

CHAPTER 3

THE FUNDING OF HIGHER EDUCATION

The position is that universities need increased income merely to sustain the level of quality in teaching and research that they are currently delivering... to improve to the level necessary to maintain position in an increasingly competitive world will require increased funding. We are well aware how politically unpalatable this message is, but it is unavoidable. It has been recognised by governments in Canada, UK and USA, and is a major priority for Australia. The major change in mindset that is needed...is that higher education should be viewed not as expenditure but as essential investment.¹

...as someone who has worked both in Australia and in New Zealand - I think that, unless something is done on the funding front, Australia does stand in real danger of losing its credibility internationally.²

3.1 The Committee has been asked to examine the adequacy of the funding arrangements for Australian public universities from a range of perspectives, including the quality and diversity of teaching and research, institutional autonomy and the capacity to meet demand for access from the prospective students and for the community for graduates across a wide range of disciplines. It has also been asked to examine the implications of the increasing reliance on private funding and market mechanisms from a similar range of perspectives. As the current funding arrangements, including levels of public funding – are closely related to the increasing reliance on private funds - this chapter examines both those aspects of the current financing of universities. The central question is whether the current level of public and private funding is adequate to allow public universities to meet the demand for higher education and to sustain fundamental teaching and research activities. Allegations of a crisis in higher education are also examined.

3.2 The nature and evolution of the current funding arrangements are examined and current levels of funding are compared with historical patterns, international benchmarks, historical patterns and patterns of expenditure. Evidence is examined concerning the effect of funding levels on key indicators such as staffing levels, levels of enrolment of undergraduates and graduates, investment in key resources such as libraries and other infrastructure and on the financial situation of universities. Issues related to the model for distribution of government funding are also discussed along with a range of proposals for reform. More specific issues related to the funding of research are dealt with in Chapter 6 and those related to the quality and diversity of teaching are dealt with in Chapter 5.

1 Submission 184, James Cook University, p.4

2 Professor W G Carson, *Hansard*, Canberra, 22 June 2001, p.617 (Professor Carson is a former Vice-Chancellor of the University of Auckland in New Zealand; he was chair of the panel that considered the application for Melbourne University Private to be registered as a university in Australia)

Background

3.3 In Australia, as in many OECD countries, the advent of ‘mass’ higher education over the past twenty-five years, has seen increasing levels of government expenditure on higher education. Over the past two decades, expenditure increased from \$3,487 million (in 1983) to \$5,840 million (in 2001) and the number of Commonwealth-funded students has almost doubled, from 255,000 (1983) to 430,000 (2000).³

3.4 At the same time, public expenditure on higher education as a percentage of GDP has gradually declined, largely in response to policies of fiscal restraint and containing overall Commonwealth outlays. Since 1996 expenditure on higher education *as a proportion of Commonwealth outlays* has also decreased: from 3.6 percent to 2.42⁴ per cent in 2001-2002, reflecting a Government strategy of reducing its contribution to the funding of higher education. Increased student contributions, both through the Higher Education Contribution Scheme (HECS), and in the form of fees for undergraduate and postgraduate courses, and, to a lesser extent, income from the private sector, have come to substitute for Government funding.⁵ In contrast to the early 1990s, when there was an increase in both public and private investment in higher education, after 1995 ‘public investment fell sharply *and there was a 5.6 per cent decline in total income per student* (from \$14,315 in 1995 to \$13,983 in 1998), despite a major increase in private revenue⁶ (emphasis added). As a result:

an increasing emphasis has been placed on any and every mechanism that can generate short-term revenues, in order to balance institutional budgets.⁷

3.5 While other OECD countries also experienced increases in private funding of higher education since the 1980s, ‘the Australian trend has been remarkable in its speed and universality’.⁸ Australia is also remarkable for the extent to which private investment in higher education is predominantly provided by students (both domestic and international) rather than industry or the corporate sector.⁹

3.6 Many other OECD countries are now revisiting their levels of public investment in higher education. Professor John Niland, the Vice-Chancellor of the

3 AVCC Funding Table 4 (Commonwealth Resources (Total Grants) available to higher education institutions per planned and actual EFTSU 1983-2003)

4 For 1996 figures see Senator the Hon Amanda Vanstone, Minister for Employment, Education, Training and Youth Affairs, Policy Perspectives on Higher Education Financing, Opening Address at the Centre for Economic Policy Research Symposium June 25, 1996, p.2 (at http://www.detya.gov.au/archive/ministers/vanstone/vs25_6htm); for 2001-2002 see Budget Statement No 1, 2001-2002 (p.6-89)

5 Submission 81, Professor Simon Marginson, pp.7-8

6 *ibid.*

7 *ibid.*

8 Submission 81, Professor Simon Marginson, p.6

9 *ibid.*

University of New South Wales, noted that there is now a ‘major debate afoot’ in other OECD countries about the proper balance between public and private funding.¹⁰ More recently, a number of our competitor countries have resolved this debate in favour of increasing the levels of public investment in higher education, with the aim of increasing their competitive position in the global knowledge economy. Evidence presented to the Committee suggests that Australia also stands at a crossroads, where it needs to decide whether to restore government funding to appropriate levels or move further towards a deregulated and privatised higher education sector with all the risks and uncertainties that entails.

3.7 Recent Government statements on the financing of higher education argue that the sector has never been better resourced and point to the success of their policy push, since coming to office in 1996, for institutions to become self-reliant in terms of financing.¹¹ More recently, government has disputed the existence of a crisis in higher education, arguing that universities do have access to adequate levels of resources, provided these are well-managed.¹² However, evidence presented to the Committee told a different story and suggested that repeated claims of a ‘crisis’ in higher education funding were well-founded.

3.8 In the leaked October 1999 Cabinet submission¹³ recommending the adoption of the West Review recommendations for higher education funding, the Minister, the Hon Dr David Kemp, acknowledged the funding crisis facing the sector at that time:

Universities are currently in a difficult financial position...Already, eight institutions appear to be operating at a deficit and some regional campuses are at risk. The current enterprise bargaining round is not giving universities more staffing flexibility...Higher student: staff ratios, less frequent lecture and tutorial contact, the persistence of outdated technology and gaps in key areas of professional preparation (including practical skills development) are fuelling a perception of declining quality.¹⁴

3.9 In the face of clear public outrage over the proposed changes, the Government announced that it would not be adopting the submission’s recommendations for a deregulated system with a voucher arrangement for subsidising access to higher education. Nor, however, did it decide to provide the additional funding required to rectify the problems identified in the West Review. Instead, it urged universities to continue to with the clearly inadequate levels of public funding and seek further

10 Professor John Niland (University of New South Wales), *Hansard*, Sydney, 17 July 2001, p.937

11 For example, Minister Kemp’s Media Release of 18 July 2001 stated that the revenues of Australian universities from all sources have never been higher and are \$1.2 billion more than in 1996. (at http://www.detya.gov.au/ministers/kemp/july01/k164_180701.htm)

12 Mr Michael Gallagher (DETYA), *Hansard*, Canberra, 13 August 2001, p.1350

13 See Appendix 4

14 See Appendix 4

private sources of funding – in effect the continuation of a policy that it had implicitly found to be unsustainable. This report examines the consequences of that decision.

The role of Commonwealth funding

Development of the Commonwealth's financial responsibility

3.10 The history of Commonwealth funding of higher education can be divided into four main phases. During the first phase, prior to 1951, funding and management of universities was primarily a state government responsibility. In the second phase, between 1951 and 1973, the Commonwealth, in response to a series of reports identifying resource and capacity problems in universities, and using its powers under s51 and s96 of the Constitution, assumed increasing responsibility for funding. Commonwealth funding, which was directed to state governments, became increasingly important over this period: the Commonwealth-State funding ratio increased from 1:3 in 1951 to 1:1.85 (for recurrent funding) and 1:1 (for capital grants) in 1957.¹⁵ Higher education significantly expanded over this period, with ten new universities being built, advanced education consolidated and extended and enrolments increasing six-fold.¹⁶

3.11 1973 marked the start of the next phase of Commonwealth funding when the Commonwealth, with the agreement of the states, assumed full financial responsibility for universities as well as the then Colleges of Advanced Education and Teachers Colleges.¹⁷ Finally, in 1988, the Commonwealth introduced the Unified National System (UNS), which abolished the distinction between universities and Colleges of Advanced Education (CAEs), a distinction that had become increasingly untenable. While the Commonwealth retained full responsibility for funding under the UNS, there were significant changes in the way that funds were allocated and distributed, with Commonwealth funds being provided directly to universities on the basis of educational profiles agreed between the universities and the Department.¹⁸

3.12 Arguably, 1996 marked the commencement of yet another phase in higher education funding, one characterised by a clear retreat from Commonwealth funding, including an end to the growth in fully-funded student places, a move away from fully-funded postgraduate coursework places and universities being pressured to 'earn' an increasing proportion of their basic operating costs from non-government sources. The result has been to place universities under further strain, because of the need to absorb growth in undergraduate and postgraduate places from within their

15 Dr Kim Jackson, *Higher Education Funding Policy*, Current Issues, Parliamentary Library, Resource Guides, p.2

16 Submission 81, Professor Simon Marginson, p.3

17 Dr Kim Jackson, *Higher Education Funding Policy*, Current Issues, Parliamentary Library, Resource Guides, p.3

18 *ibid.*, p.4

own resources and because ‘measures designed to raise revenues, such as new fee-based courses, have not always been able to cover costs’.¹⁹

Role of funding

3.13 The level of Commonwealth funding is fundamental to the health of Australian public universities. It determines the number of HECS-liable places available for domestic students and provides the overwhelming majority of the resources available for teaching and research. Funding models also influence the distribution of resources across the sector and among institutions, including investment in different areas of teaching and research and between regional and metropolitan universities. Levels of funding therefore need to be determined against a background of government’s policy objectives for higher education, including levels of access and participation, at both undergraduate and postgraduate level, and the expenditure required to meet those objectives. Policies on the appropriate contributions of government, students and the private sector, also play a key role in determining the final level of government funding.

Key principles

Access and participation

3.14 The Committee considers that both equity and the national interest require that higher education should be available to all members of the community who have the desire and ability to benefit from it. Estimating the future demand for higher education, in this context, is made difficult by contradictory, or inconsistent evidence on short-term and long-term trends, and the absence of independent, rigorous advice on the domestic drivers of demand. Current participation levels are high by both historical and international standards, with some evidence of possible saturation, including recent declines in levels of domestic undergraduate applications.²⁰ Demographic projections of year 15-24 age cohorts suggest that one source of the growth in demand for undergraduate education may taper off in the coming years.²¹ At the same time, there remains a level of unmet demand both from school leavers and graduates seeking further professional development, particularly in some of the outer-metropolitan regions with large populations where people often have little history of participation in higher education. Increases in school retention rates in some states, such as Tasmania (and other states where targets have been set, such as Queensland)²² result in demand outstripping population growth in those areas. Finally, there is also evidence of shortfalls in the numbers of graduates across a range of disciplines, including some of national importance. This suggests that the current Government

19 Submission 81, Professor Simon Marginson, p.7

20 Submission 283, National Tertiary Education Industry Union (NTEU), p.33 shows recent declines in applications for undergraduate study in 2001

21 DETYA Demographic and Social Change: Implications for Education Funding Occasional Paper 00B (at <http://www.detya.gov.au/highered/occpaper/00B/default.htm>). Part 1 An ageing population.

22 Submission 339, Queensland Department of Education, pp.8-9

arrangements for funding higher education, including arbitrary limits to growth in Commonwealth funded places, have failed to meet Australia's higher education needs, including the need for equitable participation.

3.15 The Committee believes that Government has an important role to play in ensuring that access to higher education is not limited to those who have the means to pay, and that the teaching and research undertaken by universities reflects the long term national interest, rather than simply short term market needs. It notes in this context that an OECD report on tertiary education made a compelling argument for the continued expansion of tertiary education (including higher education) in order to meet the aspirations of an increasing proportion of young people for rewarding careers, the economy's need for a highly trained workforce, and society's need for competent, responsible citizens. It had also found that the exclusion of a significant proportion of the population from tertiary education could also jeopardise the creation of a just and cohesive society.²³

Determining the level of funding

3.16 The Committee believes that the level of public funding for higher education should be primarily determined by the need to provide a high quality, accessible system, that meets both long and short-term national needs. Containing outlays is important to ensure that taxpayers' funds are used wisely. This must be balanced by the need to ensure that the level of investment is sufficient to ensure that Australia has the level of skills, knowledge and innovation, that it needs to compete and prosper in the years ahead.

3.17 The Committee heard evidence from across the sector - from students, academics, vice-chancellors of major metropolitan and smaller regional universities, and professional associations - that current funding levels fell far short of the requirements for providing quality teaching and research and that, as a result, Australia's universities were in a state of crisis. The President of the Australian Vice-Chancellors' Committee (AVCC) and Vice-Chancellor of the Australian National University, Professor Ian Chubb, advised the Committee that, while he had tried to avoid using the word 'crisis':

I cannot easily think of another word to describe what I perceive to be the issues before us at the moment.²⁴

Professor Chubb explained what this meant in his university:

I think—like a lot of my colleagues—that, when you get emails from students asking you about tutorials of 32:1 every second week, when you get lecture

23 V Meek *Uses of Higher Education Policy Research* December 6, 2000 (Inaugural lecture as Director of the Centre for Higher Education and Management and Policy at the University of New England) in *The Oz Higher Ed* (a resource of the Australian), refers to recent OECD report on tertiary education

24 Professor Ian Chubb, (AVCC), *Hansard*, Sydney, 17 July 2001, p. 986

classes of 400-plus, when you get practical classes every other week, when your infrastructure is eroding and when you see all your equipment and your capacity to provide the resources you need for the staff to do the work that they want to be able to do slowly but surely degrading, then that does not make me—or a majority of my colleagues—very happy at all.²⁵

3.18 The Government has disputed that assessment, claiming that vice-chancellors' are 'playing to the gallery', blaming funding arrangements for their management failures.²⁶ The Committee believes that this characterisation is both inaccurate and disingenuous. As discussed previously in this section, the Government acknowledged in 1999 that universities' finances were in a critical position, and subsequent policy and financial settings have only served to increase the strain on university finances. In particular, as this chapter indicates, the increasing reliance on private funding has been accompanied by deteriorating financial indicators, deteriorating quality indicators, such as academic staff levels, staff-student ratios and class contact hours, as well as increased tensions and conflict within universities and a decline in the diversity of teaching.

International comparisons

3.19 International comparisons are also an important indicator of appropriate levels of funding. The enormous variation in countries' demographic profiles and education and financial systems and the resultant difficulty of ensuring that 'like is being compared with like'²⁷ means that it is important not to set absolute, arbitrary targets of expenditure relative to other countries. However the Committee agrees with Professor Niland that, while:

there is no incontrovertible formula that will produce the right answer on public funding for universities...we need to have some regard to standards and benchmarks that emerge internationally. For universities that is a particularly important reference point given our growing internationalisation and our growing engagement with the world. If globalisation is essentially the democratisation of information, knowledge, investment...then universities are at the heart of it, and Australia had better be very alert to the challenges that its universities are going to face from international competition and the international environment. Therefore what happens in OECD countries is very relevant.²⁸

3.20 The Committee notes that the recent Government initiatives, under the banner of *Backing Australia's Ability*, are based on an acceptance of the argument that our decreasing levels of investment in research and development relative to other countries has placed our future competitiveness in the global knowledge economy at

25 *ibid.*, p.988

26 Mr Michael Gallagher (DETYA), *Hansard*, Canberra, 13 August 2001, p.1350

27 OECD: *Financing Higher Education – Current Patterns*, OECD, Paris, 1990, p.68

28 Professor John Niland (University of New South Wales), *Hansard*, Sydney, 17 July 2001, p.954

risk.²⁹ Arguments about the need to remain internationally competitive are equally applicable to the teaching function of universities, and their capacity to produce highly skilled, internationally competitive graduates across a wide range of disciplines. As the Australian Information Industry Association advised:

you cannot separate skills and innovation...[and]...in order to have innovation you need to have lots of graduates coming out of the universities and those graduates moving on, at least some of them, into postgraduate work that provides a strong base of research and development.³⁰

3.21 Evidence presented to the Committee showed that Australian public investment in higher education as a proportion of GDP has declined by 40 per cent from 1975-76 to 1997-98, from 1.50 to 0.89 per cent.³¹ Other OECD countries, including the United Kingdom, Ireland and Canada, have, however, significantly increased their public investment in higher education in recent years.³²

3.22 The declining level of Australia's investment in higher education as a proportion of GDP and the increasing gap between our public investment in higher education compared with countries such as the United States, Sweden and Finland, is a further worrying sign of under-investment.

Who should pay – public good and private benefit

3.23 Public funding of higher education in Australia and other countries has traditionally been justified on the basis that higher education is a 'public good', that is that is one where the 'benefits to society are widely dispersed and the payoff is not immediate'.³³ Government financing of higher education also helps to ensure the 'production of optimal quantities of goods and services'.³⁴

3.24 Student contributions towards the cost of their education reflect the private benefits that higher education confers,³⁵ including enhanced employment outcomes. The Committee agrees with the principle of students making an appropriate contribution to the costs of their higher education, in recognition of the private benefit they enjoy and as a valuable source of supplementary revenue. However contribution

29 *Innovation: Unlocking the Future*, Final report of the Innovation Summit Implementation Group, August 2000, p.15 and *The Chance to Change*, Final Report of the Chief Scientist, November 2000

30 Mr John Price (Australian Information Industry Association), *Hansard*, Sydney, 18 July 2001, pp.1100-1101. The Committee also notes media reports that a senior executive of Hewlett-Packard in the US claims that the US is not producing enough of the engineers and scientists and that if it runs short of highly skilled knowledge workers, it will run short on the great ideas needed to fuel revolutionary innovations (*Silicon Valley's midlife crisis*, p.37 *The Australian* 8 August 2001)

31 Submission 81, Professor Simon Marginson, p.4, Table 2

32 Submission 81, Professor Simon Marginson, p.3

33 Submission 49, Professor John Quiggin, p.27

34 Submission 217, Professor Bruce Chapman, p.5

35 *ibid.*

levels and repayment arrangements, particularly for undergraduate degrees, must be set at a level that ensures that charges are not a barrier to participation, particularly for disadvantaged groups. This was an important principle underpinning the introduction of the Higher Education Contribution Scheme (HECS) in 1988: repayments were made income contingent and repayment arrangements ensured that there was no real rate of interest and no payment was required until students' incomes exceeded average weekly earnings and total repayments were set at a maximum of approximately 20 per cent of the cost of higher education.³⁶

3.25 On coming to office in 1996, the current Government increased HECS repayment levels, reduced the income threshold for repayment and introduced a system of differential HECS charges. Professor Chapman, in his submission to the inquiry, observed that all charges were increased, by an average of about 40 per cent. He expressed the view that the most significant direct change to HECS arrangements was the reduction of the income threshold for repayment - from \$30,000 to about \$21,000 (in 1996 terms) of the first repayment. This change was particularly significant because it meant that 'all people repaying HECS - most of whom had graduated before 1997 - would now pay more in net present value terms, because they would have less of the subsidy implicit in an interest-free loan.' This meant an average increase in effective repayment obligations of about 10 per cent.³⁷ The Minister's view, as set out in the leaked Cabinet submission, is that the private benefit of higher education could be used to justify further increases in higher education charges, effectively shifting a larger proportion of costs on to students. A similar view has been argued by some other participants in the debate, notably the Minister's former education adviser, Mr Andrew Norton.³⁸

3.26 The Committee notes that while there clearly is a private benefit to higher education, there is no agreement on the relative public and private benefits, either in general, or for specific programs. Factors such as the field of study (for example, nursing might be considered to provide a high public and relatively low private benefit) and the occupational choices of students (a law graduate might choose, for example, to serve disadvantaged communities or work for a major corporate law firm), among others, determine the actual return to an individual. In addition, even courses that offer higher than average levels of private return, such as accountancy, information and communications technology (ICT) and engineering, are said to also provide a high level of public good.³⁹

36 Dr Kim Jackson, *The Higher Education Contribution Scheme*, Current Issues Papers, Parliamentary Library Library, 4 December 2000

37 Submission 217, Professor Bruce Chapman, pp.3-4

38 A Norton, *Australian Higher Education: Budgetary and Political Realities*, The Australian Economic Review Vol 34, no 2, p.218

39 *ibid.*, p5. Note also that the public good/private benefit is also arguably the basis for charging international students the full costs of their education in Australia - that is that there is no 'public good' for Australia associated with the education of international students: some of course might disagree with the proposition

3.27 The Committee heard arguments from students, universities and professional associations, that the current HECS charges and repayment arrangements are high in comparison with international standards,⁴⁰ and fail to recognise the public benefits from investment in higher education.⁴¹ The supply of graduates in some fields such as teaching, nursing and mathematics fell short of demand, suggesting that charges may be too high in these cases. (The Committee acknowledges, in this context, that factors other than charge levels may also play a role in enrolment levels for particular disciplines). The AVCC's view was that:

...students are already charged enough. We think that they are charged within the ballpark. We do not have [the private American system.] system in this country. We have a publicly funded system and our students here are charged in the same ballpark as students in American public universities. We do not think there is scope to charge any more.⁴²

3.28 The 'private benefit' argument suggests that the corporate sector, as a major beneficiary of the higher education, in the form of a skilled labour supply, should contribute to the costs of higher education. Representatives of private sector or professional associations argued the importance of the production of increasing numbers of well-educated graduates for the continued competitiveness of Australian industry.⁴³ With some notable exceptions,⁴⁴ however, the corporate sector has generally shown little inclination to match its private benefit with an appropriate level of funding. Reasons included the small size of many Australian organisations as well as shareholders' focus on short-term returns. There is some evidence that private sector employers were less likely than in the past to pay the costs of higher education courses undertaken by their employees. On present patterns, most private investment is from larger companies, in the form of purchase of consultancy or applied research services and is focussed on short-term, company specific requirements. Where the private sector does fund core teaching programs, there is a need to ensure that funding is not conditional on arrangements that might undermine academic content and integrity.

40 Australian Vice-Chancellors' Committee (AVCC) Discussion paper: *Our Universities: Our Future*, p. 14 compared the average annual charges or fees for domestic undergraduate students in a number of OECD comparator countries. The average annual HECS charge for Australian students of \$4360 compares with an average cost on the UK of \$0-2837, \$6433 in the US (for 4 year public institutions) and \$2280-\$3040 in New Zealand. Note also V L Meek: *Use of Higher Education Policy Research*, December 6, 2000 (The Oz Higher Ed A Resource of the Australian) reported that many OECD countries had reached the view that the proportion of costs of higher education that can be borne by students through fees has reached saturation point.

41 Submission 134, University of Western Australia, p.2

42 Professor Ian Chubb (AVCC), *Hansard*, Sydney, 17 July 2001, p.985

43 Submission 176, CPA Australia, p. 10; Submission 252, The Institution of Engineers Australia, p.1

44 Submission 75, Dr Sharon Beder, pp.3-5 cites some instances of private investment; Professor Ian Chubb (AVCC), *Hansard*, Sydney, 17 July 2001, pp.998 -1001

3.29 The Committee believes that while the private sector should make appropriate contributions to the costs of higher education, it is unreasonable to expect *direct* private sector investment to provide a substitute for Government funding.

3.30 The Committee noted that state government investment in universities remained at very low levels despite evidence of investments by a number of states to support specific initiatives.⁴⁵ State government witnesses expressed concern about the impact of reduced Commonwealth funding and the leadership in higher education, for the sector's capacity to meet national and local needs in teaching and research. State governments clearly continued to look to the Commonwealth to fund the sector to an adequate level to support core teaching and learning functions, in line with the 1973 agreement on higher education funding, with any state investments being targeted to some specific priorities at that level.

Commonwealth Government funding

3.31 The majority of the submissions and witnesses supported the need for government to retain primary responsibility for funding of higher education. The AVCC argued that only governments had the 'patient capital' to make the long term investments in education and basic research, that are essential to our future economic and social well-being.⁴⁶ It also argued against an arrangement under which the market (in the case of Australia, students and their parents) is primarily responsible for funding higher education:

There is no example where the application of assumed pure market forces has brought a higher quality, more effective university system. A fully deregulated system exists nowhere.. The market is prone to failure.⁴⁷

3.32 Evidence presented during the course of this inquiry on the effect of the recent increased reliance on the market for the funding of higher education, supports this assertion. The Committee therefore believes that Government must retain primary responsibility for funding higher education and that levels of government funding should be commensurate with that responsibility and the need to provide a high quality, equitable system.

Funding models and arrangements

3.33 Funding sources and mechanisms have a 'powerful influence' on the way resources are used. The OECD commented that:

45 For example the NT Government decision to provide funding for the University of the Northern Territory and the Tasmanian Government decision to enter into a partnership agreement with the University of Tasmania, discussed elsewhere in this report. The South Australian Government, in conjunction with business, is also examining the role of the higher education sector in terms of the future of the state economy. See submission 247, SA Business Vision 2000 Inc.

46 Submission 315, Australian Vice-Chancellors' Committee (AVCC), p.13

47 *ibid.*, p.13

There can be little doubt that the way in which higher education institutions receive their funds affect their incentive, and hence influence their internal organisational behaviour and the composition of the academic services they provide.⁴⁸

3.34 A number of submissions made the point that funding arrangements may influence universities' behaviour and capacity to meet the nation's higher education needs as much as actual funding levels.⁴⁹ In this context funding arrangements include both the broad levels and the basis of government, student and other contributions to higher education, as well as the models for distribution of government subsidies to universities and students. This chapter also discusses the effect of the current funding model and a range of proposals for reform submitted to the Committee.

Funding framework

3.35 Australian public universities, with the exception of the Australian National University, are established under state or territory legislation and are accountable, like other state mandated and publicly-funded bodies, to state parliaments. They are also largely subject to state government legislation such as Freedom of Information legislation, Equal Opportunity legislation, Ombudsman legislation and Auditor-General Acts. (Accountability issues are discussed in Chapter 4).

3.36 Public universities in Australia also have a high degree of financial and academic autonomy. They are self-governing institutions under the direction of governing boards and have the authority to raise their own funds, determine their own budgets and expenditure, recruit their own staff, develop and accredit their own courses, determine their areas of research and select their own students. This level of autonomy is said to compare favourably with that of publicly funded universities in many other countries.⁵⁰

3.37 The Commonwealth Government, however, exercises a high degree of influence over key aspects of universities' operations. It provides the largest single source of income and regulates the fees that universities can charge for domestic and overseas students.⁵¹ By determining the number of government funded places for each institution (and the allocation between postgraduate and undergraduate programs) it also determines a major element of universities' costs or expenditure. Its policies on matters such as income assistance for students or visas for overseas students can also have a major effect on the level and nature of demand for higher education. By making funding conditional on the achievement of certain policy or other requirements, it also can exercise a more interventionist influence on universities'

48 OECD, *Financing Higher Education – Current Patterns*, OECD, Paris, 1990, p.55

49 For example, Submission 205, Centre for Independent Studies (Mr Andrew Norton), p.6

50 Review of Higher Education Financing and Policy, Final Report. *Learning for Life*, April 1998, Commonwealth of Australia, pp.69-77

51 Review of Higher Education Financing and Policy, Final Report, *Learning for Life*, April 1998, Commonwealth of Australia, p.81

operations and management. A good example of this is the policy of offering universities a supplementation of 2 per cent of their operating grants for the purposes of funding agreed salary increases, conditional on the implementation of agreed reforms in workplace arrangements. Ironically, as government reduces its proportion of funding, it becomes more interventionist with such levers.

Framework established with the Unified National System (UNS)

3.38 The foundations for the current financing and management arrangements for higher education were laid in 1988 with the publication of the *White Paper: Higher Education A Policy Statement* in which the then Minister, the Hon John Dawkins MP, proposed the creation of the Unified National System (UNS). The UNS was introduced in 1989. A detailed description of system is in Chapter 4 (paragraphs 4.13 to 4.27). From a funding perspective, the key elements of the system were:

- the previous states grants legislation, which provided for funding for universities to be channelled to state governments, was replaced, for the purposes of higher education funding, with the Higher Education Funding Act (HEFA). This provided for the administering department to be directly responsible for the administration of grants, based on legislated global amounts to be distributed by Ministerial determination;
- UNS members gained triennial funding and more freedom in expenditure of grants with a number of specific purpose allocations being folded into a single operating grant;
- each university in receipt of funding under the HEFA was required to provide and abide by a performance profile (known as the ‘educational profile’) that was negotiated between the university and department; and
- the Higher Education Contribution Scheme (HECS) was introduced to increase the sources of funding to allow for a significant expansion of the sector (and increase equity and access for disadvantaged groups). HECS was carefully designed to ensure that it did not reduce access for disadvantaged groups and studies undertaken of the pre-1996 arrangements for HECS have confirmed that the scheme met those objectives. (Other governments and the World Bank have also accepted the HECS model as an equitable approach to the financing of higher education and it has been adopted or recommended as the model in a number of other countries).⁵²

Funding and growth patterns prior to 1996

3.39 The higher education sector expanded significantly between 1983 and 1996. Total funded student load increased by 63 per cent from 260,000 EFTSU in 1983 to

424,500 in 1997.⁵³ Over the same period, total resources increased by 69 per cent from \$3.1 billion in 1983 to \$5.3 billion in 1997.⁵⁴

3.40 During this expansionary period, increases in capital funding or research funding were even more marked: real capital funding per EFSTU increased by 230 per cent from \$200 in 1983 to \$670 in 1997, after dropping back from a peak of \$875 in 1992.⁵⁵ Expenditure on research in 1997 was 392 per cent higher than in 1983.⁵⁶

3.41 By 1996, higher education accounted for 3.6 per cent of Commonwealth outlays. In the words of the then Minister, Senator Amanda Vanstone, there had been a marked pattern of ‘rapid growth, faster than most other areas of government expenditure’.. and of ‘generous and expanding public subsidy’.⁵⁷

3.42 Private revenue, particularly income from international student fees, also increased over the period 1988-1996, with some universities obtaining almost 40 per cent of their income from non-Commonwealth sources by 1996.⁵⁸ While domestic enrolments continued to increase, international enrolments grew at an even faster rate: between 1990 and 1996 domestic enrolments increased by 24 per cent (or 81,675 students) and international student enrolments more than doubled.

3.43 In summary, there was a diversification of universities’ income over this period:

- the proportion of income from international student fees rose from 2.85 per cent in 1990 to 6.6 per cent in 1996;
- income from domestic (postgraduate) student fees rose comprised 1.1 per cent of income; and
- income from commercial fees and charges (including consulting charges) also increased as a proportion of total funds;

HECS contributions also came to play an important role in financing of the sector, rising from 11.7 per cent of all university income in 1990 to 17 per cent in 1996. By 1996, *government outlays* (that is excluding HECS receipts) as a proportion of total sector income had decreased to 55 per cent (from 68 per cent in 1988).⁵⁹

53 Higher Education Division, Department of Employment, Education and Training, *Commonwealth Funding for Higher Education 1983-1997*, October 1995, p.1

54 *ibid.*, p.1

55 *ibid.*, p.2

56 *ibid.* p.2

57 Senator the Hon Amanda Vanstone, Minister, *Policy Perspectives on Higher Education Financing*. Opening Address to the Symposium of Centre for Economic Policy Research, June 25, 1996

58 *ibid.*, p. 4

59 M Considine, S Marginson, P Sheehan and M Kumnick, *The Comparative Performance of Australia as a Knowledge Nation*,. Report to the Chifley Research Centre, June 2001, Table A.8

3.44 At various points in this report the Committee cites evidence from a number of witnesses and submissions referring to a decline in public investment in universities over the past ten, or even twenty years, and in some cases, since the introduction of the Unified National System (UNS). The Committee does not accept that claims of a decline in public expenditure on higher education under the UNS are substantiated by the facts. These include:

- total Commonwealth funding for the sector increased (in constant prices) from \$3.1 billion in 1983 to \$5.1 billion in 1995 - an increase of 64 per cent in real terms. Over the period 1989 to 1995, the increase was 34 per cent in real terms;
- total Commonwealth funding per EFTSU increased in real terms between 1983 and 1995;
- research funding increased by 317 per cent in real terms from 1983 to 1995 - from \$77.5 million to \$323 million (in 1994 prices); and
- the 1995 forward estimates projected a 4 per cent increase in funding per EFTSU between 1995 and 1997.

3.45 In contrast, over the period 1996 to 2001, there was no real increase in Commonwealth funding for the sector: *total Commonwealth resources for the sector under the DETYA portfolio* are \$5840 million in 2001 - the same level as in 1996, despite significant cost increases and an increase in the number of domestic students over the same period.

3.46 While some commentators also argue that there was a fall in the operating grant funding per EFTSU between 1983 and 1997, this ignores the fact that the composition of operating grants was changed following the introduction of the UNS. A large proportion of the research funding that had been included in operating grants was transferred to the Australian Research Council competitive grants program after the introduction of the UNS. These funds were still available to universities for research - the only change was to the process for allocation.

Changes to funding arrangements with the Higher Education Budget of 1996

3.47 The 1996 Higher Education Budget of the incoming Coalition Government marked an important development in higher education financing. Most of the changes to funding arrangements introduced in 1996 remain in effect today. The stated aim of the budget was to 'preserve and strengthen higher education and give it freedom to adapt to competition while still achieving efficiency gains'.⁶⁰ In an acknowledgment of some concerns about the longer-term financial needs of the sector, the Government also announced its intention to undertake a wide-ranging review of the sector (the Review of Higher Education Financing or the 'West' review).

60 Senator the Hon Amanda Vanstone, Minister for Employment, Education, Training and Youth Affairs, Budget Statement, Higher Education, Canberra 9 August 1996

Key elements of the Budget

3.48 The most significant, and controversial, initiative was a reduction in the forward estimates for operating grants. Growth in government funded enrolments was capped and the forward estimates of operating grants were reduced by 6 per cent - or \$476.6 million against forward estimates - over the period 1997-1999.⁶¹

3.49 To minimise the impact on undergraduate places, and presumably the political impact of the cuts, universities were expected to accommodate this reduction by converting some of their fully-funded postgraduate coursework places to fee-paying places, reserving the bulk of the fully funded load for undergraduate students.⁶² An exception was made for initial professional entry courses in postgraduate courses in nursing and education. A number of special purpose programs were also abolished.

3.50 While the 1996 budget also included some special measures for research infrastructure funding, in line with the Government's election commitments, this was offset by the reduction in forward levels of expenditure on operating grants, which provide the main source of funding for general research activities. Funding for new campus developments was maintained⁶³ and some targeted equity measures such as equity and merit scholarships and measures to promote indigenous access to higher education, were introduced.

3.51 The cap on growth in fully-funded places created a significant pressure point in a system that had been experiencing consistent growth in demand and availability for both undergraduate and postgraduate education, and where the unmet demand was still at high levels in some areas. As indicated, to help meet some of the demand for undergraduate courses, the most politically sensitive area of demand, universities were expected to convert postgraduate coursework places previously funded under the operating grant, to fee-paying places. They were also permitted to charge fees for undergraduate places, up to a limit of 25 per cent of places in a course, once they had filled their target for fully funded places (except in some courses).

3.52 The Government also introduced a range of changes to the HECS charging and repayment arrangements, many of which, unlike the cuts to operating grants, came into effect immediately. HECS charges were increased and a system of differential HECS charges was introduced, with three bands of charges (reflecting a combination of projected future income and course costs).⁶⁴ The income threshold for

61 Budget 96 Questions and Answers –Higher Education. Also Budget 96 Questions and Answers. Senator the Hon Amanda Vanstone, Minister for Employment, Education, Training and Youth Affairs, Budget Statement, Higher Education, Canberra 9 August 1996. Note that the total effect of the reductions in operating grants is commonly accepted as representing per cent of the grants (Submission 283, NTEU, p.10 and Submission 8, Professor Peter Karmel, p.6

62 Senator the Hon Amanda Vanstone, Minister for Employment, Education, Training and Youth Affairs, Budget Statement, Higher Education, Canberra 9 August 1996

63 *ibid.*

64 *ibid.*

repayment of the HECS debt was reduced to \$20,701 (below the average male wage which was \$35 569 in 1997-98) and the new (lower) level applied to all HECS debtors including those who had completed their studies. These changes to the HECS arrangements, while ostensibly aimed at ensuring a 'proper balance' between the public and private benefits of higher education, also had the effect of increasing revenue from HECS by 75 per cent in the first three years: HECS contributions increased from \$831.7 million in 1996 to \$1441.20 million in 1999.⁶⁵

3.53 In contrast with the period prior to 1996, the additional income from HECS has not been used to supplement the higher education budget. Instead, the Government reduced its outlays in line with the increase in HECS contributions, in effect using HECS or student contributions to *substitute* for Government funds.⁶⁶

3.54 The 1996 budget also introduced changes to AUSTUDY and ABSTUDY, the income support arrangements for non-indigenous and indigenous students respectively, with the aim of more 'tightly targeting' assistance and reflecting parent's obligations to contribute to their children's education. The key eligibility criteria - the means test and the age of independence - were tightened.⁶⁷ Once again, the effect has been to reduce the budgetary impact of the provision of higher education.

3.55 Finally, but perhaps most importantly, the Commonwealth effectively limited its funding for wage rises negotiated under enterprise bargaining arrangements. Before 1994 the Commonwealth was a direct party to wage fixing in public universities. Enterprise bargaining was introduced in 1994, and salaries and conditions were then negotiated locally upon a base of awards set by the Australian Industrial Relations Commission. Universities received partial supplementation for the first round of salary increases under Enterprise Bargaining in 1994-1996: 2.9 per cent of a 4.9 per cent salary increase.⁶⁸ In 1996 the Government decided not to supplement budgets for the full amount of any agreed wage rises. Instead, it indexed operating grants on the basis of an agreed Cost Adjustment Factor (CAF): comprising the agreed wages safety net adjustment (SNA) rate (75 per cent) and the CPI movements (25 per cent) ⁶⁹—effectively 1.5 per cent annum. This meant that universities have had to absorb the effect of any difference between wage increases negotiated with staff and the indexation rate. Since 1995, the average salary increase agreed has been 4 per cent or \$200 million annually while the CAF has resulted in an increase of 1.65 per cent for the salaries component of operating grants - leading to a (compounding) \$150 million shortfall in salaries annually.⁷⁰

65 M Considine, S Marginson, P Sheehan and M Kumnick, *The Comparative Performance of Australia as a Knowledge Nation*, Report to the Chifley Research Centre, June 2001, Table A8.

66 Submission 315, Australian Vice-Chancellor's Committee (AVCC), p.5

67 Budget 96. Questions and Answers. (DETYA)

68 Submission 283, National Tertiary Education Industry Union (NTEU), p.11

69 DETYA. Responses to Questions on Notice, Question 1, 1 August 2001

70 *ibid.*

Subsequent changes

3.56 A number of policy and funding changes have been introduced since 1996. These include the changes to research funding and research training under the *Knowledge and Innovation* Statement and most recently under the *Backing Australia's Ability* Statement. The latter includes a proposal for a Postgraduate Education Loans Scheme (PELS) to provide access to income contingent repayment arrangements for postgraduate fee-paying students. The PELS proposal (since enacted) is discussed in the Committee's report on *Consideration of Provisions Innovation and Education Legislation Amendment Bill 2001*. Changes to research funding arrangements are discussed in Chapter 6 on Research.

Effect of the 1996 Budget changes

Salary supplementation

3.57 The decision not to fully supplement wage increases has had a significant and continuing effect at least as great as the cuts to universities' operating grants. Academic salaries had fallen behind comparator countries and professions in the period leading up to 1996⁷¹ and pressure had built for some catch-up increases. The result has been, as the West review reported in 1998, a pressure to reduce staffing levels:

[assuming] higher education salaries move in line with economy-wide price increases, the real purchasing power of operating grants will decline unless they are offset by 'productivity agreements'. Thus any increase in salaries is likely to mean a reduction in staff unless universities have access to alternative sources of revenue.⁷²

3.58 Professor Bruce Chapman, in his submission to that Review, argued that enterprise bargaining increased the pressure for both staff cuts and non-government sources of revenue:

The essential problem with the application of an enterprise bargaining regime to what is basically a publicly funded system is that, unlike the application of enterprise bargaining in the private sector, there are no instruments available to make the arrangements operational... universities in an enterprise bargaining situation face the unpalatable option of a fixed pie: they can, for example, choose to give salaried staff a pay rise to maintain real incomes, but if this option is taken something else has to give, such as the layoff of staff. And in the context of governments not being willing to increase or even maintain real levels of higher education expenditure, an

71 M Considine, S Marginson, P Sheehan and M Kumnick, *The Comparative Performance of Australia as a Knowledge Nation*, Report to the Chifley Research Centre, June 2001, Table A13

72 Review of Higher Education Financing and Policy, Final Report, *Learning for Life*, April 1998, Commonwealth of Australia, p.83

enterprise bargaining system inevitably exerts significant pressure for the sector to find independent funding sources.⁷³

3.59 Emeritus Professor Karmel in his submission to this inquiry argued that the arrangement for only limited indexation universities' basic operating costs is not sustainable and needed to be changed:

Indexation of the salary component by the movement of average weekly earnings is the absolute minimum required to ensure that enterprise bargaining does not continually and cumulatively erode the universities' resources as has been and is the case. The CPI adjustment is also inadequate as it does not give sufficient weight to import prices to which universities are particularly sensitive, for example, in relation to equipment and library materials.⁷⁴

3.60 In the event, universities have had to meet the costs of unfunded salary increases totalling \$600 million over the past four years.⁷⁵ The effect of this was explained by the NSW Department of Education:

If average academic salary movements are used in place of movements in the Safety Net Adjustment, the real accumulated cut in Commonwealth funding to universities is in the order of \$3.5 billion, in year 2000 prices, between 1996 and 2001. On that basis, real Commonwealth funding to higher education is now some 20 percent below that of 1996.⁷⁶

3.61 Evidence to the Committee from Professor James Pratley of Charles Sturt University, highlighted the importance of the lack of salary supplementation relative to the cuts to operating grants:

since 1996 there has been a six per cent cumulative *reduction in operating grants*. That has amounted to about \$25 million over five years. There has also been *non-supplementation of three enterprise bargaining agreements worth about \$62 million over the same period*. That is, a total of \$87 million has been taken out of our budget. That is roughly equivalent to one year's funding from government (emphasis added).⁷⁷

3.62 The Committee notes, in this context, the recent Government policy of offering universities up to 2 per cent of operating grants for supplementation of wage increases, contingent on the achievement of specified workplace reforms including

73 Review of Higher Education Financing and Policy, Final Report, *Learning for Life*, April 1998, Commonwealth of Australia, p.84 (quoting Chapman)

74 Submission No 8, Professor Karmel, p.7

75 See Submission 283, National Tertiary Education Industry Union (NTEU), p.11 indicating an average annual salaries bill shortfall of \$150 million over the 4 years that the current salary supplementation arrangements have been in effect

76 Submission 358, NSW Department of Education, p. 9

77 Professor J Pratley, *Hansard*, Sydney, 18 July 2001, p.1038

performance rewards for staff and increased flexibility in use of facilities and resources is no solution to the problem of under-funding of salary increases. The imposition of ideologically-driven policies on universities in return for funding is at odds with the Government's broader stated policy of allowing universities autonomy to develop their own responses to local needs and circumstances. In addition, it has complicated the process of enterprise bargaining, reducing morale and wasting valuable time in many universities. It also rests on a number of false assumptions about the scope for productivity gains in institutions. The Committee notes that the legality of the Government's approach to workplace reform, in universities is currently being tested in the Federal Court. It believes that there is the need for a more effective approach to be developed to the supplementation of staff salaries.

Funding policies and capacity to meet demand

Undergraduate places

3.63 While some universities, mainly the more established metropolitan universities, took advantage of the opportunity to offer fee-paying places to domestic undergraduate students,⁷⁸ mainly in high demand courses, many did not.⁷⁹ The submission from Flinders University explained some of the thinking behind this:

We are not opposed to private investment in higher education, although we are opposed to the notion that one's capacity to pay should influence one's ability to participate in higher education. For this reason, Flinders University has consistently declined to offer fee-paying places for Australian students at undergraduate level.⁸⁰

3.64 Where universities do enrol undergraduates in fee-paying places, enrolments levels are small. For example, while the University of New South Wales (UNSW) had steadily increased its fee-paying undergraduate enrolments over the past three years, by 2001 these still totalled only 240 or 250 effective full-time students.⁸¹ The market for fee-paying places also appears to be concentrated in certain disciplines: of the 2,650 undergraduate fee-paying students in 2000, 836 (or 31 per cent) were in business, administration and economics.⁸² In addition, most students who gain entry to university as fee-paying students have enrolled in courses for which they failed to meet the cut-off scores for HECS-liable places; most of these move into HECS-liable places in their second year, on the basis of their performance in their first year.⁸³ This pattern suggests that the market for undergraduate fee-paying courses in Australia

78 Submission 263, University of New South Wales, p.3

79 See for example, Professor Ian Chubb (Australian National University), *Hansard*, Canberra, 13 August 2001, p.1340

80 Submission 84, Flinders University, p.3

81 Submission 263, University of New South Wales, p. 3; Professor John Niland (University of New South Wales), *Hansard*, Sydney, 17 July, p.939

82 DETYA, *Higher Education: Report for the Triennium 2001-2003*, p.102, Table 4.9

83 Professor John Niland, *Hansard*, Sydney, 17 July 2001, p. 939

could best be characterised as a market for allowing students to gain access to a preferred course by paying for their first year's tuition.

3.65 A more common response has been for universities to 'over-enrol' (that is enrol above their fully-funded load). A trend to over-enrolment commenced in 1990, apparently as a response to the growing levels of demand and with the reasonable expectation that an steady increase in base funding would cover costs in subsequent years. However in 1997, sector-wide over-enrolments jumped to 24,500, rising to 39,500 in 1998 and 44,200 in 1999, before beginning to decline.⁸⁴ This is in a context where institutions' operating grants and the number of fully-funded places have been either static or reducing and, in contrast to the pre-1996 pattern, the costs of over-enrolment need to be carried for the full duration of students' courses.

3.66 In 1998 the Government introduced a marginal funding arrangement. Under this arrangement, universities could receive additional funding at the marginal rate of approximately \$2,517, compared with a fully-funded rate of \$9,000, for enrolments above the agreed load. In a complementary policy, enrolments below the agreed load were subject to a requirement to repay the Commonwealth for each funded place left unfilled. There is also a requirement to repay the Commonwealth for any fully-funded places occupied by fee-paying undergraduate or postgraduate places.⁸⁵ Marginal funding, like the introduction of fee-paying places for domestic students, allowed the Commonwealth to avoid much of the political fallout from its reductions to operating grant funding, by allowing for some growth in student places. At the same time, as the submission from the Deputy Vice-Chancellor (Lilydale) of Swinburne University of Technology, argued:

the Government, which receives full HECS payments for places that it funds marginally, benefits considerably.. in 2000 there were around 30,800 overenrolment EFTSUs in Australian universities. We do not know their 'band distribution', but assuming them to be all say Band 2 EFTSUs, the year 2000 would have brought a windfall gain in the order of \$72 million.⁸⁶

3.67 The requirement to repay the Commonwealth for any unfilled places also provides all universities with an incentive for some degree of over-enrolment, to cover attrition and other forms of wastage.⁸⁷

3.68 The Committee believes that Commonwealth's position on marginal funding is inconsistent at best and, at worst, dishonest. Its media statements and reports frequently highlight the growth in domestic student enrolments over the past few years, much of which has been achieved through marginal funding, as a positive

84 AVCC Funding Table No 4

85 S Borthwick, *Overview of Student Costs and Government Funding in Post-Compulsory Education and Training*. Research and Evaluation Branch DETYA, October 1999, REB Report 4/99, p. 22

86 Submission 202, Professor Barbara van Ernst (Lilydale campus, Swinburne University of Technology), p.5

87 Submission 130, Dr R Birrell and Dr Ian Dobson, p.4

achievements in higher education.⁸⁸ At the same time, it has criticised some universities for their excessive use of marginal funding, citing this as one cause of deteriorating staff-student ratios.⁸⁹

3.69 While it is true that universities are free to determine the number of students that they can afford to absorb under a marginal funding arrangement, the pressures facing many universities are more complex than such a statement might suggest. The cap on growth in fully-funded places from 1997 has not been felt evenly across institutions. Victoria lost 6186 EFTSU places between 1996 and 2000 largely because its higher participation rates meant that its share of places had been greater than its share of population. Some universities and campuses, particularly those with a charter of serving populations where demand is growing, were particularly hard hit. The Lilydale campus of Swinburne University of Technology, for example, had been experiencing a 30 per cent growth in demand.⁹⁰ So that it could continue to meet some of this demand, and extend its range of course offerings, it embraced marginal funding and increased its student numbers from 510 in 1996 to 1,992 in 2000.⁹¹

3.70 However high levels of over-enrolment on a marginal funding basis inevitably lead to deterioration in universities' financial situation and many universities have found that they are unaffordable in the longer term. The University of Western Australia commented that:

over-enrolment brings in at best marginal funding that does not meet the full costs of providing for additional students, and has generally the effect of eroding the infrastructure of institutions and the quality of courses.⁹²

3.71 There is now a noticeable retreat from the initial high levels of over-enrolment.⁹³ With over-enrolment having provided an important source of growth for domestic places in recent years, this may translate into a reduction in domestic undergraduate enrolments and participation in higher education.

3.72 The cap on growth in fully-funded places over the past five years has particularly affected universities experiencing growing demand, including states such as Western Australia and Queensland with increasing numbers in the 15-24 cohort. Even Tasmania, with its declining population, is facing problems of unmet demand, and associated out-migration for study purposes, because:

88 DETYA *Higher Education Report for the 2001-2003 Triennium*, p.5. Note that statistics on growth are generally made with reference to 1995, rather than 1997- when the cuts to operating grants came into effect - as the benchmark year. This selective presentation understates the impact of funding cuts on growth in places.

89 Mr William Mutton (DETYA), *Hansard*, Canberra, 13 August 2001, p.1351

90 Submission 362, Premier of Victoria, pp.6-8

91 Submission 202, Professor Barbara Van Ernst (Lilydale campus of Swinburne University of Technology), p.4

92 Submission 134, University of Western Australia, p.3

93 P Lawnham, *Unis to halt over-enrolments*, *The Australian*, 12 September 2001

a 32 per cent improvement in retention rates since 1996 has significantly increased the demand – leading inevitably to a high level of unmet demand, given that the economic circumstances of Tasmania limit the capacity for full-fee paying students. This is said to have led to an increase in the ‘mobility rate’ of students moving to other States to study of 18.7 per cent or double the national average.⁹⁴

3.73 Evidence to the Committee from a wide range of industry and professional associations as well as from the Department of Defence,⁹⁵ and state governments also indicated that there is a serious under-supply of graduates in many disciplines from engineering to information and communications technology, accountancy, nursing, teaching and areas of the health sciences.⁹⁶ For example, Dr Bob Birrell, in discussing the shortage of IT graduates noted:

...claims about shortages [of IT professionals] are compelling, as are industry assertions that if Australia is to be competitive in such a vital industry, it needs an increased flow of highly-trained recruits. Australia’s universities will have to be the main source of this additional training, since is unlikely that overseas IT professionals will be available in the numbers required. (Birrell, 2000:83)

The Australian Government has insisted that Australian universities are responding well to the IT situation. The Government’s December 1998 Discussion Paper *Skill Shortages in Australia’s IT&T Industries* indicated that there had been an increase of 139 per cent in the number of computing graduates (from 2100 to 5100) over the 1989-1996 period. (DCITA, 1998:10) For his part, the Minister for Education, Training and Youth Affairs, Dr David Kemp put out a series of statements extolling the increased output of IT graduates in Australia.

Minister Kemp's optimistic statements were misleading. *The apparent robust overall growth in IT training in Australia does not look nearly so good when the total IT graduation figures are disaggregated into Australian residents/citizens and international full-fee paying students. .. nearly 2/3rds of the growth in IT completions between 1993 and 1998 was attributable to international full-fee paying students.* It is strange that the report did not consider this critically important distinction in terms of the needs of the Australian workforce⁹⁷ (emphasis added).

3.74 Current funding arrangements have a direct bearing on the capacity of the higher education sector to meet the demand for graduates in a number of key areas.

94 Submission 172, University of Tasmania, p.3

95 Submission 109, Department of Defence, p.4

96 Submission 176, CPA Australia, p.1 (for accountants). Submission 252, Institution of Engineers Australia, p.10, argues that there is a shortage of graduates in the science, engineering and technology areas. Submission 362, Government of Victoria, p.21 re shortages of graduates in teaching and nursing

97 Submission 130, Dr R Birrell and Dr I Dobson, Attachment 1, p.2

For example, according to media reports, the University of Sydney had planned to cut the staffing in its faculty of nurse education by one-third (or 25 positions), in response to declining student numbers and reduced Commonwealth funding. Internal university documents indicated that the faculty faces a funding crisis this year because its income is projected to be \$7,911,000 with expenditure projected at \$9,101,000. Media reports suggested that this could result in hundreds fewer nurses being trained, at the same time that NSW is struggling to fill 1,800 full-time nursing positions and there is a shortage of 5,000 nurses across Australia.⁹⁸ There was no decision on the faculty cuts and any changes to student intakes at the time of this report.

3.75 The Committee believes that the weight of the evidence presented to it indicates that the current Government policy of containing growth in fully-funded places at Australian public universities has had several adverse consequences. Australian citizens and permanent residents, particularly those from equity groups, who could benefit from higher education are being denied access because of insufficient places. Where universities are using over-enrolments to provide this access, students are suffering the effects of under-funding (or marginal funding) on the quality of their education. Australian industry and society are being denied access to the skills that are required to grow the economy and perform valuable community services such as teaching and nursing. Smaller states such as Tasmania and the Northern Territory are being stymied in their efforts to increase the skill profile of their communities and ultimately reduce their dependence on the Commonwealth government. Recent data on the decline in the number of domestic students participating in higher education⁹⁹ suggests that with current policy settings these problems will only intensify. A related matter is the concern about the role that HECS charge levels and differential charges may play in the demand for places in a range of disciplines (discussed in Chapter 8 at section commencing 8.77).

3.76 The recently announced increases in places in science and information and communications technology (ICT) announced under *Backing Australia's Ability* will go only a small way to meeting the demand problems outlined in this report.

Recommendation Three

The Committee recommends that the Government review differential HECS charge levels and lower HECS thresholds. In the first instance attention needs to be paid to the removal of disincentives to mature age access, particularly in such areas as nursing.

98 A Contractor, *Nurses shortfall to worsen as university cuts training*. Sydney Morning Herald, 18 September 2001 p. (see also *Goodnight, Nurse*, General News p.2 same edition and A Contractor, *Uni Forced to halt plan to cut nursing faculty*, SMH 19 September 2001)

99 Submission 81, Professor Simon Marginson, p.8, Table 5

Recommendation Four

The Committee also recommends that the Government phase out domestic students' access to undergraduate places in HEFA funded courses on a fee-paying basis. This policy is fundamentally inequitable and has no place in an Australian higher education policy based on the principles of equity and merit.

Postgraduate coursework places

3.77 The Government argued the cuts to fully-funded places from 1997 should fall mainly at the postgraduate level because postgraduate students already had access to fee-paying places. The assumption was that fee-paying places would substitute for Commonwealth-funded places, with no net decrease in enrolments. In the event, however, as Table 3.1 indicates, the increase in fee-paying postgraduate coursework places over 1996-2000 has failed to compensate for the reduction in fully-funded places, with an overall loss of more than 6,000 places.

Table 3.1 Postgraduate Coursework Places: Fee-paying and Funded 1996 – 2002 (EFTSU)¹⁰⁰

	1996	1997	1998	1999	2000	2001	2002
PG Coursework Funded	41315	36727	22286	17572	16400	15833	15292
PG Coursework Fee-paying	12365	14908	20366	23869	27027	29892	32112
Total	55676	53632	44650	43440	45427	47726	49406

3.78 The Council of Australian Postgraduate Associations (CAPA) argues that this decline in postgraduate training has reduced the supply of skilled labour at the initial professional level and in the field of continuing professional development.¹⁰¹ The decline in enrolments is said to be due to the effect of upfront fees as a barrier to access, rather than any declining interest in, or need for, this form of education.¹⁰² These views were echoed in the report of the *National Innovation Summit Group* which found that upfront fees are a disincentive to invest in further training and skills development.¹⁰³ The introduction of a Postgraduate Education Loans Scheme (PELS) was recommended in that report as one strategy to overcome the disincentive effect of upfront fees. The Committee shares the concerns of CAPA and other student

100 Submission 236, Council of Australian Postgraduate Associations (CAPA), p. 7

101 Submission No 236, Council of Australian Postgraduate Associations (CAPA), p. 7

102 Submission No 301, UTS Postgraduate Students' Association, p.11

103 *Innovation: Unlocking the Future*, Final report of the Innovation Summit Implementation Group, August 2000, p.9

representative organisations that the scope and incentive for universities to increase postgraduate coursework fees under PELS may undermine the scheme's potential to remove the disincentive for postgraduate education.¹⁰⁴

3.79 The drop in enrolments in postgraduate coursework following the reduction in the number of Commonwealth-funded places is a disappointing illustration of some of the pitfalls associated with the assumptions underlying Government policy settings and is a salutary warning of how a more deregulated system may work. First, the market is prone to failure. Second, the existence of some demand or market for fee-paying higher education does not mean that this demand extends to all courses and all students. Third, the under-funding of higher education places is likely to lead to below optimal production of graduates requiring reactive policy responses.

Impact of the 1996 budget

3.80 The effect of the declining levels of per EFTSU expenditure, in combination with the decision not to index operating grants for the costs of wage increases under Enterprise Bargaining, is described by the Australian National University:

it is widely acknowledged that the operating grant funding cuts in the period 1997-2000 and the non-supplementation of enterprise bargaining wage rises have put university teaching, research, research training and administration under significant pressure. The inevitable response in many universities has been rationalisation processes in which the weakest areas in terms of revenue in relation to costs have been abolished or are under threat. Physics, chemistry and mathematics departments are in this category, and these areas are critical to future economic growth through the development of export-oriented high technology industries.¹⁰⁵

3.81 The University of New England noted that the reduction in course offerings has been encouraged by government as a way to manage within budget:

The pressures from Government/DETYA on universities have been to streamline, to cease offering 'unprofitable' courses, to close down disciplines so that the more viable areas could be better resourced.¹⁰⁶

3.82 Flinders University also made it clear that the issue is not one of universities failing to use available resources efficiently:

in universities in Australia at this point in time the serious resources and morale issues cannot simply be attributed to poor management. Rather, universities are now at the limits of their ability to maintain even current

104 Senate Employment, Workplace Relations, Small Business and Education Legislation Committee, Consideration of Provisions, Innovation and Education Legislation Amendment Bill 2000 (Minority report by Labor senators)

105 Submission 317, Australian National University, p.3

106 Submission 188, University of New England, p.2

levels of activity without additional resources. The costs of teaching are rising due to the expanding use of information and communications technologies and increased salary costs for staff. The modest salary increases which have been awarded to staff as a result of three Enterprise Bargaining Agreements negotiated since 1995 (and which still leave academic salaries in Australia uncompetitive with their counterparts in the US and the UK) have been largely unfunded. Most institutions have needed to offer redundancies to balance their budgets, leaving fewer staff to cope with the challenge of new courses, new curricula, demands by employers for new skills, and rising expectations of students, as well as some increase in student numbers, as we attempt to meet all the pressures on us.¹⁰⁷

3.83 The need to reduce staff sets up a dangerous spiral, in some cases, where course viability is dependent on one key individual and demand reduces in line with the reduced options and support, leading to further declines in demand.

3.84 There were also claims that the financial pressures had been felt disproportionately by the newer universities:

there are major pressures on physical infrastructure such as teaching laboratories, library facilities, and web-based facilities across administration and teaching functions. These pressures are general across the sector but are being experienced most severely in those new institutions like UWS which have experienced dramatic growth in student numbers at the same time as Government funding has contracted.¹⁰⁸

3.85 The Dean of Science and Agriculture at Charles Sturt University explained the effect in his faculty: whereas in 1996, he had \$1 million in discretionary funds over and above costs of staff salaries, he started 2001 with a shortfall of \$0.5 million in salaries. Because he could not pay his staff salaries from government funding, the shortfall had to be made up from the fees from international students.¹⁰⁹

3.86 Regional universities such as James Cook University, the University of Tasmania and the Northern Territory University pointed out that the implications for the regions were particularly serious:

A university such as James Cook has an obligation to the region to offer a reasonably diverse curriculum despite the fact that this means working at the borders of cost-effectiveness (and sometimes beyond them). This has now reached breaking point, with considerations having to be given to further rationalisation. While this may be easy in a large metropolitan area, where the full range of offerings can be covered among several institutions, it

107 Submission 84, Flinders University, p.4

108 Submission 287, University of Western Sydney, p.3

109 Professor James Pratley, *Hansard*, Sydney, 18 July 2001, p.1040.

means that students from major regional areas will miss out on even more study opportunities than at present.¹¹⁰

3.87 The Vice-Chancellor of James Cook University noted, however, that even the more established, wealthy universities had been affected badly:

Whilst I was Executive Dean of Science at the University of Western Australia we conducted an audit of the Faculty's equipment infrastructure, and on a simple straight-line amortisation model over the estimated useful life of the apparatus, we calculated the amount of money we should be investing annually just to preserve the existing level of infrastructure. The sum exceeded the total annual income of the faculty from all sources. And this was in one of Australia's richer universities. It is hard to escape the sense that Australia's universities are living on borrowed time and fighting imminent decay.¹¹¹

3.88 The submission of the National Tertiary Education Industry Union (NTEU) catalogued *some* of the effects of the reduced funding levels:

- by April 1998, 10 per cent of Humanities staff had been cut and 16 languages had been discontinued across the sector;
- in 1998 libraries cancelled \$9 million worth of subscriptions and planned to cancel a further \$6 million in 1999. Most journals affected were in the fields of science, engineering and technology and medicine;
- La Trobe University: Faculty of Humanities and Social Sciences needs to reduce salary costs by \$1.5 million by 2005; the University lost 300 staff in the 4 years to April 2000;
- Monash University lost 215 staff from November 1996 to March 1997; another 60 staff will be offered redundancies; and
- University of Queensland faces staff cuts of 80-100.¹¹²

3.89 One submission also noted that one response to the need to reduce staff is the trend to replace full-time staff with casual staff and the development of a secondary labour market in universities:

The...reduction in funding for higher education (especially amounts per EFTSU)...has driven universities to use increasingly a secondary labour market in order to maintain quality in core areas of research, administration (university management), university change management (eg introduction of on line learning) and development of industry relevant courses.¹¹³

110 Submission 184, James Cook University, p.1

111 Submission 184, James Cook University, p.3

112 Submission 283, National Tertiary Education Industry Union (NTEU) Appendix A

113 Submission 54, Dr Linda Hort, p.5

3.90 Figures released by the AVCC in July 2001 support this view. They indicate that the proportion of university staff employed as casuals had more than doubled in the past decade, from 9 per cent in 1990 to 18 per cent in 2000. The increase had been most dramatic for teaching-only staff – 90 per cent of whom were casuals compared with 30 per cent ten years ago. The Government claims that this trend reflects universities’ own preferences for increased flexibility to respond to the changing nature of demand. However NTEU representatives pointed out the adverse effects of casualisation, including reduced access for students (as casuals usually had no office or phone contact), together with a lack of professional development and career prospects.¹¹⁴ Under enterprise bargaining arrangements for most universities (incorporating previous award requirements) casual staff working more than 60 per cent of full-time hours are entitled to be paid on a ‘fractional’ rather than hourly basis - that is, their salary should be based on the relevant fraction of the full-time salary. Casual staff are also entitled to be paid for ‘non-contact’ work as specified in their contract, including marking of assignments and some preparation.¹¹⁵ The Committee heard evidence that some casual staff were being required to mark 4 assignments per hour (or even more in some cases), with clear quality and work stress implications.¹¹⁶

3.91 DETYA data summarise the sector-wide impact of staff changes up unto the end of 1999: 4,007 full-time staff positions were lost in 1998-1999, with a total loss of 2,494 full-time equivalent staff. (The latter figure is lower because some of the full-time positions that have been cut have been converted into fractional full-time positions).

Table 3.2 Number of university staff 1992-1999

Years	Full-time staff	Percentage change	Fractional full-time	Percentage change	Total	Percentage change
1992-93	62,299	baseline	11,656	baseline	73,955	baseline
1994-95	63,963	+2.6	12,122	+3.9	76,085	+2.8
1996-97	65,625	+2.5	13,141	+0.84	78,766	+3.5
1998-99	61,618	-5.6	14,654	+11	76,272	-3.2

Source: DETYA data: Characteristics and performance indicators of higher education institutions _ numbers of staff 1992-1999 at http://www.detya.gov.au/archive/highered/statistics/characteristics/14_staff.htm

3.92 The staff cuts have translated into deteriorating staff-student ratios across the sector. One submission highlighted the fact that these have deteriorated significantly

114 *Twice as many casual staff*, The Australian, 25 July 2001

115 National Tertiary Education Industry Union (NTEU) Smart Casuals. NTEU Handbook for Casual university staff, p.9

116 Submission 19, Dr Kim Atkins, p.2

over the same period that there has been a significant improvement in the staff-student ratio in schools.¹¹⁷

Financial liquidity and viability

3.93 The reduction in funding together with an increasing cost structure, has placed increasing pressure on university finances. DETYA has reported that it is monitoring the financial situation of universities and that, while the financial position of the sector in 1999 ‘remained sound,’¹¹⁸ five institutions recorded negative safety margins in 1999 due to an increase in costs combined with revenue constraints.¹¹⁹ This assessment of the overall financial situation overlooks the fact that two institutions in regional areas had recorded negative safety margins in two consecutive years, suggesting their financial situation may be more precarious.¹²⁰

3.94 DETYA’s own data indicates that the trend across the sector is of a consistent and significant deterioration in universities’ financial position: almost all financial indicators deteriorated across the sector over the period 1994-1999, as set out in the table following with the sharpest declines occurring after 1997. The NSW Department of Education expressed concern about the implications of the declining safety margins for universities’ capacity to meet their operating costs:

Since 1996, financial safety margins across the national university system have declined by almost half...indicating the increasing difficulty institutions are experiencing in meeting their operational costs within the existing funding framework...The current ratio, which measures the ability of institutions to meet short-term obligations, has shown similar trends.¹²¹

3.95 The Committee also notes that the marked deterioration in universities’ operating surpluses (which have almost halved since 1997 when the cuts to operating grants came into effect) has occurred over the same period that universities have significantly increased their quantum of private income. This is solid evidence that private funds have clearly failed to provide a satisfactory substitute for declining levels of Government funding. The reasons for this are explored in the following section on reliance on private funding.

117 Submission 8, Professor Peter Karmel, p.3

118 DETYA, *Higher Education Report for the 2001 to 2003 Triennium*, March 2001, pp.59-60

119 *ibid.*

120 *ibid.*, p.59

121 Submission 358, NSW Department of Education, p.10

Table 3.3 Financial measures and ratios for higher education institutions, Australia: 1994-1999

Item	1994 \$m	1995 \$m	1996 \$m	1997 \$m	1998 \$m	1999 \$m
Financial measures & ratios						
Safety margin (per cent)	6.1	6.9	5.9	6.5	4.6	3.3
Current ratio	1.88	2.00	2.04	1.99	1.85	1.83
Aggregate revenue & expenditure						
Revenue (\$b)	6.88	7.584	8.12	8.33	8.76	8.91
Expenditure (\$b)	6.46	7.06	7.64	7.79	8.35	8.60
Surplus (\$b)	0.42	0.53	0.48	0.54	0.41	0.29
External borrowings & debt equity ratios						
Borrowings (\$m)	141.3	173.7	266.9	276.1	318.5	346.2
Debt equity ratio	0.02	0.02	0.03	0.03	0.02	0.02
External borrowings and Debt equity ratios						
Cash & investments	3.1	3.4	3.6	4.0	4.6	4.0

Source: M Gallagher, *The Emergence of Entrepreneurial Public Universities in Australia* (DETYA Occasional Papers Series 2000E), p. 22, Table 7

3.96 In the absence of a significant injection of funds, and changes to policy settings encouraging private funding as a substitute for Government funding, universities' financial situation is likely to deteriorate even further in the future. This will have particularly serious consequences for some universities, particularly those in regional areas, and ultimately for the Government and taxpayer.

3.97 The Government's repeated position on this issue is that it is not a matter for the Commonwealth: universities are autonomous institutions, responsible for managing their own financial survival.¹²² The Committee believes that this position is a profound and unacceptable abnegation of the Commonwealth's responsibility to ensure that Australia's universities have the capacity to meet the nation's higher education needs. It is also at odds with the Commonwealth's stated policy objectives for higher education.¹²³

122 M Gallagher, speech at *The Idea of a University*, conference hosted by The Australia Institute, 26 July 2001

123 DETYA, *Higher Education Report for the Triennium 2001-2003*, March 2001, p. 3

Conclusion

3.98 The Committee heard a wide range of evidence cataloguing the extremely serious effects of the reductions to the forward estimates for operating grants after 1996 and the decision to limit supplementation for overdue salary increases. The real purchasing power of universities' operating grants has been reduced by more than 20 per cent since 1996 at a time when some of the major cost drivers for universities – salary costs, costs of library purchases and information technology – have increased significantly. High levels of over-enrolment have further reduced the actual level of funding available per EFTSU.

3.99 There are several major consequences. There have been large reductions in the number of staff, as well as a shift from full-time to fractional and casual staff. These trends are most acute in humanities and basic sciences although most areas have been affected. Staff-student ratios have deteriorated in almost all universities and all disciplines. The implications of this trend for the capacity of the higher education sector to provide a high quality education in a wide range of disciplines – and particularly in core teaching areas – are extremely serious and are discussed in more detail in Chapter 5. Reduced funding and increased costs have also translated into a deteriorating financial position for many universities, with some now extremely vulnerable to any further changes in their circumstances. There is also clear evidence that universities are failing to meet national needs in terms of the production of graduates in some areas of national importance with serious effects for individuals, industry, states and the nation.

3.100 The policy of allowing universities to provide a proportion of undergraduate places for domestic students on a fee-paying basis is no solution to the problem of meeting the growing demand for higher education. After six years, the total number of fee-paying domestic undergraduate students in Australian public universities is 2,650,¹²⁴ while the number of over-enrolments hovers around 20-25,000. In addition, many universities are opposed to the introduction of fee-paying places on the grounds of equity. It has also become clear that students are using the fee-paying route as a means of by-passing entry requirements for preferred courses and are then moving into fully-funded places in subsequent years. Despite the Government's rhetoric about its commitment to access based on merit rather than capacity to pay, this policy clearly advantages those with the most means rather than those with the most merit: it is fundamentally inequitable.

3.101 The next section examines the effect of the Government's policy of encouraging universities to increase their private or 'earned' income as a substitute for this declining level of funding.

124 *ibid.*, p. 102

Recommendation Five

The Committee recommends that as a matter of urgency the Government undertake a review of the most appropriate indexation arrangements for university operating grants.

Increased reliance on private funding

3.102 This part of the chapter considers the present policy of increasing universities' reliance on private funding, a policy which has been characterised as one of 'starving universities into commercial partnerships,'¹²⁵ and which, ironically, is undermining universities' greatest commercial asset, that is the quality of their teaching and research.

Policy objectives

3.103 In the three years between 1996 and 1999, government outlays on higher education, (that is, excluding HECS) fell by more than ten per cent: by 1999 Government outlays accounted for only 47 per cent of sector revenue compared with 57 per cent in 1996.¹²⁶

3.104 Dependence on government revenue varies significantly across the sector. Government outlays now account for less than 35 per cent of revenue for some universities, but for others it is closer to 70 per cent.¹²⁷

3.105 Universities have become more reliant on private, or non-government funds, for two main reasons. First, as discussed, the overall level of government funding has been reduced over a period when the number of students and the costs associated with teaching (primarily staff salaries and libraries) have increased. This process intensified considerably after 1996. The result has been a shortfall in revenue and, in some cases, serious cash flow problems. The need to cover unfunded salary increases has added to the pressure to generate additional income.¹²⁸ In addition, recent changes to research funding flowing from the 1999 White Paper, encourage universities to seek private funds as a means of leveraging additional funding from the government.¹²⁹ Research funding is discussed in more detail in Chapter 6.

3.106 Second, the current government has explicitly encouraged universities to diversify their sources of income.¹³⁰ The objectives of this policy are to expand opportunity for students without increasing budget outlays, and to increase

125 Submission 38, Associate Professor Stuart MacLean, p.2

126 DETYA *Higher Education Report for the 2001 to 2003 Triennium*, March 2001, p.62

127 *ibid.*, p.63

128 Submission 287, University of Western Sydney, p.9

129 Submission 317, Australian National University, p.4

130 DETYA, *Higher Education Report for the 2001-2003 Triennium*. March 2001, p. 3

responsiveness to students and the business and community sectors.¹³¹ The assumption is that a competitive, market driven system will promote the most efficient use of resources and appropriate outcomes. In addition, consistent with the ‘user-pays’ philosophy, policy is also guided by the view that those who benefit from higher education, particularly students and business, should contribute appropriately to the cost. There is also view that decreased reliance on government funds will increase institution’s autonomy and ‘capacity to pursue diverse missions.’¹³²

3.107 The question is whether the policy of increasing reliance on private funding or self-reliance has been successful in meeting those objectives. A related question is whether there have been any adverse consequences of the policy.

‘Success’ of the policy

3.108 The Government cites a number of indicators to point to the success of its policy of requiring universities to become more financially self-reliant. Government outlays for universities have decreased from \$4170 million in 1996 to \$3714 million in 1999,¹³³ reflecting both the reduction in operating grants and the substitution of HECS for other sources of funding.¹³⁴ At the same time, domestic student load has increased by 28 275.¹³⁵ Total university revenues are projected to increase by 21.5 per cent, from \$8.3 billion in 1995 to \$10.1 billion in 2003 (although the pattern varies considerably across the sector).¹³⁶ Non-government revenue, which accounts for 66 per cent of the projected revenue increase,¹³⁷ will increase by 53 percent or \$1.2 billion.¹³⁸ In light of these indicators, it is reasonable to ask why universities claim to be, and appear to be, in a state of crisis. Evidence examined in this section, including information and analysis from the Government, makes it clear that private funding is not a viable substitute for Government funding largely because its is ‘hard to win, volatile and uncertain.’¹³⁹ Private funding also has a number of undesirable effects on the independence and integrity and quality and diversity of higher education and these are also examined.

131 *ibid.*, p.3

132 *ibid.*, p.6

133 M Considine, S Marginson, P Sheehan and M Kumnick, *The Comparative Performance of Australia as a Knowledge Nation*, Report to the Chifley Research Centre, June 2001, Table A8

134 Note that DETYA argues – with some justification – that the HECS should not be treated as a purely student contribution because of the subsidies and costs built into the HECS arrangements. There are no estimates of the extent of subsidy in HECS but it may be close to 30 per cent (see Submission 49 by Professor Quiggin)

135 M Considine, S Marginson, P Sheehan and M Kumnick, *The Comparative Performance of Australia as a Knowledge Nation*, Report to the Chifley Research Centre, June 2001, Table A4

136 DETYA *Higher Education Report for the 2001 to 2003 Triennium*, March 2001, p.5

137 Submission 358, NSW Department of Education, p.11

138 DETYA *Higher Education Report for the 2001 to 2003 Triennium*, March 2001, p.5

139 M Gallagher, *The Emergence of Entrepreneurial Public Universities in Australia*, September 2000, DETYA Occasional Paper 2000E, p.23

Sources of private funding

3.109 Evidence presented to the Committee provided useful insights into the characteristics of private funding of universities in Australia and the implications for universities.

3.110 As discussed, student fees and charges represent by far the largest source of universities' non-government income. These include fees paid by international students and by domestic undergraduate and postgraduate fee-paying students, and ancillary fees and charges. The growth of universities' non-government income over the past five years is therefore largely the story of significant increases in - and increasing reliance on - international students.

3.111 Other sources of non-government revenue include income from universities' various commercial operations including offshore university teaching programs, franchise teaching operations in Australia and continuing education programs as well research and consultancy services. Income from investments, and from bequests, alumni and similar sources, represents the smallest component of private income. This contrasts with the situation in countries such as the United States of America, where income from bequests, endowments and from alumni - which provide important sources of untied or discretionary income - are usually a major component of private income, apart from fees.

3.112 Universities have also obtained funds for industry for support of the development of courses, mainly at the postgraduate level, with a focus on industry (and sometimes company) needs. For example, one submission reported that the University of Wollongong has agreed to allow Telstra and BHP to have input into the development of a masters program, in return for funds; the University of Sydney has permitted the Bankers Trust (BT) company to suggest modules for its masters in information technology in return for a donation of \$92,000 towards the cost of a professorship as well as an undertaking to support BT employees in undertaking the program; and at the University of Adelaide, Santos has pledged \$25 million for a school of petroleum engineering.¹⁴⁰

3.113 In recent years, a number of universities have also explored the development of other longer-term sources of non-government income, most notably through the establishment of private or commercial teaching arms, such as Deakin Australia, Melbourne University Private or consortia such as *Universitas 21*. These initiatives are discussed in more detail in Chapter 7 on universities' commercial operations.

140 Submission 75, Dr Sharon Beder, p.3

Problems with reliance on private funding

Unequal capacity to generate funds

3.114 Universities are not equal in their capacity to generate non-government funds. The larger, more established, universities are most likely to have access to endowments or other funds that can generate a steady income stream. They are usually located in metropolitan centres within easy access of a pool of potential fee-paying students and companies with the capacity and interest to invest in research and consultancies. They are also likely to have a diverse range of established research and teaching programs and long-standing reputations, enhancing their appeal to international students and industry partners. And they are more likely to have a pool of alumni in professional fields.

3.115 Many submissions to the inquiry from regional universities highlighted the multiple disadvantages they face in attracting private funds.¹⁴¹ For example, the Northern Territory University explained that:

Income from other sources, including fee paying students, is growing but it is unrealistic to expect a substantial increase in the immediate future. While Darwin and NTU have attractions they do not have the drawing power of larger cities and more established and prestigious institutions. Further, while local business and industry support the University in a number of ways, including quite generously through the University Foundation, they are unlikely to become a significant source of recurrent funding in the immediate future. In short, NTU's access to private funding is severely limited, and it will have difficulty maintaining its current activities, let alone growing and developing, if government funding fails to keep pace with increasing costs.¹⁴²

3.116 One relatively remote university, the Australian Maritime University, based in Launceston, claimed to have been successful in attracting additional funds from fee-paying students as well as industry.¹⁴³ As the sole Australian provider of training in a specialist, high technology niche market of direct commercial interest, its situation is, however, far from typical. It is also worth noting that the College had a negative safety margin in 1998 and 1999,¹⁴⁴ suggesting that the additional revenue is not sufficient to cover costs or compensate for declining government expenditure.

3.117 Witnesses also made the point that the capacity of the private sector to generate investment in universities is limited by the dominance of the manufacturing and other industries of small to medium business enterprises or branches of

141 See Submissions 124, Northern Territory University; Submission 172, University of Tasmania; Submission 287, University of Western Sydney (at pp. 6-7 highlighted fact that it had lowest total income per EFTSU (public and private) of NSW universities)

142 Submission 124, Northern Territory University, p.2

143 Submission 214, The Australian Maritime College, p.3

144 DETYA *Higher Education Report for the 2001 to 2003 Triennium*, March 2001, p.59

international companies. The current taxation regimes need amendment in order to provide an effective incentive for greater industry investment in higher education.¹⁴⁵

3.118 While a recent DETYA paper noted (with apparent approval) that some regional universities had opened offices in the CBDs of metropolitan areas in order to tap into fee-paying markets,¹⁴⁶ the Committee does not believe that this will provide a workable solution to their disadvantage in securing private funds. The Committee is also concerned that these imbalances in the capacity to earn income, in a policy setting requiring increasing reliance on non-government revenue, will further entrench inequalities within the higher education sector. It may also make the financial situation of some regional universities even more precarious.

Costs associated with generating private funds

3.119 Many submissions to the Committee referred to the high costs - including hidden costs - associated with generating private income. These can include overseas travel and contracts with overseas agents to help develop markets for international students, marketing activities and publications, the purchase of 'corporate boxes' at sporting events, and the employment of administrative staff for promotion and marketing. The University of Western Sydney commented that the 'recruitment and provision of teaching and other support services to international students is increasingly resource-intensive.'¹⁴⁷ This is likely to become more so as international competition for this market intensifies.

3.120 A recurrent theme in submissions from academics is the additional workload associated with developing and marketing courses for fee-paying students and securing private funds for research. The increasing dependence on income from fee-paying postgraduate courses is said to have led to a 'mushrooming' of such courses;¹⁴⁸ the Sydney University Postgraduate Association reported that 79 new postgraduate courses had been approved at Sydney University between 1996 and 1999, adding to the workload pressures on staff required to develop and gain approval for the new programs.¹⁴⁹

3.121 Work associated with generating private income also has an important opportunity cost. A submission from an academic economist claimed that, if the time spent on consultancies at the expense of research was costed appropriately, none of the commercial consulting arms of universities are likely to be profitable.¹⁵⁰ The

145 Submission from 134, University of Western Australia, p.3

146 M Gallagher, *The Emergence of Entrepreneurial Public Universities in Australia*, September 2000, DETYA Occasional Paper 2000E, p.17

147 Submission 287, University of Western Sydney, p.14

148 Submission 313, Sydney University Postgraduate Representative Association (SUPRA), p.13.

149 *ibid.*

150 Submission 49, Professor John Quiggin, p.29

President of the Council of Engineering Deans reports that he spent at least 30 per cent of his time seeking external support,¹⁵¹ such as, for example, endowed chairs, scholarships and similar funding. Time spent on these activities is time not spent on undertaking core teaching or research activities. The increased pressure to pursue consultancies, arising from recent government policy changes in the 1999 White Paper,¹⁵² has also increased competition for consultancy funds. Increasing competition means that the profit margins and returns from consultancies are small and declining. Consultancies are also a diversion from activities that are more worthwhile in the longer term.¹⁵³

3.122 The Committee also heard evidence that there is very little ‘profit’ in private revenue to help support activities such as teaching and research. Edith Cowan University argued that:

Across the sector, for every \$1000 that universities have raised, operating grants have been cut by \$2000. The point is made, however, that alternative sources of revenue are treated as income but the ‘profit’ margin can be very small, and that these funds are invariably committed to particular activities, and not available to the core business of undergraduate teaching and learning.¹⁵⁴

3.123 The Vice-Chancellor of the Australian National University (ANU) explained that the *discretionary* component of private income has been declining in recent years, with less money from such sources now flowing into core teaching activities:

There was a time, and probably not all that long ago, when you could find people who were willing to pay for a research project to be done - ethically and properly, not telling you what answer to get and the rest of it. There was some capacity that would enable you to spill it over into other programs - teaching or whatever. I think it is a lot tighter than that now...I think that most of the money that comes in for those sorts of projects is spent on those sorts of projects. It might be as much as 90 per cent, and it might be more.¹⁵⁵

3.124 One submission also pointed to the destructive competition associated with the need to attract fee-paying students, citing cases where universities had undercut their fee schedules to secure student numbers, with the resulting loss of millions of dollars of revenue.¹⁵⁶ The University of Tasmania submission agreed that this was occurring:

151 Professor Barry Brady (Australian Council of Engineering Deans) *Hansard*, Perth, 2 July 2001, p.644

152 Submission 49, Professor John Quiggin, p.30

153 Submission 184, James Cook University, p.5

154 Submission 267, Edith Cowan University, p.2

155 Professor Ian Chubb (ANU), *Hansard*, Canberra, 13 August 2001, p.1339

156 Submission 62, NTEU Queensland Division, p.5

Because of the competition in the sector many fee-paying programs are being offered at less than full cost. The course fees charged by many universities appear not to include a capital component and this will lead to longer term infrastructure problems within the sector. Similar problems will affect the undergraduate fee-paying market.¹⁵⁷

3.125 There is also a question as to whether the current fees charged for international students, the main source of earned income, cover the full costs. DETYA sets indicative minimum fees for fee paying overseas at levels intended to cover the full capital and recurrent costs so that domestic students are not subsidising international students. It advises that most universities charge more than the minimum charge for most courses.¹⁵⁸ However one submission from a private provider of education challenged this claim, arguing that international student fees charged by public universities do not appear to cover the costs associated with the recruitment of students or full use of facilities, making it difficult for private providers to compete.¹⁵⁹

3.126 Despite Government claims that current charge levels cover the full costs of providing education for international students, there is a dearth of evidence on the real costs of this activity, which is now a significant driver of both revenue and expenditure for most universities. The Victorian Auditor-General, in a review of four public universities, found that none were able to determine the total costs incurred in the provision of services to overseas students or, consequently, their net revenue position from this activity. They had all simply operated on the assumption that setting fees in excess of the DETYA levels would ensure that they were not out of pocket.¹⁶⁰ DETYA did not provide the Committee with any hard evidence to support its assertion that the current fee levels were sufficient to cover costs.¹⁶¹

3.127 Evidence provided to the Committee also indicates that there are ‘non-financial’ costs associated with the provision of higher education for international students, which universities were not always taking into account. The Committee heard that many international students needed more intensive student support and guidance, including more frequent class contact and lower student-staff ratios, than universities were providing.¹⁶² Issues related to international education and developing markets for international students appeared to demand a large proportion of the time and attention of senior university managers and academic staff at all levels, with little indication that these were included in costings. The Committee believes that this is an

157 Submission 172, University of Tasmania, p.8

158 DETYA, Response to Questions on Notice, Question 14, 1 August 2001

159 Submission 177, Australian Council for Private Education and Training (ACPET), p.9

160 Victorian Auditor-General’s Office: *International Student Programs in Universities – Part 4 – Management of the Programs* (<http://www.home.vicnet.net.au/~vicaud1/sr29/ags2904.htm>). Note also advice from DETYA in response to Questions on Notice, indicated that on average universities charged several thousand dollars more than the indicative minimum fees

161 DETYA, Response to Questions on Notice, Question 14, 1 August 2001

162 Submission 249, Mrs Margaret Kay, p.4

area requiring urgent attention from government so that universities are in a position to make informed judgements about the costs and benefits of an activity that has come to account for an increasing share of its revenue and expenses.

Recommendation Six

The Committee recommends that the Ministerial Council on Employment, Education, Training and Youth Affairs (MCEETYA) commission a review of the costs of providing higher education for international students, with a view to ensuring that charges accurately reflect all direct and indirect costs. The review should include an assessment of any additional support requirements for international students.

Changing cost structure within universities – diversion from core activities

3.128 A number of submissions argued that the ‘entrepreneurial’ or ‘enterprise’ university, which is required to raise an increasing proportion of its own income, is associated with an increase in the numbers and salaries of management and administrative staff, relative to academic staff. For example, the total number of deputy vice-chancellors and pro-vice-chancellors is reported to have increased by nearly 300 per cent (from 19 to 69) between 1987 and 1998, while student numbers increased 70 per cent and academic staff numbers remained virtually static.¹⁶³ In addition, a number of submissions to the inquiry, particularly from student unions, have pointed to the increasing share of funds being channelled to those functions that were most closely associated with the generation of private income, such as marketing and administration. The main point of concern is that reliance on private funding, instead of increasing the revenue available to universities (and relieving overall cost pressures) is adding further to the pressure on core teaching and research activities by diverting resources away from those areas to ‘income generating functions’.

3.129 Professor Simon Marginson noted that the new private income from international education and elsewhere, has been applied to different functions to those supported by Government funding and that it has failed to substitute for that old public income, but has instead been applied to new or additional functions:

Rather than providing core resources for teaching and research, the new private income is largely or wholly absorbed in the costs of generating that same income; and also absorbed by other additional institutional requirements in what are now (in contrast with the situation that existed before about 1985) competitive, cash-strapped and semi-marketised universities. These functions include recruitment, servicing and teaching of international students; off-shore operations; marketing and promotions; fund-raising and alumni relations; communications; financial and asset management; performance management; and quality assurance; all of which expanded significantly during the 1990s. By 1998, the proportion of

163 Submission 49, Professor John Quiggin, p.20 (quoting Marginson and Considine)

university staff who were employed in teaching-related positions was down to 37.7 per cent (DETYA 2001).¹⁶⁴

Risks and limitations of private funding

3.130 Commonwealth arrangements for funding universities have traditionally been based on a rolling three year period, reflecting the long lead times associated with changes to staff profiles, course development and enrolment and entry requirements. However much of the private income that universities have been able to earn in recent years is, instead, ‘volatile and uncertain.’¹⁶⁵ Postgraduate fee-paying students provide income for the duration of only one-two years of a coursework program. Undergraduate international students are likely to provide funding for only 2-3 years – and perhaps less if their family circumstances or the circumstances in their home countries change. Fee-paying domestic students typically provide funding only for the first year of their courses. Universities or departments that expand or develop programs or facilities on the basis of current or projected demand levels from fee-paying students, particularly international students, face a particular risk. A lecturer from the engineering faculty of the University of Tasmania noted that by 2000 international students comprised 35 per cent of all students in the school, making it ‘very vulnerable’ to a downturn in the numbers of international students.¹⁶⁶ International students were said to comprise 50 per cent of the total in a program in electrical engineering in Melbourne, with the result that the viability of the program is ‘absolutely dependent’ on those students.¹⁶⁷

3.131 The proportion of international students in Australia is significantly higher than in all other OECD countries, apart from Switzerland.¹⁶⁸ International students now comprise 17 per cent of the total student load in Australian universities, compared with approximately 6 per cent in 1990.¹⁶⁹ While there are many positive features associated with the increasing participation of international students in Australian higher education, including an enriched cultural environment, increased export income and the capacity to offer a wider choice of programs to Australian students through economies of scale,¹⁷⁰ this high proportion of international student participation also presents some major risks.

3.132 Professor Marginson has shown that there are a number of problematic features of recent growth in international education. Enrolments have been

164 Submission 81, Professor Simon Marginson, p.11

165 M Gallagher, *The Emergence of Entrepreneurial Public Universities in Australia*, September 2000, DETYA Occasional Paper 2000E, p.23

166 Submission 228, Tasmanian Division of the Institution of Engineers, Australia, p.3

167 Professor Brady (Australian Council of Engineering Deans), *Hansard*, Perth, 2 July, p. 644

168 Submission 81, Professor Simon Marginson, p.12

169 Considine M, Marginson et al, *The Comparative Performance of Australia as a Knowledge Nation*. Report to the Chifley Research Centre, as revised June 2001, Table A4

170 Submission 184, James Cook University, p.5

concentrated in a narrow range of course disciplines and levels, primarily in business studies, commerce and computing, as well as a number of other science fields. These fields receive a disproportionate share of the revenue from international students, and thus have funds to invest in providing new teaching approaches or improved facilities. Courses that are more popular with domestic than international students, such as the humanities and social sciences, with less access to private funding, are on the other hand, less able to invest in initiatives to improve quality and relevance.¹⁷¹ It is claimed that the combined effect of high levels of international student enrolments, the narrow course choices of most international students, and declining levels of Government funding, is distorting the domestic capacity of the higher education sector in favour of the relatively narrow band of courses preferred by international students.¹⁷²

3.133 A similar issue arises with fee-paying postgraduate places. CAPA argues that reliance on income from private sources inevitably means that some activities will be favoured for purely economic reasons.¹⁷³ The reduction in the number of postgraduate coursework places discussed previously has not been evenly spread, with increases in areas such as business administration, economics and law, and marked declines in areas such as biological and chemical sciences, mathematics and statistics.¹⁷⁴ It has also been claimed that the shift to fee-paying postgraduate courses has also had an adverse effect on quality: course length and intensity had been reduced; and undergraduate and sometimes VET units had been ‘repackaged’ as components of postgraduate degrees.¹⁷⁵ Courses are said to be being truncated to meet the needs of employer sponsors.¹⁷⁶

3.134 Victoria University also warned that the international student program needs to be managed carefully so that it complements and supports, rather than distorts, the provision of education for domestic students:

[the] university has found that the globalisation of education has led to a highly competitive market and, unless managed appropriately, a diversion from the core activity (development and distribution of knowledge to Australian students).¹⁷⁷

3.135 The ‘intangible’ return to Australia from the international education program is also limited by this narrow focussing of enrolments, including a reduction in enrolments at the higher degree level. Professor Marginson is of the view that the clustering of international students in these more narrow, vocationally-oriented

171 Submission 81, Professor Simon Marginson, pp.14-15

172 *ibid.*, p.18

173 Submission 236, Council of Australian Postgraduate Associations (CAPA), p.9

174 *ibid.*, p.19

175 *ibid.*, pp.11-12.

176 *ibid.*

177 Submission 234, Victoria University, p.3

courses, means that we are ‘missing the more extended opportunities for cultural mixing and deeper learning’ that international education programs can provide.¹⁷⁸ This issue is discussed in more detail in Chapter 10.

3.136 There is also a concern that the current high levels of reliance across the sector on income from international students may provide an incentive for universities to compromise entry or assessment standards. The so-called ‘soft-marking’ allegations that have been raised in the media and in the context of this inquiry reflect deeply-held concerns by many in the sector about the effect that this reliance is having on assessment standards and practices. Universities as a whole (through the AVCC) and individually have argued strenuously that it is not in their interests to compromise standards, because of the consequences for their most valuable asset, their academic reputation. This position has been challenged by a number of academics. Professor John Quiggin pointed out that universities’ reputations and rankings are remarkably stable over time and that any ‘reputation effect’ resulting from declining standards is likely to affect the sector as a whole, rather than individual universities.¹⁷⁹ Academics responding to a survey by The Australia Institute cited pressure, both direct and indirect, to retain international fee-paying students. There is clearly also pressure within many universities to suppress or deny allegations of preferential assessment. The increasing number of academics who must be in the same situation as Professor Pratley of Charles Sturt University, that is of being reliant on income from fee-paying students to meet the salaries bill for staff of their departments, clearly also face enormous potential for conflict of interest when assessing international students.

3.137 Victoria University has also commented that competition for international students was becoming more intense:

Education may be a finite export commodity. There are already indications that some of Australia's better international education markets (eg Singapore, Malaysia and Hong Kong) are developing their own capacity with the intent of not only being more self-sufficient but also becoming regional centres of service in higher education.¹⁸⁰

3.138 The absence of any longitudinal studies on trends and patterns in international education demand and on competition from other providers, means that universities have no way of knowing whether their current levels of international enrolments are sustainable beyond the immediate future.

3.139 The Vice-Chancellor of UNSW, Professor Niland, in his evidence to the Committee warned that changes in demand could be very sudden and could leave many universities were very vulnerable:

178 Submission 81, Professor Simon Marginson, p.18

179 Submission 49, Professor John Quiggin, pp.16-17

180 Submission 234, Victoria University, p.6

A lot of our ability to sustain what we do is through the weakness of the Australian dollar.. if the dollar recovers to the point that a number of analysts are beginning to forecast that it will.. I think that you would find a number of Australian universities having much greater difficulty in recruitment that would begin to show quickly. There is no issue in our underlying budgetary wellbeing that could change so quickly as the enrolment of international students from one year to the next. That is where our greatest risk lies.¹⁸¹

3.140 In an attempt to reduce the volatility associated with international student enrolments, a number of universities have developed programs or arrangements for the offshore delivery of their programs. These include branches of the university in other countries, ‘twinning’ arrangements with partner universities or the delivery of programs to students overseas. Internet delivery can be one component of these arrangements. The implications of these are also discussed in more detail in Chapter 7.

3.141 The short-term nature of much private funding is also a problem and has contributed significantly to the preference for employment of casual rather than permanent or long-term contract staff. Professor Chubb in his evidence to the Committee characterised private funding in Australia as ‘impatient capital’ comprised of ‘project driven, short-term acute injections’ liable to be withdrawn at short notice. This meant that universities could not use such income to employ staff for the longer-term, or develop research programs extending beyond the period of funding, with the result that:

you are back to casual, you are back to short-term contract, your research programs wither and your capacity to develop projects of significance beyond that particular period of that particular staff member’s time at those sort of student-staff ratios and so on is diminished.¹⁸²

3.142 Private funding is also by definition, generally contingent, that is it is tied to the production of specific goods and services. As Professor Chubb commented in the same hearing:

if fisheries give you a grant they want you to spend it on fisheries and not on sociology students.¹⁸³

This ‘tied’ nature of private funding meant that it could not provide funding for core teaching and related activities.

Intellectual independence in teaching and research and institutional autonomy

3.143 There are also concerns that private funding may undermine the integrity of teaching and research. This concern is not limited to Australia and has arisen as a

181 Professor John Niland (University of New South Wales), *Hansard*, Sydney, 18 July 2001, p.950

182 Professor Ian Chubb (AVCC), *Hansard*, Sydney, 17 July 2001, p.993

183 Professor Ian Chubb (AVCC), *Hansard*, Sydney, 17 July 2001, p.985

major issue in the United States and other countries.¹⁸⁴ The tied and unpredictable nature of much private funding, combined with the arrangements for public funding of universities discussed in the next section, restricts universities' autonomy and complicates planning and management.

3.144 A survey undertaken by The Australia Institute demonstrated that many social scientists are concerned that decisions about which courses are taught, the content of the courses and the teaching methods and standards are increasingly being determined by the need to earn income from fee-paying students. Similarly the need to generate private income is increasingly determining what research is undertaken and the publication or otherwise of results.¹⁸⁵ More subtle encroachments on intellectual freedom and university autonomy occur as a result of universities attempting to position themselves in a way that will be attractive to the private sector. There is also evidence of universities censoring the free speech of staff in order to protect reputation or 'image' and also to limit disclosure of information on commercial operations.

3.145 At its worst, private funding can undermine the integrity of knowledge, including research that has a significant bearing on people's health and survival. This is far from the realms of fantasy. Three of the world's most prestigious medical journals recently issued new rules aimed at limiting some of the adverse consequences of drug company sponsorship of medical research. In a statement announcing the new rules, journal representatives warned that academic freedom is being threatened by sponsors censoring results of research and burying unfavourable findings. Sponsors could dictate the terms of medical studies in ways that were not in the interests of the researchers, subjects 'or the advancement of science generally.'¹⁸⁶ Under the new rules designed to curb the worst abuses, the journals in question will require routine disclosure of any sponsorship and the sponsor's role and require authors to sign statements demonstrating their independence. The journals will refuse to publish studies where sponsors have the right to control data or withhold publication.

Capacity to substitute for shortfall in government funds

3.146 Professor Simon Marginson explained why private income has not been able to substitute for the decline in government funding:

The new private income from international education and elsewhere, has been applied to different *functions* to those supported by the old public

184 E Press and J Washburn, *The Kept University*, March 2000, The Atlantic Online. (at <http://www.theatlantic.com/issues/2000/03/press.htm>). The article discusses, among other issues, the agreement between the University of California (Berkeley) and Novartis, a Swiss pharmaceutical company and producer of genetically modified crops, under which Novartis would fund a department in the university to the tune of \$US25 million for basic research, in return for Novartis having the first right to negotiate licences on approximately a third of the department's discoveries (including those developed with state and Commonwealth funding).

185 Submission 60, The Australia Institute, p.6

186 The Australian Financial Review. *Medical journals dish out some hard medicine*. (Ray Moynihan). p.10

income. *Thus the new private income has failed to substitute for that old public income.* The new private income has been applied to new or additional functions. The functions provided using the old public income have been partly reduced... This point is crucial in understanding trends in the national capacity for teaching and research in higher education.¹⁸⁷

3.147 The Committee notes that the cost structure of universities is apparently increasing faster than any increase in revenue: expenditure increased by \$1.23 billion over the period 1996-1999, while revenue increased by only \$1.05 billion.¹⁸⁸ Rising expenditure reflects both increases in the costs of universities' main 'inputs', such as staff salaries, libraries and equipment, and the additional costs associated with the generation of private revenue.

3.148 The submission from James Cook University also argued that:

Costs have dramatically outstripped income for a number of reasons. Important among these are: increases in student numbers (demand); the marked drift in demand towards higher-cost disciplines, the increase in unavoidable basic costs – for example library costs for text books and monographs, and most notably for academic journals - the increase in teaching effort mandated by the wider range of abilities now represented in their intakes; the increased number of students with disabilities attending universities and the expectation that major resources will be available to assist such students; the increased expectation of an application of costly technology to enhance the quality of the learning environment; and salary increases for all staff.¹⁸⁹

3.149 Library costs were a particular source of pressure:

The value of the Australian dollar against the U.S. dollar and other foreign currencies significantly affects the purchasing power of Australian research libraries. University libraries purchase more than 80 per cent of their information resources from the U.S. and Europe, including the U.K. In October, 1996 \$A1.00 bought \$US0.8055 – since then the drop in value of the Australian dollar has reduced purchasing power by 37 per cent... The rise in the cost of scholarly information consistently outstrips CPI increases both in Australia and elsewhere. This is most apparent in journals in the disciplines of science, technology and medicine (STM).¹⁹⁰

The current indexation arrangements for university operating grants (linked to the CPI and the Australian wages safety net) are clearly inappropriate in this context.

187 Submission 81, Professor Simon Marginson, p.11

188 DETYA, *Higher Education Report for the 2001-2003 Triennium*, March 2001, p.62

189 Submission 184, James Cook University, p.1

190 Submission 192 Council of Australian University Librarians (CAUL), p.1

3.150 Regional universities, many of which, as noted, have less scope to generate private income, are most affected by this increase in costs, because they have fewer options than their metropolitan counterparts for sharing facilities:

While capital city institutions can collaborate in library holdings as the distances are not so significant, regional universities have to be self-sufficient in short-term access to such resources. If regional universities are to continue to play a significant role in relevant research then the Government should make sure that there are funds available for library resources.¹⁹¹

3.151 The Committee also notes that a senior DETYA official has conceded that the policy of reliance on private funding does not appear to have provided a satisfactory substitute for Government funding:

For all the effort that universities have been making to grow their earned income, the impact on the bottom line is apparently adding little if at all to surpluses.¹⁹²

3.152 The Committee also notes that Australia now ranks 4th in the OECD in terms of reliance on private funding for higher education, after Korea, Japan and the USA.¹⁹³

Use of ancillary charges and fees

3.153 One of the less savoury effects of universities' increasing reliance on non-Government funding, is the increasing use of ancillary or 'other' fees and charges as a source of 'earned income'. A number of student representatives highlighted this trend and the serious consequences of this for students. One student commented that:

Students are paying twice for their education, once through HECS, and again through substantial ancillary fees.¹⁹⁴

3.154 Universities have the capacity to levy fees, charges and fines in relation to a range of 'ancillary' services, provided the arrangements are consistent with the *Higher Education Funding Act* (HEFA). The Committee heard of fee increases in many universities for a range of services such as late enrolments, photocopying, access to printed lecture notes, reading materials and internet access. While the HEFA regulates the circumstances in which such fees can be charged, students' representatives suggest that there is significant flouting of the Act. They claim that, while the Act provides that late enrolment fees and penalties for course changes must be principally intended as disincentives, and not for the purposes of raising revenue, the significant increase in

191 Submission 184, James Cook University, p.1

192 M Gallagher, *The Emergence of Entrepreneurial Public Universities in Australia*, September 2000, DETYA Occasional Paper 2000E p.23

193 S Kent. *The way forward: restructuring the university in Australia*. Paper presented to Conference: The Idea of a University: Enterprise or academy? University House. 26 July 2001.p.2

194 Submission 269, Ms Emma Wynne, p.1

the level and incidence of such charges suggests that they are being used to raise revenue. Income from ancillary fees and charges can be significant: at the Victoria University of Technology revenue from these fees and penalties increased by 218 per cent between 1998 to 1999 - from \$318,000 to \$1,011,000.¹⁹⁵ The Young Democrats from Queensland noted that this is a common trend:

the Higher Education Funding Act states that it is illegal for universities to charge money for compulsory and essential course material. This is pushed to the hilt as cash strapped departments - who have had their funding cut by the university who have had their funding cut by the Government - play with the rules to make up as much revenue shortfall as they can. It is only the vigilance of Student Organisations, and students themselves, that claw back at these illegal fees and charges.¹⁹⁶

3.155 Students claim that fees have been levied for ‘things like course readers, lab manuals, computer access, printing for assignments, field trips, lab consumables, tutorial questions, assessment guidelines’, not all of which comply with the *Higher Education Funding Act* and the relevant Ministerial Guidelines on the Levying of Student Fees and Charges.¹⁹⁷

3.156 Charges for internet access were particularly inequitable and unproductive, with most impact on those least able to pay and limiting research and other study preparation:

With computers and the Internet fast becoming almost prerequisites of the university learning process, it is ironic that students are being forced into paying for what is almost essential to their survival as students.¹⁹⁸

3.157 For some students, these charges can amount to an additional several hundred dollars, in particular because many universities do not provide realistic alternatives to material provided at charge and essential to completion of course requirements. One student group advised that when they had sought advice from DETYA on the best means of enforcing the guidelines on such charges, they were not very helpful: ‘There is no mechanism to try and enforce these guidelines.’¹⁹⁹

3.158 Ancillary charges and fees, particularly those that are unavoidable and relate to access to study materials or facilities, can be, like all upfront fees, highly inequitable. In some cases they may result in students on low incomes being unable to continue with their studies. The Committee believes that there is a need to review the level of charges across all universities and suggests that the Government undertakes

195 Submission 240, Victoria University Student Union, pp.6-7

196 Submission 290, Young Democrats on Campus Qld, p.1

197 Submission 197, UWA Student Guild, p.3

198 Submission 258, Cumberland Student Guild, p. 4

199 Mr Ryan Batchelor (University of Western Australia Student Guild), *Hansard*, Perth, 2 July 2001, p.659

such a review as a matter of urgency. Complaints about such charges should fall within the brief of the Australian Universities Ombudsman recommended in Chapter 4 of this report.

Recommendation Seven

The Committee recommends that as a matter of urgency the Government undertake a review of universities' current practice concerning ancillary fees and charges, including for student accommodation.

Positive aspects of private funding

3.159 A number of submissions also made the point that private funding may bring a number of valuable, non-monetary benefits. The University of Western Sydney argued that private funding may:

bring universities into a much more engaged set of relationships with, and understandings of the commercial and industrial world. The establishment of commercial entities to manage the entrepreneurial and business activities necessary to raise additional revenue, allows Universities access to skills academics do not generally have. It also allows Universities to concentrate on their core academic business of teaching, research and knowledge production.²⁰⁰

3.160 Griffith University also argued that:

The development of close linkages between universities, industry and the community have facilitated the rapid expansion of the sector and prepared it for the rigours of globalisation. The higher education sector has transformed from an elite to a mass system in a relatively short period, student numbers have nearly doubled and the sector has developed as a strongly performing export industry.²⁰¹

3.161 The submission from the QUT also pointed out that these changes needed to be put in context:

close interactions with industry and the professions have long been a feature of higher education, and these relationships are a necessary part of ensuring that universities play their role in the development of the national innovation system. Further, the move to increasing student contributions through HECS and fee-paying arrangements is an inevitable feature of a mass higher education system and the need to constrain public outlays: such a trend has either been in place for many years or is underway in almost all other countries. Relationships with industry and enrolment of fee-paying students do not in themselves threaten standards or compromise academic freedoms, provided that suitable policies and practices are in place. Universities are

200 Submission 287, University of Western Sydney, p.9

201 Submission 63, Griffith University, p.3

well aware that any compromise of standards to satisfy short-term demands will have profound longer-term consequences for institutional and national reputation.²⁰²

3.162 International fee-paying students have also, as noted, brought significant monetary and non-monetary benefits to Australia.

3.163 In the view of the Australian Universities Vice-Chancellor's Committee (AVCC), the increase in private funding at a time when operating grants have been reduced has led some to confound the effects of the two phenomena, blaming private funding for problems that are the result of inadequate funding.²⁰³ The AVCC argues that private funding and the commercialisation of research are 'well warranted' particularly where they provide additional income and roles for universities and are not substitutes for public investment and activity.²⁰⁴ A recent study by the Chifley Centre similarly argued that the problem of the Australian approach to private funding of universities had been that it has been a substitute, rather than supplement, to adequate public funding.²⁰⁵

Conclusion

3.164 The policy of increased reliance on private funding for universities - and particularly the push for universities to become self-reliant in terms of their finances - has failed to meet the objectives of providing a satisfactory substitute for government funding.

3.165 There is a significant body of evidence that private funding is costly to generate, contingent and uncertain and has failed to improve universities' financial situation or capacity to provide high quality, diverse teaching and research. Despite large increases in the amount and proportion of private funding, universities are still unable to meet the basic costs associated with teaching activities in particular. They are unable to meet the growing demand for higher education, without resorting to over-enrolment, at the same time that some employers and professional groups are claiming serious shortfalls in the number of graduates in key areas of national interest. The need to develop additional funding streams has also had a number of adverse consequences. It has diverted resources and energies from core activities and, in some cases, fostered a climate that is inimical to academic freedom. It also runs the risk, in some cases, of compromising the academic integrity of teaching and research. Above all, it has left our universities unable to provide diverse, quality teaching programs and research activities.

202 Submission 45, Queensland University of Technology, p.3

203 Submission 315, Australian Vice-Chancellors' Committee (AVCC), p. 6

204 *ibid.*

205 M Considine, S Marginson, P Sheehan and M Kumnick, *The Comparative Performance of Australia as a Knowledge Nation*, Report to the Chifley Research Centre, June 2001, p. 26

3.166 Private funding of universities is not, however, inherently undesirable. The development of increased linkages and partnerships with the broader community, including the private sector, has the potential to benefit both the community and universities. The key is to ensure that private investment takes place in the context of adequate funding of core activities and an appropriate accountability framework.

Issues associated with the current funding model and arrangements

3.167 While the inadequate level of Commonwealth funding and policy of reliance on private funding was the major concern of those presenting evidence to the Committee, many submissions, particularly from universities, also identified problems with the current funding arrangements (including the broader educational profiles process and negotiations with DETYA) and model.

How the current model works

3.168 The allocation of funds to each university is determined by DETYA in the context of confidential discussions with universities on their educational profiles. Until 2000, DETYA was required to report on these through the Higher Education Council of NBEET. This requirement lapsed when the Higher Education Council of the NBEET was abolished.

3.169 DETYA funding of public universities comprises three main components:

- the block (or base) operating grant, intended to cover all capital and recurrent costs associated with teaching of the agreed student load (in the context of the university's educational profile) as well as a research funding component previously known as the Research Quantum (to be replaced with the Institutional Grants Scheme from 2002);
- grants for research funded on a competitive basis by the Australian Research Council;
- funding under Research Infrastructure Block Grants (RIBG) - which provides funds to meet the project related costs associated with grants and remedy deficiencies in infrastructure.²⁰⁶
- capital development grants (allocated to universities depending on need or agreed requirements. These funds are primarily used for new campus developments to serve growth areas or for information and communications technology infrastructure or other innovative developments).

Universities may also have access to Commonwealth funds from other portfolios for example each grants from National Health and Medical Research Council or grants from other Commonwealth agencies. These are not covered in this report.

206 DETYA *Higher Education Report for the Triennium 2001-2003*, March 2001, p.153

Base operating grant

3.170 The base operating grant consisted of five components in 2001:

- a teaching related component - \$4,077.1 million (or 75.5 per cent);
- a research training scheme component which includes a capital roll-in component- \$504.5 million (or 9.3 per cent);
- Indigenous support funding - \$23.2 million (0.04 per cent);
- the Research Quantum - \$228.1 million (or 4.2 per cent) for funding of general research activities; and
- a capital component or capital roll- \$259.5 million (or 4.8 per cent).²⁰⁷

Funding is also included for other operating purposes such as teaching hospital grants and supplementary assistance to meet additional superannuation costs.²⁰⁸ The total amount operating grant funding for all purposes in 2001 is \$5,537.1 million.²⁰⁹

3.171 The operating grant provides the main source of funds for teaching and related activities, including costs associated with salaries, libraries and equipment, information technology, maintenance of buildings and plant.

Student related component

3.172 The teaching related component of the grant is primarily determined by the agreed number of fully-subsidised places measured in Equivalent Full-Time Students Units (EFTSUs) for a given year in the triennium and a specified undergraduate fully subsidised minimum places for the year. In practice, the allocation of operating grant for each institution is largely historically based, reflecting the funding base agreed in 1990 *and any agreed growth since then*. There is no re-basing of the grant each year to reflect changing circumstances. The 1990 funding base reflects each institution's share of the 1990 operating grant, based on its agreed profile of funded places and the relative weightings for those places based on the Relative Funding Model (RFM). The RFM, which is essentially a matrix reflecting the estimated cost of providing teaching in courses at each level and group of disciplines,²¹⁰ was designed for a one-off system-wide application to establish each institution's share of resources under the UNS. That said it still plays a role in determining the level of funds provided to universities for new places.²¹¹

207 DETYA, Responses to Questions on Notice, Question 1, 1 August 2001

208 DETYA, Responses to Questions on Notice, Question 1, 1 August 2001

209 DETYA, *Higher Education Report for the Triennium 2001-2003*, March 2001, p. 71. Table 3.2

210 S Borthwick, *Overview of Student Costs and Government Funding in Post-Compulsory Education and Training*. Research and Evaluation Branch DETYA, October 1999, REB Report 4/99

211 See DETYA responses to Questions on Notice, Question 8, 1 August 2001

3.173 DETYA advised that when applying the RFM in 1990, some special factors such as size, remoteness or regional role were taken into account. As a result it was agreed that the Northern Territory University and the University of Tasmania would receive base funding at above the level that they would have received under a strict application of the RFM. The RFM also included some consideration of other factors including multi-campus operations, but only at the margins.²¹²

Problems with the educational profiles process

3.174 The University of Western Australia noted that the educational profiles process had a number of limitations:

The allocation of operating grant funds for teaching Australian students on the basis of the student load targets (expressed in equivalent full-time student units) negotiated through the Educational Profile process is relatively insensitive to student demand for places. The allocation of student places by the Commonwealth government to each institution appears to have borne little relationship to the number and quality of applicants for admission to each institution. The response within each institution to shifts in demand for places from local students is essentially constrained within operating grant load targets although some universities have enrolled some students above their operating grant targets, either due to difficulties in controlling their load or deliberately in response to demand.²¹³

3.175 The submission from the Government of Queensland also noted that the current arrangements, in a climate where there is no growth in fully-funded places - does not reflect the needs of those states with increasing populations of school leavers.²¹⁴ The process is also far from transparent – in marked contrast to the arrangements for allocating funds under other programs in the portfolio. Essentially DETYA determines the amount of growth funding for each institution, any need for additional places in specific disciplines or change in the universities' profile, in confidential discussions between the department and each university. It is not accountable for ensuring that any specific objectives for higher education are achieved in the process. The absence of an advisory body restricts informed analysis and scrutiny of the outcome of any allocations arising from the discussions. These arrangements are far from ideal and there is a need to ensure greater transparency in this process.

Problems associated with the RFM

3.176 There was much criticism of the RFM. While DETYA advised that the RFM was only used for the one-off adjustment exercise in 1990, it is clear that, as the only

212 DETYA Responses to Questions on Notice, Question 10, 1 August 2001

213 Submission 134, University of Western Australia, p. 2

214 Submission 339, Queensland Government, p.8

current cost model, it continues to play a role in determining the allocations for any growth funding.²¹⁵ Criticisms of the RFM must be read in that context.

3.177 A number of witnesses argued that the weightings in the RFM are outdated, and in particular do not reflect the impact of changing work practices and the impact of information technology in areas such as accounting, information and communications technology and law.²¹⁶ Law and legal studies were included in the same band of the RFM as legal studies (which mainly involves teaching law to non-law students), despite the fact that teaching law to lawyers (that is, at a professional level) is said to cost 60 per cent more than teaching legal studies).²¹⁷ There are also problems associated with the inclusion of law in the same band of the RFM as legal studies (which mainly involves teaching law to non-law students), despite the fact that teaching law to lawyers (that is, at a professional level) is said to cost 60 per cent more than teaching legal studies).²¹⁸ Universities were therefore not being adequately compensated for the costs associated with courses in these areas (resulting in further cost pressures, or a failure to provide appropriate standards of training, or both). In addition, there is a disincentive for universities to transfer places to higher cost courses such as computing and engineering, because they will not be compensated for the additional costs.

3.178 The Council of Deans of Health Sciences noted that the RFM arrangements combined with the cap on growth is particularly problematic. They highlighted the implications for the health workforce and broader community:

There is an emerging workforce shortage in many of these [health] professions in rural, regional and metropolitan centres. These shortages arise because of the aging of the Australia population, the changes occurring in the health sector, and the changing nature of treatment which is increasing the need for a workforce with more advanced skills.

Current university funding arrangements are generally not able to respond to these changing patterns of demand. This is partly because of overall caps in funded places within a state and in part because of the difficulty in moving places from low demand areas which have a lower course completion cost to the somewhat more expensive health sciences programs. Moreover, making additional places available in the health sciences for full-fee paying domestic undergraduate students has not proven to be a successful strategy to meet the changes in demand.²¹⁹

215 DETYA, Responses to Questions on Notice, Question 8, 1 August 2001

216 Submission 176, CPA Australia, p.1; Submission 255, Australian Law Students' Association, p.3. See also S Borthwick, *Overview of Student Costs and Government Funding in Post-Compulsory Education and Training*. Research and Evaluation Branch DETYA, October 1999, REB Report 4/99, p.29

217 Law Council of Australia, *2010: A discussion paper*, September 2001, p 76

218 Law Council of Australia, *2010: A discussion paper*, September 2001, p 76

219 Submission No 14, Council of Deans of Health Sciences, p.1

3.179 There were also claims of an excessive growth in courses in business studies at the same time that enrolments in some science areas and humanities were declining. A possible reason for this ‘skewing’ in course offerings is the combined impact of demand patterns from domestic and international students and the funding arrangements. For example, business studies, the largest growth area, is one where there is both high demand (including from fee-paying domestic and international students) but also a low cost structure (in the same band as humanities). Universities shifting places from humanities to business studies suffer no cost disadvantage and are likely to attract more fee-paying students. If instead, universities were to replace places funded at the lowest band on the RFM with higher cost courses such as engineering (which are in demand and where we are said to have an under-supply of graduates), they will not be compensated for the higher costs. Science courses suffer the double disadvantage of relatively low demand and high costs.

3.180 The lack of flexibility, under current funding arrangements, for universities to shift load from undergraduate to postgraduate places has also been cited as a problem. The University of Western Sydney noted this as a constraint on their capacity to be responsive to the needs of the region, where demand for postgraduate places is growing.²²⁰

3.181 Nevertheless, the University considered that although the DETYA course cost weightings are very dated ‘and almost certainly no longer accurately reflect either the pattern of course offerings or the actual relative costs of various courses,’ factors such as actual course expensiveness will need to continue to be reflected in the funding formula.²²¹

3.182 The rigidity inherent in the current funding arrangements is a significant limitation on universities’ capacity to be ‘..responsive[] to varying student and industry requirements’, in line with Government policy objectives.²²² There is a real constraint on many universities’ capacity to increase the number of places in higher cost courses, such as computing and engineering, where there is unmet demand.

Need to fund for educational disadvantage

3.183 It has also been argued that the funding model needs to be able to provide a weighting for educational disadvantage and the resulting need for more intensive teaching and learning support in those institutions serving disadvantaged communities. One university commented that:

This will not be easy or uncontroversial. However, similar equalization factors have been incorporated into the funding frameworks for many other

220 Submission 287, University of Western Sydney, p.9

221 *ibid.*

222 DETYA. Higher Education: Report for the 2001-2003 Triennium. p.3

parts of the public sector including Health, School Education (public and private) and Local Government.²²³

3.184 Victoria University argued that without such funding, increasing participation and retention rates for some students would be difficult:

One of the difficulties in improving access for under-represented groups is allocating the extra resources needed to support comparable outcomes for students without a strong scholastic background. The squeeze on higher education funding has made it progressively more difficult to support special programs for equity groups...The Commonwealth should investigate the feasibility of introducing value-added funding to support improved access and outcomes for under-represented groups.²²⁴

Need to reflect the costs of multi-campus institutions

3.185 Several universities argued that the additional overhead costs of multi-campus institutions needed to be reflected in the funding framework. The University of Western Sydney reported that it was undertaking an analysis of these costs and expected that the results would show that they were so substantial that 'it will not be reasonable for the Government to continue to ignore the differential costs of multi-campus operations in its base funding allocations to the sector.'²²⁵

3.186 Edith Cowan University, another multi-campus institution, also highlighted this as a problem:

Resources such as physical plant, student labs, network infrastructure, libraries, bookshops and other student services are replicated on each campus. Any reforms to university funding models must take into account the significant operating costs of multi-campus, multi-region institutions.²²⁶

3.187 DETYA advised that while the RFM had incorporated some weighting for this in the context of determining each institution's funding base in 1990, these had been at the margins.²²⁷

The needs of remote universities

3.188 The Northern Territory University noted that, while there was some recognition of higher costs they faced through a loading of around 20 per cent, this loading does not take proper account of factors particularly relevant to the Territory, such as the high cost of travel and recruitment, or of significant diseconomies of

223 Submission 287, University of Western Sydney, pp. 6-7

224 Submission 234, Victoria University, p.5

225 Submission 287, University of Western Sydney, p.8

226 Submission 267, Edith Cowan University, p.2

227 DETYA, Response to Question on Notice, Question 10, 1 August 2001

scale.²²⁸ The Committee heard that the effect of the current policy and financial settings has been disastrous for the university, with limitations to offerings, reduced staffing and alternative delivery arrangements putting quality at risk in some areas. The Northern Territory government had contributed \$2-3 million to the university in the past two years because of a concern that the NTU's finances were not otherwise sustainable.²²⁹ The university, with the support of the Commonwealth and the Northern Territory Government, is now examining 'strategic options' for the future of the university, because, 'we cannot sustain what we are doing much longer with the funding we have'.²³⁰

3.189 The Committee also heard of particular problems being experienced by the University of New England and the University of Tasmania.

3.190 Regional universities have also been adversely affected by recent changes to research and research training funding which will undermine regional universities' capacity to develop strong research profiles, concentrate research activity in larger universities and disadvantage those universities that have limited access to private income for research and consultancy. These issues are discussed in more detail in Chapter 6.

3.191 Regional universities are an important component of our higher education system and are of great importance for regional and local economies, both in the short and long term. There is an urgent need to review the special financial needs of regional universities to identify areas where they may need special assistance. It does not accept, as the Government appears to do, that regional universities should be left to 'sink or swim' in the current funding regime which means that only the 'fittest' in terms of financial resources and opportunities, will survive.

Research infrastructure funding

3.192 The funding model for research (considered in more detail in Chapter 6) may also be adding to the pressures on universities' infrastructure.

Recommendation Eight

The Committee recommends that the Government alters current funding models and identify alternate models that would better reflect the specific needs of regional and new universities, and those serving large populations of disadvantaged students, as well as ensuring that the provision of places is in line with national needs.

228 Submission 124, Northern Territory University, p.2

229 Mr Kenneth Clarke (Under Treasury, Government of the Northern Territory), *Hansard* Darwin, 30 April 2001, p.274

230 Professor Don McKay, (Northern Territory University), *Hansard*, Darwin, 30 April 2001. p.255

Lack of advisory body

3.193 The abolition of the Higher Education Council (HEC) appears to have exacerbated the problems that universities face in ensuring an appropriate share of funding and recognition of their specific needs. The University of Western Sydney claimed that, in the absence of such arrangements:

Policy and funding are increasingly linked to Government understandings of, and negotiations with [] defined groups such as the Go8, Australian Technology Network and Regional universities group.²³¹

3.194 James Cook University, despite having the advantage of belonging to the regional universities grouping, also considered that there is a clear need for an independent advisory body to inform decisions or judgements on allocations to universities:

Not to have a body charged with providing such independent advice is a disaster. Whether the NBEET model, or one of the earlier models (such as CTEC) is preferable is moot. The need to establish a strong independent body for the provision of advice is of the highest priority.²³²

Conclusions

3.195 There is clear evidence of the damage that has been done to the higher education sector as a result of reactive funding and related decisions that show little regard for the implications for specific universities or the long term capacity of the sector. The re-establishment of an advisory body for higher education, as part of a broader, cross-sectional advisory body for education, would enable a more objective, thorough assessment of the broader and longer term implications of policies and financial settings. This issue is discussed in more detail in Chapter 4.

3.196 The evidence also suggests that there is a need to review the arrangements for distributing funds between universities, including the educational profiles process and the current funding models. DETYA has commissioned a review of course costings but the outcome of that review has not been made public, apparently because of some concerns by vice-chancellors about the basis of the model.²³³ These concerns may relate to the possible loss of funding. Questions relating to allocative mechanisms will be particularly contentious in a funding environment where any remedy for financial disadvantage suffered by some institutions results in actual losses for others.

3.197 The Committee accepts the evidence that some regional and new universities have been under-funded and are suffering serious cost disadvantages and considers that these should be addressed as part of the review of funding arrangements.

231 Submission 287, University of Western Sydney, p.2

232 Submission 184, James Cook University, p.7

233 DETYA, Responses to Questions on Notice, Q11, 1 August 2001

3.198 The independent advisory body should play a role in the review of funding arrangements to ensure transparency and incidentally promote greater acceptance of any proposed changes.

Future directions for funding and management of the sector

3.199 There was, as noted, almost unanimous agreement on the need for a substantial injection of additional public funds into higher education. Many submissions also identified the need for a longer-term funding and management strategy to provide the basis for a more sustainable future and to address some of the problems associated with current arrangements. The submission from Emeritus Professor Karmel put it most strongly:

Unless there are major reforms, short-term increases in government funding, will not, in themselves, be sufficient to ensure that Australia's universities provide an adequate foundation for a just and democratic society and a flourishing economy.²³⁴

3.200 Professor Karmel's view had much in common with that of others who argued that the current arrangements for funding and management of higher education, and in particular the development of the 'marketised,' but also government-dependent, public university, were problematic and not workable in the longer term. The main pressure point was seen to be the tension between limited autonomy with regards to the major single source of funding and expenditure - that is the fully-funded student load - together with the need to become financially self-reliant. As discussed, universities' efforts to increase their non-government revenue were not able to substitute for reduced government funding, because private revenue is costly to generate, uncertain and cannot be applied to the main cost areas - that is, undergraduate teaching and research.

3.201 Two opposing approaches to change have been proposed:

- increased deregulation of universities, including an authority to charge either unfettered tuition fees or 'premium HECS' for domestic undergraduate and postgraduate students, to permit universities to generate the level of income needed to restore infrastructure to acceptable levels and allow some at least to become 'world-class' institutions (the most notable proponents of this view were the Group of 8 and the University of Melbourne); and
- increased regulation - or - re-regulation - of universities to ensure that public universities restore their focus on core teaching and basic research activities and functions related to the public good rather than short term market needs (the NTEU and many student unions adopted this position as did many academics).

3.202 The NTEU submission argued that:

234 Submission No 8, Professor Peter Karmel, p.2

[a] stark choice confronts Government – either deregulate the provision of higher education and allow market forces to determine the quality and nature of future provision; *or* substantially increase investment in public universities, and develop a new policy framework to ensure quality and accountability which takes account of the changing needs of Australia in a specialised environment...[but] to de-regulate...universities further – particularly in relation to fee-paying and other forms of corporate activity – would be to destroy their identity as broadly accountable institutions serving the public good, and would reduce access to higher education in an era when an educated population is the key to national prosperity.²³⁵

Proposals for further deregulation

The Karmel proposal

3.203 There were several proposals put forward for further deregulation of the sector, most of which involved an increased capacity to charge fees. The most fully developed was that from Emeritus Professor Karmel, who argued that funding should be directed to students, rather than universities (on similar lines to a voucher system, as proposed by the West Review) to support a more de-centralised system. Under this arrangement, universities would be free to set student contribution charges but within a limited band (like the premium HECS proposal) and a HECS type repayment arrangement would be available for the full cost of the charge.

3.204 The arguments in favour of this approach were essentially relating to the greater efficiency of markets in determining the allocation of resources:

In the economic world, centralised planning has seldom proved successful: decentralised markets have proved a much more effective way of producing and distributing goods and services. The case for a decentralised system for higher education is very strong, and is made all the more persuasive by the fact that the Commonwealth Government's direct contributions now constitute only about one half of aggregate university revenues. Such a system would strengthen the autonomy of the institutions and protect their intellectual freedom. Autonomous universities would determine their own priorities. Generally a plurality of priorities is more likely to achieve high quality outcomes for the nation than a single set of priorities laid down centrally. Thus, decentralisation and a plurality of priorities should underpin reforms. Of course, the institutions would still be expected to have regard to broad national objectives articulated by the government.²³⁶

3.205 In anticipation of concerns that some universities - and disciplines in demand - would flourish at the expense of others (particularly regional universities), Professor Karmel had suggested that there be a national body to provide general strategic advice

235 Submission No 283, National Tertiary Education Industry Union (NTEU), p.1

236 Submission 8, Professor Karmel, p.2

and requirements which would to require preservation of ‘less popular basic disciplines and disciplines required by the national interest’.²³⁷

The Group of 8 (Go8) proposal

3.206 This body, representing 8 public universities that consider themselves to the ‘leading’ universities in terms of teaching and research, also highlights the need for increased academic autonomy for universities and ‘the primacy of the relationship between the university and the student.’ The Go8 outlined several principles that should underpin any new a new funding arrangement, including :

a ‘proper acknowledgment of the mix of public and private benefits’ of higher education and that universities ‘should not be unfairly constrained in the extent to which they can raise revenue from private sources, including student fees.’...and [that] Student choice should be the principal determinant of the distribution of the public contribution to the cost of university tuition. Ability to succeed, not ability to pay, should remain the central criterion for access to all universities, regardless of their mission or standing.²³⁸

3.207 Presumably the Go8, like the AVCC, envisaged that students should have access to some form of HECS or income contingent repayment system to ensure that the ability and not means should continue to govern access to higher education.

The University of New South Wales proposal

3.208 The University of New South Wales (UNSW) argued, that, in the ‘absence of significantly increased public funding’ universities needed to have the option to charge ‘premium HECS’ fees, allowing them to retain the difference between the ‘premium’ and the ‘standard’ HECS. UNSW argued that it would set such fees in ‘a responsible way, with due regard to equity groups, especially those from lower socio-economic backgrounds.’²³⁹

3.209 UNSW argued that, while this approach would result in greater differentiation among institutions, it would ‘enable Australia to have at least some universities able to compete in the Asia-Pacific region and beyond as major research based teaching institutions.’

3.210 This proposal has some similarities to that put forward by Professor Bruce Chapman, who argued for some flexibility within the band of HECS charges that universities could levy with universities able to retain any amounts additional to the base HECS charge.²⁴⁰

237 Submission 8, Professor Peter Karmel, pp.9-10

238 Submission 261, Group of Eight, p.2

239 Submission 263, University of New South Wales, p.3

240 Submission 217, Professor Bruce Chapman, p.10

The AVCC proposal

3.211 The AVCC, which represents the interests of all public and some private universities, noted that some of the models proposed (presumably those for greater fee flexibility) would benefit ‘some but not all’ universities.²⁴¹ It proposed a new model for the distribution of public funds intended to reflect the divergent interests of the Group of 8 (and any other universities that were optimistic about their capacity to generate substantial income from fee-paying students) and those of regional or smaller universities which faced a risk of loss of some market share in a more de-regulated market.

3.212 The AVCC described its model as being built on ‘choice and diversity’ and having the following features:

- a shift from rigid targets for student places to a range funded at appropriate per student rates – with universities free to manage the balance of undergraduate and postgraduate places;
- authority for universities to generate additional income through fee paying student places (to meet the demands of modern employment) supported by access to income contingent loans; and
- government support for enrolment of students from under-represented groups, and for teaching and learning and investment in research and infrastructure, as well as national priorities.²⁴²

Proposals for increased regulation

3.213 The NTEU is the main proponent of the argument for ‘re-regulation’ of universities, a view shared by other individual academics. Its main argument is for a substantial public re-investment in higher education, with additional targeted funding to meet areas of national need, to reduce the need for reliance on private funding for core activities. It also advocated changes to the *Higher Education Funding Act* and the enabling Acts of universities to address what it saw as some of the adverse consequences of the entrepreneurial university. Changes proposed included requiring universities to commit to free inquiry, the provision of high quality research and education, guarantee of intellectual freedom, increased transparency and a role as the critic and conscience of society.²⁴³ In return for adequate public support, universities would be required to return to a focus on the public good and long term national interest, in place of the corporate ethos and focus that many had developed. Education and research were to be seen as public goods and not commercial commodities.

241 Submission 315, Australian Vice Chancellors Committee (AVCC), p.3

242 Submission no 315, Australian Vice-Chancellor’s Committee (AVCC), p.3

243 Submission 283, National Tertiary Education Industry Union (NTEU), pp.2-3

Other issues

3.214 A number of submissions and witnesses also raised the need to consider the integration of the higher education and Vocational Education and Training (VET) sectors.²⁴⁴ A number of dual sector institutions (that is, institutions providing VET courses as well as higher education courses) advised the Committee of problems flowing from the current lack of integration of funding and other factors between the sectors. The boundaries imposed by the two sector systems restricted the capacity for dual sector institutions to achieve economies through integration,²⁴⁵ and while there were increasing opportunities - and an increasing interest - for movement by students between the VET and university systems,²⁴⁶ this is complicated in many cases by the absence of systematic links between the VET and higher education in some states.²⁴⁷ Improved articulation between VET and universities is desirable, but the current framework for this is seriously lacking, with some universities providing credit for substantial numbers of VET units, 'without any meaningful checks on standards or on overall coherence of the degree.'²⁴⁸

Assessment of proposals

3.215 The models proposed all reflected concerns about the need for a better way of funding higher education, in addition to increased funding levels. Increasing institutional flexibility and enhanced diversity is a common objective.

3.216 As discussed, the Committee believes that the case has been made for a review of the current funding arrangements, including the models used for allocation of funds. It also believes that there is a need for a longer-term strategy for the funding and management of the higher education sector. However it considers that it would be inappropriate to recommend implementation of any of the proposals submitted to the inquiry at this point.

3.217 A common thread in the proposals is the need to allow institutions to become more responsive to the needs of students and employers. However, one of the main criticisms of the current arrangements was that they had led to an excessively short-term market orientation, and an over-concentration on teaching and research programs of private benefit, at the expense of longer-term national needs. It is interesting to note, in this context, that the New Zealand higher education system, which has moved towards the greater deregulation proposed in some quarters, is experiencing problems with an excessive reliance on a demand-driven funding system and competition between providers, weak central steering arrangements and inequitable access.²⁴⁹ The

244 For example, Submission 49, Professor John Quiggin, p.34

245 Submission 124, Northern Territory University, p.1

246 Submission 172, University of Tasmania, p.2

247 Submission 62, NTEU Queensland Division, p.4

248 Submission 92, Professor Don Anderson, p.2

249 Tertiary Education Commission (of New Zealand), *Shaping the System*, p. 8

problems being experienced in New Zealand are clear evidence that greater deregulation is no panacea.

3.218 In addition, proposals for deregulated fees give rise to serious equity and other public policy concerns. Unless accompanied by some arrangements, such as income contingent repayment arrangements, along the lines of HECS (without real rates of interest), upfront fees present a barrier to participation, particularly for the disadvantaged. This would be both unfair and a waste of talent that we can ill afford.²⁵⁰ On the other hand, combining the repayment arrangements of a HECS-type scheme and *unregulated* fees would limit government's capacity to control the level of subsidy provided to higher education. Unregulated fees combined with a HECS-type repayment arrangement also provide the opportunity (and perhaps an incentive) for universities to extract large and growing surpluses from the public purse. There are also concerns that:

a completely open market in fee paying undergraduates (without the 25 per cent cap) supported by loans would run the risk that some metropolitan universities would strip the regional institutions bare.²⁵¹

3.219 The Committee is not convinced that competition would limit the extent of any fee increases across the board. In that context, proposals for some flexibility in setting HECS charges within a band are more attractive because they avoid the problems associated with unfettered fees.

3.220 Some proposals, for example, allowing universities greater flexibility to allocate places between postgraduate and undergraduate studies, are worth considering in more detail. There is also merit in considering options for allocating some Commonwealth funded places (whether on a HECS-liable or even HECS-exempt basis) in areas of national importance where demand is otherwise insufficient.²⁵²

3.221 The Committee, however, does not support proposals to move to a 'student-centred' or voucher funding system. Such a radical change carries serious risks, given the New Zealand experience, of inefficiencies in the provision of educational offerings. It may also undermine the viability of regional universities, which are an important national resource. The current limitations in income support arrangements mean that a student-centred funding arrangement in Australia will not result in perfect competition, because many students will be unable to afford to move away from their parental home and will therefore be a 'captive market' for their local university.

3.222 There is convincing evidence of the problems associated with ad hoc policy development undertaken without the benefit of rigorous analysis of the probable

250 See Submission 217 Professor Bruce Chapman on the arguments on charges not accompanied by an income contingent repayment system

251 Submission 184, James Cook University, p.4

252 See Submission 283, National Tertiary Education Industry Union (NTEU), p.2 See also Submission 130, Birrell and Dobson

impact or a clear strategic directions framework. This supports the need for a new advisory body.

3.223 There are good grounds for giving further consideration to some measures that would restore universities' focus on the public good. The Committee has heard and read a significant body of evidence indicating that universities' corporate focus has resulted in a deterioration of the intellectual climate within universities, including victimisation of critics or dissenters and a reduction in academic freedom and transparency. It believes that there is a need for increased accountability to ensure that universities are not diverting resources provided for public education and research towards corporate activities. The national debate called for in Chapter Two should provide an opportunity to examine these issues further.

3.224 At the same time, there are good arguments for universities to be able to continue to pursue private, income-generating activities provided that these do not compete with, or disadvantage, their role as a provider of 'public good' education and research. Some changes to the regulatory frameworks would assist in this regard. The focus of such private activities should, however, be on facilitating the transfer of the skills, knowledge and ideas in universities to the private sector and the broader community, for the benefit of society as a whole, rather than on income generation.

