which then could be the basis by which funding could be declined in the future as a way of having more accountability.

The final general concern we would have, and others have commented on this as well, is that this fund could be used as a replacement in part or in full for existing programs. We would regard the minister's and indeed the government's statements at the time of HEEF being announced in the budget and subsequent to that that the policy intent is clear, that this should be an additional income stream. I note that there was a media report in May, I think, from the minister which suggested that the capital development board would be phased out. That seems to contradict comments in the second reading speech. I think some clarification is required over whether that is intended or not. But the general point there is that this should not be replacement funding; that it should be additional funding is a key concern of ours.

Going back to the concern about the minister controlling all stages of the granting process, we do not believe that is a very good governance model. We believe that the legislation should ensure that the minister makes public both the advisory board recommendations and any significant ministerial variances from this advice. Having said that, we have no problem with the minister having the final decision, as is the case with the ARC, but we want very clear criteria under which those decisions are made and then it is known when those variances occur and why.

I have a few comments about the basis on which the funds will be allocated. We certainly believe that there should be a strategic focus—that is, we would expect that the funding should be to enhance institutional differentiation and diversity in the sector. Possibly it should be used for supporting niche areas which currently may miss out in competitive grants like those issues around taxonomy and, I suspect, languages. Our colleagues on that side were making similar comments. It should not just be for research infrastructure; capital grants should also include teaching and learning environments for the students.

We have proposed that the fund include two broad streams, perhaps 50 per cent available on a block grant basis. We have suggested that could be a composite formula, including student load or student load in national priority areas and success in institutional grant schemes, national competitive grants or the RQF—if and when that is implemented. Then the other 50 per cent would be on a competitive basis with specific projects. As part of the issue around lack of clarity about the conditions of this grant we would also want to know very clearly whether it is expected that collaboration between institutions will be one of the conditions or whether you would be talking about individual institutions only. These are the sorts of questions that need to be addressed before we see the final laws. For instance, if you do go the way of splitting it, say, fifty-fifty between a block grant to institutions for competitive grants, you may well want to say, 'We want 10 grants of \$15 million or we want

150 grants of \$1 million.’ There is a lot of difference there and we need to be clear about what sort of quantum and what sorts of projects might attract those different levels of the quantum.

As I alluded to before, we think that, if there is a block grant, institutions must be able to account for it; they must be able to give clear plans. In effect, you would be seeing, we would hope, a shift in the funding model more towards something that happens in the US—which some describe as a compact model—where government and universities agree on what a profile might be, what strategic vision a particular institution has, and funding is made on that basis and universities have to provide KPIs to show how they have measured that up in the future. It is more of a hands-off approach with less micromanagement, but universities are still very clearly accountable for what they are doing. That is why we are arguing that that block grant will deliver strategic outcomes if there are those sorts of planning processes in place.

The final point I wish to make—and it is not in our submission—is, I suppose, a follow-up to some of the discussion earlier today about the US. I have had the experience of being on the finance committee of a couple of university councils so I am aware of some of the issues around endowments. I have also spent some time in the US. I think we need to understand that there is a huge culture around endowments of universities and of giving to universities. That has been built up over centuries of tax arrangements and culture. This is not something that you fix instantly. I think we need to understand that America is anomalous and that this did not happen overnight. Thank you.

**CHAIR**—Thank you. That would also reflect, of course, the size of the US economy compared to ours—

**Mr Smith**—Absolutely.

**CHAIR**—the level of personal wealth and, as you say, that long history of endowment and giving to institutions in which we are but beginners, I fancy.

**Mr Smith**—And not just us.

**CHAIR**—That is right. You mentioned in your submission that the advisory board should contain sufficient diversity of expertise to ensure the prospect of a credible process. You made the distinction between merit and expertise as distinct from a representative or formulaic structure. Would you like to expand on that? What sort of advisory board would you envisage?

**Mr Smith**—That is a good question. I would certainly expect a body of seven to 10 people with deep knowledge of different aspects of university activities. So we would see some with expertise in providing capital for teaching and learning, others with expertise on the research side. We would not, on the other hand, want it to be on an ex officio basis so that there was a Group of Eight representative or one from the ATN. We do not want replication or tension based on those sorts of lines. That is why we would argue that it needs to be merit based but with diversity and an understanding of the university system.

**CHAIR**—Over and beyond the university system?

**Mr Smith**—Absolutely. I certainly think there would be a place for people with perhaps some knowledge transfer expertise on the side of business or in the not-for-profit sectors and so on with relevant expertise.

**CHAIR**—You also mention you have made a recommendation that there be two methods of allocating resources. The reason that you see this as a good thing is that it is less work for the advisory board. Would that not be more work for the advisory board, do you think?

**Mr Smith**—Not necessarily, but the point is that if it is 50 per cent of it straight off on the block base you have got a smaller pot to make decisions on. That is not the key reason for doing it. The key reason for doing it is that it encourages the universities to think more strategically with some sort of notion of what the planning horizons might be. The risk is that if you have got a pot where it is—to be frank, an annual beauty contest—it is going to make it very volatile in who gets what and when. I think you could argue that if there is some sort of basis where a university could have a rough guess, given their load, given their success in IGS or on RQF or whatever measures you might want to use, then they have got some notion of planning horizons. That is the real intent—to try to give universities more bases for making strategic decisions.

**CHAIR**—But, without reflecting on that remark, it would also be necessary that the smaller and regional universities were not elbowed aside in the stampede for funds on that basis, given that the bigger universities may well have more student load, greater profile et cetera.

**Mr Smith**—Sure.

**CHAIR**—So you would want to keep a balance.

**Mr Smith**—Absolutely, and we are not committed to that particular model. What we are saying is that here is a problem; here is one possible way of thinking about it. We have not done any detailed modelling. For instance, if you decide to go with national priorities like nursing et cetera, there are only a certain amount of universities that have nursing students. So you have to look at the variables there. I think Professor Larkins made that comment, too. Every Australian university has at least some hot spots in research quality and research capability. You would certainly not want to have this crowd out James Cook's marine science, for instance, or the University of South Australia's material science capabilities.

**CHAIR**—Thank you for that.

**Senator MARSHALL**—You have indicated that the fund is likely to provide a funding stream of approximately \$300 million to \$450 million per annum. How did you come up with that figure?

**Mr Smith**—That was just done on a rough five to 7½ per cent return on the investment, which is sort of current at the moment. But we are well aware of the possibility that it could be zero.

**Senator MARSHALL**—I am madly trying to do the calculations based on what has been put to us. We have been practising our maths on previous inquiries around this place—

**Mr Smith**—I thought you meant in your electorate office.

**CHAIR**—No, I would not let him do that.

**Mr Smith**—The figures of \$300 million to \$450 million are a net five to 7½ per cent. That is the basis.

**Senator MARSHALL**—That is net.

**Mr Smith**—It is after CPI adjustments and the costs of running it.

**Senator MARSHALL**—These things cannot be held exactly. The evidence from Mercer is about what we can generally expect in these things and they have indicated that with the general make-up of these sorts of funds you would expect inflation plus four to six per cent based on 70 per cent growth and 30 per cent defensive. But if it is more conservative, which it would have to be in the early years anyway, or zero to build up the assets so you could be more aggressive into the future, you would be looking at a two per cent return to the universities. So we have got a lot to say and maybe I will just ask you for your opinion about this. I have heard a lot of concerns about it replacing different things, but obviously the universities have indicated to us that this is going to be something that they will rely upon to try to redress some of the outstanding \$4 billion of infrastructure maintenance that they have across universities and that there is also the need for the building of infrastructure for new research and development. I guess the concern is if universities become reliant on this income stream to do those things and it does not deliver the amount of money that people are assuming that it will be delivering—I am not sure why that assumption is there—where does that leave everybody?

**Mr Smith**—I think what you need is a pluralism of funding sources for the sector. It is a good idea to have a number of different funding schemes, of which HEEF would be one. You would not want to be reliant on any one scheme. We would not want, for instance, basic research to be only funded by the ARC. The first point is a good principle in the funding of universities is some variety of funding schemes without going to the extreme of micromanagement through excessive amounts of little pots, which I think is the situation at the moment. I suppose the question is: what would the balance be between HEEF and, if you like, stable annual appropriations going four years out in the forward estimates? I think you would always expect that the majority of the capital funding would come through the standard annual appropriations on a stable basis. I think particularly for the universities, where what is really important is this notion of patient capital, that it is in the government's interests and the universities' interests that there is a stable underpinning and that HEEF can provide, particularly in good years, some important top-up which allows for flexibility, going into new areas, regeneration and so on. But you would not want to put all your eggs in the one basket with HEEF, by any stretch of the imagination.

**Senator BARNETT**—Thank you very much for your thoughtful submission. We appreciate it. I just want to touch on your comments regarding the US and their history and heritage of obtaining funds through philanthropic means and other private sector means. Having lived over there I acknowledge that and know that that is very important to their future. The government are sending a message with this endowment fund, I think, to the sector and to the community that we are hoping that they will consider opportunities to contribute in different ways to long-term endowment funds or investments in the sector. Do

you think this could be a catalyst for further action, not necessarily in the same way that they are doing in the US but knowing that in terms of philanthropic contributions we are around two per cent and in the US and other places it is 10 to 15 per cent? What are your thoughts on this being a stimulus to further action there, if at all? Do you think we are moving down not necessarily the US track but leaning or moving more towards gaining funds from sources other than government?

**Mr Smith**—We have been moving towards a diversity of funding sources for the last 25 years or more. The introduction of HECS is one example of a greater diversity of funds, having private provision of financing. It is not clear to me that this fund changes anything significantly in terms of encouraging philanthropic investment in universities, to the extent that tax deductions are already available with the right criteria and so on. To me, it is not adding significantly to that. What it does do, I guess, is send a signal that if you wish to make an endowment but are nervous about the management of it by the university et cetera, here you can put it into a professionally run, central fund so that you do not have to worry about it. So I suppose it sends that message. It does not hurt at all to have that conversation about sending cultural values of giving to institutions and investing in knowledge and education. I think it would be naive to think, though, that the philanthropic area is going to be a substantial replacement of other sources in the long term.

**Senator BARNETT**—I have a view that there are opportunities for additional resources for the sector in the future.

**Mr Smith**—It is not substantially replacing the need for considerable government investment.

**Senator BARNETT**—Sure. I appreciate that in your submission you have given good thought to the formula for the distribution of the funds and those two main methods. Being from Tasmania I am interested in your views as to the merit and possibility for smaller universities accessing the funds and for regional or rural universities accessing the funds. It was touched on earlier. I know you have not done any modelling, but you have put a proposal in there for two parts, A and B, on page 3 of your submission. I would like to get your thoughts on how the smaller and regional universities can access those funds under your model or under some future model.

**Mr Smith**—You would need to have a look at that. There was one other proposition I am aware of—I think the Group of Eight talked about that—that was on the basis of capital. You would need to model the various allocations and have a sense of how it would play out. I used to be on the university council of a smaller institution, Swinburne, here in Victoria. That has a small student load, and you would not want that to miss out just by virtue of being small. That is why we suggested a composite mix which would help smooth those sorts of disparities and take account of that. But clearly it is important that you do not crowd out the smaller establishments; you do not want large, established metropolitan universities to be taking the large part of the pot.

**Senator BARNETT**—So that is your strong position?

**Mr Smith**—Absolutely. The principle in terms of research, as Professor Larkins said this morning, is that high-quality research should be supported wherever it is done. I have already

talked about James Cook University's marine science and the University of South Australia with its material science, and there is also Tasmania with Antarctic research. Every institution has those hot spots and all of them should be supported where that excellence is there. Similarly with the student load—and one possible way that I have talked about is that you could look not just at load alone but at where there are national priorities, which at the moment are nursing, education and engineering. That would also create a different patina of that distribution which you would need to have a look at.

**Senator BARNETT**—Just to finish off on that topic, is there any experience from overseas that you may be aware of to which you could point us to see how they do it, whether it be the US, Canada or other places where they do this often, where they have endowment funds and it is granted annually? You have suggested block funding and strategic focus, not just research. Do you have any examples that you could point us to that we could perhaps have a look at in a little bit more detail?

**Mr Smith**—The US remains the main example in this sector. To be honest, I have not looked at this for 10 years. I was aware of this in 1998. I happened to be in Sweden at the time. The Swedish government established a large fund for universities to access to in effect get their own endowment fund. My memory is that that was a lottery fund or something like that. Two of the universities, one of which was Chalmers, accessed some of that funding too. They in effect set up their own endowment fund. I do not know how that has panned out, but it probably worthwhile having a look at what happened in Sweden when they allowed universities to access large block grants to run their own endowment funds. But, apart from that, the US remains the example par excellence.

**Senator STOTT DESPOJA**—Mr Smith, this is a pretty big call:

FASTS submits that in its current form, the Fund runs a risk of ...

et cetera, et cetera—

... by becoming, in effect, a significant slush fund for Ministerial pork-barrelling.

It is a pretty heavy call. Is that how bad this is without the necessary safeguards to which you refer in your submission?

**Mr Smith**—That risk is there. Let us not be naive. We have all seen enough dredging of creeks or whiteboard allocations from previous governments—this is not a partisan comment—so that risk is there. I have no doubt that any future minister is likely to run it as straight as possible et cetera, but that perception will always be there. You only need a couple of slightly dodgy allocations and that lowers trust. That is the problem if you do not have trust. It is a political problem for the minister as well as a trust problem for the sector. I just think it makes good governance sense to be very clear about what are the criteria, on what basis was that done and were there variances from the advice, and then everyone understands what was going on.

**Senator STOTT DESPOJA**—That was exactly what I wanted to clarify. So you put into the legislation the composition of the advisory board, you also insist that the decisions or the findings become public and that variances from that decision also become public.

**Mr Smith**—Major variances.

**Senator STOTT DESPOJA**—But one of your comments in your opening submission was that you accept at the end of the day the fact that the minister has the right to make the decision, provided it is an accountable, transparent in process. I just want to clarify something in your submission. You have acknowledged that, while directions and grant decisions are to be tabled, these are not disallowable instruments. FASTS is not suggesting that they are disallowable instruments?

**Mr Smith**—We are suggesting that the criteria for the program might be made a disallowable instrument. I do not think you would want to make the minister's decisions disallowable.

**Senator STOTT DESPOJA**—That is what I wanted to check. There is a difference between the guidelines and the administrative—

**Mr Smith**—No, I would say the guidelines.

**Senator STOTT DESPOJA**—Okay. In relation to the issue you brought up before and that Professor Larkins referred to as well—the lack of confirmation or clarification from the minister as to whether or not this was going to replace programs—has FASTS put through a request to the minister for a meeting on this or has it requested written confirmation?

**Mr Smith**—No, not yet.

**Senator STOTT DESPOJA**—I will not go on to the fifty-fifty proposal because I think that has been covered. But I thought it was interesting in response to Senator Marshall's comments, when you were talking about the need for plurality of funding choices, that you referred to appropriations. Obviously, ideally, you would want your grants to continue coming through. You were not seeing in a big bad world the possibility of not just individual programs—research programs, for example—being replaced but of Commonwealth grants actually losing out, depending on the income stream of the HEEF and the reliance on it?

**Mr Smith**—I could well see a situation in 10 years time if there was, for example, \$700 million or \$800 million coming in routinely to the sector from HEEF that someone in DOFA might well say, 'We don't need RIB G,' or 'We don't need the IGS anymore.'

**Senator STOTT DESPOJA**—Yes.

**Mr Smith**—Or Treasury.

**Senator STOTT DESPOJA**—Treasury saying that? You are not saying we don't need Treasury?

**Mr Smith**—No.

**Senator STOTT DESPOJA**—Just checking!

**Mr Smith**—I can well see that situation arising.

**Senator STOTT DESPOJA**—Me, too. Thank you.

**CHAIR**—Thank you very much, Mr Smith, for appearing before us today.

[11.31 am]

**ARTHUR, Dr Evan, Group Manager, Innovation and Research Systems Group, Department of Education, Science and Training**

**GREENSLADE, Mr Alan, Branch Manager, Future Fund Branch, Red Tape Division, Department of Finance and Administration**

**CHAIR**—I welcome our next witnesses from the Department of Finance and Administration and the Department of Education, Science and Training. The committee has received a submission from the Department of Education, Science and Training. Do you wish to make any amendments or alterations to that?

**Dr Arthur**—No.

**CHAIR**—We are also grateful, Mr Greenslade, that you have appeared before us today. I now invite either or both of you to make a short opening statement, after which we will ask some questions.

**Dr Arthur**—I do not propose to make a statement.

**CHAIR**—That is fine.

**Mr Greenslade**—I do not propose to make a statement either.

**CHAIR**—You will have heard some of the comments that have been made by previous witnesses on the structure and the outlook for the Higher Education Endowment Fund. Can I ask the department, in the first instance you, Dr Arthur, how you see that this fund will encourage greater private philanthropy and what the opportunities will be for that?

**Dr Arthur**—I do not know that I can go into a great deal of detail. As I understand the government's intention, it was that by providing a signal instance of a long-term provision of funding for the higher education sector this would provide a stimulus to greater efforts on the part of the private sector to donate in a philanthropic way to universities and to research more generally. The mechanisms by which that may occur I think will depend on the way in which we move forward with the fund. The government has taken the view that at the moment, in terms of the bill that is currently before the parliament, it would simply enable private donations to be made to the fund. There are a number of other policy intents which were indicated by the Treasurer and by my own minister in terms of ways in which they could also be handled in ways which would meet the concerns of people to have some influence over particular donations they had made. The view has been taken, as the minister indicated in her second reading speech, that in order to enact that there are a number of quite complicated issues to work through and that it would not be possible to do all of that work in the time required to bring the bill in in its current time frame. As the minister indicated in her speech to parliament, those issues will need to be looked at further. That also will depend to an extent on the way in which the fund actually operates, the way in which incentives are or are not placed in terms of the guidelines on decision making which might also encourage philanthropy. But at the moment what we have is a general desire on the part of government which has been quite clearly flagged to encourage philanthropy, a major first step from

government in terms of the provision of \$6 billion now into HEEF and an intent to work through the detail of how that might occur in the future.

**CHAIR**—Mr Greenslade, could you outline to the committee whether there is a formula or guidelines around philanthropic donations to higher education institutions at present in terms of interaction with government regarding tax deductibility and so on?

**Mr Greenslade**—I am not aware of any.

**Dr Arthur**—There is the general tax position, which the Treasury are the experts on. As I understand it, there are certainly provisions at the moment for universities to be eligible institutions for tax-free donations. The legislation also provides that HEEF would have that status. Essentially in terms of private donations the status quo is maintained in that individuals can make donations to universities in tax-effective ways and they can also make donations to HEEF in a tax-effective way.

**CHAIR**—Does this fund differ from the Future Fund in its outline so far?

**Mr Greenslade**—The HEEF fund is broadly based on the arrangements of the Future Fund as far as investments are concerned. As far as possible it models the Future Fund.

**Dr Arthur**—But there are a number of differences given the different purposes, which we can certainly go to. One is indeed that the Future Fund does not envisage private donations, perhaps because we did not really think that private donations towards Mr Greenslade's and my superannuation does not necessarily attract a wide call!

**CHAIR**—I can see the difference! Are there any other differences that you wish to outline?

**Dr Arthur**—There are a number of differences of detail. I think the major difference is on the spending sides in that the Future Fund is meant to meet the obligations in all seriousness of public sector superannuation at a time in the future when there may be an imbalance between the money to be expended and the incomings to the various superannuation funds. Therefore, it has a general purpose and it is into the future, whereas the purpose on the spending side has a time frame which will commence with the next financial year and will envisage a range of activities far more diverse than just the one particular purpose of superannuation. Therefore, they are rather more detailed, and there are a number of provisions on the spending side that have no mirror in the Future Fund.

**CHAIR**—On what basis will decisions be made to top up the fund either for increased expenditure or to keep it the same or indeed to restrict fund outflows in order to increase the capital base of the fund?

**Dr Arthur**—If I understand you correctly, there are two issues in that question. In terms of general supplementation to the capital of the fund from government, the bill contains a provision that would allow that to occur beyond the initial \$5 billion investment, and indeed that provision will be activated in order to make good on the Treasurer's announcement of a further \$1 billion for the fund. That essentially, as I understand it, will be a matter for government, I would assume in the budgetary context. Future governments, in the budget formulation process, will make a decision as to whether or not to provide a capital injection to the fund in the normal budgetary processes. The bill provides the mechanism by which that

decision could be effected. I think there was also an issue in your question about restricting funding outflows.

**CHAIR**—Yes.

**Dr Arthur**—That really goes to the role of the body managing the fund, which in formal terms is the Board of Guardians of the Future Fund. The bill contains quite detailed provisions, as you would have noted, setting out the objectives that need to govern the investment activities and the role, which my colleague can talk about, of the Treasurer and minister for finance of setting rules going to the issue of how much money can be made available in each year.

**CHAIR**—Would you like to elaborate on that, Mr Greenslade?

**Mr Greenslade**—The bill includes provisions that are referred to as the maximum grants rules, which will be established by the two responsible ministers: the Minister for Finance and Administration and the Treasurer. These provide certain parameters that the ministers must ensure the rules address. Those rules will establish a means for the Future Fund to calculate how much is available for distribution in any year.

**CHAIR**—Senator Stott Despoja?

**Senator STOTT DESPOJA**—Perhaps Mr Greenslade will stay with section 47, which just happens to be the maximum grant rules. You may have heard the evidence this morning from Mr Gregor from Mercer Investment Consulting that in section 47(5)(a), in relation to accumulated nominal earnings, he thought that—and I hope I do not misrepresent him—that this was an unnecessary addition to the legislation. Can you give us some background as to why it is in there, whether it is a cautionary purpose or whether it is a necessary or unnecessary guidance.

**Mr Greenslade**—Section 47(5) refers also to section 49, which actually defines the accumulated nominal earnings. It basically clarifies that the balance of the fund should not dip below the value of the contributions, which I assume is what you are essentially referring to. That is the government's position as reflected in this legislation, and indeed it reflects the broader position of the communications fund. It has a similar constraint not to dip into capital. That is the government's policy position on that.

**Senator STOTT DESPOJA**—So it is a cautionary approach. Mr Gregor was saying that as a consequence you would be more inclined to use defensive cash bonds or whatever.

**Mr Greenslade**—Yes.

**Senator STOTT DESPOJA**—I am not suggesting that is a bad thing; I was just curious. I got the impression that maybe—

**Mr Greenslade**—If it was not there you could end up with the five becoming three or four. I guess it becomes a call whether you are prepared to run that risk. The legislation obviously reflects the government's position and its view on that risk.

**Senator STOTT DESPOJA**—Dr Arthur, could you outline for me whether there are any implications for making the findings of the advisory board public? That is obviously a

recommendation that has been discussed today. Are there negative policy implications for that? I am just wondering why it is not considered.

**Dr Arthur**—I do not think there are any negative or policy implications that I could comment on. It is simply a decision of the government to take a similar approach to the spending side as it takes in normal appropriations. In other words, the minister has the power to expend funds. The mechanism by which those funds will be expended will be subject to all the normal rules of decision making, most particularly the FMA Act, and so as a matter of course there will be guidelines that will develop the doctrine on which funds will be expended. Those guidelines very often go to issues of the public nature of the decision making.

I think the key point the government took was that it did not want to prejudge any outcomes in terms of consultation on the decision-making process. It wished to simply make available to the sector the funds to enact legislation that would allow that to occur to provide, within the context of an unusual funding source in government terms, a perfectly normal approach to the funding side of that—namely, the minister has the power to expend. It would then do the courtesy of consulting in considerable detail with the sector about the methodology by which recommendations were to go to government over the coming months. In the nature of things, no funds will be available to be expended under this activity until at the earliest 1 July 2008. Given the time the Future Fund will need to determine the amount of funds available, I suspect that it will be some time after 1 July 2008 that those spending decisions will be able to be taken. Therefore, there will be a significant period in which we will be able to consult with the sector in significant detail about how all of those issues should be addressed.

I might note that, in terms of precedence on this, the funding source is of course different, being a normal budget appropriation, but the actual spending approach is exactly the same in the National Collaborative Research Infrastructure Strategy—a \$500 million program for research infrastructure in a similar space, which is an appropriation. Therefore, all the parliament has done is appropriated the funds and the minister is able to expend those funds using her constitutional power and relying on the detail of the FMA. So exactly the same issues arise in terms of this bill.

**Senator STOTT DESPOJA**—Firstly, I am happy to recognise precedent and, similarly, I think in some respects we have had a bit of ‘groundhog day’, too, because we have debated comparable suggestions and recommendations before. I would like to get to the heart of it, though. It is not just about accountability to the sector. You talk about consultations with the sector and I acknowledge that, but it is about the broader issue of accountability and transparency. We have had witnesses here today concerned about the combination of ministerial discretion and perception—perception in relation to political interference or even the potential for a slush fund. So would that not be assisted or repaired in some way by allowing the advisory board decisions to be made public and with any large variances suggested by the minister on those recommendations to be made public as well?

**Dr Arthur**—I cannot really comment on the policy desirability or not. That is not really my role. All I can comment is that that is a result which at the moment is completely open to occur. All that has happened at the moment is that the bill provides for the funds and for the

minister on the advice of the advisory board to make decisions on those funds. All of the ancillary issues, particularly as to the nature of consultation, the nature of the criteria, the consequences of recommendations and whether those recommendations should be public are all open for discussion.

**Senator STOTT DESPOJA**—Let us move on to the guidelines on administrative information. Going back to process, can you tell us when we can expect to see those guidelines?

**Dr Arthur**—Not for some time, because I think our process would be not to draft those guidelines in the department and then make them available. Our process would be as it was with the National Collaborative Research Infrastructure Strategy, to provide a document for discussion with the sector, which would involve the sector in the process and which would eventually develop those guidelines. This is an approach we have taken in the past. It works very well in terms of getting a high degree of confidence in the sector and the eventual result.

**Senator STOTT DESPOJA**—Can you break that down for me? Firstly, when you say ‘not for some time’, do you mean a month, six months or a year? Secondly, can you define the ‘sector’? I am not meaning to be deliberately naive here, but obviously are we talking Universities Australia and the Group of Eight or are we talking about broader representative organisations, student organisations and R&D business institutions?

**Dr Arthur**—I do not want to get too precise, because we do not have an advisory board at the moment and it will be the advisory board that will also have to agree to the process. What I can perhaps do is describe the process that we have taken in the past. I will use the example of NCRIS, where by the ‘sector’ I mean all people who have an interest in this issue within the sector. So the process that was used at that time was to talk to all university groupings as university groupings, to talk to all universities separately, to run meetings in every capital and in some regional centres, where we would have meetings with university administrators. Then we would also have an open forum where all persons who were interested in the issue could come along and discuss. That was all on the basis of an issues paper that was made public on the web before we started that process. We sought submissions. When we digested the submissions we placed the results of those submissions, the submissions themselves and further developments of papers on the web and held further consultations. That took some six months to do that. Whether this would be the same time frame I do not know. It will tend to be a count back in that we need to be in a position to have propositions for the minister to make expenditure decisions on, I would guess, in August/September 2008, so there would be a process that would start as soon as we have advisory boards in place and allowing for the interruptions that inevitably would occur when we went into caretaker mode, which would take us forward to be able to make those decisions in a timely fashion in a way which had the confidence and the involvement of all relevant players in the sector.

**Senator STOTT DESPOJA**—Are you saying that public meetings will be a definite feature or a possible feature of the process?

**Dr Arthur**—I am not saying that it will definitely be a feature at all, because it is not for me to make that decision.

**Senator STOTT DESPOJA**—I understand, but they are the sorts of consultative processes that have been used in the past that may be emulated. Everyone has asked about philanthropic opportunities through the HEEF. I note this quote in your submission:

The government has signalled to the community that greater philanthropic support to universities should be provided.

How exactly did the minister signal this or is the HEEF itself the signal?

**Dr Arthur**—The HEEF itself is intended to be the signal.

**Senator STOTT DESPOJA**—We are not really sure today and we are all uncertain, and this is perhaps reflected in the diversity in submissions of witnesses; there will not necessarily be a correlation between the HEEF's existence and an increase in philanthropic activity. Is there any particular reason that the HEEF is considered as having this potential?

**Dr Arthur**—I think I tried to answer that question previously and I do not know that I have much to add to my previous answer. I certainly concede and agree with Mr Smith that Australia is not the United States. We are not going to see a complete transformation of landscape immediately. However, I am sure that the government would say that it has made a major contribution to that and is signalling that, in using HEEF as the centre point, will have a renewed focus on this. It is not just its own activities. It has also provided reference to the Business and Higher Education Collaboration Council to also look at the issue of philanthropy. This is not a new issue for this government. HEEF is one of the major parts of the interest that this government has repeatedly flagged on that issue.

**Senator STOTT DESPOJA**—In her second reading speech the minister said that the HEEF will not be a source of recurrent funding. Can you explain what she meant by that?

**Dr Arthur**—I do not know that I can gloss much more than what she said. In technical terms, the parliament appropriates funds for recurrent funding for universities in the research area. They are administered by my department. There are three major funding sources of recurrent funding specifically targeted for research and which add up to over a billion dollars a year, and the HEEF is not such a fund. It is an endowment, which will provide an income stream. The minister has indicated, and I think the Treasurer also indicated in his press release on the subject, that it would be subject to a competitive process to determine allocations.

**Senator STOTT DESPOJA**—I may have to place this on notice so that I do not misrepresent witnesses, but are you in a position to answer some of the concerns or criticisms raised today regarding the potential of HEEF to replace other grant structures?

**Dr Arthur**—I can provide the maximum assistance I can.

**Senator STOTT DESPOJA**—I will try to get some more specifics for you.

**Dr Arthur**—I am aware of the specifics in the submissions. I am aware of the issues that have been raised. There have been no decisions taken by government that indicate any intention to change any of the current funding arrangements as a result of the introduction of HEEF. That is a statement of the situation at the moment. There have been no decisions taken connected with the introduction of HEEF that draw any conclusions whatsoever to existing funding arrangements. In terms of existing funding arrangements, of the major funding sources that are currently available, with the three major block funds that are administered by

DEST are ongoing programs. The funding for the ARC is an ongoing program. I also understand that the additional funding provided to the ARC in the Backing Australia's Ability package is also an ongoing program. That certainly is one major program, and a number of others, at the moment that, under the normal budget rules, are terminating programs. The National Collaborative Research Infrastructure Program is a terminating program. It replaced two other terminating programs under BAA1, and it will be a matter for government in the normal budget processes to make a decision as to whether that program continues or does not continue at a time before its current conclusion at the end of financial year 2010-11. There are a number of other programs in other departments in the research space that also under the current budget status are terminating programs. I am not in a position in any way, shape or form to speculate on what might happen in a budgetary process at some time in the future. All I can do is repeat what I have said about the current lack of consideration of the impact of HEEF in any budgetary decision about existing programs.

**Senator STOTT DESPOJA**—Are you aware of the minister's intention or the department clarifying some of those issues in writing? Obviously Universities Australia was concerned to ensure that the words uttered in the minister's second reading speech have not been contradicted or undermined in some way by comments since. Obviously I know you cannot commit to or explain government funding policy beyond 2011 in relation to BAA, son of BAA or daughter of BAA.

**CHAIR**—Child.

**Senator STOTT DESPOJA**—This is No. 2, so the next one could be the daughter of BAA. Let us not rule that out. Is there some way of clarifying some of those queries, quite seriously, to address the concerns of a number of groups in the sector?

**Dr Arthur**—All I can say is that I have given evidence at estimates, and I have given evidence here now, stating clearly the government's position insofar as I understand it. I suppose things are very much on the record. You have asked a question on notice of the minister on those issues, and I do not think that has been provided as yet. That statement from the minister will certainly be provided.

**Senator STOTT DESPOJA**—Thank you.

**Senator BARNETT**—Thank you for your submissions today and for appearing before us. With respect to the philanthropic discussions that we have been having across the table earlier today, you state in your submission that in Australia less than two per cent of Australian university incomes come from philanthropic donations compared with 15 per cent in the USA. Can you assist us with some evidence that supports that in the US and can you provide any evidence either now or on notice regarding the UK, Canada, New Zealand or any other similar countries or institutions that can perhaps assist us in our deliberations?

**Dr Arthur**—We can provide that, but I cannot provide that today. Our own information comes from the university financial returns, which are made available through the normal reporting processes. The overseas information will come from a variety of sources. We can provide detail. What more detail would you be looking for so that we can make sure that we provide what you need?

**Senator BARNETT**—I am interested in two things—the percentages in terms of their annual incomes and revenues. Secondly, I am interested in the endowment funds and how they are structured. Can you tell us, firstly, how they are structured and, secondly, how they actually disburse the funds? This is what we have been discussing.

**Dr Arthur**—Indeed.

**Senator BARNETT**—We would like to look at some other comparable models.

**Dr Arthur**—I understand. We will certainly provide some information on some parallel structures in the UK and Canada, although they would not be called an endowment fund per se. In Canada, one fund that has some similarities to HEEF in terms of the way it operates is a fund called the Canada Foundation for Innovation, which as I recall it has a similar funding source in that it was a budgetary decision to provide a certain amount of surplus into a particular fund. It is not set up quite the way that HEEF has been set up, but it provides funding for research facilities and innovation activities in Canada's university sector. It operates with a board. It works on the process where there are guidelines and there are applications, and year-on-year decisions are made to provide funds to universities and indeed to projects that involve a number of universities.

**Senator BARNETT**—Is it primarily for research?

**Dr Arthur**—It is primarily for research. In the UK you have the Lotteries Fund, which provides significant funds for a range of public sector activities, including university activities, and it is a major source of funding for significant public sector activities. You also have the more traditional endowment, particularly in the research space with the Wellcome Trust, which is a major funder of research activities and facilities in the UK.

**Senator BARNETT**—Is the UK Lotteries Fund for research?

**Dr Arthur**—No, it is my understanding that it is for quite a wide range of public policy purposes.

**CHAIR**—Hospitals and so forth?

**Dr Arthur**—Indeed.

**Senator BARNETT**—If you are happy to take that on notice and provide us with some assistance, that would be very much appreciated.

**Dr Arthur**—Yes.

**Senator BARNETT**—I can see that it would be sending a signal to the community and to the university sector through setting up this fund, and it seems to me that it is a very strong signal. I acknowledge that. I just wanted to clarify that the Australian Maritime College, based in Launceston, will be merging with the University of Tasmania and will not be an eligible institution?

**Dr Arthur**—It will be an eligible institution and it would have been an eligible institution in any case, because the eligible institutions are table A and table B, which will have that included in it.

**Senator BARNETT**—As I am from Launceston I wanted to get that on the record.

**Dr Arthur**—Indeed.

**Senator BARNETT**—The chair asked you earlier about the differences with the Future Fund and you have commented on those possible changes. But in terms of the criteria I understand in your submission that you have made reference to institutions being eligible to apply for the funds. Mr Smith and others have put forward models for block grants for research and so on. Can you provide the committee with any further advice or updates on the current thinking in terms of the criteria for institutions to apply for these funds?

**Dr Arthur**—Not really beyond the answers that I gave to Senator Stott Despoja. That is all a matter for discussion with the sector.

**Senator BARNETT**—When you say ‘for discussion with the sector’, when is that happening?

**Dr Arthur**—As soon as the minister appoints the advisory board and, depending on when the election occurs, we would then engage in a consultation process.

**Senator BARNETT**—Is that all by application? Will these funds be disbursed subject to the institutions applying?

**Dr Arthur**—Exactly how that will occur is likewise up for consultation, although the minister and the Treasurer have indicated that these funds will be allocated on a competitive basis. So insofar as I understand the policy intents, I am not sure that block funding as proposed by some is consistent. But that policy intent, having said that, is all subject to confirmation and finalisation before we get to an actual promulgation of guidelines.

**Senator BARNETT**—With respect to the smaller institutions in rural and regional areas, such as Tasmania or other parts of Australia, do you feel that they will be adequately considered or dealt with in terms of preparation of those criteria?

**Dr Arthur**—We will take every effort to make sure that the interests of all players in the sector, including all the groupings of universities, are appropriately taken into account in the process.

**Senator BARNETT**—I have not seen any details, but in terms of the track record to date with the Future Fund, can you advise or give us any updated information on the likely return under the HEEF fund on an annual basis? Can you firstly give us an update on how the Future Fund and, secondly, the likely return that could be flowing under the HEEF fund?

**Mr Greenslade**—The Future Fund has largely been invested in defensive assets up until now. It has been going through a transition period, and the transition period extends until the end of this financial year, at which point it expects to be largely fully invested in its strategic asset allocation. In terms of the performance up to now, there is really not a lot of insight in terms of longer term performance for HEEF. The Future Fund does have a benchmark return of 4.5 per cent to 5.5 per cent real return. That is a benchmark for the Future Fund, which it is expected to meet or exceed. At the end of this year one would expect it to be trying to track that. I should emphasise, and this is probably relevant to the endowment fund as well, that the Future Fund’s target is meeting that target in the long term, because it has got a longer term liability, and returns are optimised if they can take a longer term view about the strategic asset

allocation and how they operate. It does not necessarily mean that the return next year or the year after is indicative of how they will perform in the longer term.

With respect to HEEF, as we have flagged, there are similar arrangements to the Future Fund with respect to the investment mandate and there will be maximum grant rules. To some extent, as you have heard in discussions today, there has been a bit of interaction between those two. Neither of those has been established. The investment mandate will be established in due course by the minister so I really cannot comment much in terms of the benchmark.

**Senator BARNETT**—Is it fair for us to assume that it will be on a similar footing as the Future Fund? That is what I understand we have been advised, and so we could be expecting similar returns under HEEF. Is that a fair assessment or not necessarily?

**Mr Greenslade**—I am loath to put myself in the shoes of the Future Fund Board of Guardians and the minister in terms of determining the benchmark return. Clearly, I imagine it would be seeking to have a degree of aggression in its asset allocations, so not risk free. That would point to returns at the sorts of levels that were discussed this morning for endowment funds, but I would only be speculating.

**Senator BARNETT**—I appreciate that.

**CHAIR**—Senator Marshall?

**Senator MARSHALL**—You said that earnings from the HEEF will be available for distribution in 2008-09. Does ‘being available for distribution’ mean all the investment returns over CPI will be allocated for grants to the sector?

**Dr Arthur**—Not necessarily. The maximum grant rules have a number of considerations within them, one of which is the objective of moderating volatility in maximum grants from financial to financial year. That is in there so that, if the Future Fund Board of Guardians makes a decision that it is prudent not to disburse all of the earnings of a particular year but to do what a lot of endowment funds do and adopt some kind of smoothing approach, where some of that is retained in order to give security to future years, they may well choose to do so. Similar to Mr Greenslade, I cannot speculate on what might be the case but I certainly can answer that technically it is not necessarily going to be the case that all of the ‘earnings’ in a particular year will be made available for spending. That will be a process whereby the relevant ministers, being the Minister for Finance and the Treasurer, will set the precise rules flowing from what is in the bill and then the Future Fund at a particular time during the financial year will make a calculation of what is ‘spendable’ in that year.

**Senator MARSHALL**—In your submission you have not given us any indication of what you expect the returns to be.

**Dr Arthur**—No, we have not.

**Senator MARSHALL**—Where did the \$300 million in the budget papers come from?

**Mr Greenslade**—That was a technical assumption by the Treasury at the time. A figure had to go into the budget, and it broadly equates to six per cent on the \$5 billion.

**Senator MARSHALL**—Six per cent on the \$5 billion. Mercer Investment Consulting has indicated earlier that its experience with similar sorts of funds, both here and overseas, would

deliver on a fairly aggressive strategy of 70 per cent growth and 30 per cent defensive, inflation plus four to six per cent, but if it was going to be a defensive strategy, which they would expect that this sort of fund would have to have in the existing years at least anyway, it would be inflation plus two per cent. Do you want to hazard a guess what two per cent of \$6 billion is for us? We will be consulting our calculators and phoning friends. It is such a miserly amount I am scared that it has to be wrong.

**Mr Greenslade**—That is a matter of the arithmetic.

**Senator MARSHALL**—Can you tell us what two per cent of \$6 billion is?

**Mr Greenslade**—Two per cent of \$6 billion is \$120 million.

**Senator MARSHALL**—I will send my calculator back to the drawing board.

**Mr Greenslade**—That is a matter of arithmetic. I might perhaps go back a step though to the point you made. As I recall, Mr Gregor was doing comparisons with Yale and others. I would start with the assumption that this all means a defensive strategy. I do not think that is an assumption one can draw from what is in the legislation. The actual amounts available for distribution will be a function of a number of things. That is the investment mandate, the maximum grant rules, in which there is a fair degree of flexibility within the core parameters, which have to be established by ministers. But the purpose is very much to damp down some volatility. Of course, there is also the issue of how the Future Fund interprets and manages its investment mandate. These directions are yet to be delivered by responsible ministers. Clearly, they give a means of addressing some volatility, but I am not clear why one would draw the conclusion that it would require a defensive asset allocation. The whole point is to be able to manage volatility.

**Senator MARSHALL**—You manage volatility by having a defensive strategy. If you have a high growth strategy you clearly get at least a 20 per cent chance of a zero to negative return. That is why. So that was answering my question about how regular will the income stream be. If you have a high growth strategy, certainly if you look at the volatility at the moment, if the full \$6 billion were invested a month ago it could be down to \$5.5 billion already. As I understand it from your evidence, no money is going to be allocated unless we are at least at the \$6 billion plus CPI. Is that the case?

**Mr Greenslade**—No, not \$6 billion plus CPI. It is \$6 billion.

**Senator MARSHALL**—\$6 billion?

**Mr Greenslade**—Yes.

**Senator MARSHALL**—As to overall growth in relative terms, if we do not seek to actually grow the fund, the real value of the income stream will decrease over time, will it not?

**Mr Greenslade**—The maximum grant rules contain a provision that the real value of funds is to be maintained over time. The constraint with accumulated nominal earnings is a floor. That is the simplest way to look at it. It is a conservative floor to stop the capital being divested. Again, I guess universities such as Yale back in seventies might have had bad returns to deal with, but of course they have been around for a while and have had something there to manage. This floor is a matter of trying to protect outflows to universities in the future.

Having the maximum grant rules and the parameters in those maximum grant rules creates the ability to not have a defensive strategy. That is the whole point of it. If you only had the investment mandate, in a sense you probably would be saying that the only way to deal with the fact that you might have negative returns is to be very cautious. The whole point of having maximum grant rules is to address the fact that there is volatility. I do not know what the rules will be. They will have to be determined. But it gives the possibility to say that we want to try to damp this down over a number of years.

**Senator MARSHALL**—Based on what you just said, do you mean that we remove the volatility by making no payments out of the fund?

**Mr Greenslade**—No. Clearly, if there is a negative return initially there will be no payments out of the fund, but aside from that there can be payments out of the fund.

**Senator MARSHALL**—You will need to run that by me again because I have missed the point. I thought you said that the purpose of having the rules about not going below the \$6 billion value, as it is now, is to take out the volatility. I fail to see how that does. All it does is protect you by saying, ‘We’re not going to make any payments out of the fund this year, maybe next year or maybe the year after to protect the \$6 billion.’

**Dr Arthur**—In terms of behaviour, the maximum grant rules make it very clear that the relevant ministers have the responsibility to set those rules and not the manager of the fund. If a point is being made that the fund managers will inevitably observe a conservative strategy to avoid these issues—and under the maximum grant rules it is very clear that the responsibility in those circumstances lies with the ministers—can I say that it will not have a behavioural constraint on the manager of the funds. However, it is certainly true that the whole scheme does envisage, as stated in the bill, that there can be zero returns.

**Senator MARSHALL**—The whole purpose of the fund is to provide an income stream, isn’t it? All I am trying to do is work out what is the real income stream that we can actually expect from this and how regular can it be?

**Dr Arthur**—With respect, I will just correct you. The bill sets out very clearly what the objects of the fund are, and they are twofold. They are to provide an income stream and to maintain the real value of the fund over a medium to long term. They are both the objects.

**Senator MARSHALL**—Is the fund to provide an income stream?

**Dr Arthur**—But in managing it, those two objects are given weight there. In the fullness of time that is certainly true, but year on year that is obviously not true as your questions indicated. It is maintaining that balance between those two objectives of governments, that is, the provisions of legislation seek to provide some assurance to government that both of those objectives will be maintained but also not in a way that would constrain unreasonably the behaviours of investment managers.

**Senator MARSHALL**—Is there any guarantee about the \$300 million contained in the budget papers? Is that simply a figure that has been picked out to put in the budget?

**Dr Arthur**—It is an estimate. It is in the forward estimates.

**Mr Greenslade**—It is a technical estimate.

**Senator MARSHALL**—What is that based on? Is that based on looking at the actual operation of the fund or is that simply something that has been picked out to put in the budget?

**Mr Greenslade**—It was not picked out. I would just draw your attention to that time. They are still the extant estimates. These estimates were made and we would still be making estimates without knowing what the rules would be, without knowing what the investment mandate would be and without knowing what the maximum grant rules would be. We can now be much more confident, for example, about returns on the Future Fund because it has a clear benchmark. This legislation is the starting point to enable those things to occur.

**CHAIR**—I suspect you would be complaining if there were no estimate.

**Senator MARSHALL**—Figures have been put up. There is an expectation in one submission that it will provide between \$300 million and \$450 million a year. There has been some different evidence given from Mercers about their experience with similar funds around the place, that it could be as low as on average \$120 million a year. The budget states that it will be \$300 million a year. The politics behind the bill is that this will provide a regular income stream to assist universities, higher education and a whole range of matters. What I am trying to do is find out how secure it will be, how regular the payments will be and the real expectations of these. I am not sure I am really getting that. If those things cannot be put on paper, that is fine, but I just need to understand that.

**Dr Arthur**—I think you can say that the bill sets out very clearly the rules by which that will be calculated. As I have said, it makes it perfectly clear that a nil return is one possibility of the operation of those rules. It is really not possible for us to speculate now what the actual operation of those rules will produce.

**Mr Greenslade**—Ministers are required to ensure that the investment mandate maximises the return earned on the fund over the long term consistent with international best practice. It will not be going to suboptimal returns in that sense. That will be a requirement in the investment mandate. I would expect from the sorts of figures that we heard discussed earlier, based on the practices observed with other endowment funds, HEEF would not be outside that ballpark.

**Senator MARSHALL**—Every financial manager has as an objective to maximise the financial return from the money they invest, and we see enormous discrepancies as a result of that, don't we?

**Mr Greenslade**—It depends on whether you are talking about individual performance managers with the same asset allocation or the differences between asset allocations. I would argue that this requirement points to an asset allocation that seeks to maximise returns in the long term, which would point to assets that contain a degree of risk—equities-type assets—which would put you towards the top end of investment returns.

**Senator MARSHALL**—At least I got my answer about what is two per cent of \$6 billion.

**CHAIR**—You did.

**Senator MARSHALL**—I am very satisfied with that. Thank you.

**Dr Arthur**—And, appropriately, from the Department of Finance.

**Mr Greenslade**—I did not use my calculator.

**CHAIR**—You divide by 100 and multiply by two.

**Senator MARSHALL**—I was going to ask you what a half plus a third is. We have been tested on that in other inquiries.

**Mr Greenslade**—That is five-sixths.

**CHAIR**—It took most of us the afternoon to work that out. Senator Stott Despoja?

**Senator STOTT DESPOJA**—Speaking of assets, under section 31 of the bill is there any particular reason that derivatives are treated separately? Is that just standard or do they carry a higher level of risk? Is this just de rigueur?

**Mr Greenslade**—Firstly, it is de rigueur. It essentially reflects what is in the Future Fund, and that was a careful assessment of what is appropriate. The whole purpose of the legislation is to try to give the Future Fund some degree of freedom on how it allocates its assets. Having said that, the section on derivatives I guess is putting some constraints on it. It is trying to avoid any speculative use of derivatives. Derivatives are much more these days a standard part of investment approaches. Many investment managers use them to get into markets and then at some stage back it up with real assets. It gives the board the flexibility to use them. The risk is probably going back a decade when some investments were very speculative derivatives.

**Senator STOTT DESPOJA**—The minister is required to consult the Future Fund. What will that mean in terms of a reasonable timeframe?

**Mr Greenslade**—I think the timing and the content of the investment mandate are really something I cannot comment on at the moment. The development work has started and it is really a matter for ministers when that occurs. All I could really do is observe the practice with the Future Fund, where a fair amount of work was done to establish an investment mandate in consultation with the board. The board were formally consulted and indeed they responded very quickly, so they did not have any submission to make and the mandate took effect. We anticipate having some knowledge of what the board's views are as we develop the investment mandate.

**Senator STOTT DESPOJA**—Thank you.

**CHAIR**—Thank you very much for appearing before us today. The committee will suspend for lunch and we will reconvene at 1.30 to meet with the National Tertiary Education Union.

**Proceedings suspended from 12.22 pm to 1.35 pm**

**ALLPORT, Dr Carolyn, National President, National Tertiary Education Union**

**NETTE, Mr Andrew, National Tertiary Education Union**

**CHAIR**—I welcome our final witnesses today, from the National Tertiary Education Union. The committee has received your submission, for which we thank you. Do you wish to make any amendments or alterations to that submission?

**Dr Allport**—No.

**Mr Nette**—I do not think so.

**CHAIR**—I invite you to make a short opening statement, after which we will move to questions.

**Dr Allport**—The National Tertiary Education Union represents approximately 26,000 staff employed in Australia's higher education industry. We welcome the opportunity to speak today in relation to our submission to the Senate Employment Workplace Relations and Education Committee inquiry into the Higher Education Endowment Fund Bill 2007. NTEU welcomes a proposal for a designated long-term fund the returns from which are invested in capital expenditure and research facilities in Australian universities. We acknowledge that HEEF does provide additional funding to universities although we would stress that it in no way makes up for nearly a decade of serious disinvestment by the Commonwealth in Australia's universities system. It is a matter of grave concern that the OECD has noted that Australia is the only country which has a negative performance in terms of public investment. It is important to recognise that even with the HEEF in place Australia is still lagging in its public investment compared to our major international competitors in Europe, the United States and Japan.

NTEU also shares concerns raised by the Group of Eight that current indexation arrangements fail to provide effective funding for institutions. The Group of Eight calculate that the annual shortfall arising from indexation is of the order of \$1 billion dollars a year. In similar vein the requirements for universities to match government funding in areas such as the competitive research schemes are estimated at around \$450 million per annum. The Productivity Commission has already raised concerns about the effect of such leveraging, arguing that universities are better placed to make expenditure decisions and through such decision making compliance costs can be reduced. In common with some other submissions, NTEU believes that it is critical that funding from the HEEF should be in addition to funding currently provided by schemes such as RIB G, the Capital Development Pool and the National Collaborative Research Infrastructure Scheme.

There is some confusion across the sector over how the HEEF would work with existing programs but we note that the minister's second reading speech on the bill made clear that the HEEF funding would be in addition to those programs already in place. This is important since the minister has made it clear that HEEF allocations are not a recurrent expenditure. The bill as it currently stands lacks clarity because it fails to identify whether there will be yearly allocations from the HEEF or whether allocations will be delivered in a more arbitrary way. The lack of detail in the Higher Education Endowment Fund Bill 2007 constrains our ability

to comment more directly on the bill. However, it is possible to identify our concerns on this basis, that this could form part of the continuing work of DEST that will be required for the legislation to operate in a transparent and accountable manner.

It is presumed by most in the sector that further information about the HEEF will be contained in subsequent guidelines. However, past practice indicates that the guidelines can often not be released until the program itself has already commenced. It is important that the guidelines be written as soon as possible to assist universities to understand how the HEEF will actually work. This is especially the case given the amount of discretion to be exercised over the fund by the federal education minister in relation to the HEEF. This includes overall control of all stages of the grants process by the minister as well as a selection of members of the advisory board. While directions and grant decisions are to be tabled, these are not disallowable instruments thus reducing parliament's oversight capacity. NTEU would recommend that such instruments should be disallowable.

As the Group of Eight submission makes clear, and I quote:

There are risks under this model that funding allocations will be based on political factors rather than the merits of individual proposals or through any strategic consideration of the sector's infrastructure needs.

The bill makes no reference to the make-up or structure of the advisory board or the interim advisory board. Given previous experience of the use of ministerial power in relation to areas like the Australian Research Council grants process, the interests of transparency and good governance would be better met if the functions and responsibilities of the board are set out in the bill. There is also a serious lack of clarity in relation to the grants process including how will making recommendations for grants based on—and I quote from the bill—'strategic investment proposals which provide quality infrastructure and support Australian government policy with respect to diversity, specialisation and labour market needs' be translated into practice. The legislation makes no reference to what the exact terms and conditions will be in relation to accessing HEEF funding. It simply states that financial assistance will be provided within the terms and conditions set out in a written agreement between the Commonwealth and eligible higher education institutions.

There is potential for increased bureaucracy and compliance costs for universities and they are significant. We already have experienced this because of the plethora of conditional Commonwealth funding programs. This particularly affects research funding and there is widespread support for the Productivity Commission's conclusion that competitive grant schemes effectively lock up a significant proportion of each university's block funds and that any attempts to increase the proportion of competitive research funding relative to discretionary research block funding is not warranted and would threaten universities' ability to undertake meaningful strategic research.

Another question that is concerning most in the sector is how will HEEF funding operate alongside existing Commonwealth schemes aimed at directly or indirectly investing in capital and research facilities in universities. This uncertainty is accentuated by the difficulty in estimating with any accuracy the income from the HEEF that will be available for investment in capital expenditure and research facilities over the long term. It is important to clarify the minister's statement that the HEEF will not provide recurrent funding. We believe any

potential lack of transparency relating to the process of ministerial scrutiny of recommendations by the advisory board would be ameliorated considerably by ensuring funding recommendations made by the advisory board to the minister are tabled in parliament.

NTEU also supports the calls by others in the sector for the allocation of HEEF funds to be largely delivered in the form of a block grant to universities with the remainder in the form of a competitive program. These guidelines in relation to HEEF grants should be tabled in parliament in the form of a disallowable instrument.

Matching grants have been a problem for everybody and is one of the issues that people are most concerned about. The stipulation that the HEEF advisory board needs to take into consideration whether universities have been able to raise matching funds has major implications for universities themselves. Firstly, we believe it will severely disadvantage universities; we have already had experience of the matching funds model. Again, as the Productivity Commission has recognised, universities already face significant costs in relation to leveraging, particularly in the research grant area, and the Productivity Commission believes that this is a threat to the quality of educational services that universities are able to deliver especially in an environment where there have been significant real cuts in university operating grants for government supported students. The other additional issue with matching grants is that, given that the HEEF is specifically targeted towards capital works infrastructure in research facilities, it is likely that other government sourced funding both national and state will decrease or become more difficult to attain. We strongly urge the inquiry to recommend that consideration of whether institutions have been able to raise matching funds not be made a condition of HEEF funding. There is almost no support amongst those in universities for the matching grants requirement.

Finally, on the issue of philanthropy, which I know is an important issue for the Senate committee, there is little detail in the legislation about how the HEEF will be structured to manage Commonwealth contributions, philanthropic funds and private donations. While we do not pretend to be an expert in this, it is important that issues such as the ownership of capital put into the fund from universities, private individuals and other institutional or governmental investments is clear within the legislation. What rights attach to those who invest in the fund? Are investors, including universities, able to access these investments or withdraw them in their entirety without penalty? Will the capacity of individual universities to gain access to HEEF funds be in any way related to the level of gifts or endowments it makes to the HEEF? For example, will the donating university be guaranteed at least access to its equity share of the HEEF pool and will the donating university be provided with preferential treatment in gaining access to other public shares of the income flow? The stated purpose of the HEEF was to provide institutions with an income stream to address the serious backlog of maintenance and infrastructure needs of modern universities. NTEU hopes the inquiry will take these questions into consideration in its deliberations on this matter.

**CHAIR**—Thank you. There are a couple of things which you have brought up which obviously the committee has discussed with other witnesses. Under this legislation, at least in the minister's second reading speech, the minister has the power to appoint members of the

advisory board but the minister, at least on the reading of it, also appears to have a great deal of control over all aspects of the grants process. You would agree with that?

**Dr Allport**—Yes.

**CHAIR**—That arrangement is very similar to the minister's powers in regard to the Reserve Bank board, so where would you see these two operations differing and why do you have particular concerns about the outline so far of the minister's degree of control?

**Mr Nette**—I think the Reserve Bank board is not allocated proceeds from \$6 billion to university capital development and research projects. I think there is a fairly fundamental difference there. The union is not disputing that obviously the minister has to have a considerable amount of say over how this works. Obviously the advisory board will be making recommendations and no-one would be disagreeing, I think, that the minister has the ability and the right—whoever that minister is—to basically tick off on those. I think the point that we make in our submission is that that has to be an up-front and clear process. The guidelines for that have to be very, very clear in that they should be basically a disallowable instrument. I think that is the only point we are really making in our submission about that.

**CHAIR**—You are not proposing an alternative method of running this process, you are simply concerned about the degree of transparency and governance processes that exist in it?

**Mr Nette**—Given that there is a lot of detail that is missing from it, it is hard for us to really talk about it in detail. I think broadly though what you are saying is true, it is about transparency and making sure that everything is above board in that regard. I also think though I suppose that the point that we made in our submission also relates to the issue in terms of recommendations from the advisory board and potentially we would want to see those tabled as well. So, yes, it is a transparency and governance issue.

**Dr Allport**—I think if I could just add something, we also have some concerns too about the fact that the advisory board and the roles and functions of the advisory board are not actually currently included in the legislation. So again, on grounds of transparency and accountability which is how we tried to look at this legislation, we have tried to build in the use of more disallowable instruments and that type of approach so that there can be some confidence in this. It is a very new idea and people are concerned about it. Some do not feel that we should go ahead with it, but also I think there is a genuine lack of real understanding about how it is going to work. And so, for us, we thought part of the way of responding to that is to make everything seem to be, and actually be, highly transparent and that would build confidence in the fund.

**CHAIR**—So which groups feel that we should not be going ahead with this?

**Dr Allport**—I do not know that people feel they should not be going ahead with it, but I think people are very concerned about aspects of the bill where there is a lack of specification and in particular I think we have always been concerned, as have some others I think, at the relationship between ultimately accessing funds from the HEEF and its connection to the issues that the minister wants to make sure of, such as labour market needs and specialisation and diversity, none of which are actually defined in the bill. They mean a number of different things. I think at the moment there is a concern around how that will work. I think there is a genuineness about the notion of people understanding where we get to in the end, but on how

we get there I think there is far less specification and almost no real working actually in the legislation. We just thought we would need some more specific proposals.

**CHAIR**—I think DEST indicated this morning in their evidence that this would be made clear in due course. You have also mentioned the idea of that obvious money, part being spent in block grants and part spent in—refresh my memory—ongoing—

**Mr Nette**—Some sort of merit based—

**CHAIR**—So competitive grants?

**Dr Allport**—Yes.

**CHAIR**—Should that be a fifty-fifty split in your view, or how would you divide the money?

**Dr Allport**—We have not actually thought about that. I guess that is really up to others to have that discussion but we were concerned to maximise the component that was in a block grant because it would make it easier for universities to implement and have less compliance costs versus the amount that would be in a competitive process. Many other submissions also had this notion. As for the percentage, I think we would favour more in the block grant than in the competitive grants.

**Mr Nette**—It is about trying to minimise uncertainty relating to the dispersal of funds under it.

**CHAIR**—Yes, but at the same time not negating the objective of this allocation, which is to provide a capital fund which will provide money for universities to be used in strategic objectives which are probably yet to be defined also by the advisory board.

**Mr Nette**—And that is a fair enough point, too, but in a sense what the parliament is then being asked to do is to pass this on spec, in a sense, without any real understanding of what the real need is going to be—

**CHAIR**—Nothing is to say that that may not yet be defined by the time the legislation goes through.

**Mr Nette**—Sure. And I think that would be—

**CHAIR**—And I think the parliament itself would surely be asking questions about a greater degree of definition, if that is possible. Senator Marshall?

**Senator MARSHALL**—The department in their submission say:

The objective of the HEEF is to promote the development of a truly world class Australian university system, by providing an ongoing programme of support for significant, targeted and strategic investments in capital expenditure and research facilities in the higher education sector.

Given that it would appear from what we have heard today that this will deliver between zero and maybe \$300-plus million, it seems like a pretty big ask for that sort of money. I am going to ask another question and you can answer them both together if you like. Given that there is \$6 billion available, is this sort of fund the best way to achieve that objective?

**Dr Allport**—I will start from the end and probably go back. I think universities have always supported the concept of having a much more stable and predictable funding base and

one that at least aims to meet the variety of expenses that they have to meet. The larger the university and the more research intensive the university, the larger the capital infrastructure bills and the larger the maintenance bills. And with some of the older universities like the University of Melbourne or the University of Sydney, there are considerable bills related to the heritage architecture that exists on the universities. I think they have always sought a greater certainty for funding that attaches to that type of capital infrastructure, or maintenance of capital infrastructure, and also being able to ensure that they are able to use their own funds as well to augment that for building programs, updating labs and so on. So I think it is certainty that universities are looking for and of late as they have become more and more 'marketised' the money for maintenance and repair and updating has sort of shifted towards the marketing budget. I am not making a judgement about that; it is the environment in which they work. So, I think they have really wanted certainty and, what was the first question?

**Senator MARSHALL**—It appears the fund will deliver between zero and \$300 million or maybe \$300-plus million a year. Is that amount of money, and probably the inconsistency of that amount of money, going to achieve those objectives as stated by the department?

**Dr Allport**—When we first looked at it, it seems that \$33 million was the figure quoted or suggested by the Treasurer on budget night or just after that. I think as people have looked at that and universities have looked at that their first reaction is well, if we are going to have this system we actually need a much greater return to come from the HEEF. That would be the first thing that people were saying. The second thing, of course, is that universities are full of people like myself who are portrayed as economists who think that was a very aspirational number. It might take 10 years to actually get to a point where the number would actually make a real difference to universities. Currently that amount will not. I mean, it will, of course. All money is useful. But in terms of the problem of upgrading infrastructure, particularly in the science area, it is very significant for universities and it has been in a way sidelined as part of mini-budgets over the last five or six years in particular. I think it is very important but I cannot see how we could get \$30 million even in the first instance. But it does depend upon things that we do not know yet. How is the advisory board going to work? What will be its investment strategy? What will be its approach to these issues? In the long term it may well produce a reasonable return but in the short term it is unlikely to do so, so I guess universities will be looking for perhaps some other funds from government to augment that in the early years.

**Mr Nette**—Can I just make a comment on that?

**CHAIR**—Yes.

**Mr Nette**—Taking it back again, I do not think anyone can question that there is good policy underpinning the idea of putting aside some sort of long-term fund. But going back to that whole concern that we have which you touched on, senator, we just know so little about how this is going to work. Quite literally, it is so little that we do not know what the policy objectives are aside from those big research infrastructure and capital development works. We do not know how the money will be allocated. We do not know when it will be allocated. We are not even clear now that it is going to be recurrent. We are not clear about the matching funding, which is a huge issue. We are not clear what other conditions will be attached to it. It is still not 100 per cent clear, although the minister has clarified it a bit in her second reading

speech, potentially what other funds will go and be replaced by this. I think there is a real concern that it is just going to basically be a series of shifting goalposts. That is the problem.

**CHAIR**—Can I just put on the record that this is a considerable amount of money. Having welcomed it you are inclined to doubt almost every aspect of it.

**Mr Nette**—No, I am questioning a whole lot of aspects of how it will be distributed, issues which you yourself brought up—

**CHAIR**—Yes, and I agree with that. Having seen the announcement we would all like to know more details and there is a legitimate expectation that those questions will be answered in due course, but I think we would all agree that this is one of the best things to happen to tertiary education in this sense from a government perspective.

**Senator STOTT DESPOJA**—Perhaps we would not all agree on that.

**Senator MARSHALL**—The Group of Eight made very clear in their submission that, while \$6 billion is a large amount of money, it needs to be viewed in the context of recent funding trends for Australian public universities. I guess that that is the point I was making. The headline figure of \$6 billion is quite extraordinary but when you actually look at what it is going to deliver for the objectives that the government stated in terms of the outcomes it is not a lot of money that is potentially available each year. I guess that is the dilemma we have. Any money is welcome. It is a big headline figure but what is it actually going to achieve at the end of the day. I guess that was the second part of my question: \$6 billion if it was invested in another way, upfront, with world-class infrastructure that may last another 20 years, would that potentially be a better investment? But that may be an unfair question to ask you given that we are not going to have that choice.

**Dr Allport**—I was going to make a comment just in response to the senator and perhaps I will pick up your ideas as well. Our major concern is that the bill that we have does not help us answer those questions. I think it is important when we are dealing with such a new instrument or a new way of delivering funding in this case to universities that the legislation requires more explication rather than less explication. At the moment we would say that there is still quite a bit of work to do on the legislation if the legislation is to meet the objectives outlined, and that is our major concern. If the bill were more informative and if it were more detailed then I am sure the outcome would be a better one. I think that is really where we are. While one does not want to overly delay the process, at the same time it seems to me that there are a number of things that would need to be added to the legislation. If the time frame is appropriate, we could probably draft some amendments if people think that would be useful.

**Senator STOTT DESPOJA**—You can bet there will be some amendments. I think you have probably pre-empted a lot of the queries that I and others have had, but this is not a new scenario where we have got a large piece of legislation with potentially a lot of money and yet it is a skeletal framework in terms of detail particularly in relation to accountability or transparency mechanisms. When you talk about not wanting to ‘overly delay’, what are we talking about? We have got a maximum sitting period of two weeks left and a government going to the polls. Is it worth delaying this just to get some of the policy detail right? If you were here earlier—obviously you have colleagues here—you would have heard that the

process of consultation that has been planned by the government or the department specifically is not going to see even the guidelines surface for a long time. After hearing the departmental evidence today I am actually more concerned because I presumed that at some point we would be looking at guidelines in the next couple of weeks or months but that is not going to happen from my reading today anyway. So do we delay it? Do we try to build something into this legislation? Let us be practical, it is not going to happen.

**Dr Allport**—It depends on which way you look at things. My understanding from a political perspective is that the opposition gave reasonable support to aspects of the HEEF. It would seem to me that there is much to be done on the government's proposal. I think delaying would be the most appropriate way of actually ensuring that we have a good outcome irrespective of what electoral outcome takes place at some future date. There is an interest in this particular type of mechanism. I myself think we have a cultural difference with the US that makes it difficult for us to embrace the philanthropic agenda that Minister Bishop has put forward but at the same time nor should we jump into a model that requires much more discussion, much more debate and could probably easily be redrafted early in the next year after more discussion and more research, I think, on the various aspects of the way in which this type of fund would work and in particular where it sits in the federal budget. We had a HECS fund once. That was similar. No-one knew where it belonged. It floated around but we all believed in it. I do think it is important if we are going to go down this direction to get it right, and that means that we need to do a lot more research. We need to take our time to make sure that this actually works. Otherwise people will not have confidence in it and if they do not have confidence in it then that means that the government's objective of actually attracting private donations and further universities to put their entitlements into the fund will not be achieved.

**Senator STOTT DESPOJA**—On the philanthropic side of things, when you say it is going to be difficult or it is a different culture in the US, in your opening remarks today you are downright sceptical about whether or not it will serve any philanthropic function or attract any philanthropic contributions. In fact you outlined what seemed to be reasonably significant changes or restructuring that would be required. Do you think there is any hope in this serving in its current form as an attractor of philanthropy?

**Mr Nette**—I do not think we want to talk the prospects of that down. Let us just say that in the Australian context there is no history of what we are doing now. There are not a lot of corollaries in terms of what we are doing now. In the Australian context what is needed for all the philanthropic aspects of the fund is that the rules for the fund generally have to be crystal clear—have complete clarity—otherwise it simply will not work. I think we want to say that we would like to see it work. But it will not work I think in its current state. Backing up what Dr Allport said earlier, this seems to be reasonably bipartisan I think. My understanding is that there is basically bipartisan support for this fund.

**Senator STOTT DESPOJA**—Which means that both major parties get to avoid the big issue of indexation.

**Mr Nette**—That is true. Senator Marshall left and Labor—

**Senator STOTT DESPOJA**—Sorry, Chair. You can see I am getting old and bitter and—

**CHAIR**—I am not trying to interrupt but in fairness the philanthropic aspect is important but I do not know that it was ever in my reading of the bill the major focus of this project. It was not set up as a major philanthropic vehicle. The opportunity is there and it provides the opportunity to do it, but on my reading of it as a government member it is about the government putting up this fund.

**Mr Nette**—Sure. But that then goes on to say that we either do it properly or we do not do it at all basically.

**CHAIR**—Yes. It is not a half-hearted effect.

**Mr Nette**—There would be nothing worse than doing it and the thing bombing—

**CHAIR**—Agreed.

**Senator STOTT DESPOJA**—That is the point I was keen to get at, because today we have had a lot of people dispute or suggest how it could or could not work but you have actually put forward ideas that we could look at that might improve the legislation. I think it would be really useful for the secretariat to get us information on the Reserve Bank Act because I am very curious about this analogy. I think, like you, Mr Nette, I do not think it is particularly relevant for a couple of reasons, not only the distribution of funds. What I would like to find out about is the government's power under the Reserve Bank Act to interfere and it does have the opportunity to determine interest rates if it wanted to but it is a power that is not used—

**CHAIR**—That is not very much.

**Senator STOTT DESPOJA**—I am sorry, but in terms of monetary policy there is the scope under the Reserve Bank Act but it is not used and I do not believe it ever has been.

**CHAIR**—And never would be.

**Senator STOTT DESPOJA**—No, exactly. Under this bill though, if it becomes an act, do you think the minister would never use her powers as per the relevant section that she can direct the board in terms of its functions? I am assuming she would, or at least that power is there. I should not make the mistake of getting into making the analogy.

**CHAIR**—I do not think you should because—

**Dr Allport**—I think it is important that we recognise that the power is there and to raise concerns about the exercise of that power. I think that is very important and we have been here before in a previous Senate inquiry around these issues with the ARC Bill. It is not something that is a new development; that is just the nature of things. I think we always remain concerned about not ministerial authority but how ministerial authority is used within the circumstances of whatever we are actually dealing with.

**CHAIR**—Yes. But then to draw the parallel that ministerial power would be used under guidelines which we have not yet seen I feel is drawing—

**Senator STOTT DESPOJA**—I'm sorry, but on a point of order I would quote from the bill that the minister's powers to appoint and to direct—and I think direct is the wrong word—but she does have the power to advise—

**CHAIR**—I am not disputing that.

**Senator STOTT DESPOJA**—I think the one thing we can probably all agree on is that the Reserve Bank Act is not an appropriate analogy. So when we are told that under the legislation the government has the power to appoint the RBA advisory board is this not comparable to the—

**CHAIR**—I was talking about the power to appoint members of the advisory board and those were the words I used.

**Senator STOTT DESPOJA**—Yes. But that is why I wanted to have a look at the act because—

**CHAIR**—The powers I mentioned were those appointing the advisory board—

**Senator STOTT DESPOJA**—Indeed. And I think that is one power that may be similar in a raft of legislation with very different responsibilities and objectives, primarily being the distribution of funds as well. The issue of ministerial discretion and power I am happy for you to elaborate on because I think you have cited one example at least, the ARC legislation, where there are demonstrable examples of ministerial power that have not necessarily arguably been appropriate.

**Dr Allport**—Our approach to the exercise of ministerial power has always been to demand full transparency and full accountability. That is not inconsistent with the way that parliament works. So we seek disallowable instruments, more transparency, obviously within the ability of the legislation to provide for that. I think it is very difficult to compare something like this budget proposal from the government around the HEEF directly I think either with the particularities of the ARC or necessarily the Reserve Bank or anything else. I think it should be seen for how the government structured the fund. Will those structures provide an effective outcome for the fund, will we be able to understand the way in which the fund works and what protective measures are there for those who invest in a fund? I think we need to recognise that at each of those points there are problems. So at the point where, for example, the minister appoints an advisory board, the minister has considerable control at that point under the legislation as they have in many other similar circumstances. But, although the minister has apparently sent out letters to unnamed people about the advisory board, there is no transparency around that decision at the moment to give you an in-time example. And that concerns us. We are not saying who should be or who should not be on the board, but it should be a transparent decision-making process. Perhaps she has not yet finished the process and that is why we do not know too much about it yet. But I think we need to try to think through the various stages of the fund and the various different things that are happening in the fund. At the moment in the minimal legislation that we have we see quite considerable use of ministerial power at each level as you go through the HEEF fund itself. We do need to utilise instruments like making something disallowable in order to ensure that we have that transparency because otherwise we may never know.

**Mr Nette**—Quite frankly, that would be a comment we would make regardless of who was in government. It is not about party politics.

**CHAIR**—I am glad you said that. I was intending to ask you, so I am pleased you—

**Dr Allport**—We have not looked at it from a party political point of view.

**Mr Nette**—The headline statement about the HEEF is that the politics have to be taken out of the fund completely.

**CHAIR**—I agree.

**Mr Nette**—And I do not think at the moment this legislation does that.

**Senator STOTT DESPOJA**—I just assumed you were debating all of this in the context of who knows what happens with an ex-government—

**Dr Allport**—Exactly.

**Senator STOTT DESPOJA**—so it is more important to get the ledger right regardless. Based on the composition of the board—you said regardless of who is on the board or what have you—does the NTEU have a position as to how the board should be constituted? Obviously I am not talking about names. But are you talking about broad representation from the sector or do you not have a view in relation to that particular issue?

**Dr Allport**—My understanding is that there are some restrictions on who can be on the board already—

**Mr Nette**—The minister has made statements to the effect—

**Dr Allport**—Is that not right. Oh, the minister has made statements—

**Mr Nette**—there will be no vice chancellors, I think, is the view—

**Dr Allport**—No representatives of institutions.

**Mr Nette**—That is right. Which is about, I suppose, wanting to avoid conflict of interest.

**Dr Allport**—I do not know that we have any other information apart from the fact, of course, that the secretary of the department and there was another—

**Mr Nette**—Chief scientist.

**Dr Allport**—And the chief scientist.

**CHAIR**—The chief scientist is Dr Peacock.

**Senator STOTT DESPOJA**—So you have no particular preference for broad ranging representation? Are you happy to leave that? It is a vexed question at the best of times.

**Dr Allport**—Our position is that a committee works best with a broader representation, certainly in the area that we work in, in the university sector. But broader representation still has to be based on expertise. But beyond that we have not taken a view because that ultimately lies with the minister.

**Senator STOTT DESPOJA**—Thank you.

**CHAIR**—Thank you very much for your appearance before us today. The committee is suspended.

**Committee adjourned at 2.18 pm**