

University of Sydney submission to the National Commission of Audit, November 2013

Summary

There is a compelling case for the Commonwealth to retain principal responsibility for the regulation and financing of higher education teaching, research and associated activities. Despite decades of incremental reform to the sector, Australian universities continue to operate under an overly complex set of policy, funding and administrative arrangements that lack coherence, are inefficient and encourage duplication.

The current policy and funding frameworks are in our view incapable of supporting a higher education and research system of the scale and quality that Australia will need over the coming decade. Unprecedented growth in demand for places from domestic students is predicted based on ABS demographic projections and anticipated participation rates. This will inevitably place further cost pressures on the Commonwealth under current policy settings.

Our competitors in Asia, North America and Europe are investing strategically to build strong higher education systems in recognition of the fundamental importance to the innovation process of possessing strong domestic capacities for research and human capital development. Following a period of strong improvement reflecting the lagged impact of substantial increases in Commonwealth support for basic research in the early to mid-2000s, the performance of Australia's top universities on the global university rankings is now at risk of declining as a result of stalled funding growth for competitive peer reviewed basic research, the deliberate dilution of available resources, and the absence of a clear national strategy for strengthening our research and innovation system. If such rankings declines occur, there are likely to be flow-on consequences for Australia's international education exports, and the overall competitiveness of our economy.

There is considerable scope for the Government to eliminate waste, improve efficiency and maximise returns for taxpayers by improving policy processes, better coordinating relevant activities with state governments and between Commonwealth agencies, and pursuing policies that encourage mission diversification and excellence through innovation. This will only be achieved, however, if government takes a first-principles and integrated approach to reform of policies and programs relevant to the sector.

The adoption of further blunt savings mechanisms, such as efficiency dividends or cuts to specific programs, will not assist the nation to address the core challenge it faces in relation to its higher education sector: *how to sustain a mass higher education and research system that is internationally competitive in terms of quality, value and capacity for new knowledge production and translation?* Weaknesses in the current policy framework arising from the demand-driven funding reforms mean that such cuts may not even be effective in reducing the cost of the system overall to the Commonwealth in the short term.

Scope of government

The case for continuing Commonwealth involvement in higher education and research

The maintenance of a coherent national framework for higher education is vital because of the importance of human capital development, knowledge production, and innovation to future levels of productivity, economic growth and social cohesion. From a practical perspective, the process of transferring relevant responsibilities from the states and territories to the Commonwealth has progressed to such an extent, that reversing it now would be extremely costly and disruptive. State-based higher education systems may be the norm in North America, but an approach based on cooperative federalism is preferable in Australia. Our higher education system has evolved towards a national one over many decades as a result of deliberate decisions taken by successive governments. Our state governments have very limited revenue raising and administrative capacities, while jurisdiction boundaries are becoming increasingly irrelevant for the delivery of higher education teaching and research services in the global information age.

Enduring weaknesses in the Australia higher education policy framework

The current policy and financing framework for Australian higher education and research faces serious challenges to its quality and sustainability.

Teaching and learning

The combination of government subsidies and student contributions for higher education teaching bear little relation to actual costs of delivery in different disciplines. Despite repeated reviews confirming significant base funding shortfalls in many fields, funding rates continue to vary arbitrarily, but are common to all providers regardless of the approach to delivery or research intensiveness. Providers sustain loss-making operations in fields of national significance such as agriculture, dentistry, medicine, veterinary science, some fundamental and engineering sciences and the performing arts through a complex web of cross-subsidies between disciplines and available revenue sources. Funding arrangements are overly complex and administratively burdensome, with different levels of control in place for sub-bachelor, bachelor, and post-graduate delivery of courses to Commonwealth supported students. For some universities, where demand from international students is high, they face a real choice between enrolling a loss-making domestic student, or a full fee-paying international student.

The demand-driven funding system, which essentially has domestic bachelor-level enrolments deregulated but prices controlled, exposes taxpayers to unknown future costs without incentives for cost containment. The reforms have already contributed to the enrolment of an additional 190,000 students in 2013 compared to 2008, mostly through increasing the participation rate. Unplanned enrolment growth in some health disciplines and teacher training programs are placing significant pressure on the availability of compulsory work-based placements. The Base Funding Review of 2011

warned the former government of the potential risk of perverse and unintended provider behaviour occurring unless the gaps between funding and costs were addressed. No steps have been taken to address these concerns, and as a result there are real risks that in some fields the nation will soon start experiencing a large mismatch between the supply and demand of graduates. If and when economic conditions deteriorate, any imbalances are likely to become more acute.

Over the next few years, demographic projections suggest that the demand from domestic school leavers will begin to grow substantially, with a potential need to accommodate an additional 500,000 extra students a year by 2025. Already, the cost of the demand-driven funding reforms to the Commonwealth budget has seen the Government pursue off-setting savings measures, primarily in research programs, but more recently through the *ad hoc* introduction of blunt measures such short-term efficiency dividends. Such steps cannot be guaranteed to achieve predicted savings, so long as it remains open to providers to continue offsetting cuts to their research budgets by enrolling more students under the demand-driven system.

For all of these reasons, our position on the appropriateness of the higher education funding system remains unchanged from March 2011, when we advised the Base Funding Review that:

“Our core argument is that the current cluster funding framework (based as it is on the Relative Funding Model – RFM – established over twenty years ago) has passed its use by date. We do not believe that further tweaking or short term fixes to the current arrangements will be sufficient to underpin in the long term a high quality Australian higher education system. Indeed, we argue that rearranging the current funding clusters within a fixed funding envelope would simply serve to shift the problem instead of address it seriously. Such an outcome would simply mean that in five to ten years, another review will be required to iron out new anomalies that have emerged.

The base funding framework needs to be replaced at an appropriate time by a new transparent and rational approach. This should be principles-based and built around a clear statement of purpose. It should be based on a robust understanding of the actual costs of sustaining high quality educational environments in different disciplines and settings. It should be responsive to reasonable changes in costs incurred by providers over time.” (*University of Sydney, Submission to the Higher Education Base Funding Review, March 2011*)

Research

Australia’s research intensive universities currently face three main threats to their future international competitiveness: under-investment in research and supporting infrastructure compared to our competitors in Asia and elsewhere; a tendency towards the dilution of available public resources rather than their concentration to support

excellence and the building of critical mass; and an increasing policy instrumentalism. Over the last 40 years the basic research share of all research activity undertaken by Australian universities declined from 76.7 percent to 45.2 percent. Over the same period applied research increased its share from 19.7 percent to 46.2 percent. While classification differences may explain some of the apparent shift, it is worth noting that the basic research share of the research undertaken by US academic institutions has remained stable at around 75 percent over the same period.⁷ The Productivity Commission has recognised the trend from basic to applied research in Australia's public research programs in successive studies (1995, 2003, 2007), and recommended that available support should be targeted to support basic research where market failures are the greatest, rather than commercial activities, which are more likely to be privately profitable.⁸

Australia's current policy and funding settings for supporting public good research undertaken in our universities forces them sustain their research functions through a complex maze of cross-subsidies. Available Commonwealth research funding for competitive grants is allocated via an elaborate set of regulations and processes that have the effect of draining the time and resources of academic staff from research delivery into completing applications, reporting and monitoring. Meanwhile, the system for allocating the substantial block grant support that the Commonwealth provides for university research has evolved incrementally over time. There is a need for the various schemes to be reviewed holistically to determine whether they can be managed more efficiently and effectively in accordance with the current Government's priorities for the sector.

Funding for landmark infrastructure (such as the Australian Synchrotron and the Square Kilometre Array) as well as for state-of-the-art smaller scale nationally shared infrastructure (e.g. those developed through NCRIS) is currently in a perilous state. This critical research infrastructure is required to keep Australia competitive (i.e. to educate, attract, and retain world class researchers, to partner with industry, to do breakthrough research in science, engineering and medicine) and needs a sustainable investment strategy. The current funding of these items as programs with finite time horizons impedes the nation's capacity for strategic investment.

Competitive economies need an education pipeline that delivers people who are highly skilled in complex problem solving for all areas of the workforce as well as for more specialised careers in research. Current opportunities for graduating Australian PhDs are extremely limited. Programs to support our best and brightest researchers at all stages of career (early-mid-established) are needed that allow for their career development and provide opportunities in Australia rather than forcing our most capable to leave.

⁷ Group of Eight, Backgrounder 30, *World University Rankings: ambiguous signals*, October 2012, p.46

⁸ Banks G., *Productivity Commission, Productivity policies: the 'to do' list*, November 2012, p.13

Improving efficiency, effectiveness and productivity in higher education policy and research policy and financing

General

The following general reforms of higher education regulation and reporting would serve to cut down on duplication, improve efficiency and productivity:

- **Insist** on sound policy development processes across all Commonwealth agencies, including robust regulatory impact assessments and cross-portfolio consultation to minimise duplication and unintended consequences for sectors such as higher education.
- **Resolve** the issue of how the superannuation liabilities of NSW university staff under the State Superannuation Scheme are to be met between the Commonwealth and the Government of NSW. The Commonwealth has delayed making a commitment about how it will resolve this liability for many years. The delay is creating considerable anxiety for staff and institutions, which is unnecessary given the precedent that has been set for other states.
- **Maintain** the current Ministerial and administrative portfolios that seek to integrate responsibility for higher education and research functions in recognition of their inherent policy and funding connections.
- **Shift** to a single national system of financial and all other reporting by higher education providers – agreed between the Commonwealth and all States and Territories, and all relevant regulators.
- **Adopt** the recommendations of the Chaney Report on the development of a coordinated international education strategy, and ensure that state strategies and processes are in alignment.
- **Abolish** university Mission-based compact agreements, or a substantial refocussing of the scheme to make it less bureaucratic and more likely to drive mission-differentiation.
- **Ensure** that the national tertiary education regulator pursues a light touch approach to regulation, with a focus on registration and re-registration requirements.
- **Combine** the Tertiary Education Quality and Standards Act with the Educational Services for Overseas Students Act to remove inconsistencies and overlaps.

Higher Education teaching and learning

A separate review of the demand-driven reforms is occurring alongside the Commission of Audit. It will be important that the outcomes of both processes are delivered in an integrated way. If the Commission is to engage with higher education financing issues, we recommend that it go back to first principles and consider the elements that an excellent and fiscally sustainable higher education system should

have. To this end, we suggest that the following guiding principles developed and agreed by the Group of Eight universities in the context of the Base Funding Review, offer a good starting point:

“...policy coherence should be guided by the principles of opportunity, fairness and choice in respect of student participation, and by the principles of quality, financial sustainability, structural diversity and institutional flexibility in respect of higher education provision.

Opportunity: Participation in higher education should be open to all who can benefit and wish to do so. It should not be limited arbitrarily, for instance, by government policy settings and funding constraints that restrict privately funded options.

Fairness: Access to higher education should be fairly available, without systemic barriers to participation. Students should neither be deterred by up-front costs nor denied the opportunity to pay what they can afford.

Choice: Students should be free to select the higher education opportunities that best suit their needs and interests. The growing diversity of learner needs and circumstances requires greater opportunity for students to determine the trade-offs that suit them best in terms of quality, convenience, ways and means of learning, and cost.

Quality: Higher education should meet acceptable threshold standards of quality. Higher education performance may well vary above the threshold. Quality should be evaluated with reference to the different missions of higher education institutions. Institutions should be publicly accountable for verifying their delivery of higher education of the quality they claim.

Financial sustainability: Higher education of acceptable quality should be affordable for the nation on a long-term basis. The provision of higher education should be financed at levels which at least cover costs.

Structural diversity: The structure of the nation’s higher education system should cost-effectively accommodate the diversity of student needs and circumstances. While different higher education institutions may play different roles, such as in graduate education and research, there should be paths and bridges between them that enable continuous learning.

Institutional flexibility: Higher education institutions should have the organizational and operational flexibility they need to respond competitively to change.” (Go8 Policy Note 1, Guiding Principles, December 2011).

Research and innovation

Extensive consultation and strategic planning to address these challenges has recently been undertaken by the Australian Research Committee (ARCom), under the chairmanship of the Chief Scientist. Their National Research Investment Plan (NRIP), released at the end of 2012, combined with the complementary strategic research priority setting, provide a comprehensive and integrated set of investment principles and supporting plans around which a coherent framework for growing and sustaining Australia's research and innovation system could be built. We recommend these to the Commission. We also see the following actions as essential for strengthening Australia's research and innovation system:

- **Develop** a national research strategy and long term supporting infrastructure program for both capital and essential human resources to provide a more sustainable long term platform for research collaborations and partnerships.
- **Create** pathways and opportunities by supporting a sustainable package of fellowship schemes for all stages of career, including specific mechanisms to support equity in opportunity.
- **Refocus** all available Commonwealth funding to reverse the trend away from basic research to applied research.
- **Maximise** the use of transparent, independent, competitive processes for the allocation of available Commonwealth research grants.
- **Recognise** the role of research in higher education and develop policy frameworks that transparently identify and provide for funding of the full costs of research without detracting from funding for teaching and learning.
- **Build** on the work recently undertaken for the Australian Government, to complete an audit of regulation arising from Commonwealth research programs to achieve more effective efficient processes.
- **Overhaul** the administration of National Competitive Grant Schemes to reduce the opportunity costs for researchers and institutions in preparing grant applications and complying with reporting requirements.
- **Seek** efficiencies in the administration of the Rural Research and Development Corporations (RRDCs) by reducing duplication of administrative support and processes.
- **Review** current programs for supporting business university research collaboration and ensure that they are creating appropriate incentives
- **Improve** coordination of the development and implementation of national security legislation. Different aspects of which are currently the responsibility of multiple Commonwealth agencies.