



8 April 2011

Dr Jane Lomax Smith
Higher Education Base Funding Review
Location C50MA9
GPO Box 9880
CANBERRA ACT 2601

Dear Dr Lomax Smith

UniSA welcomes the opportunity to provide the attached submission to the Review of Higher Education Base Funding.

UniSA believes that Australia should set an ambition to have the best higher education system in the world by 2020. UniSA believes that this will require an increase in base funding by 10%. In the short term such a funding increase will help meet the infrastructure and support costs of the achieving the government's participation targets. Base funding levels should be reviewed triennially to ensure that Australia remains internationally competitive.

- Australia should develop and improve other system elements, including esteem factors for teaching and learning, to maximise the impact of improvements in base funding.
- A decrease in compliance costs associated with base funding and other small funding sources should also be actively pursued (particularly in cases where funding falls short of the full cost of activity).
- UniSA calculates the cost in 2010 of supporting low-SES and other disadvantaged students to be an extra \$2,068 per student, which would require a doubling of HEPPP funding to cover full costs. As the sector strives to achieve the government's participation targets this funding gap will increase without increased support and will be a disincentive to enrol historically disadvantaged students.
- UniSA believes that there is merit in reviewing the relative costs and funding for individual disciplines, but that the implementation of any changes will require an increase in funding such that no cluster receives a decrease in total funding (i.e. CGS plus HECS) per student.
- With the introduction of an uncapped, market-driven system in 2012 there is an urgent need to establish a process for setting and managing postgraduate CGS places.

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- The government should also consider uncapping enabling loading. This will strengthen an important pathway for meeting the government's participation targets, particularly for low-SES students, and rectify a current obvious policy failure that disadvantages both students and the Commonwealth.

Yours sincerely

A handwritten signature in blue ink, consisting of several overlapping, fluid strokes that form a cursive, somewhat abstract shape.

Professor Peter Høj
Vice Chancellor and President

UniSA Submission to The Higher Education Base Funding Review

SUMMARY OF RECOMMENDATIONS

1. An ambition for an internationally competitive higher education system

Recommendation 1: Australia should set an ambition and timeframe to achieve an improved international position for the Australian higher education system.

2. System Improvements – maximising the value of base funding

Recommendation 2: Improvements in other elements of the higher education system (including regulatory frameworks and systemic esteem factors for teaching and learning) need to occur to maximise the impact of improvements in base funding.

3. The level of base funding to be internationally competitive

Recommendation 3: Base funding levels should be reviewed triennially to ensure they remain internationally competitive.

Recommendation 4: Base funding levels should be increased by 10% and HEPP funding should be doubled to reflect real additional cost associated with tuition of low-SES students. In the short to medium term this funding increase will help meet the infrastructure and support costs of the government's participation targets.

Recommendation 5: Base funding levels need to include a component for greater risk of revenue variability in a demand-driven system.

4. Balance between private and public funding

Recommendation 6: Student contributions to the cost of higher education should not be increased.

5. Relative cluster funding levels

Recommendation 7: Overall funding levels are more critical than changes to relative funding levels between disciplines. The implementation of any changes in cluster funding levels will require an increase in in per-student funding levels (i.e. CGS plus HECS).

6. Balancing compliance costs and public accountability

Recommendation 8: Compliance costs associated with base funding and other small funding sources should be reduced (particularly in the cases where funding is less than the full cost of activity).

7. Responding to issues in an uncapped market driven system

Recommendation 9: A mechanism should be established to review and correct unintended consequences arising from load deregulation in 2012.

Recommendation 10: A process for setting and managing postgraduate CGS places should be established in time for full deregulation in 2012 based on the principles articulated in the submission.

Recommendation 11: A review of the long-term policy objectives and funding mechanisms of postgraduate education should be undertaken.

Recommendation 12: Enabling loading should be uncapped from 2012.

Recommendation 13: HEPPP funding should be doubled to cover the additional costs of supporting low-SES students.

8. Funding of infrastructure

Recommendation 14: Teaching infrastructure should continue to be included in the base funding model.

9. Support for Research from Teaching Funding

Comment made – see submission.

UniSA Submission to The Higher Education Base Funding Review

1. An ambition for an internationally competitive higher education system

Australia is fortunate to have enjoyed prosperity and economic growth from a resources boom, but should not rely on it continuing. Australia has an opportunity to invest some of the gains from the resources boom in the development of a world-class higher education system that can underpin the development of knowledge industries that will sit alongside our successful resources industry, helping to withstand cyclical volatility and the impacts of a two-speed economy. Investment will also ensure a more productive economy, higher standards of living and social cohesion.

UniSA's vision is that *'UniSA will be a leading contributor to Australia having the best higher education system in the world, supporting the world's best educated and most innovative, cohesive and sustainable society'*.

We believe that Australia should set an ambition to have the best higher education system in the world and a timeframe to achieve this ambition. This will be important if Australia aspires to move from producing *good* graduates to producing *great* graduates.

One important component of a strong system is, as the government has recognised, increased participation by historically underserved groups such as low-SES students. This is not just a matter of fairness, but of giving the nation the benefit of the talent and determination that is at present untapped due to a student profile that is skewed towards economic and other advantage. Appropriate preparation for university study is therefore a vital component of an internationally competitive higher education system. Remarks below about HEPPP and enabling funding should be seen in this context.

Recommendation 1: Australia should set an ambition and timeframe to achieve an improved international position for the Australian higher education system.

2. System Improvements – maximising the value of base funding

Adequate base funding is one important element in delivering a more internationally competitive higher education system, but similarly it will be important to establish other system elements that work collectively towards achieving this aim including:

- The regulatory environment – despite efforts to improve regulatory factors, the current environment remains costly and bureaucratic.
- Systemic esteem factors for teaching and learning (including accepted measures of the outcomes of teaching and learning that reflect employers' and not just students' perspectives) that attract, recognise and reward great academics and drive institution resources and performance towards teaching improvements - at present research esteem factors are a far stronger driving force.

Recommendation 2: Improvements in other elements of the higher education system (including regulatory frameworks and systemic esteem factors for teaching and learning) need to occur to maximise the impact of improvements in base funding.

3. The level of base funding to be internationally competitive

Base funding levels need to be considered in relation to aspirations for the Australian higher education system against international benchmarks (particularly in terms of comparative outcomes). Whilst at present there are limited accepted international benchmarks, it is nevertheless clear that Australia is slipping behind in international measures of student engagement by 5% to 15% compared to other major countries. US research indicates that engagement has positive, statistically significant effects on grades in both the first and last years of study and on retention between the first and second year of study. *It also finds that historically underserved students earn higher grades and are more likely to persist in their studies when they are more effectively engaged*¹. Slippage in this indicator in comparison to other countries therefore raises concerns about Australia's long-term ability to produce internationally competitive graduates and to achieve its ambitions for retention and graduation of students from historically disadvantaged groups.

Base funding levels should be internationally comparative but take into account differing industrial, regulatory and market factors. UniSA supports recommendation 28 from the Bradley Review of Higher Education to '*...commission an independent triennial review of the base funding levels....to ensure that funding levels remain internationally competitive.*' UniSA notes that:

- Australia's total expenditure on tertiary education in 2007, while at the OECD average of 1.5% of GDP, was ranked only 9th.
- The public component of expenditure on tertiary education in Australia represents 0.7% of GDP, a third less than the OECD average of 1.0%, ranking Australia at 20th.
- The Commonwealth teaching funding per student place has fallen in real terms by over one third since 1994.
- The student:staff ratio has steadily increased from 13.0 in 1990 to 20.1 in 2008, one of the highest levels in the OECD.
- Reliance on sessional staff rose from 10% in 1990 to 20% in 2008.

Recommendation 3: Base funding levels should be reviewed triennially to ensure they remain internationally competitive.

UniSA supports recommendation 26 from the Bradley Review of Higher Education to '*...increase base funding for teaching and learning in higher education by 10% from 2010*'.

In the long term, further investment in higher education will build knowledge industries, helping to withstand cyclical volatility and the impacts of a two-speed economy. Investment will also ensure a more productive economy, higher standards of living and social cohesion.

In the short to medium term, an increase in base funding could help address two key government priorities:

¹'Unmasking the Effects of Student Engagement on College Grades and Persistence', Kuh G et al (Center for Postsecondary Research Indiana University Bloomington), Paper presented at the annual meeting of the American Educational Research Association, Chicago, April 2007

- Increased participation – there is a gap between the sector’s capacity for capital investment and that needed to deliver the infrastructure required to achieve the government’s targets for graduates. Increased base funding would assist in bridging this gap and leverage the sector’s planned capital expenditure.
- Increased participation of low-SES and other disadvantaged students – the cost of supporting disadvantaged students exceeds the government’s existing HEPPP contribution. UniSA calculates the cost in 2010 to be an extra \$2,068 per student, which would require a doubling of HEPPP funding to cover full costs. As the sector strives to achieve the government’s participation targets this funding gap will increase without increased support, and will be a disincentive to enrol historically disadvantaged students.

Recommendation 4: Base funding levels should be increased by 10% and HEPP funding should be doubled to reflect real additional cost associated with tuition of low-SES students. In the short to medium term this funding increase will help meet the infrastructure and support costs of the government’s participation targets.

Base funding has historically been set in an environment of regulatory control over student places and therefore limited risk of revenue volatility. Universities have been exposed to revenue risk in international student markets, but generally this represents a smaller proportion of total revenues. In 2009, universities’ teaching revenue totalled \$12.1 billion, of which international student fees accounted for 28% and teaching funding for domestic commonwealth-supported students (including HECS) accounted for 63%.

In a demand-driven system from 2012, the risk profile associated with teaching funding for domestic commonwealth-supported students (63% of teaching funding) will increase. This increase in revenue risk will come at a time when employment conditions have become more rigid (and salary costs represent 58% of university costs). The review of base funding will need to look beyond the funding of teaching costs and include a component to cover the risk associated with increased revenue variability.

Recommendation 5: Base funding levels need to include a component for greater risk of revenue variability in a demand-driven system.

4. Balance between private and public funding

HECS is a policy success that has enabled a sharing of the cost of education, balancing the private benefit gained by individuals whilst not acting as a significant deterrent to participation.

Nevertheless, UniSA believes that the student contribution has reached high levels compared to OECD benchmarks and supports the position of the Bradley Review of Higher Education that *‘Given the relatively high proportion of private contribution to expenditure on higher education in Australia compared to other countries, ... there is no strong case for further general increases in the costs to students.’*

Recommendation 6: Student contributions to the cost of higher education should not be increased.

5. Relative cluster funding levels

The relative cluster funding levels are a historical artefact and unlikely to be representative of the true cost in this era. UniSA believes that it is far more important to increase overall funding levels than to change relative funding levels. Universities, like most organisations, operate internal resourcing models on a pool-of-funds basis. This means that any changes to the discipline funding levels made by the Commonwealth do not necessarily flow on the same basis to the schools which teach those disciplines.

UniSA believes that there is merit in reviewing the relative costs and funding for individual disciplines in the context of potential unintended consequences in a deregulated market. Cluster funding levels are one element of funding levels by discipline, but the key measure is the total funding by discipline (i.e. total of cluster funding and student contribution), as this determines overall resourcing levels.

Changes to cluster funding relativities are a blunt policy driver which has complex behavioural impacts:

- Cluster funding levels are a key determinate of program profitability – in a deregulated market (and as universities become more sophisticated in product costing) decisions will be taken to close unprofitable programs.
- The relationship between cluster funding levels and fee-paying prices for a particular program may affect supply side and recruitment decisions. With limited capacity (staff and space), trade-offs are made against revenue derived from enrolling fee-paying students. This can particularly be an issue in business disciplines where total CGS plus HECS funding is significantly below fee-paying student levels.

Recommendation 7: Overall funding levels are more critical than changes to relative funding levels between disciplines. The implementation of any changes in cluster funding levels will require an increase in per-student funding levels (i.e. CGS plus HECS).

6. Balancing compliance costs and public accountability

In her speech to the Universities Australia conference in 2009, Prime Minister Gillard, then the Minister for Education, acknowledged the sector's concerns about red tape. In relation to TEQSA, she said: 'I understand the anxiety some will have of more red tape and managerial control. That is not the intention and it will not be the effect.'

Compliance with government requirements consumes a significant amount of an institution's resources and decreases its ability to deliver on the government's objectives. At the same time, we acknowledge the government's legitimate concern to ensure that public funding is spent appropriately. It seems likely that TEQSA will result in significant additional compliance costs.

The Bradley Review of Higher Education noted that *'Many of the components of the current financing framework involve time-consuming processes for allocating small amounts of funds.....it would be more efficient if there were fewer small, specific-purpose programs delivering funding for which universities had to account separately.'*

UniSA believes that compacts form the basis of an overarching financial accountability regime that should replace compliance processes associated with base funding and other smaller teaching and learning funding schemes.

UniSA also believes that a principle could be established that where the Commonwealth is clearly short-funding the full cost of an activity, the acquittal requirement should be limited. The principle is based on the assumption that since the activity clearly costs more than the government's contribution, then if the institution is delivering the activity it *must* be spending the government's contribution on that activity. The HEPPP funding is a recent example of an onerous compliance regime to acquit funding that falls well short of the full additional support cost. Whilst not directly related to this review, the Sustainable Research Excellence activity based costing exercise is another recent example - international benchmarks and Australian pilots identified indirect costs to be over 50 cents in the dollar of research funding, yet a costly sector-wide exercise was required to justify funding at this level even though it is well short of the full cost of research.

Recommendation 8: Compliance costs associated with base funding and other small funding sources should be reduced (particularly in the cases where funding is less than the full cost of activity).

7. Responding to issues in an uncapped market driven system

In moving to an uncapped market driven system there are likely to be unintended consequences. UniSA believes it is important to ensure that a mechanism is established, before the introduction of the system, which enables the timely identification and correction of any unintended consequences.

Recommendation 9: A mechanism should be established to review and correct unintended consequences arising from load deregulation in 2012.

UniSA notes three anomalies/inconsistencies with the government's strategies to increase participation:

A. Restrictions on commonwealth-supported postgraduate enrolments

The Review's terms of reference contemplate the need for a coherent funding model for postgraduate as well as undergraduate education. There are already established pathways to professional practice involving undergraduate and postgraduate study – for example, many would argue that an undergraduate science degree followed by a postgraduate teaching qualification is an appropriate preparation for secondary science teaching. Commonwealth-supported places for postgraduate enrolments also remain important in disciplines where fee-paying places are a deterrent to demand and where there are clear public benefits to further skill development (e.g. nursing and education).

UniSA is of the view that at present and on balance, funding should be directed towards undergraduate degrees, but that there are categories of postgraduate education that should be funded and that there should be some encouragement of innovation provided that this does not distort the overall funding pattern. In particular, UniSA is concerned about any changes that could make it more difficult for underrepresented groups to obtain professional qualifications.

The current rules for CGS funding of postgraduate education are poorly defined and are an outcome of the lifting of enrolment caps for undergraduate enrolments. Historically the distinction between undergraduate and postgraduate places did not matter - it was up to individual institutions to balance their undergraduate and postgraduate CGS offerings, and there was no need for the government to make decisions about which postgraduate programs were eligible for CGS funding. There was a natural limit to how many CGS postgraduate places each institution would enrol, as each postgraduate place that was created would remove an undergraduate place. The removal of caps has eliminated this natural limit, and the government is understandably concerned to contain its funding for postgraduate CGS enrolments.

The situation has been further complicated by the proliferation of models of postgraduate education such as:

- conversion of 5-year undergraduate degrees to the 3+2 (3-year undergraduate plus 2-year postgraduate)
- introduction of conversion masters which are, in effect, entry-level professional qualifications and which are usually considerably shorter than the related undergraduate degrees
- introduction of generic undergraduate degrees followed by professional masters (the Melbourne model).

UniSA argues that the public funding system should not encourage changes that:

- make postgraduate qualifications the de facto professional entry standard. This would increase the cost to the Commonwealth and also to the student, thereby disadvantaging low-SES and other underrepresented groups. UniSA notes the recent comments by the Business Council of Australia (albeit in the context of secondary schooling) that public funding should be directed to areas of need, not advantage.
- inappropriately shift the cost of training and education from industry to students and the Commonwealth
- encourage perverse outcomes – for example, where a 1.5-year entry-level masters displaces a high-quality, four-year undergraduate degree.

UniSA suggests the following funding principles:

- The default professional qualification should in the main be a high-quality undergraduate degree.
- The length of the qualification should depend on the requirements of the profession².
- Funding should be available to
 - 3+2 degrees which are, in effect, longer undergraduate degrees, and which satisfy the previous criterion
 - postgraduate diplomas which allow practice in a field related to the undergraduate qualification (e.g. a Dip. Ed. following a B.Sc.)

²This flexibility already exists – for example, contrast the length of medicine and accounting.

- postgraduate degrees which provide professional extension, where full fees would act as a disincentive and there are clear public benefits to skills development.

One approach could be to set an enrolment quota based on a percentage of each institution's domestic undergraduate enrolments (either in total or more specifically in the relevant disciplines).

Recommendation 10: A process for setting and managing postgraduate CGS places should be established in time for full deregulation in 2012 based on the principles articulated above.

As the government's undergraduate participation targets are met, the pool of potential postgraduate students will also increase and the demand for postgraduate education is likely to rise. This should be encouraged where graduates with some professional experience seek to increase their skills with postgraduate studies. A review of the long-term policy objectives and funding mechanism of postgraduate education is therefore warranted.

Recommendation 11: A review of the long-term policy objectives and funding mechanisms of postgraduate education should be undertaken.

B. Enabling Loading

Deregulation of undergraduate enrolment limits is an important step in achieving the government's participation targets for both bachelor-level qualifications and low-SES students.

As we have noted above, appropriate preparation for university study is vital if historically underrepresented groups are to be successful once they are admitted to university. The current funding system encourages enrolment at the undergraduate level rather than focussing on building effective pathways. UniSA has increased undergraduate enrolments at a responsible level to ensure high levels of student success. Rather than over-enrol at the undergraduate level, UniSA has established the UniSA College as a key pathway for increased participation (particularly of low-SES students). The College offers foundation studies programs which prepare students for tertiary study.

These students do not pay HECS and the Commonwealth provides a fixed dollar contribution in lieu of HECS ('enabling loading'). As enrolments grow, the enabling loading reduces per student and is significantly lower than HECS.

The capped enabling funding pool is inconsistent with the government's ambitions to grow participation. UniSA believes that the enabling loading should be an amount per student (not a fixed funding pool irrespective of increasing student enrolments). The funding should cover the true costs. In the absence of rectification, the Commonwealth will in essence encourage universities to enrol underprepared students directly into an undergraduate degree at a much higher cost to the Commonwealth and with a lower success rate as a consequence. This would be a total policy failure.

Recommendation 12: Enabling loading should be uncapped from 2012.

C. Funding levels for low-SES and other disadvantaged students

The Higher Education Participation and Partnerships Program (HEPPP) provides support for the additional costs associated with students from low-SES backgrounds. UniSA's costings suggest that the HEPPP funding (in 2013) would need to be effectively doubled (an increase of \$1,058/EFTSL) to cover the full additional unfunded costs of supporting these students. Short-funding of costs acts as a disincentive to achieve the government's targets of 20% of all university enrolments being filled by low-SES students by 2020.

Recommendation 13: HEPPP funding should be doubled to cover the additional costs of supporting low-SES students

8. Funding of infrastructure

The consultation paper asks if infrastructure investment should continue to be supported by base funding. UniSA believes that teaching infrastructure should continue to be included in the base funding model, as it is a simple and efficient model of infrastructure support that can be relied upon for medium to longer term capital planning. There is a strong case for other capital funds to be similarly included. Infrastructure requires long lead times in terms of planning, design, mobilisation, construction and delivery, which are difficult to plan and manage when capital funding processes (like EIF and CDP) require extensive application processes at short notice, with low probability of success. With the likely shortage of teaching infrastructure to meet the government's participation targets, UniSA would support a further roll-in of infrastructure funding into base funding. Such a roll-in would enable a decrease in compliance costs and allow universities to manage and plan capital investment. There would still be an important role for an EIF-type fund with a narrower scope to focus on critical national teaching infrastructure, in the same way that the National Collaborative Research Infrastructure Strategy focuses on research.

Recommendation 14: Teaching infrastructure should continue to be included in the base funding model.

9. Support for Research from Teaching Funding

The consultation paper asks whether any research activity should continue to be supported by base funding. UniSA believes that the teaching-research nexus is critical and is appropriately supported by base funding. UniSA supports Bradley Recommendation 22 which recommends *'more rigorous criteria for accrediting universities and other higher education providers based around strengthening the link between teaching and research as a defining characteristic of university accreditation and reaccreditation.'* A decoupling of base funding from supporting research would be counterproductive to the teaching-research nexus, and would also likely create more administrative and compliance costs associated with managing another separate funding stream or acquittal process.