

# Chapter 2

## Key issues

2.1 The principle of an endowment fund bill to provide an additional income stream for universities has been widely supported. The HEEF is expected to significantly increase the funds that are available to be invested in the higher education sector.<sup>1</sup> This investment has been enthusiastically welcomed by the sector.

2.2 The bill to come before the Senate provides a legislative framework for guidelines, and procedures for the administration of investment and disbursement of dividends which have yet to be announced. This can only be done following consultations between the Minister and the higher education sector, which is expected to take place over the next six months.

2.3 The committee was therefore restricted in its inquiry by the limited information available on the practicalities of the legislation. It heard about misgivings held by the higher education sector in regard to some current provisions, particularly in regard to powers of ministers. The committee was interested also in the projections of likely financial benefit to universities, based on the rate of return on investments by the HEEF.

### Investments of the HEEF

2.4 It is difficult to predict the returns on the investments of the HEEF. The Federation of Australian Scientific and Technological Societies estimated that the HEEF is likely to provide a funding stream of \$300 - \$400 million per annum.<sup>2</sup> Professor Richard Larkins estimated a potential funding stream of approximately \$400 - \$500 million per annum.<sup>3</sup> The Treasurer's Budget Paper No. 2 lists a notional return of just over \$300 million for each year of the 2008-2011 triennium.<sup>4</sup>

2.5 There will be some 'volatility' on returns in the short-term. The Government has acknowledged this probability, adding that international experience suggests that predictable returns will be achievable only after five years.<sup>5</sup> A principal with Mercer Investment Consulting, Bruce Gregor, told the committee:

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1 Second Reading Speech, Hon Julie Bishop MP, 16 August 2007, p. 3.

2 Federation of Australian Scientific and Technological Societies, *Submission 6*, p. 1.

3 Professor Richard Larkins, Universities Australia and Group of Eight, *Committee Hansard*, Melbourne, 31 August 2007, p. 4.

4 Hon Peter Costello MP, Budget Paper No. 2, 8 May 2007, p. 114.

5 Second Reading Speech, Hon Julie Bishop MP, 16 August 2007, pp 3-4.

It is my understanding of the bill, if it is correct, that the grants which might be given in the early years might be low and, if there was extreme market volatility in the first years, they could be nil compared to what I gather is the general expectation of grants emerging from this fund at the level I indicated earlier as typical for endowment funds.<sup>6</sup>

2.6 Ultimately, the HEEF will deliver returns linked to its performance and the market. The committee understands that the investments of the HEEF are not guaranteed to produce predictable and material returns over the short-term, however, this is not expected to be the case over the long-term. As one witness told the committee:

The beauty of this fund is that it is something where the corpus is maintained so there is an assurance of ongoing returns from that into the future. And directing it towards capital and major research infrastructure is a very appropriate use of dividends.<sup>7</sup>

### *The HEEF Investment Mandate*

2.7 The Explanatory Memorandum argued that it is appropriate for the Government, as manager of the economy and owner of the HEEF, to articulate its broad expectations for how the HEEF will be invested and managed by the Board. It described the HEEF Investment Mandate as a 'framework that enables the Government to give strategic guidance to the Board while preserving the Board's role in managing the investment of the HEEF at arms length from Government'.<sup>8</sup>

### *Capital expenditure and research facilities*

2.8 The Group of Eight welcomed the HEEF initiative as a strong recognition of the importance of Australia's universities to the nation's future. But the Group of Eight injected a note of caution into the inquiry:

While \$6 billion is a large amount of money it needs to be viewed in the context of recent funding trends for Australia's public universities, the recurrent expenses and infrastructure challenges they now face, and international developments in public investment in higher education systems.<sup>9</sup>

2.9 Its submission then detailed the current context of higher education funding:

- Budget cuts: the 1996-97 Budget cuts for university operating grants, \$850 million for the period 1997-2000, continues to have flow on effects.

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6 Mr Bruce Gregor, Mercer Investment Consulting, *Committee Hansard*, Melbourne, 31 August 2007, p. 10.

7 Professor Richard Larkins, Universities Australia and Group of Eight, *Committee Hansard*, Melbourne, 31 August 2007, p. 4.

8 Explanatory Memorandum, p. 15.

9 Group of Eight, *Submission 8*, p. 1.

- Compounding indexation shortfall: indexation of these grants has no link with real increases in relevant wages; the notional salary component within these grants (75 per cent) is indexed only by the Safety Net Adjustment, and the non-salary component (25 per cent) by the Consumer Price Index. A 2004 estimate by the Group of Eight found that if the Average Weekly Earnings were substituted for the Safety Net Adjustment, then the grants for 2003 alone would have been short \$845 million. The Group of Eight stated that the shortfall would now be approaching \$1 billion per annum.
- Expectations for matching funds: the grants themselves are under considerable pressure mainly due to the ever-increasing demands of competitive research schemes for matching funding from institutions.<sup>10</sup> This cost supplementation was estimated at \$450 million per annum for the whole higher education sector in 2003-04. The committee was told that this figure is now likely to be closer to \$500 million per annum.
- Implications of funding pressures: a decade of funding pressure has manifested itself in a number of ways, including the deferment of essential expenditure on the maintenance of buildings and facilities, with long-term consequences for the quality of essential infrastructure.
- International trends: Australia's gross expenditure on research and development is 1.8 per cent of Gross Domestic Product. This places Australia fifteenth among OECD countries, which average an expenditure of 2.3 per cent. This would translate into an additional \$5 billion if Australia invested at the OECD average rate.<sup>11</sup>

#### 2.10 The Group of Eight concluded:

The \$300 to \$400 million [the HEEF] is expected to produce annually in the initial years, must be viewed in the context of the recurrent and backlog expenses Australia's universities face due to past funding cuts and punitive indexation arrangements, and alongside the huge investments in research and higher education systems being made by competitor countries.<sup>12</sup>

#### 2.11 At the committee's hearing in Melbourne, Professor Richard Larkins added:

Although the additional infusion of money is very much appreciated and goes some way towards redressing the historical shortfall over the last 11

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10 Matching funds was a common and fundamental concern for some submitters. The committee was told that, if part of the HEEF legislation, this would have major implications, including seriously disadvantaging new, small and/or regional institutions, and that there is little support for the proposal among higher education institutions: National Tertiary Education Industry Union, *Submission 11*, pp 4-5.

11 Group of Eight, *Submission 3*, pp 1-3. The highest investing nations in R&D are the United States (\$410 billion), China (\$170 billion) and Japan (\$160 billion).

12 Group of Eight, *Submission 8*, p. 3. Also, Federation of Australian Scientific and Technological Societies, *Submission 6*, p. 1.

years or so, it still does not place us in a position to be really competitive with the huge infusion of funds through Asia, Europe and North America.<sup>13</sup>

2.12 The committee understands that internationally, major investments are being made in universities and research facilities. These countries are Australia's economic competitors, both now and in the future, and if Australia is to be successful on an international scale, then it is imperative for Australia to be able to compete in the top end of the market.

2.13 It is apparent to the committee that the infrastructure of Australian higher education institutions is, if not sub-standard, certainly in need of investment. The comments from the Group of Eight were reinforced by the Department of Education, Science and Training which in 2005 estimated that deferred maintenance in higher education sector infrastructure was approximately \$1.5 billion. Again, this estimate has no doubt grown over the past two years.<sup>14</sup>

2.14 Grants from the HEEF are intended to promote the development of a world-class higher education sector with the provision of significant, targeted and strategic investments in the sector. The committee believes the HEEF has the capacity to deliver excellence in the higher education sector. However, the HEEF will not be operable until the end of the current financial year, and it will not immediately benefit higher education institutions, much less alleviate degrading or outdated infrastructure in the short-term.

### **Advisory Board**

2.15 There was considerable interest shown by the committee on the composition of the Advisory Board and its relationship to the Minister. Once operable, grants will need to be allocated from the HEEF in a manner which best enhances the higher education sector. The Minister intends to achieve this result with the assistance of the Advisory Board, which will advise:

...on the best strategic investment proposals which provide quality infrastructure and support Australian Government policy with respect to diversity, specialisation, and responsiveness to labour market needs.<sup>15</sup>

2.16 The committee notes the findings of the *Review of the Corporate Governance of Statutory Authorities and Office Holders* (the Uhrig Report).<sup>16</sup> In that review, Mr

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13 Professor Richard Larkins, Universities Australia and Group of Eight, *Committee Hansard*, Melbourne, 31 August 2007, p. 2.

14 Federation of Australian Scientific and Technological Societies, *Submission 6*, p. 1 and Productivity Commission, *Public Support for Science and Innovation, Productivity Commission Research Report*, 9 March 2007, p. 214.

15 DEST, *Submission 9*, p. 2.

16 *Review of the Corporate Governance of Statutory Authorities and Office Holders*, Commonwealth of Australia, 2003.

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John Uhrig analysed the then existing governance arrangements for statutory authorities and office holders, and identified reforms that might assist in improving the performance of these bodies, without compromising their statutory status, including the selection process for board members and office holders, the mix of experience and skills required by boards, their development, and their relationship to government. Two broad templates of governance principles and arrangements were created with a clear division between those statutory authorities whose major activities were commercial, and those whose major activities were regulatory and service provision operations.

2.17 For statutory authorities undertaking commercial operations, it was considered necessary for an effective board to be delegated the full power to act. This would include internal strategy setting, supervision of management, the oversight of risk, and the ability to appoint and terminate the CEO. The committee notes that the Advisory Board will be characterised by most of these features.

2.18 In the executive management template, the government establishes a narrow set of outputs to be delivered by a statutory authority.

In these circumstances a parallel can be drawn to closely held companies where a limited delegation of power, and the influence of a limited number of parties controlling the entity, indicate that an independent board may not provide the best governance. In circumstances where government is not providing a broad delegation it is likely that holding either chief executives or commissioners directly accountable for performance will produce better governance.<sup>17</sup>

2.19 The committee notes that some of these characteristics are also present in the Advisory Board, most especially the more limited governance structure with direct responsibility to the responsible Ministers. It assumes that full delegation of power is not appropriate, which is certainly the case with the composition of the Advisory Board and the HEEF Investment Mandate.<sup>18</sup>

2.20 Regardless of which structure is most appropriate, the fundamental point is that either structure is capable of and designed to achieve effective governance arrangements for statutory authorities, and clarity in roles and responsibilities. The committee therefore believes that the Advisory Board will be effective in implementing the objectives of the bill.

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17 *Review of the Corporate Governance of Statutory Authorities and Office Holders*, Commonwealth of Australia, 2003, p. 5.

18 Hon Nick Minchin MP, Media Release, 12 August 2004 in which the government accepted the governance templates recommended in the Uhrig Report and advised that the selection of the appropriate template would depend on the degree to which the authority 'has been delegated full power to act'.

2.21 Nonetheless, the Advisory Board was one of the most discussed aspects of the bill, with several submitters decrying its composition. First, the Minister's ability to appoint and terminate members of the Advisory Board at will was criticised.

2.22 The National Tertiary Education Industry Union submitted that:

Given previous experience of the use of Ministerial power in relation to areas like the Australia Research Council grants process, the interests of transparency and good governance would be better met if the functions and responsibilities of the Board are set out in the Higher Education Endowment Fund Bill 2007. This should include the appointment process, which should be open and transparent.<sup>19</sup>

2.23 The Australian Academy of the Humanities told the committee:

The Academy would like to see selection procedures in place that ensure that the Board enjoys the confidence of the sector, and includes persons with a range of expertise, experience and disciplinary background.<sup>20</sup>

2.24 Confidence in the process can be gleaned from experience, and the committee does not believe that the Minister's ability to control composition of the Advisory Board is inimical to its success.

#### *Funding applications*

2.25 There were also suggestions regarding the expertise of the Advisory Board. The Australian Academy of Science expressed its hope that members of the Advisory Board will be appointed for their knowledge of the higher education sector, and on the basis that there is no conflict of interest.<sup>21</sup> The Australian Technology Network agreed that:

It is imperative that the Advisory Board is comprised of individuals with an advanced understanding of the sector to contextualise proposals. Applications should be assessed in light of their potential to build on existing infrastructure and deliver benefits to significant parts of university activity.<sup>22</sup>

2.26 Alternately, the Council of Deans of Nursing & Midwifery submitted that, in assessing claims in the fields of nursing and midwifery, the assessment panels must include experts in these fields.<sup>23</sup> The committee believes that similar comments could, and probably would, be made by other highly skilled and technical occupations.

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19 National Tertiary Education Industry Union, *Submission 11*, p. 3.

20 Australian Academy of the Humanities, *Submission 7*, p. 1.

21 Australian Academy of Science, *Submission 4*, p. 1. The committee notes clause 43 of the bill which requires board members to disclose a material personal interest in a matter being, or about to be, considered by the Advisory Board.

22 Australian Technology Network, *Submission 10*, p. 1.

23 Council of Deans of Nursing & Midwifery, *Submission 5*, p. 1.

2.27 This view is supported in the submission from the Federation of Australian Scientific and Technological Societies which, without supporting overly prescriptive legislative requirements, stated that:

[The Advisory Board] should contain sufficient diversity of expertise to ensure the prospect of a credible process. FASTS believe merit and expertise should be the key determinants as distinct from a representative or formulaic structure giving representation to formal university groupings.<sup>24</sup>

2.28 The committee acknowledges submitters' concerns, noting particularly those relating to the expertise of the Advisory Board. No doubt there will be generalist areas in which board members with knowledge of the higher education sector will suffice. There will also be skilled and technical areas in which more detailed knowledge will be required to properly assess applications for grants from the HEEF. The committee is not convinced that this expertise can be obtained solely from the Australian Chief Scientist and the Secretary of the Department of Education, Science and Training participating on the Advisory Board in an ex-officio capacity. If this concern is not addressed in the legislation, it should certainly be taken into account in the HEEF funding application guidelines.

### **Financial grants from the HEEF**

2.29 The Minister advised that deliberations regarding the Maximum Grant Rules would be informed by external advice from an asset consultant, an approach consistent with international best practice for endowment funds.<sup>25</sup> The committee notes that this is neither reflected in the bill, nor do the responsible Ministers themselves appear to have committed to such advice. Again, the committee received no evidence on this point in submissions and from witnesses.

#### *Grants selection and allocation processes*

2.30 Many submissions queried the selection criteria for grants.

2.31 The Federation of Australian Scientific and Technological Societies was wary of the Minister having control over the entire process, including the virtually unmitigated authority to allocate grants.<sup>26</sup> This suspicion was also reflected in the submission from the Group of Eight:

The Bill vests control over the selection and allocations of grants from the Fund to the Minister of the day. With such large amounts of public funding involved, the policy priority should be the achievement of clear, transparent and non-political mechanisms for allocating grants... There are risks under this model that funding allocations will be based on political factors rather

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24 Federation of Australian Scientific and Technological Societies, *Submission 6*, p. 2.

25 Second Reading Speech, Hon Julie Bishop MP, 16 August 2007, p. 3.

26 Federation of Australian Scientific and Technological Societies, *Submission 6*, p. 2.

than on the merits of individual proposals, or through any strategic consideration of the sector's infrastructure needs.<sup>27</sup>

2.32 A transparent distribution process was considered necessary by the Australian Academy of Science, however, the Academy also advocated a competitive distribution process.<sup>28</sup> While a competitive distribution process is envisaged by the Minister<sup>29</sup>, it was resisted by some submitters.

Competitive grants from the fund should have a strategic focus...There is a risk though, that a series of annual, competitive project grants will lead to opportunistic planning and short horizons in universities rather than strategic investments...it is a good idea to have two streams of grants.<sup>30</sup>

2.33 Or, as argued by the Group of Eight:

[There is a potential difficulty] that funding will be spread across all universities for all manner of capital works, if not skewed to regional institutions, with little thought given to strategic national priorities.<sup>31</sup>

2.34 Under the Federation of Australian Scientific and Technological Societies' proposal for two streams of grants, 50 per cent of the maximum grants amount could be provided as a block grant determined by a composite formula. This would provide higher education institutions with some notion of likely income in the medium-term, and enable them to make wise investments. The block grants could incorporate accountability measures. The remaining 50 per cent of the maximum grants amount would be available for competitive grants with consistent and clear selection criteria made publicly available well before each selection round.<sup>32</sup>

2.35 The Group of Eight was also critical of the Minister's proposed method for distributing the HEEF, and argued that there are a variety of options available that could ensure an efficient and more strategic allocation of grants. However, its submission contained a proposal almost identical to that of the Federation of Australian Scientific and Technological Societies.

2.36 The Group of Eight suggested that a significant proportion of the funds, say 50 per cent of available funds per annum, could be allocated as university block grants

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27 Group of Eight, *Submission 8*, p. 3.

28 Universities Australia, *Submission 1*, p.1 and Australian Academy of Science, *Submission 4*, p. 1.

29 Hon Julie Bishop MP, Media Release, 8 May 2007.

30 Federation of Australian Scientific and Technological Societies, *Submission 6*, p. 3. Also, Australian Technology Network, *Submission 10*, p. 1 which strongly recommended that the HEEF is allocated on a strategic and targeted basis, where rationalisation and economies of scale are maximised.

31 Group of Eight, *Submission 8*, p. 3. Also, National Tertiary Education Industry Union, *Submission 11*, p. 4.

32 Federation of Australian Scientific and Technological Societies, *Submission 6*, p. 3.



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based on an independent assessment of the total Asset Replacement Value (ARV) of the building and infrastructure stock of each institution.<sup>33</sup> The committee notes that this would necessarily favour the more established and urban higher education institutions, but agrees with Professor Richard Larkins that the proposal is the best proxy for maintenance and refurbishment of all higher education institution facilities:

We need a system where universities are able to compete internationally and that is best achieved by having more money for infrastructure in the sector in general, and having it directed towards areas of international excellence, again wherever they are in the sector. I do not believe in the view that a small number of universities should receive a very large amount of the funding, irrespective of their performance. It should be related to performance.<sup>34</sup>

2.37 Medium and long-term planning was a clear concern for higher education institutions, and the committee was interested in the Group of Eight's solution to that perceived problem. The Group of Eight argued that the HEEF could enable higher education institutions to employ sound asset management and dedicate around four per cent of their ARV to maintenance activities, which few institutions can currently afford.<sup>35</sup>

2.38 The committee is aware that it would be impossible for the HEEF to immediately provide higher education institutions with sufficient funds to clear maintenance backlogs, much less four per cent of each institution's ARV. Either of these amounts would easily exceed the expected return on the investments of the HEEF. The Group of Eight's response is to allow for pro-rata allocations of one per cent based on institutions' ARV. The Group of Eight argues that this is not only feasible and would comprise a portion only of the maximum grants amount each year, but would also have the benefits of:

- Certainty: providing baseline funding certainty to rectify and maintain existing capital with future investment in infrastructure;
- Transparency: ensuring targeted allocations based on independently assessed measures of the replacement value of capital stock and associated infrastructures;
- Efficiency: reducing institutions' and the Advisory Board's workloads in preparing and assessing applications, respectively;
- Proportionality: balancing the attention given to existing as opposed to new infrastructure.

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33 The total ARV of buildings and associated infrastructure across all higher education institutions was estimated at \$26.5 billion in 2006: Group of Eight, *Submission 8*, p. 4.

34 Professor Richard Larkins, Universities Australia and Group of Eight, *Committee Hansard*, Melbourne, 31 August 2007, pp 3 & 6.

35 In 2006 the Group of Eight universities dedicated approximately \$291 million only (or less than three percent of their total ARV) to maintenance activities: Group of Eight, *Submission 8*, p. 4.

2.39 Other submissions noted that the bill does not contain any detail regarding how the grants are to be allocated by the Minister from the HEEF. The criticisms here were twofold.

2.40 First, three submissions raised the issue of uncertainty in the application process itself. The Group of Eight submitted that the formula-based scheme could be replaced with another burdensome periodic submission-based scheme, the risk being that the Minister could, at any time, introduce new conditions attaching to grants, such as matching funds.<sup>36</sup> The National Tertiary Education Industry Union feared that the grant process might be perceived as non-independent and non merit-based given its current configuration.<sup>37</sup> In more colourful language, the Federation of Australian Scientific and Technological Societies described the HEEF in its current form as running the risk of:

...lacking credibility and accountability in the sector and wider community by becoming, in effect, a significant slush fund for Ministerial pork-barrelling.<sup>38</sup>

2.41 The committee discounts the likelihood of this occurring given that funds are limited and the potential risk of incurring charges of favouritism in the sector are highly transparent.

2.42 Other submissions focussed quite specifically on the type of capital expenditure and/or research facility which could be the subject of a HEEF grant.

2.43 The Australian Academy of the Humanities favoured a full range of capital expenditures, including expenditures on facilities that support teaching and learning, community engagement, knowledge transfer and campus life. In relation to research facilities, it supported research facilities of outstanding quality and/or significant potential, regardless of discipline, and across-the-board research, rather than duplication of existing 'measures' which are devoted primarily or exclusively to science research.<sup>39</sup> The Academy proposed libraries as an example of an area in critical need

2.44 The Council of Australian University Librarians submitted that new and refurbished library buildings are important in creating social and educational capital. Citing studies conducted in the United States and Canada, the Council told the committee that increased use of library facilities has been reported where new libraries have been constructed, or existing libraries have been expanded, renovated or

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36 Group of Eight, *Submission 8*, p. 3. The committee notes that matching funds was briefly raised throughout the inquiry.

37 National Tertiary Education Industry Union, *Submission 11*, p. 3.

38 Federation of Australian Scientific and Technological Societies, *Submission 6*, p. 2.

39 Australian Academy of the Humanities, *Submission 9*, p. 1.

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reconfigured. The availability of facilities and well maintained buildings are also instrumental in students' selection of an higher education institution.<sup>40</sup>

2.45 More significantly, libraries are considered to be the equivalent of research laboratories for researchers in the arts and humanities. They provide not only resources, but also the information and communications technologies (ICT) infrastructure and equipment to make use of these resources.

For all disciplines, in this increasingly complex and often chaotic information age, having access to a library that has the infrastructure and facilities to support the use of current and emerging technologies that enable the learning and research experience for students and academic staff is universally understood and accepted.<sup>41</sup>

2.46 The committee notes that the influence of ICT has fundamentally altered research behaviour, and library support in the research process. The committee acknowledges also that academic libraries are the cornerstone of academic and research endeavour, and provide an invaluable resource to collaborative efforts, specific interest groups, and the general community. It follows, and the evidence suggests, that there is a need for investment in the higher education sector's ICT infrastructure (such as wireless access, computers, multimedia and presentation equipment).

2.47 The committee is of the opinion that grants from the HEEF could improve research quality with targeted attention toward refurbishing libraries in Australian universities. The Minister and the Advisory Board will doubtless consider a major upgrade to academic libraries.

2.48 The Council of Deans of Nursing & Midwifery also submitted advice of an immediate need for every School of Nursing and Midwifery to have purpose-built simulation laboratories for clinical nursing and for midwifery practice.<sup>42</sup> There will be countless other demands for a slice of the HEEF dividends as they are announced.

2.49 The committee was also told that consideration must be given to the kind of industry sectors that will emerge over the next decade and beyond. It was argued that the National Research Priorities inadequately address this issue, and consequently, the emerging national research infrastructure strategy fails to reflect the needs and demands placed on the higher education sector by industry.<sup>43</sup> The committee believes that this is a concern for the sector but the issue is largely beyond the scope of this inquiry.

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40 Council of Australian University Librarians, *Submission 3*, p. 1.

41 Council of Australian University Librarians, *Submission 3*, p. 2.

42 Council of Deans of Nursing & Midwifery, *Submission 5*, p. 1.

43 Australian Technology Network, *Submission 10*, p. 2.

*Continuation of current funding*

2.50 The Minister has announced that the HEEF is in addition to the Commonwealth's current investments in infrastructure for the higher education sector.<sup>44</sup> At present, these programs include the Capital Development Pool (CDP), which has had approximately \$607 million invested over the past 11 years; the Research Infrastructure Block Grants, which has had approximately \$1.5 billion invested for the same period; and the Major National Research Facilities Program in which over \$59 million has been invested. Over the next five years, an estimated \$540 million will be invested in the National Collaborative Research Infrastructure Strategy (NCRIS).

2.51 Despite these assurances, some submitters from the higher education sector were unconvinced that the HEEF will not replace existing funding schemes. The Innovative Research Universities Australia submitted that NCRIS was a vital initiative intrinsic to the sustenance of its national research capacity.<sup>45</sup> The Group of Eight noted that the lack of an on-going commitment to the *Backing Australia's Ability* Science and Innovation package beyond 2011 raised the spectre of the HEEF being used to substitute for several existing block funding schemes.<sup>46</sup>

2.52 The fear behind these types of comments was captured by the Federation of Australian Scientific and Technological Societies which told the committee:

FASTS are concerned that future Governments or Ministers will use the existence of HEEF as a reason to cut back other programs such that over time HEEF does not provide additional funding but is used in whole or part as replacement funding. This eventuality cannot be legislated for, but FASTS will expect all political parties to recognise and honour the intent that HEEF provide additional funding.<sup>47</sup>

2.53 In the same vein, the National Tertiary Education Industry Union told the committee:

It is also unclear how HEEF funding will operate alongside existing Commonwealth schemes aimed at directly or indirectly investing in capital and research facilities in universities, such the Institutional Grants Scheme, the Research Infrastructure Block Grant Scheme and the National Collaborative Infrastructure Strategy.<sup>48</sup>

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44 Second Reading Speech, Hon. Julie Bishop MP, *House Hansard*, 16 August 2007, p. 3 and DEST, *Submission 9*, p. 1.

45 Innovative Research Universities Australia, *Submission 2*, p. 2.

46 Group of Eight, *Submission 8*, p. 3.

47 Federation of Australian Scientific and Technological Societies, *Submission 6*, p. 2.

48 National Tertiary Education Industry Union, *Submission 11*, p. 4.

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2.54 Other submitters were more optimistic. While maintaining the importance of existing funding programs, the Group of Eight stated:

The Go8 is therefore heartened by the Minister's recognition when introducing the Bill that funding for the HEEF is in addition to these existing infrastructure programs and will serve a very different purpose to these. In the Go8's view the purpose of the HEEF should be to provide institutions with an income stream to address the serious backlog maintenance challenges outlined in this submission, and for new capital and/or research infrastructure projects judged to be in the national interest through an open and transparent competitive process.<sup>49</sup>

2.55 Essentially, this statement summarises the view of the committee. There are many competing demands for a university's capital budget, and the various competitive education and research grants do not guarantee any alternate source of higher education funding. The HEEF is necessary to plug these gaps, prevent higher education institutions from falling into neglect, and develop them into world-class institutions. The committee believes that higher education institutions will be able to identify and plan adequately for necessary projects in applying for a grant from the HEEF.

#### *Consultations*

2.56 As potential beneficiaries, it was not surprising that higher education institutions generally favoured the HEEF initiative. But, as indicated earlier in this report, there was a concern about an appropriate program design for grants from the HEEF.

2.57 In response to these concerns, the Minister has several times indicated that consultations will shortly be held with the higher education sector on a range of issues.

2.58 Universities Australia noted in its submission:

The legislation does not set out in any detail the rules by which funding is to be distributed under the HEEF. However, it is understood that the Department of Education, Science and Training is developing a set of Guidelines and Administrative Information which will outline those details. Given the significance of the HEEF to the higher education sector, it will be important that this associated information reflects the highest possible levels of transparency and fairness.<sup>50</sup>

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49 Group of Eight, *Submission 8*, p. 5.

50 Universities Australia, *Submission 1*, p.1.

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## Higher Education Endowment Fund (Consequential Amendments) Bill 2007

2.59 The Government gave its reasons for the consequential bill as the review and updating of legislation, as required by responsible governance.<sup>51</sup> The committee does not disagree with this rationale. It is important to clarify legislation, and the roles and responsibilities of all those involved in implementing the HEEF initiative.

2.60 With this in mind, only one aspect of the consequential bill drew comment from submissions and witnesses, that of philanthropy.

2.61 In introducing the bill, the Minister stated that Australian higher education institutions have not been as successful as their overseas competitors in attracting philanthropic donations.

In fact, in Australian universities, less than two per cent of income comes from philanthropic donations. In comparable universities overseas it can be as high as 15 or 20 per cent.<sup>52</sup>

2.62 The Government has therefore created a new avenue for business and the general public to make philanthropic donations to the higher education sector, and signalled to the community that greater philanthropic support to universities should be provided.

2.63 Mercer Investment Consulting cautioned against an over-reliance on philanthropic support:

In the US some of the larger endowments contribute quite a large proportion of the expenditure of the universities. The average is I think about 10 per cent. I think Yale is now at about 35 per cent. Where you have a dependence on the flow of support like that and where the cost of maintaining those sorts of universities is really above the general economic growth and inflation level, there is a dependence on a flow of future bequests as well as maintaining the real value of the fund. From my academic point of view of studying funds, that would need to be something that is added in the future.<sup>53</sup>

2.64 The perpetual investment and tax deductible status to be granted under the ITAA by provisions in the consequential bill are intended to encourage or induce

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51 Second Reading Speech, Hon Julie Bishop MP, *House Hansard*, 16 August 2007, p. 5 and DEST, *Submission 9*, p. 3.

52 Second Reading Speech, Hon Julie Bishop MP, *House Hansard*, 16 August 2007, p. 4.

53 Mr Bruce Gregor, Mercer Investment Consulting, *Committee Hansard*, Melbourne, 31 August 2007, p. 10.

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private donations to the HEEF.<sup>54</sup> However, Professor Richard Larkins told the committee:

The people who want to give money to our universities do not want to give it to a university per se. They want to give it for particular activities within the university...We find that the more general and non-tied the philanthropy is, the less likely we are to be successful...So if the idea is that the industry or private givers would give money to the higher education endowment fund to support the sector, I think that is just one more level removed. I think alumni sometimes want to support their university. More often they want to support the part of the university where they were or with scholarships to support disadvantaged students from similar backgrounds to their own or specific areas of research. I do not know that [the legislation] is going to be a huge attractor of new philanthropic support.

The vast majority of institutions in the sector have fairly sophisticated ways of managing the funds that they have and it is hard to see, given the benchmarking that is done in relation to industry best practice, given the fact that tax deductibility is already there for donations and unless there are some special provisions made in relation to providing special tax arrangements for the higher education endowment fund compared with the usual tax arrangements for charitable foundations of various sorts, how there is a huge potential.<sup>55</sup>

2.65 The committee recognises that the tradition of public philanthropy is not as well developed in this country as in the United States or Europe. The disparity in the size of the population and the absence until recent years of dynastic wealth makes any comparison tenuous between Australia and other countries with hundreds of years of university history. While a secondary objective of the bill, the encouragement of public philanthropy to universities is encouraged.

### **Recommendation**

**The committee recommends that the bill be passed.**

### **Senator Judith Troeth**

#### **Chairman**

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54 DEST, *Submission 9*, p. 3 and Higher Education Endowment Fund (Consequential Amendments) Bill 2007, Items 75, 76 and 77.

55 Professor Richard Larkins, Universities Australia and Group of Eight, *Committee Hansard*, Melbourne, 31 August 2007, pp 7-8. Also, Federation of Australian Scientific and Technological Societies, *Submission 5*, p. 4.

