

UNIVERSITIES AUSTRALIA PAPER

THE FACTS ON UNIVERSITY FUNDING

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Further inquiries should be made to the Chief Executive:

GPO Box 1142 Canberra ACT 2601

Ph: +61 (0)2 6285 8100

Fax: +61 (0)2 6285 8101

Email: contact@universitiesaustralia.edu.au

UNIVERSITIESAUSTRALIA.EDU.AU

ABN 53 008 502 930

INTRODUCTION

University funding is complex. As a result, the sector's true financial position is not always well understood in public discussion.

This paper examines some common claims and misunderstandings about university funding, and provides more complete and accurate data on the true financial position of Australia's universities.

It also confirms that Australia's universities and students have contributed significantly in recent years – under governments of both political persuasions – to help rein in the Budget deficit.

Our analysis of the net effect of 89 Budget decisions in higher education and research finds that universities and their students have contributed \$3.9 billion to Budget repair since 2011/12.

Universities and students have already contributed to Budget repair

Students and universities have contributed around **\$3.9 billion** in net savings between 2011–12 and 2016–17.

Major cuts already made include (but are not limited to):

- Changes to Student Start-up Scholarship (**\$1.41 billion**)
- Cuts to the Sustainable Research Excellence (SRE) scheme (**\$648.8 million**)
- Removing performance funding for universities (**\$698.5 million**)
- Abolishing the Capital Development Pool (**\$298 million**)
- Cuts to the Higher Education Participation and Partnerships Program (**\$90.7 million**)

The Government has also announced it intends to re-purpose a further \$3.7 billion earmarked for university infrastructure in the Education Investment Fund. This has not been included in the savings total in this paper.

(Source: Australian Government, *Budget Paper No.2*, various years, not including over the forward estimates)

For students already under financial pressure – an issue that Universities Australia will examine in our Student Finances Survey this year – an increase in their debt burden would further exacerbate their financial stress.

Further cuts to universities would compromise their ability to skill and reskill millions of Australians through their working lives and to deliver the world-leading research we need to create new industries and achieve breakthroughs that improve lives and contribute to our economic strength.

Further cuts in public investment would also put at risk international education—Australia's third largest export industry—which now contributes a record \$22.4 billion to the Australian economy.

Australia's public universities do not have excessive surpluses to cushion further cuts.

As not-for-profit organisations, public universities reinvest surplus funds into higher education and research, including capital development. The published surpluses from universities (in compliance with accounting and reporting standards) include funds already committed in subsequent financial years. This is non-discretionary income that comes onto a university's balance sheet in one

financial year but is spent over several years – including on multi-year research and major infrastructure projects.

Universities and their students have contributed more than their fair share (\$3.9 billion over six years) to the task of Budget repair. On that basis, any further proposed cuts are difficult to justify.

THE FACTS ON FUNDING FOR STUDENT PLACES

Funding to universities under the Commonwealth Grants Scheme (CGS) is calculated on the basis of student enrolments. Total funding to universities under the CGS grew by 59 per cent between 2009 and 2015¹, mainly as a consequence of substantial enrolment growth.

However, in real (inflation-adjusted) terms, funding per university place grew by less than 1 per cent each year between 2009 and 2015 (Figure 2).

Further, changes made to the indexation of university grants to apply from 2018 mean that funding will no longer increase in real terms.²

Australia now educates almost 140,000 more students in Government-supported places than in 2009 (Figure 1). In that year, the Australian Government began a process to remove the cap on the number of Bachelor's degree places at universities.

The new demand-driven system was designed to boost higher education participation to meet future labour market needs and to lift participation from under-represented groups.

The demand-driven system remains a bipartisan policy commitment.

During the transition to the demand-driven system, enrolments grew rapidly as universities absorbed unmet demand for higher education. Annual growth in enrolments has now stabilised to levels just below population growth.

In 2015, domestic student places grew by only 1.6 per cent, down from 3.6 per cent in 2014 and 5.2 per cent in 2013. Consequently, growth in public investment has also stabilised.

¹ Australian Government 2016, *Driving Innovation, Fairness and Excellence in Australian Higher Education*, p.1, https://docs.education.gov.au/system/files/doc/other/he_reform_paper_driving_innovation_fairness_and_excellence_3_may_2016.pdf

² A new indexation formula based on CPI will begin in 2018.

Figure 1: Growth in government-supported university places

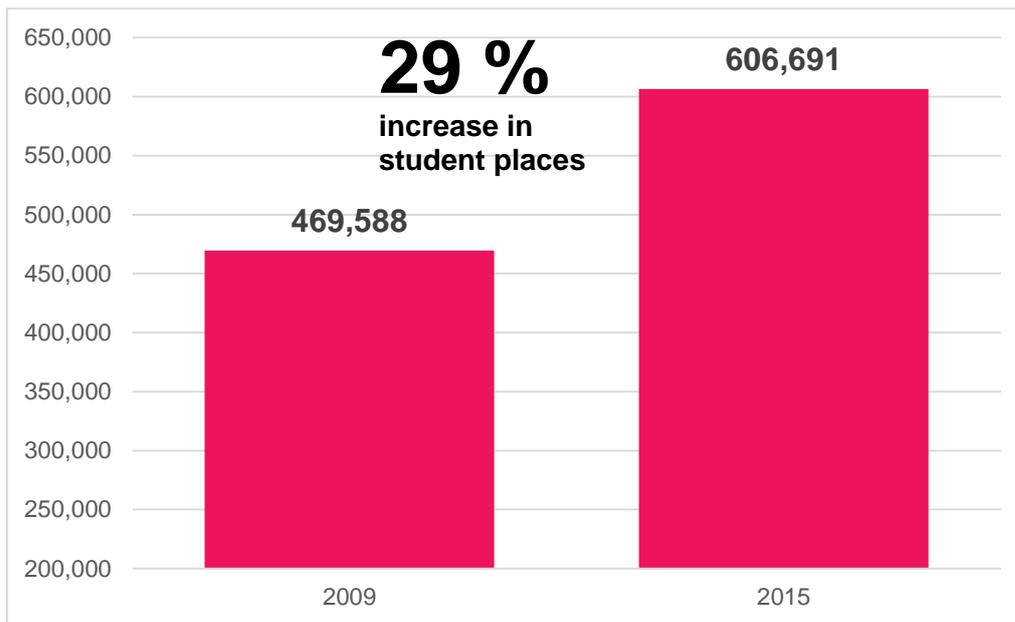
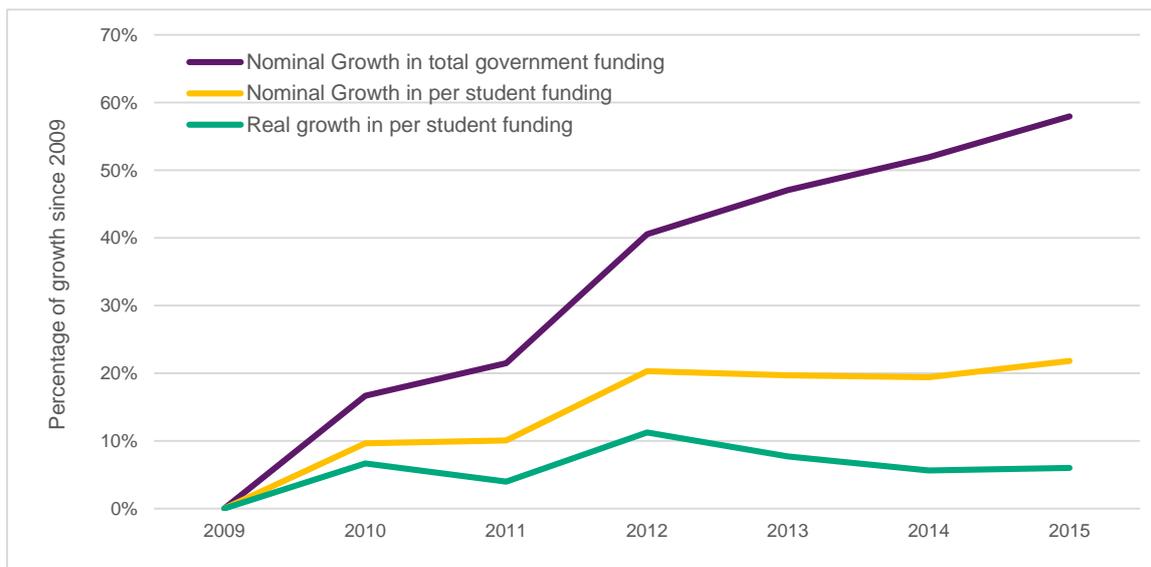


Figure 2: Growth in government funding since 2009



THE FACTS ON UNIVERSITY TEACHING COSTS

It has been stated that the proportion of funding per place that universities spend on teaching has fallen from 94 per cent to 85 per cent.

This comparison draws on figures sourced from two separate reviews of university funding. The first figure was sourced from data collected from eight universities as part of the 2011 Review of Base Funding (the Lomax-Smith Review). The second figure comes from the 2016 costing review, which used a more representative sample of 17 universities. The two figures are not comparable due to differences in scale and methodology.

More importantly, base funding is intended to support significantly more than the direct costs of teaching and learning. The proportion allocated to teaching, therefore, cannot be used as a measure of efficiency.

As the Lomax-Smith Review reaffirmed in 2011, base funding is meant ‘to support universities in their fundamental role of providing teaching and learning informed by scholarship and a base capability in research, within appropriately resourced facilities’.³

These fundamental elements are now required by legislation. The *Higher Education Standards Framework (2015)* requires universities to offer innovative good practice teaching, conduct research and research training, sustain scholarship, offer student services and support and engage with local communities.

The establishing legislation for many universities also obliges them to pursue a range of other public good and community engagement purposes.

Public investment in base funding for university places must cover not just direct teaching costs, but also the requirements for universities to conduct research and support the local communities they serve.

With 85 per cent of base funding for universities allocated to teaching and learning, 15 per cent is available to support universities’ other essential activities.

This is consistent with findings of the Lomax-Smith Review, which concluded that 6 to 10 per cent of base funding per place was needed to support base research capability and another 6 per cent for infrastructure.⁴

THE FACTS ON UNIVERSITY INFRASTRUCTURE COSTS

Building and maintenance costs are an often-overlooked but crucial component of universities’ cost base.

A 2015 report estimated that 33 Australian universities had \$1.87 billion worth of deferred maintenance backlog, as well as \$2.2 billion of deferred refurbishments.⁵

The two programs that previously funded university infrastructure are no longer active. The Capital Development Pool for special capital projects closed in 2012 and Education Investment Fund (EIF) has not funded any projects since 2013. The remaining EIF balance (\$3.7 billion) has been earmarked for repurposing for other non-education purposes.

Figure 3 shows the decline in public investment in university infrastructure, down from almost \$1.4 billion in 2009–10 to around \$170 million in 2016–17.

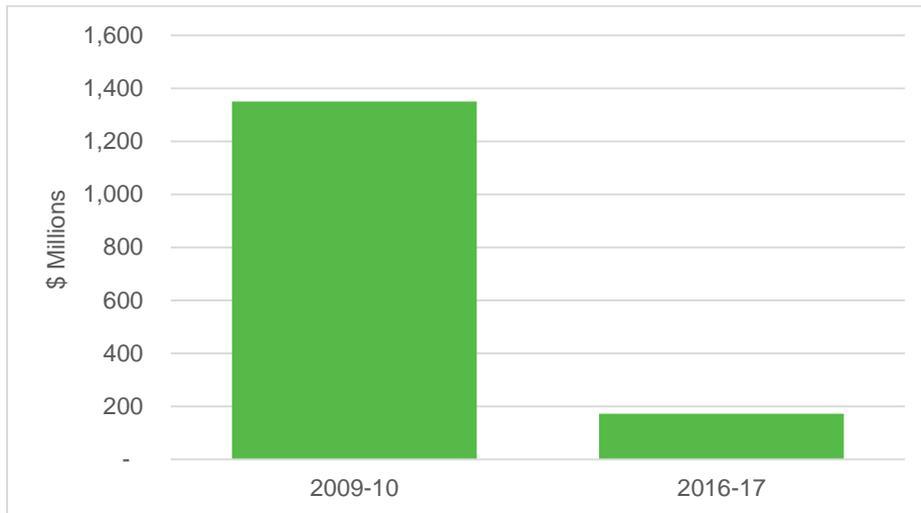
Government investment in university capital grants fell by more than a billion dollars between 2009-10 and 2016–17.

³ Lomax-Smith, J. et al. 2011, *Higher Education Base Funding Review: Final Report*, p. viii

⁴ *Ibid.*, p. 83-85

⁵ Government-appointed *Higher Education Infrastructure Working Group Final Report 2015*

Figure 3: Australian Government funding for teaching and research infrastructure, 2009–10 compared to 2016–17



Note: Includes funding for EIF and National Collaborative Research Infrastructure Strategy (NCRIS). The 2016–17 figures include \$150 million funding for operating NCRIS facilities.

Source: Based on the 2016-17 DET Portfolio Budget Statements; 2009-10 DEEWR Portfolio Budget Statements; 2009–10 DIISR Portfolio Budget Statements; Australian Government 2011, *Higher Education Report 2009*.

THE FACTS ON UNIVERSITY FINANCES

The *Higher Education Finance Statistics* published by the Department of Education and Training, report that Australia's 37 public universities had a combined accounting surplus of \$1.7 billion in 2015⁶. This is equivalent to 6.1 per cent of university revenue.

However the picture is more complex than the headline figure suggests.

University activities in teaching, research, community engagement, capital projects, donations and scholarships typically occur over a longer timeframe than is reflected in annual accounts.

Because income for such activities may be received in one year but committed to expenditure across several years, around 20 per cent of the funds remaining at the end of a year are tied or committed. They cannot therefore be repurposed for other uses.

In any case, the published combined surpluses (6.1 per cent) are modest in comparison to private sector enterprises. Some publicly-listed companies with similar sized revenues to the university sector have reported surpluses of up to 17 per cent.

Further, annual published university surpluses have declined over the past five years.

Surpluses are required to maintain and refurbish university capital assets. In some States, this is a regulatory requirement. In Victoria, for example, the State Auditor General requires universities' expenditure on capital investment to keep pace with the growth of their asset base.

They also insulate university finances from external impacts.

The maintenance of a vibrant, contemporary, globally-competitive university system requires universities to be financially secure.

⁶ Excluding vocational education and training courses.

THE FACTS ON UNIVERSITY RESEARCH COSTS

Universities are required – and funded – by the Australian Government to undertake research through a dual funding system of competitive research grants and research block grants.

Competitive research grants are awarded to universities to undertake specific research projects. However, funding allocated under competitive research grants does not cover all project costs.

Most competitive grants cannot be used to fund the ‘indirect costs’ of research that include principal researchers’ salaries, power and water, insurance, infrastructure and capital equipment.

An independent study in 2009 estimated universities had to find an additional 85 cents from other sources for every dollar of competitive grant funding they received, to cover indirect costs not met by research grants.⁷

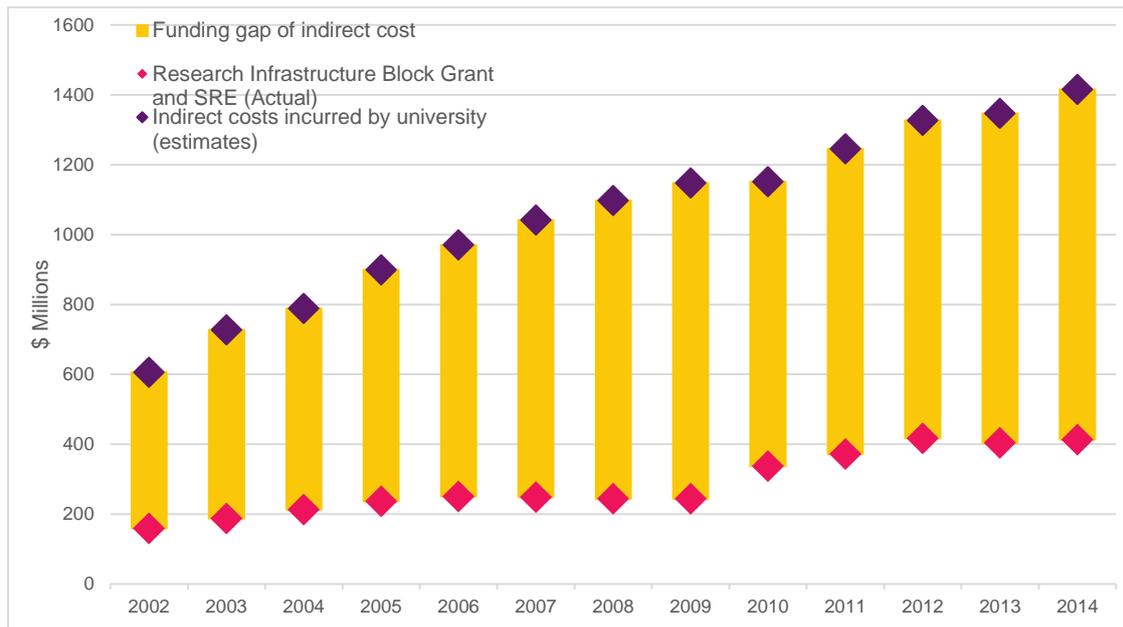
Despite previous government commitments to lift support for the indirect costs of research to 50 cents for every dollar received in competitive grants, it remains static at around 23 cents per competitive dollar.

The stability of this ratio masks the significant increases in the amount of additional income universities are having to find to fund research.

Universities Australia estimates that in 2014, universities had to cover a gap of \$1 billion to conduct the research for which competitive grants had been secured. This is more than double (in real terms) the 2002 figure of \$450 million (Figure 4).

⁷ Allen Consulting Group 2009, *The indirect costs associated with university research funded through Australian Competitive Grants final report*, Report to the Department of Innovation, Industry, Science and Research, Allen Consulting Group, Melbourne, p.52.

Figure 4: Funding gap of indirect cost of research (in 2015 dollars)



IN CONCLUSION

Australia's universities and their students have made a very substantial contribution to repair Australia's Budget position since 2011. They have done their bit.

Any further reductions would increase financial pressures for students already under stress and put at risk the ability of our world-class universities to continue to deliver excellence in education and research – the foundation of our third-largest export industry and the bedrock of future economic prosperity.