

Commission of Audit: submission from the Innovative Research Universities

Overview

The Innovative Research Universities (IRU) is a network of seven research intensive universities established in the outer urban areas of Australia's capitals and in major regional cities to stimulate economic, social and individual advancement. Our locations bring universities with comprehensive activities across teaching and research to areas where higher education participation and attainment is low, and where the university's research and creation of graduates can strengthen the social and economic prosperity of the region.

In this submission we address the following major issues against the Commission's *Terms of Reference*:

1. the need for Commonwealth Government intervention in the provision of higher education and research (Scope of Government);
2. the success of demand driven funding for university places to date (Efficiency and Effectiveness and State of Finances);
3. the implications for future Government policy flexibility of securitizing the Higher Education Loans Program and related schemes (State of Finances); and
4. opportunities for improved efficiency of Higher Education programs (Efficiency and Effectiveness)

We recommend that the Commission of Audit:

- conclude that the Commonwealth Government should have national responsibility for higher education, supporting it through major programs to support education and research, as an essential element of a productive Australia;
- support the need for a national higher education regulator, with implementation of the recommendations of the *Review of Higher Education Regulation*;
- conclude that the demand driven funding system is proving an effective system for meeting demand for higher education, producing graduates suited to future workforce needs, with growth concentrated in science, engineering and health programs;
- identify whether there is strong evidence of significant financial advantage to Government sufficient to offset the loss in future flexibility in determining student charges before considering support for proposals to securitise the Higher Education Loans Program loan book;
- consider across all Government activity:
 - the impact unnecessary reporting of activity and of expenditure has on effective action by those funded, and
 - the value to be gained from a greater focus on evidence for outcomes, positive or negative, with subsequent decisions to continue programs based on those outcomes.

1. Commonwealth Government intervention in higher education and research

This section addresses the *Scope of Government* section of the terms of reference.

The Commission's terms of reference place much emphasis on considering afresh the need for Government intervention in a given area and, where there is need, whether the Commonwealth or another level of Government should be responsible.

The need for, and return from, Government investment in higher education is grounded in the reality that without Government investment the cost of higher education services, whether education, research or expert advice, would substantially increase with the consequence that:

- the take up of higher education would be much lower with large numbers of individuals underinvesting in their future capabilities; and
- there would be a substantial reduction in research in Australia, undermining Australia's capacity to address problems of unique local and national significance and losing essential linkages to world innovation systems.

The return from investing in research

Commonwealth funding for research is part of a long-standing bipartisan commitment to Australian innovation which provides a high level of return to Government. A national approach to research funding provides a coherent and more efficient distribution mechanism for government investment in innovation.

According to the National Research Investment Plan, "Australia's national wellbeing...is dependent on research and innovation. Improved living standards are dependent on new, efficient technologies and processes being developed and deployed across all sectors of the economy."¹ Estimates of the returns for University research to range between 20% and 50%.² The returns are particularly strong for health and medical research, where Deloitte Access Economics estimates the benefit-cost ratio at up to 6-1.³

Increases to the moderate level of business research and development remain an important policy goal but one that builds off the Government base, both direct funding of research and the creation of a workforce capable of stimulating innovation. However, more should be done to stimulate demand for research among industry to provide the necessary balance of activity between Government funding research and industry driven research.⁴

To its benefit, research is an increasingly globalised activity. Active Australian investment is a necessary part of ensuring Australia is well integrated with world research outcomes, while there remain issues of unique local and national significance that are one focus of Australian research.

¹ <http://www.innovation.gov.au/research/Documents/NationalResearchInvestmentPlan.pdf>

² <http://www.smartestinvestment.com.au/campaign/key-facts>

³ <http://www.asmr.org.au/NHMRCReturns.pdf>

⁴ See Business Council of Australia, *Action Plan for Enduring Prosperity*, Jul 2013, section 9

Conducting high level research in an increasingly global research requires the involvement of many researchers across many countries. The paradox is that while many research issues increasingly require the interaction of considerable resources to be pursued effectively, the rapid changes in digital technology and their impact on communications means that researchers from our universities are effective members of world wide networks. This undercuts arguments for concentration of researchers in particular physical locations and institutions since no institution in Australia will have the required concentration but researchers across all universities are able to participate effectively in global networks.

It is why the IRU supports open and competitive research funding. This key element of research funding has been in place for over a decade, supporting significant growth in the quality and extent of Australia's research. The competitive pressure encourages all universities to improve research outcomes both those universities which have been established for some time and newer institutions developing a strong research profile. Evidence of the success of this approach is that all IRU members are listed in the international university rankings of the leading five per cent of world universities along with many other Australian universities.

The challenge ahead for Government is to ensure Australia's investment in research is well linked to the Asia region in particular and more broadly to world research and development systems, to leverage the greatest return and ensure access to world innovation. Australia should look to be part of an Asian research network that actively invests in the research networks and associated industry, drawing funds from multiple countries, similar to action across the EU. This is particularly relevant for the IRU whose members have led Australian universities' engagement with the countries of Asia from our foundation, consciously distinguishing themselves from the older universities in so doing.

The return from investment in students and their contribution to the cost of education

There is a strong return from investment in education at all levels for the individuals themselves, through the opportunities for better employment, and to Government and Australians generally through a more capable workforce which generates greater wealth. The Australian Workforce Productivity Agency estimates that each extra dollar invested in tertiary education grows the economy by \$26 and grows tax revenue by \$8, with other analyses estimating that Government investments in higher education produce returns of 13% to 14% per annum in real terms.⁵

OECD data shows a strong correlation between increases in Government investment in university education and increases in GDP per capita. Each 0.1 percentage point increase in government investment results in 2.5% increase in GDP per capita.⁶

From this flows the regular debate about the level of student payment for Government supported higher education, extending to an argument that no direct Government funding is

⁵ <http://www.smartestinvestment.com.au/campaign/key-facts/>

⁶ <http://www.smartestinvestment.com.au/campaign/key-facts/>

required.⁷ The potential to charge students is bounded by the associated commitment to provide income contingent loans to cover the charge. As charges increase the risk grows that, first, more people will be deterred from higher education and, second, that those who do will be less likely to repay their debt over their lifetime.⁸

The number of people with a debt is not the major consideration, as each person is required to make repayments according to their income. The size of individual debts is important for as they have grown over the past fifteen years in line with increased charges, the estimate of the proportion of loans not to be repaid has also risen from initial estimates of about 15% to a predicted 22% in 2016-17.⁹

At current rates, should students be fully liable for the current Commonwealth contribution, this would increase student debt on graduation by between \$6,000 for students of undergraduate commerce programs to over \$100,000 for medical, dentistry and veterinary graduates, with consequent pressure on the viability of income contingent loan arrangements.

A national approach to higher education in an international environment

A national approach to higher education reflects that universities are major corporations which operate in multiple jurisdictions, whether within Australia or transnationally and which attract students from all parts of the world to Australia.

A coherent national system establishes an effective framework for university operations and Government investment to ensure that potential students can access the education they need to achieve their potential and that the innovative capability of Australia is harnessed.

It is important that the Government intervention does not prescribe too tightly how universities operate, nor who accesses them or the research undertaken, to ensure universities are not held back from continuing to develop the nature of higher education.

A particular case in focus is the Tertiary Education Quality and Standards Agency (TEQSA) which was created in 2011 for two purposes:

- to replace the eight existing State and Territory regulators of higher education, whose prime role concerned the establishment of new higher education providers in the State or Territory and the operations of non-university providers thereafter. There was high variability among jurisdictions in approach to these roles and complications for organisations operating in more than one jurisdiction; and
- to provide an effective external mechanism to ensure that universities did not compromise the quality of student learning outcomes as they expanded delivery to Australians through the demand driven funding system (see point two below) and provide education to people from countries around the world.

⁷ Grattan Institute Graduate Winners Assessing the public and private benefits of higher education, August 2012

⁸ IRU, *At what point does HECS break?* August 2012, <http://www.iru.edu.au/news/executive-director's-comment.aspx>

⁹ *Portfolio Budget Statements 2013-14*, Budget Related Paper No. 1.12, Industry, Innovation, Climate Change, Science, Research And Tertiary Education Portfolio, p93

The creation of a single body has brought national coherence to higher education regulation. There are concerns about how well the regulator in practice has adhered to the intended risk proportionate activity enshrined in its Act and in the intentions of those designing it. All quality regulatory bodies have a tendency to support stasis over change, the norm over innovation. It helps prevent bad practice but serves to limit new practice. The Government is addressing this in higher education through its response to the *Review of Higher Education Regulation*¹⁰, beginning with Mr Pyne's directive of 22 October 2013.

Conclusion

The Commonwealth Government should have national responsibility for higher education, supporting it through major programs to support student education and research, as an essential element of a productive Australia.

The IRU supports the need for a national higher education regulator, with implementation of the recommendations of the *Review of Higher Education Regulation*.

2. The success of demand driven funding for university places

This section addresses the *Efficiency and Effectiveness* and *State of Commonwealth Finances* sections of the terms of reference.

Following a phase in period over 2010 and 2011, universities are funded for each student they enrol in any bachelor degree program other than medicine. It replaced a system where universities were capped in the number of places for which they were funded with the distribution of places among universities largely based in historical precedent. The impact of this change is the subject of a separate Australian Government review which Mr Pyne the Minister for Education has established.

Over the next three years the system should bed down giving Government, universities and students a period of consolidation to understand what the system means in practice. It will also permit the first students enrolled and educated as a result of the change to graduate.

The following highlights the key outcomes of the policy to date.

Changes in the student mix

The expansion of places since 2009 has had many positive effects.

The number of students studying science, technology and health has grown much more than the growth in business, law and arts. The previous capped system discouraged growth in these important disciplines because universities had to win additional funded places in high cost disciplines to permit expansion.

- The number of Australian bachelor students in the natural and physical sciences was twenty per cent higher in 2012 than in 2009, growing from 63,000 students (full time equivalent) to nearly 76,000.

¹⁰ by Kwong Lee Dow and Valerie Braithwaite, for the Australian Government, 2013

- Likewise in the smaller agriculture and environmental sciences the growth was nineteen per cent, up to 7,000 students.
- Engineering grew from 27,000 to 32,000 students, also nineteen per cent growth.
- By contrast, law and business have each grown by 1000 and 2500 respectively, four per cent in both cases, since 2009.¹¹

The growth has been larger in universities, such as IRU members, located in communities where higher education participation rates have been historically lower, rather than the already large inner city universities. This strengthens the options available to Australians seeking university education and has supported smaller universities grow to a more efficient size.¹²

The increase in enrolments is also assisting more people from disadvantaged backgrounds to move through from school education to higher education. This reflects that in some regions we are close to saturation point for school leaver higher education entry at about 60%, while in others it is much lower at barely 20%. Growth is more likely to come from the latter regions. Those data also suggest that the 40% attainment target is not a challenging proposition for an economy more and more focused at high skilled employment.

Fiscal implications

The expansion in delivery has required an equivalent expansion in Government investment. Part of the increase has been due to the shift to the medium to high cost science, technology and health qualifications, pushing up average Government investment per student place. the future pressure is less strong with the major growth spurt complete as universities have met the initial gap in supply. The 2013 Budget estimated that funded undergraduate places would rise from 512,600 (2012-13) to 589,000 (2016-17), steady growth which will underpin the capability of a major part of the Australian workforce.¹³

The implications for quality

The argument of a risk to 'quality' focuses on entry capability, not what people gain through their degree and their level of knowledge and skill at graduation. If only the top fifty per cent of primary school students could enter high school, the 'quality' of high school students would be higher – and the educational outcomes for Australia overall much lower.

The same issue applies to universities for the subset targeted by demand driven funding. We could limit universities to a small highly select group, ensuring they are well educated, and neglect developing the capability of the other students who enrol forcing them to rely on school and vocational qualifications. Or we can take up the challenge, as IRU members have, to educate the broad range of suitable students. This gives students the opportunity

¹¹ Australian Government series *Students* 2009 to 2012 available at <http://www.innovation.gov.au/highereducation/HigherEducationStatistics/StatisticsPublications/Pages/Students.aspx>

¹² R James and C King, 'Creating a demand driven system', *Tertiary Education Policy in Australia*, Edited S Marginson, Centre for the Study of Higher Education, July 2013

¹³ *Portfolio Budget Statements 2013-14*, Budget Related Paper No. 1.12, Industry, Innovation, Climate Change, Science, Research And Tertiary Education Portfolio, p87

to make the most of their own potential, supporting them choose the best educational outcomes for their own needs and aspirations.

The universities of the IRU have shown that people with a wide range of entry capability can gain from university study and complete a degree. They have done so since their foundation. That does not hold back the very academically able. What it does mean is Australia has more people with greater knowledge of the world and greater capability to contribute to it.

There is no evidence for a fall in quality which would require an exit analysis of graduating students, comparing those who enrolled from 2012 with those from earlier periods. There is considerable evidence that universities have improved the approach to teaching considerably over past decade, ensuring that students are able to learn to the required level. Programs to assist students in first year have shown that attrition and progression gaps can be overcome with quality teaching and support. IRU members will provide evidence of this to the Government's review of demand driven funding.

Universities also have significant checks and balances, including professional accreditation for many qualifications, to ensure those graduating irrespective of intake ranking meet industry requirements and standards. While critical of some aspects of the way TEQSA is carrying out its role, it and the higher education standards do provide a much more rigorous external scrutiny than previously existed.

Conclusion

The demand driven funding system is proving an effective system for meeting demand for higher education, producing graduates suited to future workforce needs, with growth concentrated in science, engineering and health programs.

3. The implications of securitising the Higher Education Loans Program

This section addresses the *State of Commonwealth Finances* section of the terms of reference.

To support provision of higher education the Commonwealth, through the Higher Education Loans Program (HELP), covers many student costs for higher education on the basis of repayment through the tax system based on students' income. Each year the Government receives repayments for current debts and meets the difference between the amount repaid and the amount advanced.

It is an income contingent loan scheme. Initially it was used solely for students of Commonwealth supported places (HECS-HELP) before being extended, for example to cover fees for other higher education courses (FEE-HELP) and the costs of overseas study (OS-HELP). The Government has introduced legislation to create a Student Start-Up Loan Scheme on the same basis of HELP.

Since the creation of the loans schemes there have been proposals to sell off the right to the future income stream in return for a payment to Government now. There are three main points concerning this proposition.

First, the simplicity of the income based payment through the tax system is clear. It is an efficient, effective mechanism to lend funds to students and then to recoup the loans. Options to move the loan arrangement away from Government falter through the lack of such an easy means of distribution and collection. There is considerable public confidence in the payment through the taxation arrangements that alternatives will struggle to gain. The main public concern is the collection of outstanding loans from people who have left Australia. Cross Government agreements could provide a means to address this, with a moderate financial benefit to Government.

Hence the proposition to securitise the HELP loan book is put as a financing change but one that does not otherwise affects the core characteristics of the system or changes how the system looks and works for students. This is essential for any further consideration of the securitisation.

Second, to change a working, simple system requires a good justification. The issue becomes whether gaining access to funds now, rather than in the future is a significant advantage for Government financing. Ultimately this is a question for those with the relevant expertise in Government financing to decide. However, on the face of it to make purchase of the loan book attractive, the price has to be less than the current day value of the future level of repayment, most likely with an element for the uncertainty about how much will be repaid and when.

One proposal is that the funds raised from securitisation should then be used for new investment in higher education infrastructure, refinancing the previous Higher Education Endowment Fund.¹⁴ The IRU would be interested in this approach if it were a means to secure an long term infrastructure investment stream.

Third, to introduce a further party into the system will make future Government changes to student charges and repayments more difficult than it already is. If a body has rights to the flow of HELP repayments then anything Government does to alter the arrangements is of interest to that body. It would be a further factor involved in student charges arrangements, an already politically complex area.

This applies whether looking to ease the impact on students or increase it. Since HECS's introduction the Australian Government has changed elements of the HECS then HELP system many times.

- The level of charge students will pay has tended to rise, but with some discipline specific reductions from time to time. This affects future loans;
- the income at which repayment is required, and the rates at higher income, have changed several times and in both directions. This affects both past loans and future;
- the discount for early repayment and for payment up front have been modified and now are about to be removed. This affects both past loans and future.

¹⁴ Glenn Withers, *Reform the rules for long-term HECS gains*, AFR, 11 November 2013

Conclusion

Any proposal for securitising the HELP loan book must be based on strong evidence of significant financial advantage to Government sufficient to offset the loss in future flexibility in determining student charges.

4. Opportunities for improved efficiency of Higher Education programs

This section addresses the *Efficiency and Effectiveness* section of the terms of reference.

The question of reducing the reporting and administrative burden on universities is a long standing issue. It has most recently been considered in the *Review of Reporting Requirements for Universities*.¹⁵ The following focusses on the broader implications of the university example to stimulate the Commission's consideration of cross Government changes to reporting and administrative burden to enhance the effectiveness of Government expenditures.

A significant improvement will only come from major changes in assumptions about what is good administrative practice from both Government and universities. It will not come from minor adjustments to the reporting requirements. Indeed such changes can sometimes cost universities through the need to alter automated data reporting processes.

The challenge is more fundamental. It requires a focus on what is really needed to decide the allocation of funding, and what is sufficient information to judge whether or not the expected outcomes have been achieved.

The large majority of Government funding to universities is distributed efficiently. The Commonwealth Grant Scheme (CGS) is driven by student enrolments. Government monitors the enrolments and receives university annual financial statements in return. The provision of student data is complicated but the systems are in place. The same is true for the research block grants. These are, in the main, distributed based on various research outputs. There is no requirement to show use of the funds for research purposes, however lack of research outputs would drive down future allocations just as lack of future students will reduce the CGS payments. Universities also receive student contributions, for which there is no formal requirement at all about use beyond the need to ensure students receive the course for which they pay.

It is the array of other programs where highly competitive, complicated and onerous bidding processes loom and where use of funds is often closely monitored wasting effort in both university and Government agency.

Where the Government asks for research or teaching project bids it generates an intensive assessment process to determine the most suitable projects. This can involve hair splitting judgments to separate applications with apparent strong claims, essentially a prospective judgment that can at best be mostly right.

¹⁵ PhillipsKPA, December 2012, report to the Commonwealth Government

A benchmark for such processes is the outcome that would be achieved by identifying all the applications that meet a threshold test of strong claims and randomly selecting from them until the available funds are committed. Any selection process that is more cumbersome needs to show that it produces better outcomes than that base point.

The second side of the issue is the reporting and acquittal requirements. Acquitting small amounts when universities have substantial flexibility with the majority of their funding rarely makes sense. The focus should be on whether the planned outputs and expected outcomes from those outputs happened. The response where the outputs are not impressive should be to halt the program or not renew it.

The Coalition's *Deregulation Reform Discussion Paper* of November 2012 rightly argued that the accountability should be proportionate to the risk. What that means is that sometimes things will not go well and some funds will be wasted. The challenge is to be able to accept those cases knowing that many others have been able to go ahead without wasting resources in excessive accountability. If acquittal must remain then the costs of recording and reporting should be legitimate expenditure against the program funds. This would make explicit the cost of accountability and encourage a focus on the necessary.

An example is the participation element of the Higher Education Participation and Partnerships Program (HEPPP). It was created to replace a long standing equity program that focussed at support for particular equity initiatives with extensive reporting and limited integration with mainstream university operations.¹⁶ As an incentive program the key issue is whether universities respond in the way expected. The objective is to enrol more low socio-economic status (low SES) students. The detail of how universities do so, or even whether they do anything different, is not relevant. A successful participation outcome will be where people from all backgrounds do enrol in similar proportions, with universities' services effectively supporting all enrolled students. Effective action needs to be a whole of university issue that is part of all areas' operations. If universities are forced to demonstrate how funds are used they will be less likely to integrate them with base funding and be more likely to engage in distinct easily marked projects.

However, unlike the regional loading for universities, which is simply included within the main funding grant, the participation loading is subject to distinct reporting and acquittal. In effect the administration of the previous Equity Program was rolled over onto both elements of HEPPP with no regard to the change in approach. The focus remained on distinct 'equity' activities rather than integrating recruitment of and support for students from different backgrounds into the standard activity of all parts of the university.

Conclusion

The Commission should consider across all Government activity the impact which unnecessary reporting of activity and of expenditure has on effective action by those funded and the value from a greater focus on evidence for outcomes, positive or negative, with subsequent decisions to continue programs based on those outcomes.

¹⁶ See IRU, *Why Acquitting the Low SES loading is a Waste*, November 2012, <http://www.iru.edu.au/news/executive-director's-comment.aspx>