



Submission 1 to the review of the impact of the *Higher Education Support Act 2003 (Cth)*

February 2007

1. Introduction

The Group of Eight (Go8) welcomes the opportunity to comment on the impact of the reforms enacted by the *Higher Education Support Act 2003 (Cth)* (HESA). As individual Go8 universities will make their own detailed submissions to this phase of the review, this response briefly addresses broader structural and policy issues of general interest and concern.

The *Backing Australia's Future (BAF)* reforms announced in May 2003 and implemented by HESA later that year were said to have been founded on the pursuit of four key principles: sustainability, quality, equity and diversity. While the reforms have provided the sector with welcome funding increases over the period 2004-2007, these have been accompanied by increased regulation and reduced flexibility—particularly in the capacity of institutions to respond to the normal fluctuations in demand for student places.

If Australia is to sustain a truly dynamic, diverse and high quality higher education system into the future, significant changes will inevitably need to be made to HESA and in particular the CGS. Three years since the passage of HESA, this review presents a timely opportunity to identify the strengths and weaknesses of the current arrangements, with an eye to the types of changes necessary to secure the future of Australia's higher education system. It would be a shame, therefore, if this phase of the review confined itself to pipeline issues and assessing the appropriateness of the relativities between funding clusters under the CGS.

2. Positive impacts

The incremental increases in funding that have occurred in 2005, 2006 and 2007 as a result of the Commonwealth Grants Scheme (CGS), the conversion of marginally-funded places to fully-funded places and the 25 per cent increase in HECS fees HESA allowed, have together provided a welcome injection of additional resources into Go8 universities. Combined with the funding that is flowing from other *BAF* initiatives, these changes have helped to moderate the erosion of funding rates per student.

3. Overall financial health of the sector

The discussion paper claims that the financial position of Australia's higher education sector is sound and that therefore the review will not assess the adequacy of overall revenue levels, or consider the appropriateness of student contribution amounts (p.4). The Go8 questions these assumptions. Trends in academic salaries, student to teacher ratios and deferred expenditure on the maintenance of essential infrastructure all point to a sector that remains under considerable strain. While it is true that some Australian universities have significant financial reserves, it is also true that their liabilities generally exceed their savings and that institutions often have little discretion over the use of such assets.

4. Scope of this review

It is the view of the Go8 that there is little to be gained from testing the accuracy of the funding relativities between disciplines and funding clusters, without also examining operational aspects of the

CGS. The Go8 therefore urges the review to look beyond the question of the appropriateness of funding relativities between disciplines, to address the broader question of whether the HESA funding and regulatory models provide a framework capable of supporting a dynamic and internationally competitive higher education sector into the future.

5. Sustainability

The funding framework upon which HESA is based is not viewed as a sustainable mechanism by which to support Australia's higher education system in the longer term. Beyond 2007 HESA provides no capacity for further real increases in public funding and restricts institutions from obtaining additional revenue from student fees. This would not be such an issue if the costs involved in providing internationally competitive education services remained constant or declined with the passage of time. This is not likely, however. Staffing, infrastructure and other core costs invariably increase over time in any growing business. While universities can continue to pursue productivity gains through innovative approaches, cost cutting can only go so far before it begins to impact on the quality of service provision. Therefore, in the absence of indexation arrangements that reflect the cost increases they face, Australia's universities will be left with little choice but to again seek one-off increases in Commonwealth and student contributions.

6. The Relative Funding Model

While the accuracy of the Relative Funding Model (RFM) has not been revisited since 1990, the Go8 notes that it was never meant to drive the allocation of funds by field of education. Rather, the RFM was meant to be a once-off exercise to determine institutional operating grants for 1991-93 under the Unified National System. From that point onward grants were meant to be determined on a historical basis with the Higher Education Council to regularly monitor discipline relativities. This never happened. The Go8 is pleased therefore that as part of this review DEST has commissioned a study to identify current cost relativities between disciplines. It is hoped that this work will produce up-to-date evidence of the true relative costs of different types of teaching.

In this regard the discussion paper's reference to the similarities between the UK Teaching Funding Method and the CGS is noted. However, there are also significant differences between the two models. For example, the focus of the UK model is on the costs of different modes of delivery, rather than disciplines *per se*. This is a fundamental difference as it results in there being just four price groupings under the UK model—with relativities between these reflecting the cost of the teaching involved regardless of the academic discipline.

As part of this review, the Go8 would like to see consideration given to the merits of reducing the numbers of CGS clusters, with membership of each new cluster based, like in the UK, on the mode of teaching involved. Funding relativities between any new clusters should then be based on a rigorous assessment of actual cost differentials between different modes of delivery.

7. The funding gap

Under current arrangements, income received from the Government and from student contributions falls well short of meeting the full costs of the education and related services provided. At one Go8 university this funding gap has been estimated at an average of \$1,200 per domestic undergraduate student per year.¹ Universities have typically met this funding shortfall through cross-subsidisation from other sources such as fees charged to international and domestic students.

Ideally, the funding model should enable universities to receive from the Commonwealth and each student, enough income to cover the real costs of providing each place—discipline by discipline. There should not be a need for institutions to set up complex structures to facilitate cross-

¹ Davis, G., (3 November 2006) *Mind the Gap: how should we fund public universities*, speech, p.2.

subsidisation. This could be achieved by ensuring that Commonwealth contributions and student fees for each course cover the true costs of course delivery.

8. Flexibility

Under the funding framework introduced by HESA universities have negligible ability to respond to market conditions. They operate in a market for domestic students but have little freedom to respond to changes in demand. The supply, spread and price of places is effectively controlled by the Government. Universities receive a fixed number of places and dollars for each of twelve discipline clusters and are penalised if their total enrolments exceed their allocated number of places by more than five per cent or fall short by more than one per cent. There is little capacity to shift, without Government approval, even an agreed percentage of allocated places between clusters or levels of study. This makes it very difficult for institutions to respond in a timely manner to the inevitable fluctuations in demand for courses that occur from year to year.

9. A possible alternative approach

The policy documentation released with the *BAF* package in 2003 very clearly claimed that a key intention of the reforms was to reduce red tape and government controls over the strategies and day-to-day operations of Australia's universities:

Funding and regulatory constraints, if not made more flexible, will affect teaching choices and learning outcomes, threaten the role of regional universities, and could adversely affect the international competitiveness and the reputation of Australia's universities.

Our Universities: Backing Australia's Ability Policy Document, May 2003, p.8.

Universities must be freed from unnecessary constraints. They should be able to respond flexibly to the needs of their constituencies, including potential and existing students, staff, employers, industry, local, regional and national communities. Institutions need to be given maximum opportunity, consistent with public accountability and social responsibility, to develop innovative responses to rapidly changing environments in teaching and learning ...

Our Universities: Backing Australia's Ability Policy Document, May 2003, p.8.

Nevertheless, for the reasons outlined above, it is the Go8's view that HESA has actually had the effect of reducing flexibility and increasing regulatory constraints on the capacity of institutions to pursue their individual strategic missions. In this regard the Go8 notes that when recently announcing CSIRO's budget for the next four years, Minister Bishop argued that increasing the funding cycle to four years would provide the CSIRO with an, 'even more stable financial environment that will enhance resource planning in scientific research, permitting development of multi-year research programs' (Media Release 24 January 2007). It is further noted that such an approach is a feature of the university funding model in the UK. The Go8 believes that Australia's universities would similarly derive significant benefits from moves that would allow them to balance student load and funding over a period of three or four years rather than annually.

10. Alternative sources of income

In the absence of improvements to indexation arrangements, or increases in Commonwealth and student contributions, the gap between income from these sources and the cost of course delivery will inevitably increase. Universities will continue to seek supplementary revenue from alternative sources in order to cross-subsidise their core teaching activities. A variety of alternative sources of income exist. Australian universities have already achieved enormous success in building revenues from full-fee international students and full-fee domestic students at the postgraduate level. Considerable scope remains, however, for institutions to increase the amount of income from domestic full-fee paying students at the

undergraduate level and from other sources such as philanthropy. However, some policy adjustments would assist the sector to improve its performance in these areas.

10.1 Unintended consequences of the HESA cap on full-fee enrolments

Since 2004 higher education providers have been permitted to have up to 35 per cent of total enrolments in a particular undergraduate course of study (excluding medicine) on a full-fee paying basis. This was meant to be an increase on the 25 per cent cap that previously applied for most courses. While the Government's intention was clearly to expand the numbers of students enrolling on a full-fee basis, the HESA definition of 'course of study' has had the opposite effect in some cases, reducing rather than increasing the number of fee-paying students able to be enrolled.

Until the 2004 changes, the full-fee limit was calculated on a broad definition of a course so that student load in double degrees was allocated back to the main discipline and the fee cap applied to the composite load. Under the HESA definition, however, the 35 per cent limit applies to each individual course combination. This has placed some combined courses in possible breach of the requirements and has forced institutions to make administrative or course adjustments in order to manage enrolments. The more rigid definition particularly affects those faculties that are able to attract substantial numbers of fee-paying domestic students because they offer professional qualifications.

Some universities have responded to the problem by altering their degree structures to enable the enrolment of combined degree students in separate degrees, without affecting their learning entitlements. Others have negotiated phase out arrangements with DEST. Both of these are artificial measures that would not have been necessary if the legislation had better reflected the Government's original policy intent.

While ideally the artificial cap on full-fee enrolments should be lifted altogether, consideration should be given to amending the definition of 'course of study' to provide institutions with greater flexibility over the management of their full-fee enrolments.

10.2 Philanthropy

With appropriate policy settings philanthropy is an area where significant potential exists for Australia's universities to attract additional supplementary revenue. While Go8 universities have increased their activity and success in this area in recent years, international experience suggests that a more collaborative approach involving governments, business and universities is likely to achieve better results. There is a need to examine all options (best practice alumni relations, tax relief and matching funds programs etc) with potential to encourage greater activity in this area. The Government's commitment of funds to support a Business Industry Higher Education Collaboration Council (BIHECC) investigation of possible strategies is therefore strongly supported. In this regard the Go8 notes the matching funds initiative recently announced in the UK under which up to £200m has been committed over three years to provide £1 for every £2 universities raise privately. Such schemes have been highly successful in countries such as Canada, Hong Kong, Singapore and the US and could be expected to have a similar positive impact if introduced in Australia.

11. Conclusion

While there is a need to review the appropriateness of the funding relativities between disciplines, the CGS represents but one component of a complex funding and regulatory mix. It is not possible to assess the suitability of the CGS without also considering the adequacy of the funding framework as a whole. There is considerable scope to improve the efficiency, sustainability and flexibility of the funding model, but this will require changes to HESA that go beyond simply shifting funds between disciplines. The Go8 would be happy to expand on any of the issues raised in this submission as necessary.