



UNIVERSITIES
AUSTRALIA

DISCOVER LEARN LEAD

Budget Submission

2010 - 2011

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“Education will be the driving force of the 21st century. The most educated, the most skilled, the best trained societies will also be the strongest societies in the 21st century. They will also be the most resilient economies in the 21st century...Education also satisfies our basic aspiration to bequeath a better world to those who follow. Better equity. Better opportunity. Better productivity. Higher levels of workforce participation. Better health. Better environmental sustainability.” – Prime Minister Kevin Rudd, November 2009.

EXECUTIVE SUMMARY

Universities Australia strongly supports the Government in maintaining all the commitments it made in the May 2009-10 Budget in *Transforming Australia's Higher Education System*. A new framework and resourcing for higher education in Australia were defined there.

Universities Australia also recommends that this base commitment be supplemented in 2010-11 by bringing forward the phasing of key commitments in indirect cost funding, indexation and equity and partnership funding.

The Education Investment Fund (EIF) infrastructure funding for general university facilities that was deferred in the MYEFO should be restored. Equally, the Budget should be supplemented for enhanced provision for teaching and learning, competitive research grants and more EIF funding provided for facilities.

These provisions for an enhanced future for Australia through advanced learning and research add a \$881 million augmentation to pre-existing appropriation commitments for 2010-11. This is in addition to the restoration of the deferred \$200 million from the EIF, and a further EIF drawdown beyond previous commitments of \$250 million.

The pay-off for Australia's future would be many times this funding allocation. This submission provides very detailed documentation of those benefits for productivity, innovation, skills, exports, workforce participation, deficit reduction and much more.

The 2010-2011 Federal Budget must recognise and support the fact that higher education is central to good economic management. Failure to acknowledge this and fully embed well-attested supportive policies will short-change full economic recovery, the sustainable growth of the Australian economy, and the equally important advancement of Australian society and culture and contribution to environmental sustainability.

In this submission, Universities Australia endorses the Government's goals, accepts increased accountability and performance obligations, and strongly affirms how universities can contribute significantly to wider economic and social improvements. Universities Australia also believes that resourcing – particularly general resourcing – must provide universities with the capacity to operate at world's best practice.

A. EVIDENCE

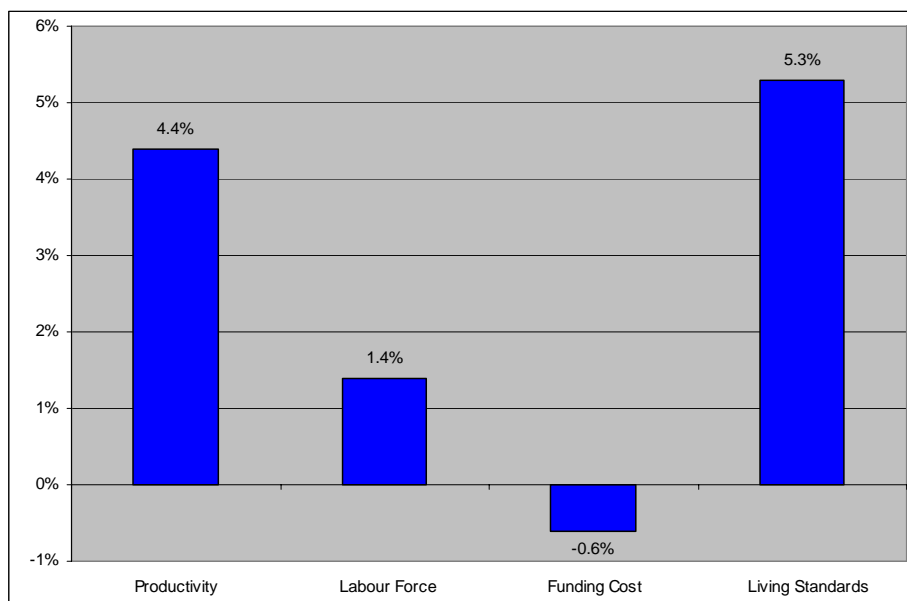
Universities Australia advances nine evidence-based propositions on the Australian economy that should be reflected in the Budget settings if commitment to evidence-based policy is to be meaningful:

I. When growth in living standards is the Australian aspiration, higher education ensures this aspiration can be achieved.

According to rigorous and well-attested modelling conducted by KPMG Econtech (2009), for a 0.6% of GDP cost in taxes/public debt and labour time loss while students study, the long-run gain from implementing the recommendations from the Review of Australian Higher Education (the Bradley Review), and moving thereafter to attain the OECD average for GDP share of public funding, would be over 4.4% in productivity and 1.4% in labour force gains. The final net real GDP gain would be 5.9% and net real consumption gain (“living standards”) 5.3%.

These are figures for universities alone. Payoffs from other education investment can be added. Chart I summarises the higher education effects.

Chart I: Higher Education Enhancement Impact on Living Standards in 2040 (% deviations from baseline)



Source: KPMG Econtech (2009)

The Bradley Review indicated that the Government’s own funding recommendations were sufficient only to prevent higher education from falling further behind compared to other OECD countries. Bradley recognised that even more than this would be needed into the future. The Government has not yet fully met the Bradley Review fiscal recommendations, nor has it made indicative commitments for such funding. The point clearly is that implementing the recommendations of the Bradley Review or better, and no less, has major benefit for Australia.

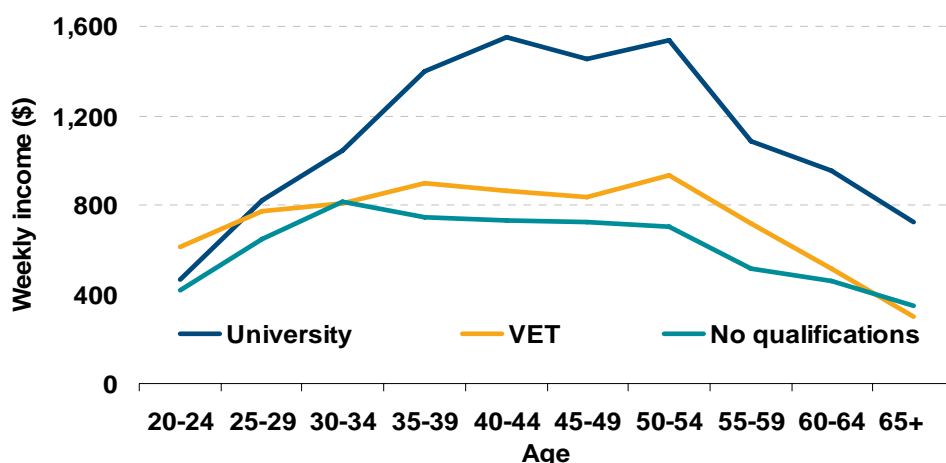
2. When fiscal sustainability is a priority, universities distinctively reduce national debt.

When there are many competing pressures on Government Budgets, investing in higher education is hugely Budget-friendly within a three to four year turnaround period because:

- Graduates directly repay the taxpayer through HECS.
- Graduates directly pay higher taxes to government than non-graduates.
- The wider economy is stimulated by skills and innovation, and hence is more productive with greater tax revenue.

A NATSEM-AMP (2008) study using human capital analysis found from individual income data that each additional graduate earned \$1.5 million more over a lifetime than a school-leaver. This represents \$500,000 in extra taxes. Chart 2 illustrates the source of this pay-off for males as measured by the market.

Chart 2: Male weekly total income by highest qualification, 2003-04



Source: AMP.NATSEM (2008)

This outcome shows why reductions or delays in implementing the full Bradley Review funding recommendations delay the payoff in reducing the future deficit. Higher education is a gold standard fiscal deficit reduction strategy.

This is because education is a high return investment expenditure as much as it is a social expenditure – unlike many other social expenditures which have intrinsic motivation but do not have the same parallel fiscal pay-off. Higher education pays back in public funds quickly and by more than other investments. This is due to its high rate of return. It is also due to its HECS repayment component on top of regular taxation, and to its externalities into other areas of productivity.

For future social and defence outlays to be affordable, wise education investment here and now is essential to their viability through returns to the economy via this investment. To sustain other outlays at the expense of what is required in higher education is self-defeating.

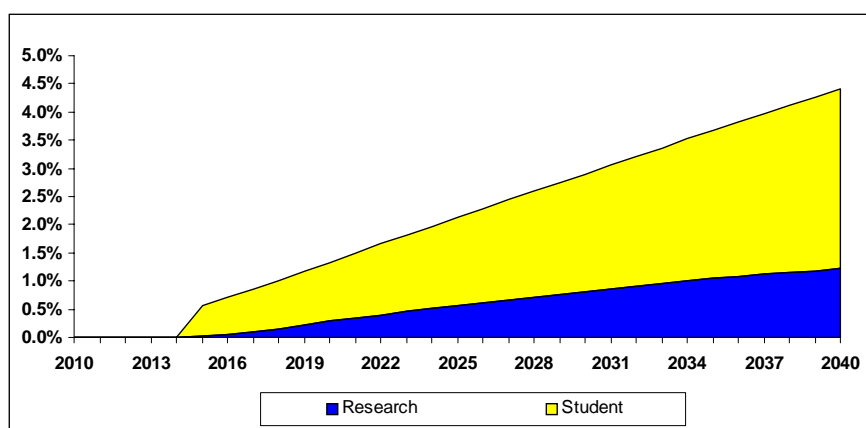
The best form of future deficit reduction is immediate investment in higher education.

3. When productivity is in decline and innovation is needed, universities deliver.

The Prime Minister has rightly emphasised the importance of productivity to national wellbeing (Rudd 2010). The KPMG Econtech (2009) modelling for Universities Australia illustrates the increase in GDP that can come from implementing the recommendations of Bradley Review and the Review of the National Innovation System (the Cutler Review). Both teaching and research pay off in major productivity benefits to the Australian economy, as shown in Chart 3A.

The basis for the pay-off from teaching is already illustrated in Chart 2 above (and does not even reflect social pay-off beyond personal income gain). The pay-offs to public funding of R&D are also well-attested, most recently in a major survey and review by the US National Bureau of Economic Research (Hall *et al.* 2009). Both sets of forces are reflected in Chart 3A, assuming for convenience here that the existing distribution of spending between teaching and research is continued.

Chart 3A: Productivity Change from implementing Bradley Review reforms (% deviations from baseline)



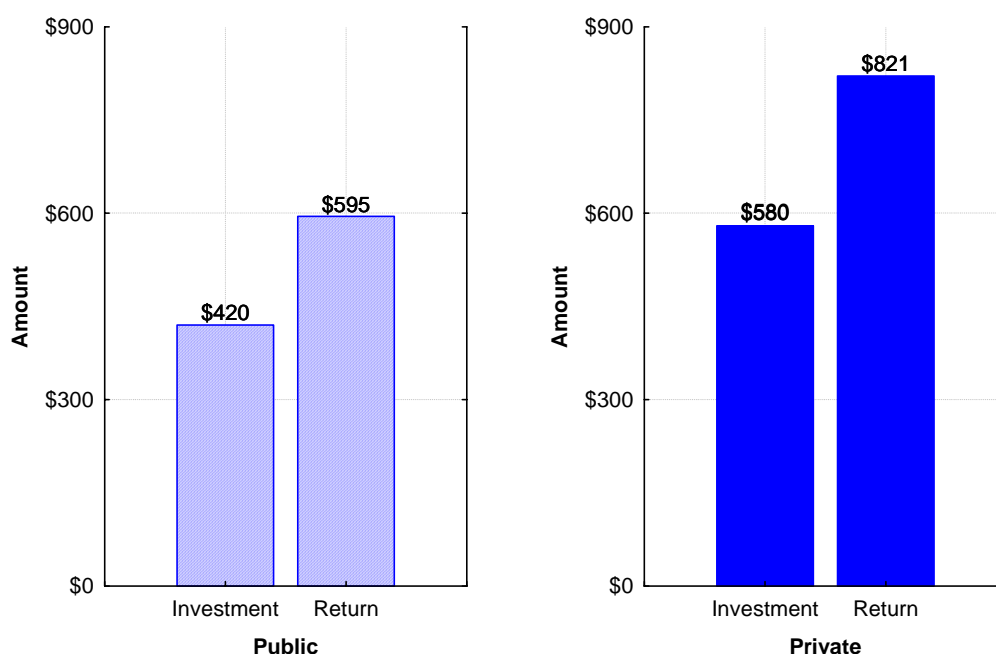
Source: KPMG Econtech (2009), p. 65

Equally, and importantly for those who can be sceptical about such so-called “general equilibrium” economic modelling, even though it is widely adopted by central agencies in analysis, Universities Australia found in research based on the entirely different methodology of cross-section econometric study of OECD countries, that an extra \$1,000 invested in higher education paid back \$1,416 or a premium of 40% on that investment on average across countries. A taxpayer investment of \$420 paid back \$593 in taxes (Universities Australia, 2008).

As indicated, the Prime Minister in his Australia Day address has emphasised that productivity is the bedrock for economic progress. In Australia, major one-off micro-economic reform (eg. tariffs, privatisation) and ‘exogenous’ benefits from world growth leading to mineral demand are insufficient for wide-spread sustained prosperity. They do provide major benefit but their return diminishes with time.

The most pervasive source of productivity enhancement across all sectors, and one which keeps on giving benefit in new ways over time, is a smart and well-educated workforce. In economic jargon, human capital is a super-charged or so-called ‘endogenous’ source of growth, which means more growth over time without the inherent diminishing returns from other investment such as private capital investment.

Chart 3B: Public and Private Return per \$1000 of University Expenditure



Source: Universities Australia (2008), p.12

4. Funding universities grows the Australian economy more than other spending.

According to the KPMG Econtech (2009) study, putting all economic benefits and costs together delivers a 14-15% real rate of return, well above the official Department of Finance benchmark rates used to judge good policy, which are typically 6-7%. In fact, investment in higher education on the Bradley model and sustained at the OECD average can return as much as half the entire GDP gain of the microeconomic reform of the 1990's.

Table 4 shows how the gains generated in higher education are powerful compared to the recent policy alternatives where comparable studies are publicly available.

Table 4: Estimates of Long-run GDP Gains from Current Policy

	Long-run GDP gain
Australia-Indonesia Free Trade Agreement	0.02%
Single National Workplace Relations System	0.05%
Bracks Motor Vehicle Reform Package	0.06%
COAG Human Capital Reform Agenda (health and schools)	3.00%
Bradley Higher Education Reforms	6.00%

Sources: Centre for International Economics (2008); Productivity Commission (2008, 2007); KPMG Econtech (2009)

The rates of return obtainable in higher education also compare well with those publicly available for private investment in major equivalent minerals projects such as the North West Shelf project, Australia's largest single mineral project pre-Gorgon (Harris & Withers 1990).

This is why a sector that represents less than 1.6% of GDP can grow the economy by 6 % in the long-run via the relatively modest implementation of the Bradley Review reforms and their continuation into the future. The rates of return measured across numerous studies based on alternative models and time periods show that there is major continuing under-investment in this educational foundation for Australia's future.

As even the Heritage Foundation, an advocate for small government, has stated, "To be sure, if government spends money in a productive way that generates a sufficiently high rate of return, the economy will benefit" (Mitchell 2005).

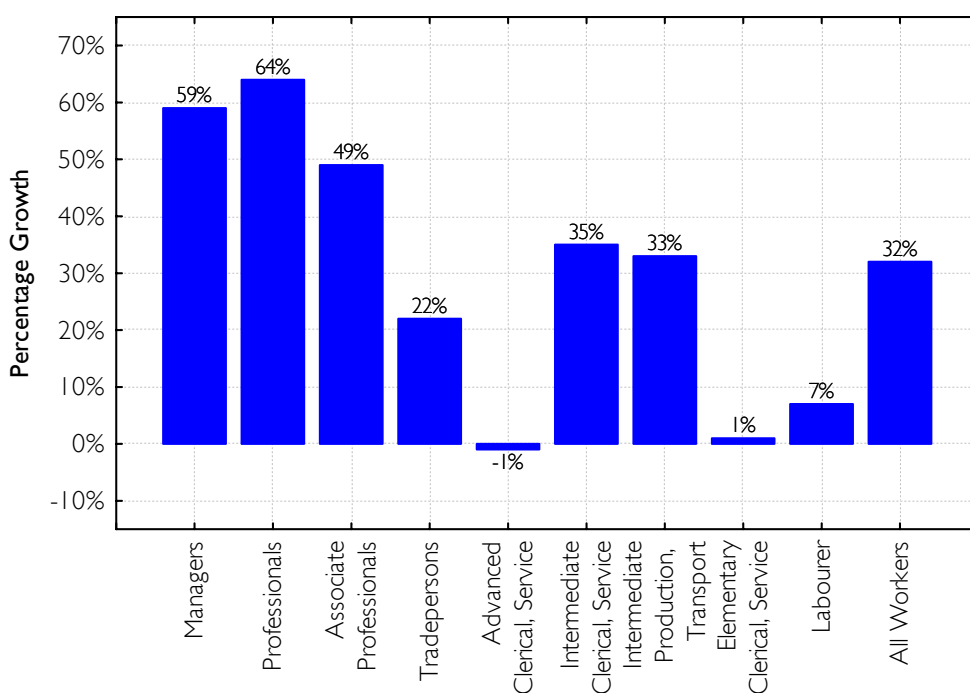
Higher education is the way to meet that stringent condition, especially because the investment is firmly embedded in a reform framework that has resulted from extensive review such as the Bradley Review. The Bradley Review's recommendations were made by a panel including the former Chair of the Productivity Commission, Mr Bill Scales; and investment banker, Dr Helen Nugent.

5. When advanced skills for our future are essential, higher education is the key.

In relation to such high return investments as minerals and education, we need both and can have both - and can strengthen both with good policy. They are also symbiotic. Minerals revenue provides taxes that can fund public investment in higher education. Equally, no minerals project pays off without engineers, managers, lawyers, accountants, nurses and more. The better the education and motivation of these professional workers, the greater the pay-off from minerals and elsewhere.

In the last major minerals boom in Western Australia, the skills requirement for that state was as illustrated in Chart 5A from Karmel (2008):

Chart 5A. Employment Growth: WA Mining Boom 1996 to 2007

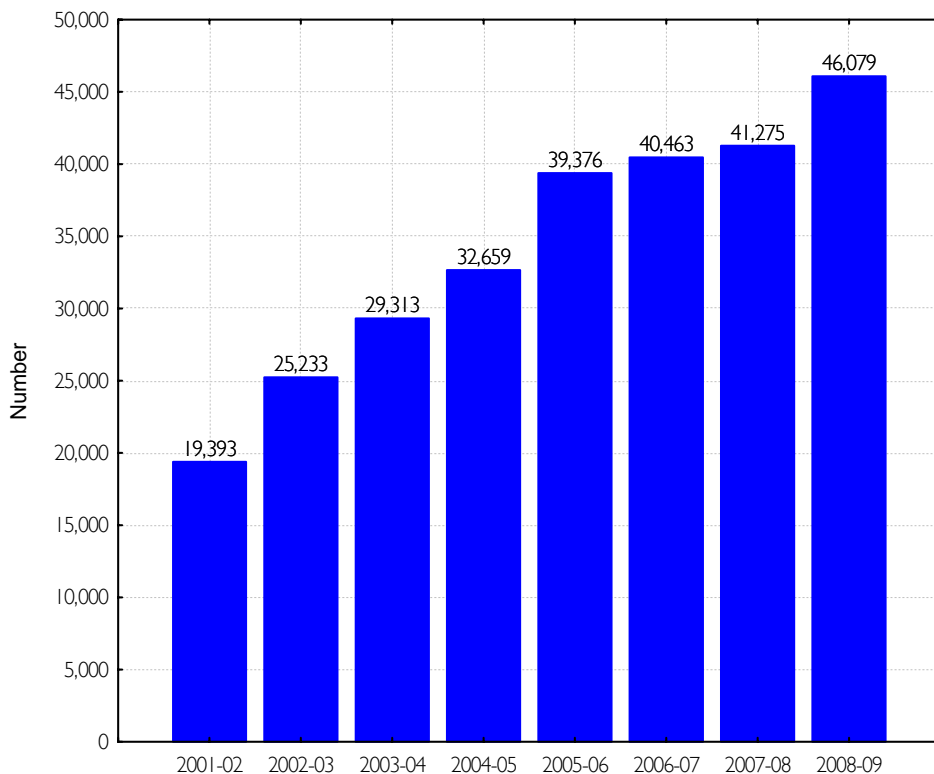


Source: Karmel (2008)

Skills shortages are being seen as a barrier to Australia's recovery and growth. Appropriate support for universities will help the economy transcend these limits to growth. Over half of the growth in skilled migration from 2000 has come from present or former international students (DIAC 2008).

Chart 5B shows numbers of graduates in general skilled migration entry for Australia from 2001/02 through to 2008/09 (DIAC 2010).

Chart 5B: Student General Skilled Migration 2001-02 to 2008-09



Source: DIAC (2010)

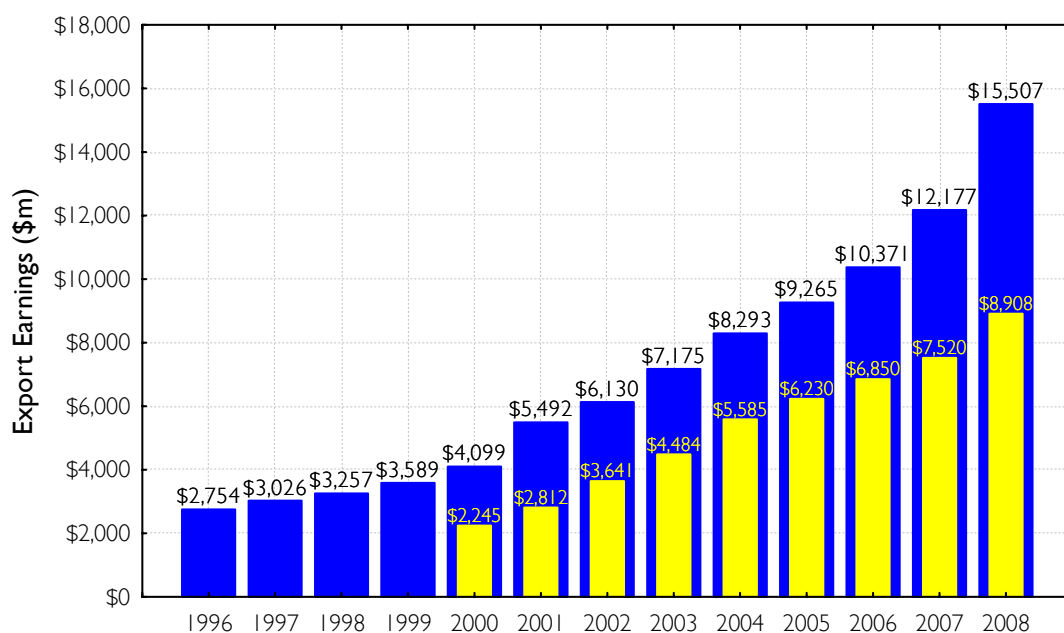
6. When export revenue is needed, higher education is robust and growing.

In less than fifteen years, education services have risen from minor levels to vie with gold as Australia's third largest export after coal and iron ore. It is the leading services export and the number one overall export for Victoria (\$5.408 billion; 16.3% of all exports) and number two for NSW (\$6.381 billion; 10.6% of all exports).

Despite the recent reputational damage arising from the regulatory failures in immigration and in VET accreditation arrangements, about which universities have expressed considerable concern, and despite the movements in the Australian dollar detrimental to many other exports such as tourism, international student acceptances for higher education are holding up and growing (Chart 6 represents the most recent data available).

Without international students and their friends and relatives, the drop in tourism arrivals would have been worse. Proper support for international education also represents support for jobs in other currently impacted sectors such as tourism.

Chart 6. Education Export Earnings 1996-2008



Source: 5368.0 ABS Trade in International Goods and Services Australia December 2008
(Note: tertiary components not available 1996-1999. Higher education shares shown 2000-2008).

7. For high value-added impact from spending, education ranks at the top.

During the global financial crisis, education outlays played their role. For example, spending under the Education Investment Fund on many “shovel-ready” projects got underway very quickly and provided immensely useful support and reassurance for the construction sector, as well as assisting universities themselves after a long period of investment deprivation in infrastructure.

Macro-economic multiplier analysis by Access Economics has documented the high ranking of spending on education in terms of value-adding (Access Economics 2009). Chart 7 below summarises the Access Economics’ findings.

Also, compared with much spending, students spend quickly, in Australia, and with productivity benefits. The subsequent Stimulus rounds in Australia in 2009 passed some important funds to students, and subsequent Government reform proposals for student income support are well-targeted and supported by universities. But the income support reform is Budget neutral which is not supported, as Australian levels of funding here lag those of other leading industrial countries.

Chart 7. Value-Added Multipliers for Spending – 2009

	Multiplier
Petroleum and Coal products	0.47
Air and Space Transport	0.67
Electronic equipment	0.72
Textile Products	0.73
Iron and Steel	0.82
Dairy Cattle	0.84
Accommodation, cafes and restaurants	0.85
Retail Trade	0.90
Education	0.94

Source: Access Economics, 2009

8. To offset demographic ageing, graduates are a key to workforce participation.

It is quite clear that across countries and within Australia the evidence is that graduates are willing and able to provide much higher workforce participation rates than are other workers. Thus education and training contribute to higher living standards for individuals by increasing not only labour productivity but also labour force participation (Commonwealth of Australia, 2007).

A report by the OECD (2002) provided the labour force participation rates across a number of countries for different levels of educational attainment. The report found that educated workers are more likely to participate in the labour market, and their active working life is generally longer than that for those with lower educational attainment. In most cases, participation rates for males with tertiary education was markedly higher than the participation rate for males with upper secondary qualification. This result was even stronger for women.

For Australia, the Australian Bureau of Statistics (ABS 2005) quantifies these differing rates in a special study. Table 8 shows the situation for 15-64 year olds in 2003. The ABS study affirms that participation rates increase significantly with levels of education in Australia. In particular, university bachelor degrees attracted 91.8 per cent participation rates for men and 82.6 per cent for woman. This is significantly higher than for unskilled workers and also higher than the participation rates for other post-secondary skilled workers. As demographic ageing proceeds, this workforce participation pay-off to education investment will be crucial.

Chart 8: Australia workforce participation rates, 15-64 (2003)

	Males	Females
With non-school qualifications	90.7%	78.1%
Degree or higher	91.8%	82.6%
Advanced Diploma / Diploma / Certificate III / IV	90.4%	77.3%
Other qualification	88.8%	71.3%
Without non-school qualification	75.8%	59.1%
Total	83.6%	67.8%

Source: ABS (2005)

9. Universities serve many national, social and cultural and environmental objectives.

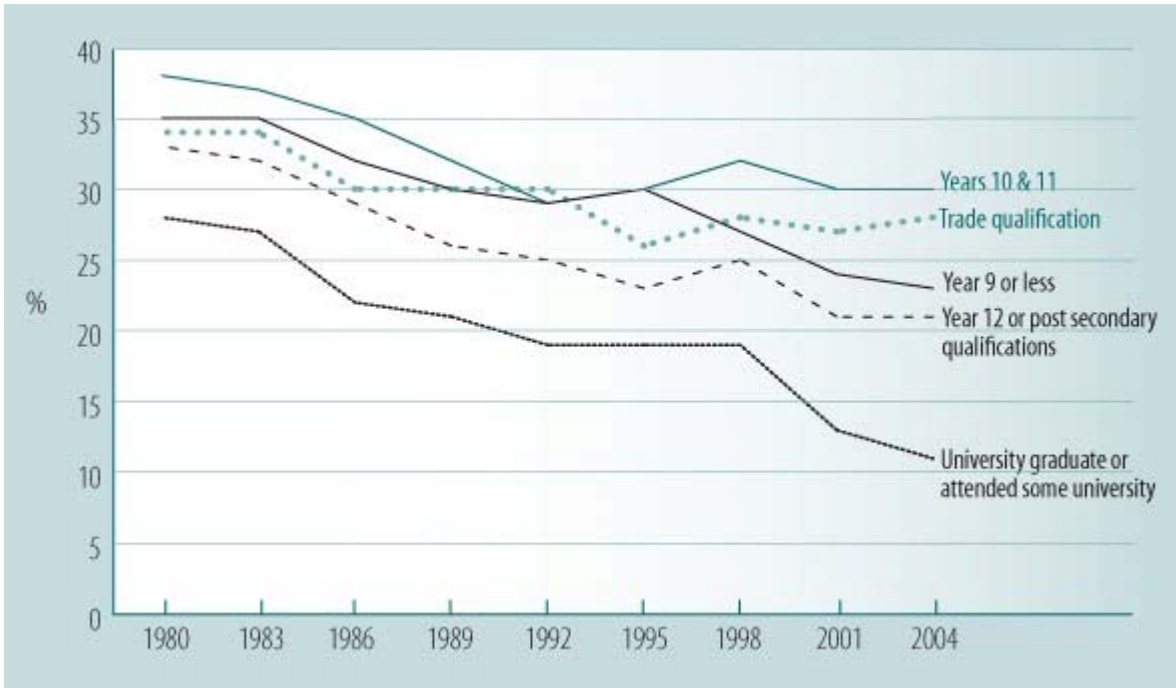
Federal Treasury has adopted a national 'wellbeing' framework for policy evaluation that must be applied to Budget spending proposals. This would ensure that benefits beyond the narrowly economic are allowed for. In the case of universities there is no trade-off here. Policy in support of higher education is win-win across the full set of national objectives.

Distinctively, universities contribute to the nation's bottom line in a range of areas beyond the economy that includes:

- Health improvement
- Social opportunity
- Environmental sustainability
- Community building
- Cultural understanding
- International integration.

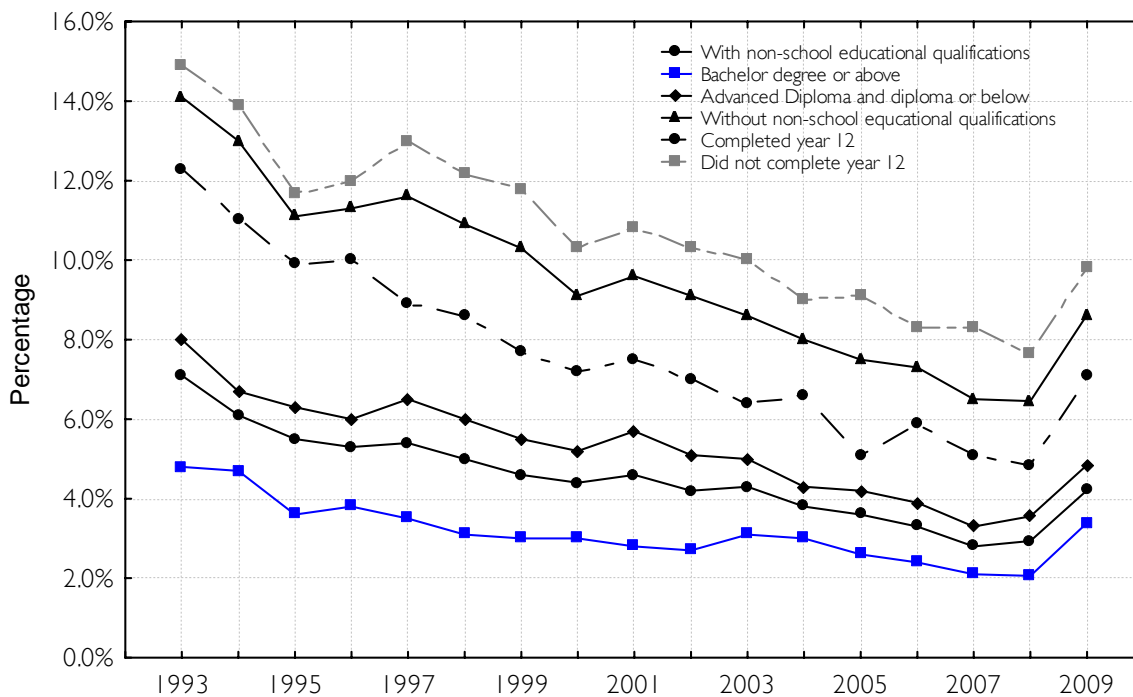
Universities delight in the capacity to contribute broadly and productively to the economy in many ways as documented above, but they relish just as much the capacity to deliver so much in other spheres. Yet even here university research, say, directed at health or environmental enhancement, both of which are intrinsically important, nevertheless can have major Budget benefits. To illustrate these gains the following Charts 9A and 9B are indicative for health and unemployment.

Chart 9A: Trends in adult smoking rates by level of education, 1980-2004



Source: Winstanley & White (2008)

Chart 9B: Unemployment rates by level of education, 1993 to 2009



Source: ABS 6227.0 Education and Work, May 2009

B. GOVERNMENT HIGHER EDUCATION STRUCTURAL REFORM POLICIES

The Government's framework for higher education progressively announced since the completion of key reviews and inquiries through 2008 provides the structures for progress.

Particularly following from the Bradley Review of Australian Higher Education, the Government has set an important reform agenda for higher education, focused on increased attainment of bachelor level qualifications, improved access for Australians from disadvantaged backgrounds, and greater quality and accountability in teaching and learning. The follow-on from the Cutler Review has helped improve the frameworks and goals for university research. The university sector has strongly endorsed these objectives and has been active in supporting their implementation.

In relation to attainment, universities have increased their number of main-round offers for 2010 by approximately nine per cent nation-wide, with several universities offering unfunded places beyond the current ten per cent cap on over-enrolments. Many universities have indicated further plans for growth in student numbers under the deregulated funding of student places from 2012. At the same time, universities are concerned that expansion is at present only affordable for smaller campuses and universities with scale and scope economies or a willingness to deploy major sources of cross-subsidy from other income. Many of these universities are relying upon commitments for better funding from 2011 and 2012 to justify positioning themselves early through such expanded enrolments, as present per student funding does not necessarily cover costs and the sector has experienced a long period of decline in real funding per student.

Risks to either quality and/or sustainability are therefore present (see Chart 12 below). Universities are keen to see improved participation and equity and are doing all they can, where they can, to accommodate that now. A restored EIF allocation and teaching and learning support would also mitigate these worrying risks, including the student experience and hence to graduate satisfaction and graduate productivity.

Universities Australia has also been working closely with the VET sector to develop a better understanding of current blockages in student pathways between VET and higher education, which will enable greater number of students to upgrade their qualifications to bachelor level over time. In addition, Universities Australia has been a key contributor to the work of Skills Australia in mapping Australia's future education and skills needs for a productive future.

Concerning access, most universities are in the process of expanding their outreach programs to disadvantaged school students and other target groups, including with some support from the Government's new equity funding. Universities are also enhancing their range of alternative entry and flexible learning options, in recognition of the link between conventional tertiary access for school leavers and socio-economic status.

Australia's universities have a particular interest in the educational outcomes of Indigenous Australians, with a range of measures such as the Indigenous Cultural Competency in Australian Universities project, aiming to make universities supportive and culturally safe environments for increasing numbers of Indigenous students.

Universities are also seeking to address the decline in the proportion of Australians from rural and regional areas in university study, including through study centres in regional towns and collaborative ventures with local colleges of TAFE that expand the available course offerings and study-mode options.

In relation to quality and accountability, universities have provided considerable input and support for the introduction of a new tertiary sector regulator, mission-based compacts and a new suite of performance indicators. Practical examples of this input have been the Technical Working Party on SES Measurement, the Indicator Development Group, and the standardisation process for the Australian Graduate Survey. Universities Australia has also been closely engaged with the Australian Qualifications Framework (AQF) Council in its agenda to strengthen the AQF, and has also supported

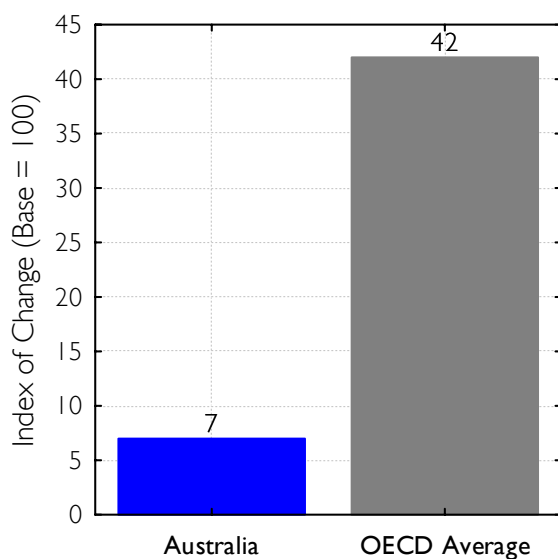
the OECD Assessment of Higher Education Learning Outcomes project and the ongoing work of the Australian Learning and Teaching Council. An array of equally important initiatives in research and research training can also be enumerated.

Universities Australia is working with government on the development of the Tertiary Education Quality Standards Agency (TEQSA) to ensure that its operation also sufficiently supports universities in fulfilling the Government's priorities. In sum, a spirit of mutual responsibility in reform under a welcome new tertiary framework is in place for higher education in Australia.

C. GOVERNMENT HIGHER EDUCATION RESOURCING POLICIES

The 2009-10 Budget very importantly helped reduce slippage in university support in Australia. That slippage has been substantial in recent times with Australia being the only OECD country where government funding of higher education as a share of GDP went backwards, as opposed to an OECD average increase of almost 50% for the decade to 2004. This was fully recognised by the Labor Party when in Opposition, and through a series of infrastructure and research allocations early in the Government's term.

Chart 10. Australia versus OECD, average change in public investment in tertiary education, 2007



Source: OECD, Education at a Glance (2009), p.234

As documented in the Bradley Review (p. 148; p. 250) in Australia, public universities now receive only an average of 20% of their funding from Commonwealth government teaching grants. (Another 20% is for research, through competitive grants and block grants from government and the rest of the funding for universities is from private sources). The private school average is 60% public funding for teaching.

So the Deputy Prime Minister's recognition of an underlying imperative, alongside that of the Prime Minister, is encouraging:

"Even in these difficult economic days, we know the strength of our universities is part and parcel of the strength of this nation's future. We know that this is a century in which knowledge, skills and innovation are going to be the key to economic prosperity, so even in difficult economic times, we will continue to invest in our universities." – 1 April 2009

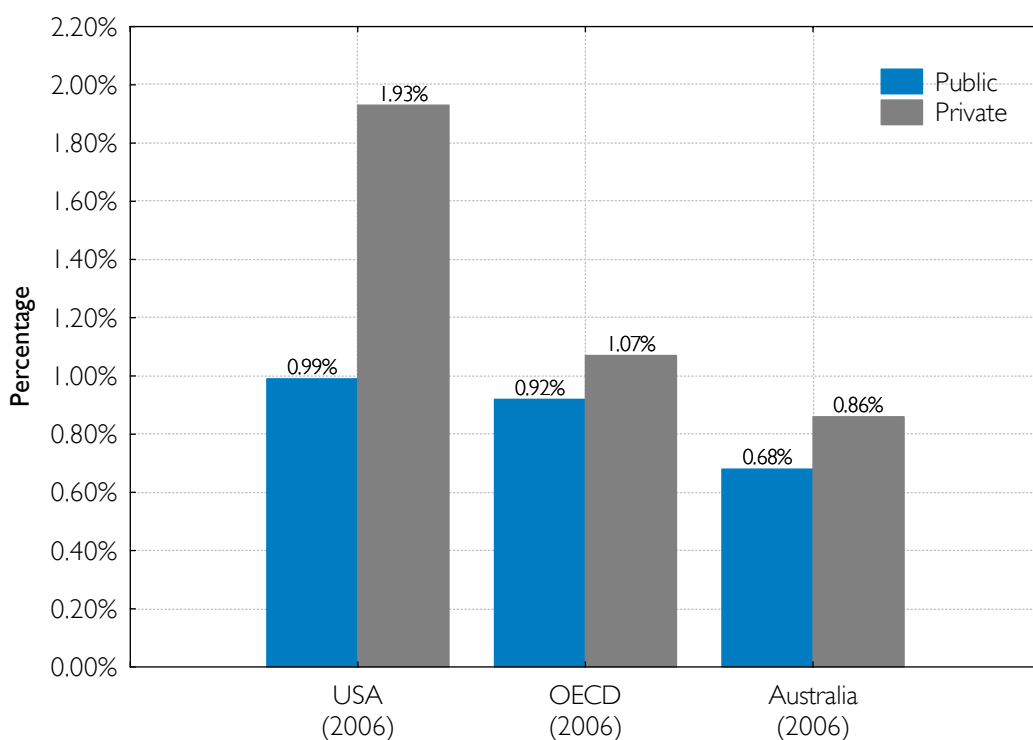
This is crucial, because a tipping point for resourcing has been reached that was recognised in all the Government's education-related reviews, but especially Cutler and Bradley.

In resourcing, Universities Australia has enunciated a long-run target of 2% of GDP for higher education with a partnership of 50:50 public and private funding proposed. A reasonable private funding base that can be further developed is in place through student payments under HECS, direct fee payments for postgraduate courses and executive programs, commercial activities and investments, and international student fees.

This volume of private funding is valuable in capturing private benefits and instilling university responsiveness. Australian universities have shown more adaptability and resilience than universities in other countries over the last ten or fifteen years (Lisbon Council 2008). But such revenue sources are often conditional upon factors well outside university control – such as macro-economic conditions, international student regulatory arrangements, and migration settings.

What is really needed now is a matching increase from government support to complement what has been achieved in growing private financing, rather than allowing government to continue to take short-term "savings" in education support whenever other outside revenue grows. This practice is a false economy and a breach of reciprocal responsibility in this field. The result has been a public provision in Australia that is now dramatically below OECD norms.

Chart 11: Public and Private Funding of Universities as a percentage of GDP



Source: Education at a Glance: OECD Indicators 2009, DEEWR Finance 2006, ABS National Accounts

One per cent of GDP is the broad OECD average for public funding of higher education, and Australia was reaching only 0.68% by this measure by 2006. This has improved to 2009 with recent infrastructure funding, but is still well below OECD average and, alarmingly, is projected by the Government to fall (see Chart 13 below).

At the same time, Australian spending should already be above average for demographic cohort reasons if no other: Australia has a demographically younger population than most OECD countries

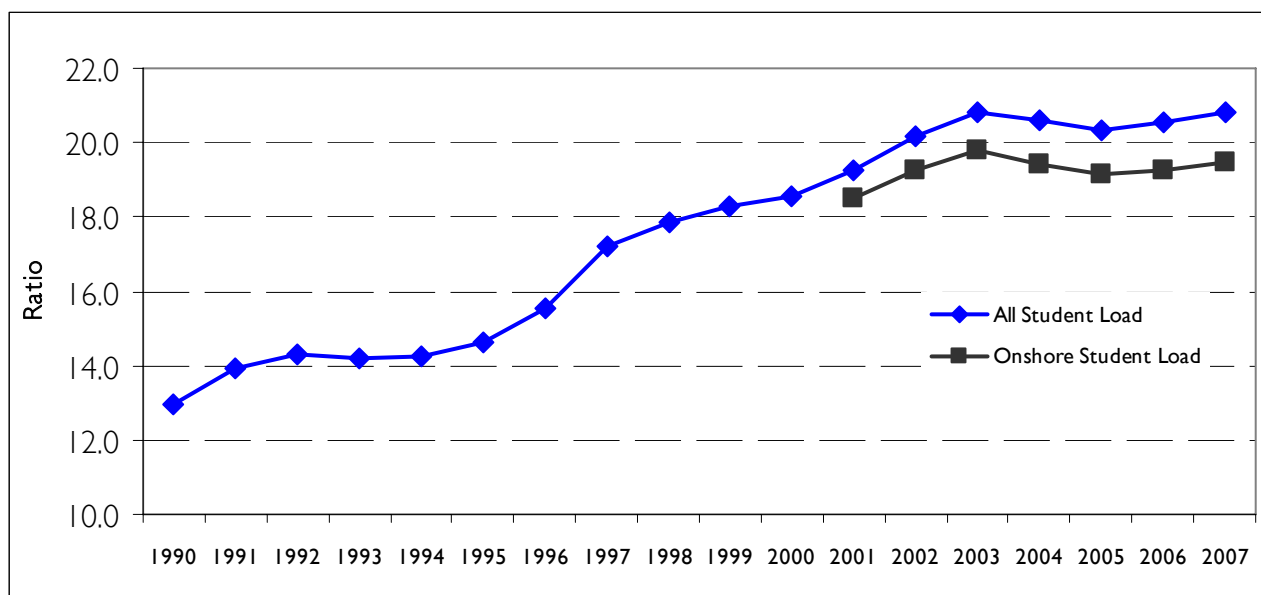
which, all else equal, mandates higher expenditure on higher education as a share of GDP, yet the opposite has occurred.

Because of such fiscal opportunism average student-staff ratios in Australia have risen to amongst the highest in the OECD. This is fully counterproductive. It threatens the productivity and quality of skilling of domestic students and undermines the global competitiveness of Australian higher education. Other countries are increasingly offering more congenial classroom conditions with more personalised and individualised teaching than Australia can currently afford, given a decline in real government funding per student of almost 30% over the decade to 2007.

The Bradley Review has drawn attention to deterioration in Australian student satisfaction surveys compared to overseas universities, and attributes this to higher staff student ratios and hence to decreasing funding per student. Increasing enrolments will worsen performance on student satisfaction surveys unless there is an improvement in per student funding. This will also flow through to less skill productivity than the country needs and should aspire to.

The following chart tracks the rise in student staff ratios for those academics with teaching responsibilities in Australia's universities. The cost is less individual student productivity and attention, a real problem when seeking to increase lower SES participation, and the crowding out of research and community contribution.

Chart 12: Student to Teacher Ratio, Australia, 1990 - 2007



Source: DEST Higher Education Student and Staff Statistics 1990 to 2000 and DEST/DEEWR Unit Record Files 2001-2007; Bond University Management Report August 2008.

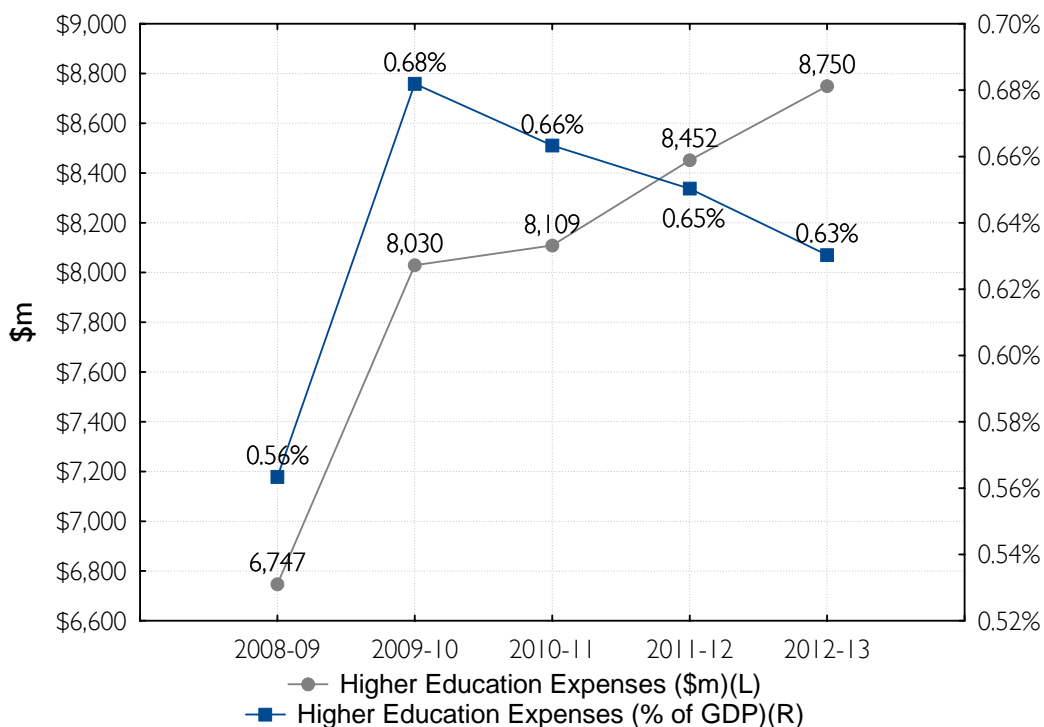
Universities have committed to work in partnership with government in pursuing the set of structural reforms that were also recommended by the various 2008 reviews. Mutual responsibility is accepted, and an agenda that stretches from tertiary integration, through individual mission negotiation and performance funding to new research metrics and a third wave of international education that is broader and deeper, is being embraced by the sector.

But those that recall how success in microeconomic reform so depended upon the incentives of national competition payments will know that a fair sharing of benefit as well as cost matters greatly in oiling the wheels of reform.

Universities are worried that the May 2009 Budget projections show a decline in share of GDP committed to higher education in future years, despite some welcome commitment to improved indexation and full indirect-cost funding of competitive research grants.

When combined with recent new deferral and savings measures affecting higher education announced in the late 2009 MYEFO statement, with deferral of infrastructure funding, “savings” in international student promotion, and major charge increases for some higher education providers, the sector is concerned.

Chart 13: Higher Education Budget Estimates, 2008-2013 (includes EIF and DIISR)



Source: 2009-10 Federal Budget Paper No 1, Table 7 6-18 and Table 4 10-19

For these reasons universities look to the Government in this Budget to reassure them and their fellow education providers in tertiary education that the Education Revolution is on track: more than just a slogan. Delivery on commitments and their augmentation in the national interest would be especially convincing. Wider fiscal pressure is not a reason for minimising response here, given the pay-offs to the economy documented.

In the microeconomic reform period, there was systematic review of legislation, regulation and even tax policy. This could be extended to systematic and transparent review of spending using formal evaluation methods. This would deliver new benefits to the economy.

There would then be light shone on numerous interstices in the Australian body politic that would improve public benefit massively in this and other areas. Improving the quality of government expenditure decision-making is one of the major pieces of unfinished business in Australian public governance and reform. Public availability on the Treasury website of all Budget submissions made to government by external groups would be an excellent first step.

With such improvements, university and industry and other stakeholders could then get on with the serious business of working together under a respectable and reliable framework.

Commentators have highlighted a conflict between Treasury and the Reserve Bank over macroeconomic settings, the thinking that sustaining public spending requires higher interest rates. In the area of productive public investment there is no such trade-off, and higher education resourcing transcends that trade-off.

Any suggestion that a need to reduce stimulus spending should be led from higher education – as seemed to be the rationale for the deferral of \$200 million in Education Investment Fund allocations in the MYEFO – is misplaced.

There is a long queue of very well-attested and productive projects with public returns well ahead of costs. These have been accepted by the Government's EIF Board. Good economic management requires that any easing of macroeconomic stimulus focus on consumption not investment. Therefore to reduce infrastructure or other spending to universities is detrimental to economic growth.

By enhancing productivity, skills, workforce participation, innovation and exports, higher education investment ensures that inflation is moderated and interest rates do not need to increase.

D. UNIVERSITIES AUSTRALIA 2010-11 BUDGET RECOMMENDATIONS

Universities have welcomed the major injections of funding the Government has made to the sector. These include the Better Universities Renewal Fund in the May 2008 Budget, the Teaching and Learning Capital Fund announced in December 2008, and the additional funding to the final Higher Education Endowment Fund round over and above projected fund earnings. These injections allowed universities to meet some of their most pressing renewal priorities and as such were of great value to the national economy and society.

Similarly, in the 2009-10 Federal Budget there were major breakthroughs of principle, especially in areas such as acceptance of a goal of best practice in matters of indirect costs and indexation.

Universities therefore acknowledge the major improvements in the tertiary framework that are in train, the Budget efforts made to date, and the principles reflected in future intended support from Government. However there are problems that still are facing Australia on immediate university Budget support that deserve attention and redress. Their resolution would mean that the Education Revolution would be even more beneficial for the country.

The outstanding funding issues facing universities for 2010-11 are:

- 1. Indirect Cost and Indexation Funding:** The problem here is not that of principle but rather that the agreed and endorsed principles of indirect research cost funding and of true cost indexation do not fully come into operation until later Budget periods¹. This is problematic for the national interest as it delays the flow-through of benefits from innovation and from higher labour productivity in skilled graduates as documented above. It is problematic for universities because it retains for the present the need to engage in complex cross-subsidy mechanisms within university budgets at the expense of principles of transparency and accountability.

Universities Australia therefore recommends the faster phasing in of these commitments at a 2010-11 cost of an additional \$84 million. This would bring forward half of the Government's previously planned increments for 2011-12 over 2010-11 for these two items.

¹ They also do not cover all indirect costs (eg. principal investigator time) and all true cost (eg. a 10% discount is applied arbitrarily to the proposed formula).

2. **Teaching and Learning Funding:** There is a very clear, urgent and pressing need to improve real funding per domestic student. Currently in most domestic undergraduate student fields authorised Commonwealth Supported Place payments do not cover the true full cost of education. Domestic students are funded by cross-subsidy from postgraduate course full-fee payments and from full-fee international students and other sources (Dang 2006). This is also not a transparent approach, and it has serious equity implications eg. international students resent a “cash cow” approach to their Australian education with consequences increasingly being observed. Failure to increase this funding also restricts the sector’s capacity to respond properly to the Government’s participation goals at this stage, and with the improved educational quality performance also being sought by Government. We can better fund the education of our students and there is a national cost if we fail to do so.

Universities Australia therefore recommends that Government implement the recommendation of its Bradley Review for an initial increase of ten per cent per student, at a cost of an additional \$480 million in 2010-2011.

Universities Australia also seeks Government support for a formal, work-integrated learning program in the form of a National Internship Scheme, at a cost of \$40 million per annum for universities. This would accelerate the potential for work-ready skills evident in the move by universities to provide much more work-integrated learning and to meet employer representations about employability skills. Since a proposal for such a scheme was requested by the Prime Minister, this appropriation possibility could be looked at very closely for the Budget.

Universities Australia recommends support of a national internship scheme at a budget cost for 2010-11 of \$42 million.

3. **Equity and Performance Funding:** There is also a very clear case for bringing forward more quickly the intended support for improved access to university for currently disadvantaged groups (including Indigenous Australians, people from low socio-economic status backgrounds, people from rural and remote areas, and people with disabilities). This objective is strongly shared by universities themselves and one to which they are addressing major efforts that are possible within their own present resources.

Regrettably, present designated equity funding is not all new funding as the quantum in the loading offered is precisely that gained in “savings” (i.e. lost university revenue) from the cancellation of the Teaching and Learning Performance Fund. The funding also perpetuates the “small buckets” problem in administration, so raising administration costs.

The longer such equity funding is delayed and the more it is quarantined, the harder it is for universities to set up flexible new mechanisms for achievement that will then benefit each year’s cohort of students and not just out-year needy students.

Universities Australia recommends that Government announce new Equity and Performance funding that is both fast-tracked and supplementary to existing provision. The funding cost would be faster phasing-in of these commitments at a 2010-11 cost of \$30 million and their provision as new funding on top of the teaching and learning grants base. This would bring forward half of the Government’s previously planned increment for 2011-12 over 2010-11 and provide the total as fully new funding and not hypothecated funding from the existing total teaching and learning grants.

4. **Competitive Research Grant Funding:** In relation to the crucial research function of universities significant gains have been made in the 2007-08 and 2008-09 Federal Budgets, for example, the funding for the Future Fellows scheme. But with respect to the funding of national competitive grants, Universities Australia believes that a major supplementation of \$105 million for the Australian Research Council is warranted to improve grant success rates to closer parity with other like funds. There is abundant evidence that there is a long queue of unfunded projects that thorough formal evaluation by the government agencies administering these grants have found fully worthy of funding. Yet these projects essentially go unfunded and Australia is the loser.

A plethora of formal evidentiary studies find that the real rate of return on publicly funded research has been conservatively estimated at 20% or more. The most recent assessment is from the US National Bureau of Economic Research (Hall et al 2009). Since the cost of capital is under 10%, the current budget allocation process is forgoing major benefit to the economy and to Australia's ability to contribute to knowledge.

It is also becoming clear that the transactions costs required to generate and evaluate grant applications is disproportionate to the number of grants currently permitted by present funding. A simple expansion of grant awards would improve the return on the costs incurred and increase motivation and incentives.

Universities Australia recommends that an additional \$105 million per annum for the Australian Research Council is required to provide improved incentives for more research and so enhance the documented national benefit that flows from such research alongside important government initiatives.

5. **Research Training Measures:** The Research Training Scheme (RTS) – which funds university places for PhD and Research Masters students – currently under-funds the cost of research training by an estimated \$270 million per annum, according to the Government study conducted by the Allen Consulting Group. The 2009 Parliamentary Inquiry into Research Training, similarly highlighted the need for Australia to expand both the number of higher degree places and the level of funding per place. The Government has already provided welcome increases in places and in postgraduate student income support, but improved funding of related research supervision costs per place remains vital.

Universities Australia recommends increasing the current RTS grant amount by \$140 million in 2010-11 (followed by the same amount additionally in 2011-12 and with indexation thereafter) to provide the core funding for this expansion to take place.

6. **Infrastructure Measures:** Universities have benefited well from the allocations made from the HEEF, BURF and Teaching & Learning Capital Fund arrangements. These have supported major new investment in research and teaching and learning infrastructure that will certainly benefit Australia. However universities still have many high quality anticipatory projects in train, ready for EIF and associated funding. In order to facilitate the construction and use of these well-attested and worthy projects and so contribute to earlier national productivity and innovation enhancement, the \$200 million of the EIF allocation for 2009-10 which was arbitrarily deferred in the 2009 MYEFO should be restored for the 2010-11 allocation on top of ongoing funding otherwise proposed. A longer term approach is needed. These projects are fully evaluated as worthy by the EIF Board but are subject to arbitrary funding caps.

If there is a need to trim the 2010-11 Federal Budget it should not come from investment in well-attested assets that enhance productivity and which are financed by an already established fund (as opposed to current appropriation). The need is great. The opening of the EIF to non-university applications, the diversion of EIF to new Green research and the deferral of \$200 million in previously EIF committed funds for 2009-2010 have caused considerable uncertainty and concern to arise and creates problems for planning, as does the competitive basis of the principal funding scheme.

Further problems are those of limited indexation for current infrastructure block grants, and the difficulties the total funds available and their administration through different programs make, for meeting the Government's participation and performance targets. There is also a problem of access to public and private finance for provision of student accommodation, a need made very evident by recent safety and quality of learning experiences for international students and domestic students living away from home.

It is worth acknowledging that lecture theatres and student housing mean as much to universities as ports and roads mean for resource exporters.

Universities Australia believes there is a need to establish a complementary fund to provide for expansion of general facilities including student accommodation. This will allow the Government's participation targets to be better met, help sustain international education activity, and support rural and regional students. The deferred \$200 million from EIF should now be re-assigned for this purpose, a further \$250 million drawn down from the EIF over present commitments, and the total \$450 million distributed by formula on the BURF precedent in 2010-11.

E. CONCLUSION

Overall, Universities Australia supports the Government in fully maintaining all commitments it has made in the May 2009-10 Budget in *Transforming Australia's Higher Education System*.

Universities Australia recommends that this base commitment be supplemented in 2010-11 by bringing forward the phasing of key commitments in indirect-cost funding, indexation, equity and partnership funding.

Further, there should be restoration and supplementation of funding deferred for infrastructure in the MYEFO for facilities, and enhancement of the Federal Budget for provision for teaching and learning, and research competitive grants.

This Universities Australia submission for additional resourcing for our education future through advanced learning and research would add \$881 million to pre-existing commitments for 2010-11 for appropriation, plus restoration of the deferred \$200 million from the EIF and its enhancement by drawdown to a total of \$450 million for additional 2010-11 allocation by formula.

The pay-off for Australia's future would be many times this funding allocation. Universities Australia research has found that an investment of 0.6% of GDP to fully implement the Bradley Review's recommendations will generate a long run gain of 6% of GDP. To under-fund or to defer funding means that these and wider benefits will be reduced and delayed, including deficit reduction well beyond the spending required.

The package proposed therefore is not a true strain on the Budget. It is a basis for the better future budget sustainability of the nation.

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