



Response to

"Setting Firm Foundations: Financing Australian Higher Education" and "Varieties of Excellence: Diversity, Specialisation and Regional Engagement"

Issues Papers

INTRODUCTION

1. This document responds jointly to the '*Setting Firm Foundations*' and '*Varieties of Excellence*' papers. UWA is of the view that issues of institutional role and system diversity can only be addressed appropriately and meaningfully by addressing system funding policy and mechanisms. Institutional autonomy is a fundamental element of the Australian higher education system and it is not, in our view, appropriate to regulate institutional roles by direct legislative means.
2. The most critical element of the debate on system diversity and institutional role is, in our view, the issue of the teaching and research nexus. Of all the concerns raised in the '*Varieties of Excellence*' paper about institutional role and specialisation, the funding of research and research training is of paramount concern to UWA. This matter is explored further in section 6.9 below.

THE LEVEL OF FUNDING

3. Much of the '*Setting Firm Foundations*' paper is concerned with the distribution of funding for higher education, yet the mounting evidence from within the sector and through international comparisons is that the first order problem concerns the **level of funding** for the Australian higher education system.
4. The UWA position, contained clearly in our response to the first '*Crossroads*' paper, is that the first and most urgent priority for the nation is to restore and increase the level of investment in higher education as a proportion of GDP. According to '*Crossroads*' the current level of higher education investment is (in 2000) 1.43% of GDP. The AVCC has argued for a target level of 2% by the year 2020 and UWA supports this target. Of greater concern, however, is that within the 1.43%, **public** investment in higher education over the last decade has declined by over 15% from 1.10% in 1991 to 0.93% in 2000. It is the strongly held view of the UWA Senate that the Australian public higher education system is a critical national asset which must be protected through sustained public investment at international 'best practice' benchmark standards. **UWA therefore urges the Government to reverse this alarming decline in public investment; to restore it as a matter of national priority to its levels of a decade ago; to sustain it through appropriate indexation policies; and to further enhance it over time as a budget priority.** Diversification of the funding base of Australian higher education should not be used as an argument to decrease the real level of public investment.

ELEMENTS OF FUNDING POLICY

5. The core elements of a higher education funding policy relate to:

- Undergraduate and postgraduate coursework
- Research and research training
- Other activities

The UWA position with respect to each of these is as set out below. The underlying purpose of all of these proposals **is to ensure quality commensurate with the principles of fitness for purpose and comparative advantage.**

Undergraduate and Postgraduate Coursework

5.1 The HECS principle should be applied to both undergraduate and postgraduate coursework, although more flexibly than at present, to permit above-standard (Government-determined) HECS charges by institutions, capped by appropriate policy settings.

5.2 Enrolment restrictions must simultaneously be relaxed to provide flexibility for students and institutions.

Research and Research Training

5.3 Funds should be competitively allocated, both by performance-based funding formulae and by contestable research grants schemes.

5.4 Research student places should go where there is a suitable research culture, infrastructure and performance record.

Other Activities

5.5 Funding for functions other than core teaching and research, such as community activities, regional development and equity initiatives, should be contestable and transparent.

5.6 The preferred funding mechanism is to have multiple sources of contestable funds, separate from and additional to core teaching and research funding, allocated on a fitness for purpose, and comparative performance basis; we do **not** support introducing distorting factors to mainstream teaching and research funding formulae.

ELEMENTS OF A DISTRIBUTIONAL MODEL

6. Taking each of these positions in turn and relating them to the options presented in 'Setting Firm Foundations', UWA's preferred position can be summarised as follows:

Undergraduate and Postgraduate Coursework

6.1 Four funding models are offered for discussion, one very similar to the current system, the second a flexible HECS regime, the third and fourth voucher schemes ('learning entitlements'). Elements of other models (performance-based funding, competitive tendering, mission-oriented funding) are referred to in passing and while some of these form elements of our preferred approach, none are considered in 'Foundations' as the primary basis of a core model.

- 6.2 The AVCC has rejected the two voucher schemes. UWA also has serious reservations, based on three main grounds, namely that:
- Vouchers place too much reliance on one stakeholder group who are contributing approximately 25% to the funding of the public higher education system. Public higher education is primarily a public good; it has many roles and stakeholders and the public interest is a Government responsibility.
 - Students may potentially be highly mobile in the short-to-medium term but educational infrastructure is not. The higher education 'industry' is not well placed to handle high levels of volatility which a pure demand-driven model might impose.
 - In practical terms, a funding scheme based on a single national rank ordering of all applicants is both highly centralist and highly unlikely to be administratively feasible, as admissions criteria become more flexible and institution specific.
- 6.3 The first model is essentially a no change model and therefore unlikely to be of any real use in achieving the change that is universally acknowledged to be required.
- 6.4 Model 2 is the closest to the UWA position, although as set out does not provide any operational detail on which to base a real analysis, neither is it set in a policy framework (of increased public funding, tax reform, indexation, load allocation criteria, etc.) so that it cannot be assessed as an integral component of a viable package.
- 6.5 Its potential advantage, however, is that it provides a mechanism for institutions to exercise choice and flexibility in relation to course offerings, student numbers, fees and hence have greater capacity to affect issues of role, quality, size and market position.
- 6.6 The importance of freeing up university enrolment targets is critical. **The distinction between student-targeted and institution-targeted funding largely falls away as student load/place restrictions are relaxed, since funding follows students in either model.**
- 6.7 There are many issues of detail that are not addressed in '*Foundations*' but which would be critical to the viability of a funding model. These include the relative scale of HECS contributions in relation to Government funding, the nature of a HECS regime, including whether it is a flat or differentiated HECS, the nature of capping for fees, the HECS repayment, the basis of a distributional model for places, changes to the relative funding model, etc. These contain some potentially major issues, such as the inappropriate use of ill-defined 'unmet demand' as a determinant of the allocation of places, the potential but equally flawed use of current over-enrolments to determine places, and the current outdated Relative Funding Model (RFM) to determine base institutional Operating Grant allocations.
- 6.8 The tentative conclusion is, however, that Model 2 could be a way forward as a model for distributing funding for teaching, **provided it is integral to a reform package as outlined in the UWA 'Key Principles of a Funding Framework'** (see Appendix 1). A UWA position on the operational details could be worked up if this model emerges as the preferred approach, with the following elements included:

- HECS set on 3 bands broadly related to course/discipline cost and in aggregate amounting to approximately 25% of total course costs.
- HECS repayment thresholds aligned with the national average wage.
- University fees above HECS, capped at least initially.
- Universities required to devote a percentage of fee income to equity scholarships.
- Enrolment restrictions significantly relaxed such that universities can enrol HECS based students initially within a range (with a floor and ceiling to dampen the immediate impact of demand).
- Universities permitted to enrol domestic students on a fees basis above the HECS enrolment range, with such students also subject to income-contingent loans and capped fees.
- Institutional HECS-based enrolment ranges negotiated via the Educational Profile on the basis of institutional supply and demand factors.
- HECS places allocated nationally via an equitable age weighted population index (**not** through the use of flawed 'unmet demand' statistics produced by the states).
- The total number of HECS places determined by the size of Government budget, the average funding rate, and by notions of sound public policy on higher education participation, benchmarked to international 'best practice'.
- Institutional funding for teaching driven by a revised Relative Funding Model with differential discipline costs aligned to the HECS bands.

Research and Research Training

6.9 The '*Foundations*' paper, as with the '*Crossroads*', is very light on analysis of research funding options. The UWA perspective can be summarised as follows:

- There is an urgent need for significant additional public funding to support research activity and infrastructure in Australian higher education.
- The current principal research and research training mechanisms form a reasonable basis for developing a model, a lift in the quantum of support and greater emphasis on quality and performance are urgently needed.
- While research funding should not be restricted to designated 'research universities', it should be directed to where research capability and performance is demonstrated.
- In particular, postgraduate research students should only be supported where there is demonstrable research capacity and performance.

- Research funding should be of two main kinds, both competitively allocated:
 - performance-based, allocated via performance-driven formulae (such as with Institutional Grants Scheme (IGS) and Research Training Scheme (RTS) funding);
 - contestable grant schemes, allocated by merit-based peer reviewed application, such as (ARC, NH&MRC).
- If adequate quality or research outcome criteria cannot be found to incorporate in performance-based funding formulae, then a qualitative assessment mechanism (such as a modified UK Research Assessment Exercise) needs to be adopted to supplement the formulae.
- Performance/quality assessment should operate at the discipline level rather than the whole-of-institution level so as not to 'disqualify' whole institutions from research activity and funding, but equally so that research students and funding are not directed to where there is no significant research-active environment. The principle, again, is fitness for purpose, supported by competitive allocation mechanisms. Some threshold conditions should apply before research training is funded.
- National priority setting should be broadly based if it is to be done at all, but should not apply to discovery grants ('pure' research).
- Some untangling of teaching and research support in the Operating Grant is needed as currently salaries of teaching and research staff are funded largely through the teaching component of the Operating Grant. Universities therefore receive support for staff research, via the Operating Grant across the board whether or not they have research-active staff in all areas.

Other Activities

- 6.10 Core teaching and research funding provides the basis for the Government Operating Grant to institutions and includes the general community service role of all institutions that is integral to the teaching and research mission.
- 6.11 Institutional diversity should be supported through additional funding (perhaps outside of HEFA) above the core operating grant, allocated transparently on the basis of defined institutional mission/goals/objectives (fitness for purpose again) and comparative performance. In this way, particular regional and community-based activities which are not adequately captured by mainstream teaching and research funding can be supported.
- 6.12 Great care will be needed so as not to exclude institutions from contesting these funds by inappropriate conceptions of 'regionality' or 'community/engagement' (as happened in the original 'Crossroads' paper).
- 6.13 UWA strongly opposes the proposal in 'Setting Firm Foundations' that universities which do not charge a fee above the standard HECS level should receive a financial loading from the Government. This would introduce a significant distortion to the operation of greater deregulation; and would be likely to force fees to be higher than necessary in many institutions.

APPENDIX 1

Extract from Response to Higher Education at the Crossroads: An Overview Paper A UWA Perspective - June 2002

KEY PRINCIPLES OF A FUNDING FRAMEWORK

- There should be a recognition that all higher education is first and foremost a public good and that the calibration of Government funding for higher education should be set at international best practice levels in terms of macro indicators such as % of GDP, and expenditure per head of population.
- Private contributions should continue to be made by Australian students through HECS-type arrangements in which no student has to pay up-front fees, and no student has to bear the full costs of their education. This reflects the public benefit inherent in all education.
- There should be greater equity between the States in the provision of opportunity for access and participation in higher education.
- There should be recognition that private investment/benefit and public investment/benefit are not alternatives in a zero sum game. Increases in private investment lead to greater public benefit and vice-versa, so there is no justification for Government reducing public outlays as private contributions (HECS) have risen.
- There should be a relaxation of the current tight regulation of student load targets and HECS/fees levels to enable institutions to be more flexible in the balance between price, quantity and quality. The extent of institutional flexibility should be limited both by market factors and by sound public policy.
- There should be tax reform to provide greater incentives for corporate sector to fund education, research and development.
- There should be proper indexation of Government funding to deal with the impact of enterprise bargaining and salary management within institutions.
- In addition to the base operating grant, there should be multiple contestable funding mechanisms to facilitate and encourage diversity in the role and character of institutions, based on the principles of fitness for purpose and comparative advantage.
- There should be a limited use of Commonwealth discretionary funding for special programmes so long as these account for a very small percentage of system funding and the greater percentage of funding flows to institutions with minimum ties.
- There should be public Quality Assurance (through an independent agency) for the primary purposes of providing public accountability and consumer information.
- There should be a greater role for State Governments to support specific local and regional development needs.
- There should be an independent policy advisory council to Government, at arms length with appropriate sector representation.
- There should be an urgent review of the current Relative Funding Model to establish a more equitable distribution of the Operating Grant, now that funding for research training has been separated out.