

Tertiary Education and university research after the 2010 election

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Michael Gallagher, Executive Director, The Group of Eight.¹

After an unedifying election, with a vacuous flogging-to-death of fragmented pop-policy positions, we face the possibility of another election shortly, or the emergence of a compromised government which will be on a re-election footing from its outset. Coherent policy ideas are not likely to emanate from that cauldron. Courageous policy, never an easy thing, will be back-burnered by the new Followership.

If a returned Gillard government has to maintain the support of Independents and Greens it will find it difficult to pursue market-oriented reforms, whether in industry policy or education – even if it had such a bent; indeed it may be pushed to pursue a mix of new left, anti-corporate and old agrarian, pro-protectionist positions, all involving an increased role for the nation state, a tighter rather than looser approach to regulation, and little interest in product differentiation in fields like tertiary education and university research.

If an Abbott Coalition government is formed, i.e. a Liberal-National coalition in league with disaffected former Nationals, and with a Senate where the Greens have an assertive balance of power, it may not be able to do much more than cut spending a lot, while redistributing resources to some regions (such as for broadband, health services, and education services) and even then, it will be constrained by existing legislative provisions in a hostile Senate post July 2011.

Either way – whether a new election is called early or a compromised government of whatever persuasion muddles on – neither of the major political parties will be able to go to the people the way they went in August 2010. Lack of decisiveness over the short to medium term may highlight the need for a stronger policy-based program for the future government, although policy paralysis or drift in areas like higher education and research will come at a cost to Australia's longer-term international competitiveness.

So we have a responsibility from the outside to occupy the space by articulating to the broader community what needs to be done, and putting forward to the politicians and their advisers, the best available professional advice on how best to tackle the challenges ahead, with supporting evidence and argument. Will they listen? Arguably not. Will they want to hear about the need for fundamental, contentious reform. No. But should we be silent? Absolutely not, because if we are, nothing will happen because no pressure will be applied. And in times like these it's all about applying pressure.

Neither side has anywhere near an adequate or appropriate policy framework for addressing the issues ahead, and it is up to us to get them to get it.

¹ The views expressed do not necessarily represent those of Go8 Vice-Chancellors.

Whichever parties form the incoming Government, and by whatever means, and whomever the Minister(s) responsible for higher education and university research, there will be some inescapable issues to be addressed, and some of them with some urgency. Among them are the six topics I will explore fleetingly tonight: (i) student access and success; (ii) quality; (iii) diversity; (iv) structure; (v) finance; and (vi) research.

[SLIDE 1]: Australian Education 2008

In informing the conversation, it has been surprisingly difficult to compile a table like this, and even then the VET data are opaque; the FTE estimates for private VET are for 2003. A few quick observations:

- Government funding for public schools is higher than for public VET institutions and universities, but universities have income from students whereas VET institutions do not (except recently in Victoria).
- Broadly, parents pay the private costs of primary and secondary schooling, employers contribute to the costs of VET provision, and students pay for higher education. Some parents are prepared to pay relatively high fees at independent schools, especially secondary schools. There are only a few courses, (e.g. Medicine, Commerce, Law) where fees charged by universities exceed \$25,000 (for domestic students).
- There is much greater pricing flexibility in the schooling sector than for undergraduate education in the university sector. The combination of government and private funding for schools can give rise to a much higher funding rate per student than is typical for VET institutions and universities.
- Universities SSRs have been rising while school SSRs have been falling. Generally, university SSRs are now above those for public primary and secondary schools.

[SLIDE 2] Go8 projections of future domestic demand for higher education.

The overarching challenge is to sustain the quality of Australian higher education in a context of expanding student demand – driven by demographic and participation factors – amid fiscal capacity constraint. I should speak of tertiary rather than higher education, along the lines of the 1997 West report and the 2008 Bradley report, as it's no longer possible to have a sensible discussion about higher education in isolation, not least because the policy fabric of the VET sector is worn and unravelling. But I will stick to the knitting I know, and leave it to others here more informed, to balance my remarks.

Domestic student demand for tertiary education will begin to rise rapidly from 2015, driven mainly by growth in school leavers commencing Bachelor degree courses, and by increases in undergraduate and postgraduate participation rates. Go8 estimates indicate that upwards of an additional 450,000 domestic students (EFTSL) will be participating by 2030. This includes an additional 230,000 undergraduates and 150,000 postgraduates, and 70,000 in diploma programs.

How can this demand be accommodated cost-effectively without diminution of quality? Well I think it will need new approaches to financing and changes to the structure of supply – the two big issues the Bradley panel ducked.

[SLIDE 3] Projected growth of 16-18 years olds

Most metropolitan universities are now full; they have taken in more domestic students than the Government expected and they have little room left for more international students. Unless there are ways to attract students to regional institutions, which have some under-utilised capacity, new capacity will have to be provided to accommodate a bigger intake – more teachers and more teaching space, and more efficient ways of teaching.

A downturn in international student numbers in some institutions could free up capacity to absorb domestic growth but at the cost of reduced revenue to those institutions.

School leaver numbers have already started to rise in Queensland and WA, and they are on a sharp curve, and this is without any assumed increase in the participation rate, which also must rise, given the low base in those two states.

School leaver numbers will move upwards in Victoria from 2019, and then in NSW from 2022. That may seem a long way off, but it's pretty close when you consider the need to identify the types of institutions required, where to put them, and how to build and staff them. We should be having that discussion over the term of the incoming government, 2010-2014, with a view to developing a strategy for managing the challenge.

[SLIDE 4] Absolute growth in 16-18 year olds by state

If the bulk of the future growth were to be absorbed within universities, assuming a domestic enrolment of around 15,000 for a medium-sized university, then over the next 30 years we would need to build around 24 new ones, 9 of them in Queensland.

Some 26,000 extra academic staff will be needed to meet this demand, assuming a 17:1 student-staff ratio (20:1 for undergraduate and 15:1 for postgraduate). Additionally some 12,000 retiring staff will need to be replaced over this period, thus bringing the net new teacher requirement to around 38,000.

If we assume that contemporary standards require a PhD qualification for university teaching (except for some fields), then we are looking at employing a larger proportion of the current stock of doctorate qualified people and increasing the flow of PhD graduates.

We need to start that production line soon, as it can take from 5 years to a decade for students to finish their studies and have some professional development for university teaching.

[SLIDE 5] Changes in commencing HDR students by field, 2001 to 2008

There is also some work to do in making doctoral studies more attractive (as well as retaining early career and mid-career researchers who are being lost to the sector). This slide shows relatively low growth in the number of domestic students commencing PhD studies, especially in fields like Engineering & IT, Architecture, Education and Commerce. These trends have been masked by growth in international students, on whom we are becoming very dependent for the supply of advanced human capital.

Of course there are shortcut options: e.g. using more sessional teachers; employing graduate students as teachers; appointing people without doctorates. But there are qualitative consequences.

We also need to consider whether it would be cost-effective to accommodate all the future student demand in universities, which tend to have higher cost overheads than other institutional types and alternative supply options.

Around the world there is much richer diversity in tertiary education than we find in Australia. Here we have a predominantly publicly-funded tendency to sameness and an obsession with the protection of titles, whether the name 'university' or the titles of qualifications like 'doctor' and 'master'. It is now necessary to explore the next generation of VET/HE networks, precincts, multi-sector institutions, federated organisations, and amalgamations, including with international open learning alliances.

We should be envisaging a much more differentiated system of varying institutional types: Comprehensive research universities; Niche research universities; Universities that focus on quality coursework at undergraduate and master's level; University colleges; Polytechnics; Community Colleges; and Specialised Institutions.

To expand choice in a cost-effective way, it will be essential to promote the growth of private providers across all of these models (although it would take time and perhaps significant foreign investment to build private comprehensive research universities bigger than Bond).

The need for a more cost-effective structure of supply becomes evident when we consider the financing of future growth in tertiary education participation, noting that fiscal capacity will be tight in the years ahead and there are many calls – health, welfare, security – on available funds, amid a bipartisan commitment to return the budget to surplus over the next 3 years and keep in the black thereafter.

In 2008, the Bradley report recommended a 10% increase in total teaching grants at an estimated cost of \$1.8 billion over 4 years. That was to restore the base funding rate per student after a prolonged period of erosion (1995- 2008). The Government refused to provide the additional amount. Meanwhile the per-student funding rate has continued to fall, so the restoration amount is now even higher, notwithstanding a much improved basis for future indexation of Government payments.

If the projected growth by 2030 was absorbed in Commonwealth supported places, and over that period the student staff ratio was to fall from 20:1 to 17:1, then the total funding required would amount to \$16.7 billion in 2030 (in today's prices) - a doubling of the current spending per annum of

\$8 billion. That is equivalent to an extra \$435 million per annum over 20 years – Bradley’s 10% continuing for two decades.

If SSRs were maintained at 20 to 1 over the next 20 years, the cost of enrolment growth alone would be an additional \$6.2 billion per annum. Even so, the Government would have to front up \$320 million extra each year every year to 2030.

It looks highly unlikely that the Government alone will be willing and able to fund the expansion of university enrolments without diminishing quality. If students are not to be turned away through a blow out in unmet demand, or if there is not to be a blow-out in student staff ratios, then other sources of income will need to be tapped, students will need to share in meeting the additional costs, and more cost-effective supply options will have to be encouraged.

The Gillard Government has committed to fund all the students a university admits, such that its budget expenditure forward estimates are demand driven; but I don’t think it has factored in the impending growth in demand. It merely modelled backwards from what would be required to hit in 2025 the UK’s Leitch target of degree attainment of 40% for the 25-34 age group, which is no stretch here.

The Abbott Coalition policy is to re-introduce domestic undergraduate fee-paying places before – perhaps some years before – deregulating enrolment volumes. While that is a more fiscally responsible course, its ultimate intent is deregulation of volume and price, presumably with containment of student borrowing. For every dollar of HECS-HELP or FEE-HELP loans, the Government wears 30 cents for the costs of interest rate concessions and unrecoverable debts. Even so, it must be attractive for governments to reduce the ratio of government subsidy to student contribution per place.

There are various intermediate options.

The Government has undertaken to review (i) the adequacy of the base funding rate per student, (ii) the cost relativities by field of study, and (iii) the share of costs borne by students and government. The most important and urgent of those three exercises is estimating the total spending (government plus private) required to achieve the outcomes expected for Bachelor’s and Master’s degree graduates. An independent assessment by a credible body will be essential to the acceptance of the findings within government, even though the policy calls are more political than technical.

Under a managed, shared-costs approach, the Government could increase the Commonwealth Contribution Amount per place to a more adequate level. It could do so in parallel with increases in the maximum Student Contribution Amount per place, with the public component increasing at the same, or lower or higher amount than the private component.

Under a competition-driven approach, tuition would be set through student choice in the trade-off between quality, convenience and price to suit their varying needs and circumstances. Price ceilings might be limited through lending limits and/or reference to a schedule of costs.

Australia has two main policy mechanisms for ameliorating the adverse consequences of increased pricing flexibility:

- a. income contingent loans, which remove up-front financial barriers to access, and spread debt repayment obligations after graduation;
- b. mission-based funding compacts that offer scope in a more flexible pricing policy context for institutionally-customised agreements (e.g. 'needs-blind' admissions), around equity goals and associated provision of institutional support, the maintenance of particular fields of study in areas of low student demand, and performance quality (linked to institutional mission rather than nationally standardised).

The Coalition has a dim view of compacts as "freezing the status quo", but some steering mechanism will be needed for managing a more diversified provision of tertiary education opportunities, and redirecting the aspirations of newer institutions from wanting to be what they cannot become, to being the best at what they can do.

The nightmare would be a bipartisan consensus on a prescriptive TEQSA biting off the head of anyone who dares rise above the AQF level of neo-Napoleonic nationally mandated consistent learning outcomes. And imagine that in the context of TEQSA monitoring compliance with legislated academic freedom- not merely an oxymoron but an own goal to the philistines – imagine what claims for 'balance' in teaching and research orientations, and staff appointments could emerge. Hopefully, whoever forms government, this intrusive hydra-headed TEQSA will confront a Herculean minister with a sharp axe.

[SLIDE 6]:RTS funding as percentage of total research income, 2008

Finally, a few brief comments on research and research training. To its credit, the Howard Government considerably expanded funding for NHMRC and ARC research grants. To its credit the Rudd/Gillard Government injected an unprecedented level of capital spending into universities for research infrastructure (albeit without recurrent funding for support), introduced a funding stream that recognises the indirect costs of research, and established the ERA assessments of research quality.

Nevertheless, it is no longer sufficient to keep tweaking the settings on the current range of policy instruments. The RTS, SRE and the other formulaic acronyms are prone to manipulation and are not discriminating. Fundamental change is needed in the research policy and financing framework. Let me outline the main elements of a new framework akin to the English model:

- The continued development of ERA so that the outcomes can be used in future research funding to drive selectivity and concentration of Australia's higher education research system.
- The continuation of a dual model of research funding with universities provided with research block grants awarded on the basis of a quality assessment (including ERA), and competitive research grants provided by the research funding councils accompanied by block grants covering the indirect costs of those grants, and using a unique indirect rate for each university.
- The research block grant program would need to be of sufficient magnitude to cover the costs of academic staff salaries associated with research, the cost of research training, and

general research infrastructure and to provide universities with the ability to strategically fund new research initiatives.

- The development of a 'hubs and spokes' model as a way of managing the needs of universities which are unable to develop research excellence in a particular field.
- The strengthening of the Government's engagement in international research collaboration through the establishment and funding of a successor program to the International Science Linkages program and related measures.

Such measures are necessary to sustain Australia's ability to stay with the pace of knowledge advancement and reap its benefits. Of course there is a trade-off here. The more the Government uses taxpayers' funds to enlarge tertiary education the less it will have available to invest in the research base. Hence, a cost-effective approach to higher education finance and structure is a precondition of adequacy of funding for research.