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A New Start for Policy and Funding

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The title of this talk was determined before the Bradley Report was published and before the full effect of the global financial crisis had become apparent, assuming that it now has. The question mark was included to allow for some flexibility, but in the light of the responses from the two responsible Ministers we can probably remove it.

For a short while it had a sub-title - Revolution to the Status Quo? - prompted by the comment in the Report that "...the recommendations in this report, if fully implemented, are likely to do no more than maintain the relative international performance and position of the Australian higher education sector".

I was struck by the fact that the Report could on the one hand demonstrate that the system had been falling behind its international peers and on the other consigning it to that position indefinitely.

So I have been encouraged by the more aspirational responses from the two responsible Ministers, consisting of a package of structural announcements that create the framework for reforms and a coherent policy and funding regime. There is a pleasing emphasis on the centrality of higher education to national development.

The final responses are not due until the Budget, when we will also learn how successful the Ministers have been in persuading their colleagues to fund reform. The compelling public benefit argument for increased higher education funding, even in these difficult times, has been well made in the Cutler and Bradley Reports, in OECD reports that underpinned Labor's policy in Opposition, and in the announcements by the two Ministers in recent days.

In broad terms, the new policy and funding framework will be built on the following principles:

- ❖ A student centred, demand-driven funding system, with no quotas on total or discipline places from 2012 – moving from a mass to a universal higher education system;
- ❖ Concentration of research activity and research teaching in those institutions that can demonstrate capacity;
- ❖ Improved completion rates;
- ❖ Improved performance indicators to justify funding;

- ❖ Higher participation rates to achieve a graduate (bachelor or higher) output of 40% of 25-34 year olds by 2025;
- ❖ Higher participation and completion rates for disadvantaged students;
- ❖ Year 12 achievement rate of 90% by 2020;
- ❖ Quality assurance that is focused on standards and outcomes through a National Regulatory and Quality Agency for Higher Education;
- ❖ Negotiated compacts between the Commonwealth and institutions to determine mission and funding.

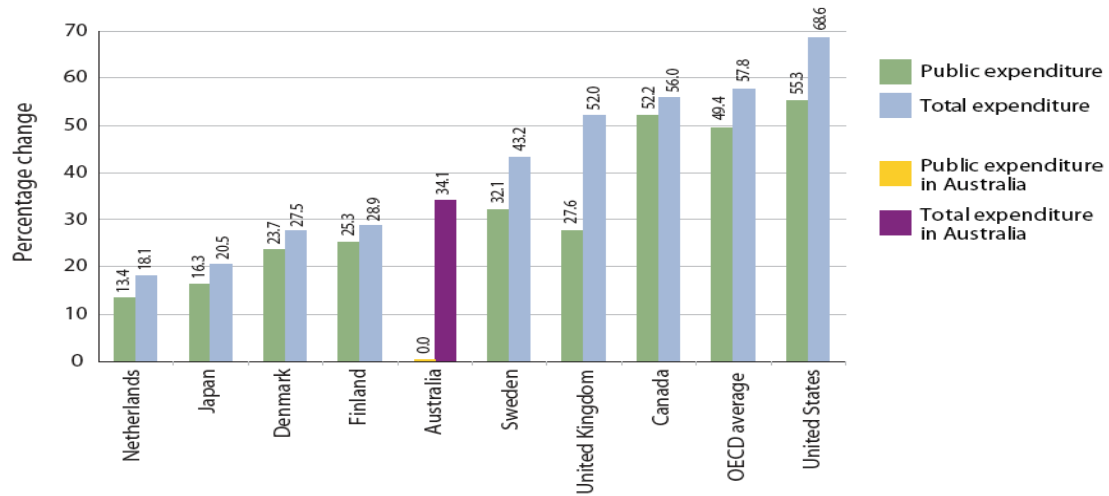
As the shape of the new system evolves over the next few months we will be able to judge whether it is sustainable and meet the objectives of a world-class system. My remarks today are intended to support the responses we have heard so far and provide some comments that might assist the implementation phase.

This is a significant list of reforms and the Ministers have acknowledged both that it will come at considerable cost and that it is not the most propitious timing. While we should prepare ourselves for considerably less than the full package, it is still possible to create the policy framework for better times and to address the most serious problems.

My starting point is that in developing its final reform plans and implementation strategies the government should ensure that reforms are funded adequately. Student per capita funding over the past thirty years has been reducing while enrolments have increased. To continue this trend would be to condemn the system to ultimate failure, as Minister Gillard implied in her speech to the Universities Australia Conference last week. If necessary reforms should be staged over a defined period and introduced as funding becomes available – the nation cannot compete internationally with current resources and should not be expanded on marginal funding.

To achieve a world-class system, return higher education to the top of the OECD rankings in teaching and research expenditure, and create a system that will support nation building, the government needs to address the neglect described in this Table (Figure 29 from the *Report on Higher Education*). Australia's public contributions to higher education are well below world standards.

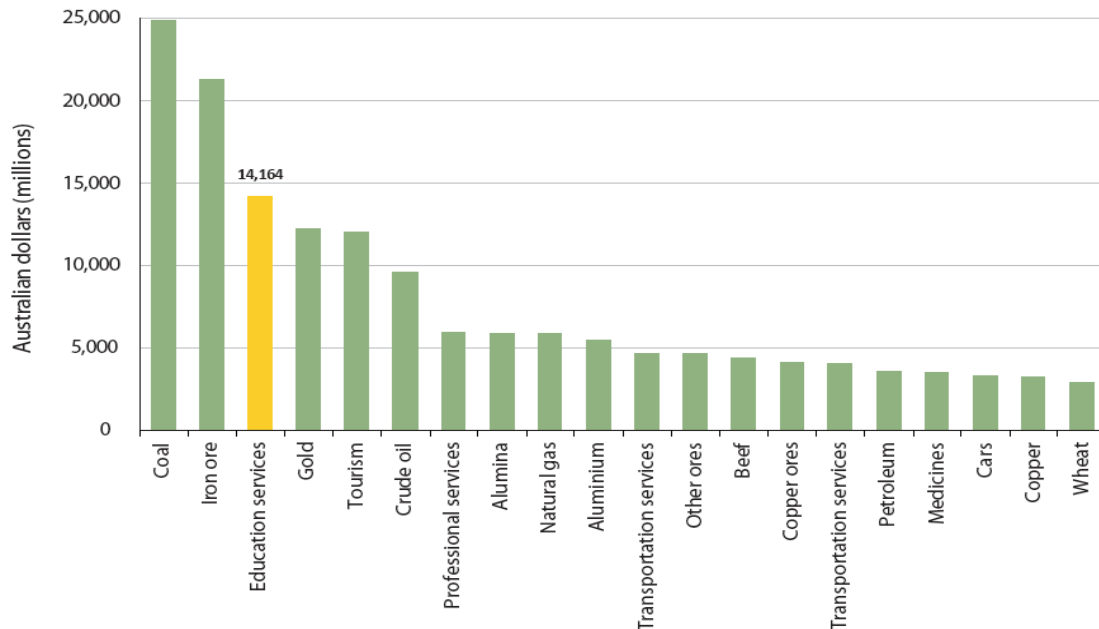
Figure 29: Percentage change in real expenditure on tertiary education institutions, selected OECD countries, 1995 to 2005



Source: Calculated from *Education at a Glance 2008: OECD Indicators*

While these are tough economic times, education, as the country's third largest export earner (Figure 23 from the *Report*) should be protected against the risk of a perception that it is not maintaining its competitive position. Lesser industries have been supported to maintain their competitiveness

Figure 23: Australia's top 20 exports 2007-08 financial year (\$ millions)

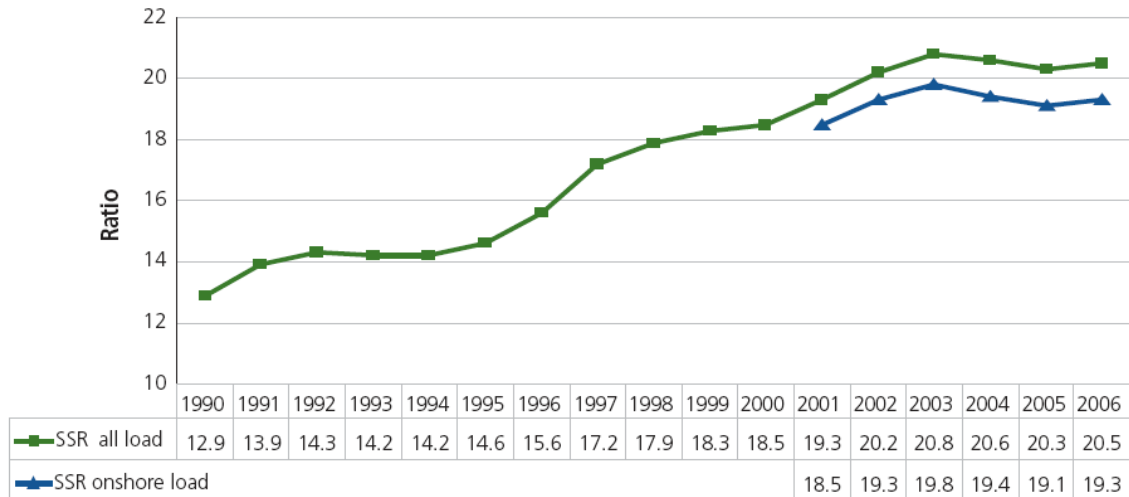


Source: DFAT 2008 - ABS trade data on DFAT STATS database and ABS catalogue 5368.0

Staff:Student Ratios

Staff:student ratios are the most eloquent indicator of the system's health. Figure 19 of the Bradley Report shows that they have worsened constantly from 12.9 in 1990, to 15.6 in 1996 and 20.5 in 2006.

Figure 19: Universities Australia student-to-teacher ratio, 1990 to 2006



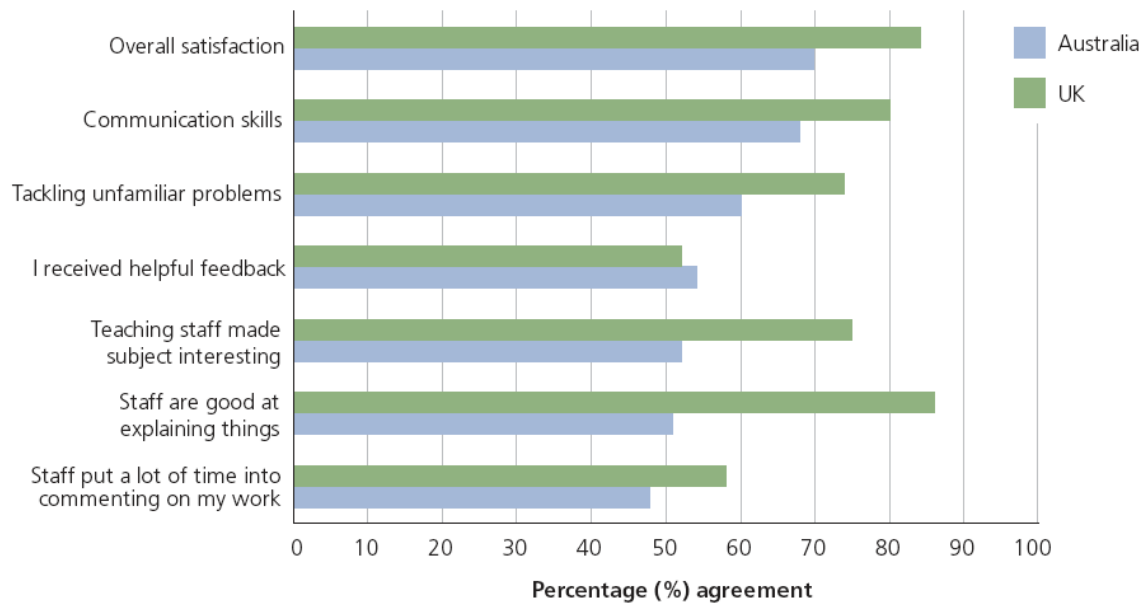
Note: Data is for Universities Australia member universities only.

Source: Universities Australia 2008a, 2006 Student to Teacher Ratio For Academic Staff with Teaching function, October. UA cited sources are DEEWR Higher Education Student and Staff Statistics 1990 to 2000 and DEST Unit Record Files 2001 – 2006; Bond University Management Report August 2007 (data for 2001 to 2006 only).

In fact this decline has been evident since the early 1980s, so it is the result of bipartisan neglect. It is a sentinel indicator of the health of the system because it reflects the decline in per capita student funding. The effects of this decline are enormous and affect every aspect of a university's activities.

The worsening ratios are posited in Bradley as the cause of several of the problems identified in the report: student access, student retention, student experience (the Bradley Report indicates that CEQ results are lower in Australia than in the UK - Figure 21 is reproduced below), staff workloads and staff attraction and retention at a time of major staff shortfalls.

Figure 21: CEQ results for Australia and the United Kingdom for comparable items, 2006



Source : Data from Alexander and Bajada 2008, University of Technology, Sydney submission

Bradley did not pursue the implications of this finding and none of the responses so far has mentioned it. But fixing this problem is urgent – it is the surest way of supporting teaching quality and enhancing the student experience.

Staff:student ratios will be a guide to interpreting the success of the government's funding announcements. What should they be?

Table 1: Funding SSRs at 1990 and 1996 Levels – Constant 2006 Enrolments = 674,000 EFTSL

	2006 Levels	1996 Levels	1990 Levels
SSR	20.5	15.6	12.9
Staff Required	32,900	43,200	52,250
Additional staff @ \$75,000		\$772.5 million p.a.	\$1.45 billion p.a.

The 1996 level has certain attractions because it would take the system back to the situation before the most recent years of neglect and coincidentally about current UK ratios. Using constant 2006 staff and student figures, the additional annual cost would be some \$772,500 million; to return to 1990 levels would require an additional \$1.45 billion per year.

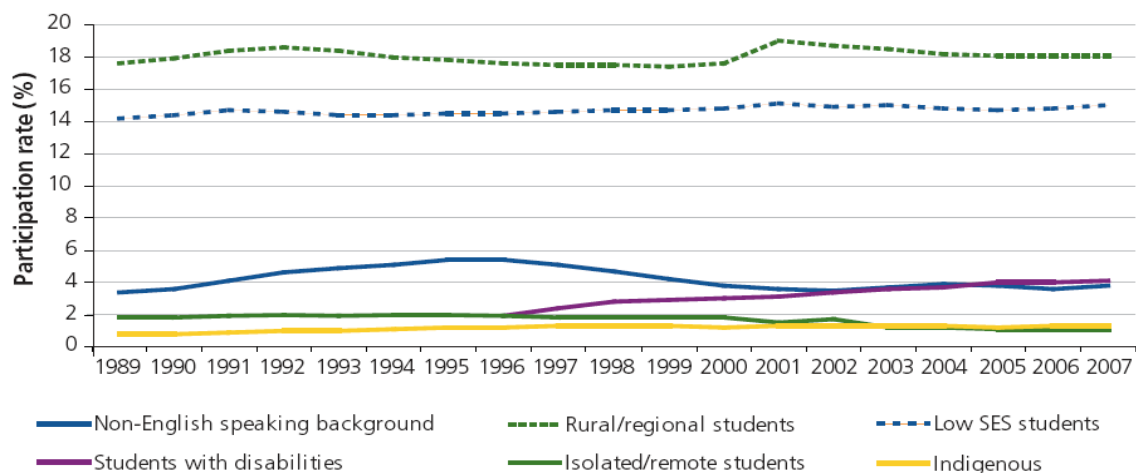
The Report's proposed increase of \$1.8 billion over the first four years, based on a 10% increase in teaching and learning programs and subsequent indexation would therefore not be enough. My proposal is that staff:student ratios be given priority over reaching the 40% attainment target, which might instead be given a further extension.

Another approach would be to address the other elephant in the room by examining options for increasing student contributions either through removing the HECS cap or through the reintroduction of full fee places for domestic students. The government has so far ruled this out, but several countries have begun to explore it simply because budgetary pressures will not allow them to continue to fund universities at world competitive levels; we should at least have a proper assessment of the options and consequences.

Equity and Access

The Bradley Report shows that participation from disadvantaged groups has barely changed over the past 20 years despite concerted efforts to support it (Figure 2 of the Report).

Figure 2: Participation rates by groups, 1989 to 2007



Note: a) Definitions for regional/rural and isolated/remote students were altered in 2001 causing a break in series, b) Post-2001 is based on 2006 Census SES postcode allocations, whereas prior years are based on earlier Census SES postcode allocations

Source: DEEWR (Equity Performance Indicators - national indicators), various years

The problem is further exacerbated when we look at completion rates, which are consistently below the system average.

The Bradley proposals to increase disadvantaged participation to 20% and the proposed changes to financial support are commendable. The government's response in accepting them has focused on the question of retention. Measures are required that promote success as well as access.

There are several experts on this subject so I will not venture too far with solutions. But I will declare an interest. Having come from a low SES, non-English speaking and regional background (and a migrant to boot), and having family and friends who have spent their teaching careers in disadvantaged schools, I have retained a personal and interest in assisting able children to enter higher education.

On the basis of this small sample, it is clear that adequate financial assistance while at university is a necessary but not a sufficient condition for their participation and completion. The problem starts much earlier and involves changing perceptions in parents and teachers to create a culture in which there is the inspiration to aspire to higher education. Parents need to understand the value of higher education and that their children can aspire to it, despite their presumed inadequate background and despite the fact that for them higher education is an alien place. In several disadvantaged regions, teachers and schools perpetuate the vision of victimhood, having given up any belief in the capacity of their students to succeed.

There is therefore a need to change our approaches and reward mechanisms so that teachers and schools are recognised for having supported the higher education aspirations of their students, and higher education institutions are rewarded for having attracted and retained them first past the first year danger zone and then to completion.

Once in higher education, disadvantaged students must be supported adequately and they must receive qualifications that meet minimum threshold standards. They should not end up in institutions with low standards and high pass rates. The Minister's response will address this through the proposed emphasis on standards and outcomes in the changes to quality assurance and accreditation.

Bradley has suggested that high dropout rates among this group are caused by the worsening staff:student ratios. So making a start on the staff:student ratio problem will help. If the system is to change from a mass to a universal one, there will be an increasing number of students who will need support and nurturing that cannot be achieved without the more individualised teaching that lower ratios would allow.

Quality Assurance and Accreditation

Bradley argues that the accreditation and quality assurance system should be changed to concentrate on measuring standards and outcomes to assure the public that these are internationally competitive. This is a position I have been pursuing for many years, so I am pleased that Minister Gillard has decided to establish a new National Regulatory and Quality Agency to develop appropriate measures and systems to assess these and to establish objective and comparative benchmarks of quality and performance.

Missing from the Minister's speech is the means by which universities will retain their title. Bradley has recommended that universities should only retain their title if they can continue to demonstrate a sufficient level of research activity. The Minister has said that the "right to be designated a university must be earned rather than taken at face value", but she does not explain how this right will be earned.

I believe that the Bradley proposal, based on the tenuous argument of a tight nexus between research and good teaching, is unsustainable and unenforceable. The evidence for the teaching and research nexus is acknowledged by Bradley to be inconclusive at best. The political implications of removing a university's title would be too great, while reducing the test to provide for the least research active of the existing universities would negate its credibility and lead to a reduction in research quality.

Senator Carr's response in which he agreed with the Bradley proposal that research and PhD supervision should be concentrated in those institutions that can demonstrate adequate research performance through their compact agreements, would suggest that this part of the Bradley recommendation will not be accepted.

The better alternative is, in Glyn Davis's words, neither to prescribe nor proscribe research in any institution. It would support diversity by allowing universities to play to their strengths while not preventing any from engaging in research that reflects their capacities. The Regulatory Agency will concentrate on whether universities are capable of delivering qualifications of an internationally comparable standard, which in itself will reflect whether there is sufficient level of scholarship to support teaching.

Funding

The government is proposing a new model from 2012 that will fund public universities for the number of students they enrol, with no limits on total or discipline enrolments. While this gives students the choice of where they want to enrol and what they wish to study, there are some significant implementation details to be worked out.

The Bradley Report suggests that entitlements be unlimited and, it seems, unconditional. It would seem unlikely that this policy could be put in place without some limits on students who drop out of courses for personal reasons or for failure. Such a blank cheque would struggle to get through the Treasury or the Expenditure Review Committee. It is also likely that governments would wish to limit numbers in courses such as medicine, where there are significant problems in finding clinical placements and which lead ultimately to cost pressures on the medical benefits schedule. The Minister has also added a continuing and necessary role for government in encouraging enrolments in areas of national interest.

A further element in this policy change is the government's acceptance that aiming for 40% attainment for all 25-34 year olds by 2025 is achievable in terms of students demand and funding. The Bradley Report based its estimates of the additional cost of this measure on a staff:student ratio of 1:20 and an expectation that the Education Investment Fund would be adequate to cover the infrastructure costs associated with the additional 355,500 students that would ultimately be enrolled. These additional students will need new and additional facilities even if they are enrolled in many of the existing institutions, but it would seem unlikely that they can all be accommodated without creating some new ones.

Given that there is a significant backlog of building works across the sector, the calls on that Fund are many and urgent. Building the additional space in which to teach the

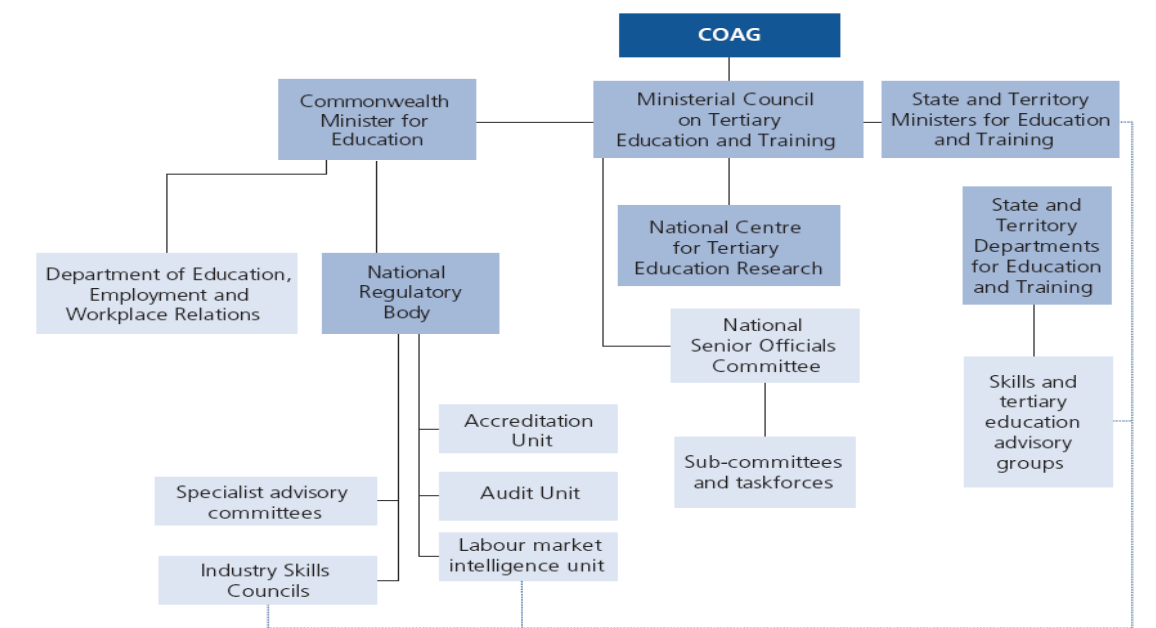
new students, much of which will be in new institutions, will cost in the order of \$25 billion over the next fifteen years, requiring an additional \$1.7 billion per year in infrastructure alone. Any improvement on staff:student ratios will increase the costs further. The prospects of attracting the necessary staff (at least 18,000) is another unexplored issue, yet it is likely that doing so will require measures to address the recruitment and retention of staff in a globally competitive market that will also add to costs.

I have already suggested that in these straitened times this recommendation might be deferred while more urgent problems are addressed. A delay would provide the government with the time to explore the unresolved questions and generate some alternative structural and funding options.

Governance and Policy Development

The Bradley Report proposed that there be a new governance structure that would bring the VET and higher education under one umbrella (Figure 33 of the *Report*).

Figure 33: Proposed systems governance for tertiary education and training



This structure is based on a belief in cooperative federalism, relying on Ministers and senior bureaucrats setting aside state concerns to focus on national needs. This is not a solution for long term, sustained planning and coordination.

The Minister has indicated that she would prefer two sets of governance arrangements, but with Ministerial Council for tertiary education to ensure consistency and to promote closer relationships between the sectors.

A better alternative would be to explore in more detail the option of creating a senior, expert and independent Commission with responsibility for coordinating and advising government on tertiary education.

The Commission should be established as a joint body of the Commonwealth and the States, but with operational independence from both.

It would have two Councils, one for higher education and one for VET, and a regulatory agency reporting to it.

It would have an advisory role while funding decisions would remain with the Minister and government, advised by the Department.

The Commission would be the main regulatory and quality assurance body and might be used to negotiate compacts with institutions within a broad policy framework from government and the Department.

The Commission would be responsible for policy advice on tertiary education as a whole, including teaching and research, to provide comprehensive and evidence-based advice.

It should be a free-ranging advisory body that can test new ideas and set new boundaries. There is currently a lack of capacity for the system to respond to truly innovative solutions. The Commission would be able to canvass ideas and options without committing the government while providing options that the government can adopt or reject as it chooses.

It would have significant data collection, analysis and dissemination functions and maintain a watching brief on the health of the system and the actions that should be taken to maintain and improve it so that it continues to meet the government's objectives.

It would also use its information and reviews of the system to measure its performance and make recommendations on costs, providing the government and the sector with comprehensive and sophisticated data.

It would have access to strong policy research centres specialising in higher education and VET or have its own policy development staff.

A Commission focused on the long-term health and promotion of an excellent tertiary education system will ensure that it does not inadvertently fall into a further period of neglect.

The main features of the proposed Commission are shown in Box 1 below:

Box 1: Tertiary Education Commission

- ❖ senior, expert and independent Commission with responsibility for coordinating and advising government on higher education;
- ❖ a joint body of the Commonwealth and the States, with operational independence from both;
- ❖ two Councils - higher education VET, and a regulatory agency
- ❖ an advisory role - funding decisions remain with the Minister;
- ❖ comprehensive and evidence-based policy advice on higher education as a whole, including teaching and research;
- ❖ the main regulatory and quality assurance body;
- ❖ negotiate compacts with institutions within a broad policy framework from Minister;
- ❖ a free-ranging advisory body that can test new ideas and set new boundaries, but not commit government;
- ❖ maintain a watching brief on the health of the system and advise actions to maintain and improve it to meet government objectives;
- ❖ significant data collection, analysis and dissemination functions;
- ❖ measure system and institution performance;
- ❖ make recommendations on costs;
- ❖ strong policy research centres to advise on higher education and VET.

Conclusion

There is no doubt that we are in a new policy and funding environment which promises to address many of the major issues that threaten the viability and competitiveness of the higher education system. We have two Ministers who are clearly committed to restoring higher education to its natural and well-earned position in the international sphere.

My over-riding concern is that in the great enthusiasm to make bold changes we will lose sight of the fact that changes must be adequately funded.

A slightly deferred but excellent system would be better than an immediate but mediocre one.