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*Building Australia's Future*

*The Commonwealth Government's  
Blueprint for Reform: A Critique*

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# ***Building Australia's Future The Commonwealth Government's Blueprint for Reform: A Critique***

**Professor Peter Karmel**

The Commonwealth Government issued its blueprint for the reform of Australia's higher education system on Budget night, 15 May. It contained proposals for a partial deregulation of university fees, a new set of funding arrangements, modifications to and an expansion of contingent loan arrangements for students, some additional funding contributions per student place, a modest expansion of student places, special support for regional campuses, new scholarship schemes, several special programs and changes in the internal governance and management arrangements of the universities. These changes, for the most part, will require additional expenditures. The blueprint proposes additional funding, but only at modest levels, over the years 2004-7. Below is a brief account and critique of the reforms.

## *Partial Deregulation of Fees*

The blueprint proposes to allow universities to fix HECS charges at any point between zero and 30 per cent above 2005 indexed levels. I believe that this is a sensible proposal giving the universities a degree of control over their revenues. However it should be pointed out that since HECS receipts constitute about one third of operating grants for domestic undergraduate teaching, an increase in HECS charges of 3 per cent will be required to achieve a 1 per cent increase in undergraduate funding.

The blueprint also proposes to raise the permissible number of full fee paying domestic places in any undergraduate course from 25 per cent to 50 per cent. Since currently less than 2 per cent of Australian undergraduates pay full fees, this change is unlikely to have much effect except in a small number of courses in a small number of institutions. This arrangement implies the admission of full fee paying students into particular courses at lower entry levels than for the generality of HECS liable students. This raises significant equity issues. It may also raise questions of entry standards.

Changes to other HECS arrangements are also being proposed. In particular, the repayment threshold is being raised to an annual income of \$30,000 from one currently of \$24,365. This is a significant improvement for graduates with HECS debts, but is well short of a return to the threshold of average earnings which was specified on the original HECS scheme—average earnings are now around \$34,000. The availability of income contingent loans to finance HECS charges will, from 2005, be limited to five years equivalent full-time study (or longer in the case of certain

courses). Other relatively minor changes to repayment arrangements are being made. The Commonwealth is also making available contingent loan facilities for full fee paying undergraduate and graduate students with an upper limit of \$50,000 under somewhat less favourable arrangements than those for HECS. The availability of income contingent loans should allay most equity concerns relating to the charging of fees, although the upper limit of \$50,000 is somewhat restrictive. Incidentally, there is no hard evidence that the introduction of HECS has adversely affected the SES<sup>1</sup> distribution of students.

### *Increased Per Student Funding*

Some provision is being made for increased funding per student. There is no relief planned for 2004 but over the three years 2005-7 the Commonwealth's contribution per undergraduate student place is proposed to rise by 2 \_ percent per annum. The amount of increased funding appears to have been calculated on a base of rather less than half of total Commonwealth funding for operating purposes (including HECS). This increased funding per student is contingent on adherence to a set of governance protocols and compliance with certain workplace relations' policies. If these are strictly applied the additional funding may materialize for only a limited number of institutions. It may also be pointed out that, since no change is being proposed to current cost escalation arrangements, enterprise bargaining is likely to result in salary cost increases of around 2 to 2 \_ per cent per annum above the current provision for cost supplementation. This will absorb the proposed increases over the years 2005-7.

Some increased funding is also being proposed for 58 regional campuses to offset cost disadvantages, although the justification for this is asserted rather than demonstrated. A welcome increase in funding for enrolments in teaching and nursing courses is also being provided to cover costs associated with clinical practice in nursing and the teaching practicum.

### *Increased HECS-liable Places*

There are currently some 25,000 over-enrolments in Australian universities funded at marginal rates. It is proposed to convert these to fully funded places over the years 2005-7. These 'new' places will not necessarily be located where the over-enrolments currently exist, but will be distributed in accordance with Commonwealth priorities after discussions on labour market needs with States and Territories. The conversion of the marginally funded places to fully funded ones will not, of course, increase overall university participation, although it will, in the aggregate, improve overall per student funding. From 2004, there will be some expansion of places in undergraduate nursing which, with teaching, is being treated as a national priority area. From 2007 extra places will be provided to meet expected population growth. This implies that university participation will remain at around current levels, which involve some 45-50 per cent of a cohort accessing higher education at some point in

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<sup>1</sup> Socio-economic Status

their lives. In my view this is appropriate, but the blueprint contains no discussion of this critical issue.

### *New Funding Arrangements*

The Commonwealth is proposing to replace the current block grant arrangements, which have been largely determined on an historical basis, by new arrangements, which will be based on per EFTSU Commonwealth contributions for courses in 12 funding categories. Universities will be committed to the number of places and discipline mix which the Commonwealth agrees to support and will be penalized if they enrol non-full fee paying students beyond a two per cent limit. The new arrangements, although rational in their intent, may produce internal management difficulties by placing the allocation of resources among different disciplines in something of a straitjacket. They are also much less flexible than the current arrangements and signal the Commonwealth's intention of exercising greater control over the course mix of individual universities. Indeed, they appear so prescriptive that they may be unworkable in their present form.

### *Special Initiatives*

Additional funding is also being provided for scholarship programs for students with low SES backgrounds, for indigenous students, and for accommodation for students from rural and isolated areas. These will be widely approved. There will also be minimal increases in the number of international scholarships and Australian Postgraduate Awards. Funding is being provided for specific programs relating to learning and teaching, to equity, to collaboration and structural reform and to workplace productivity.

### *Overall Funding*

In the year 2004 there is a very modest increase in overall funding for higher education of about one per cent of Commonwealth funding for operating purposes (including HECS). This additional funding is for regional campuses, teaching and nursing and scholarships. Over the years 2005-7, funding will rise by about \$200m per annum, that is, by about 3 per cent of Commonwealth funding for operating purposes. This is a relatively modest increase. To put the Commonwealth's education priorities in perspective, funding for schools and school students is planned to rise from \$6.9 billion in 2003-4 to \$8.4 billion in 2006-7 or by approximately \$490m or 6.6 per cent per annum.

### *Cost Escalation*

The Commonwealth's blueprint makes no provision for improved cost supplementation arrangements. This is a most serious defect, although as far as I am

aware there has been relatively little comment on it. Currently Commonwealth operating grants are adjusted by a cost adjustment factor made up, to the extent of 75 per cent, of the Safety Net Adjustment as determined by the Australian Industrial Relations Commission, and, to the extent of 25 per cent, of the Consumer Price Index. This has been operating since 1995. Australian academic salaries, as for Australian wages and salary levels generally, have been rising by significantly more than the Safety Net Adjustment. Moreover, salaries are the major component of the cost structures of universities. An appropriate cost adjustment factor for salaries would be the Wage Cost Index of the Australian Bureau of Statistics. Had this been applied since 1995, the Australian universities would now be receiving from the Commonwealth some \$500m more than current levels. By 2007 it may be expected that the universities will be a further \$350m or so behind. This, just as with the comparison with schools, puts the Commonwealth's program for 2005-7 into perspective.

Without proper cost escalation arrangements, the universities will need to use all the additional Commonwealth course contributions (if they actually qualify to receive them) or will need to increase HECS charges by about 5 per cent per annum to fund their wage and salary increases beyond the safety net adjustment. Their capacity to do the latter will be exhausted within six years, as they will reach the limit of a 30 percent increase in HECS. The absence of proper cost escalation arrangements is, in my view, the most serious defect that both the Commonwealth and the universities should address.

### *University Resourcing*

That universities do not have adequate resources is incontrovertible. Indeed the Commonwealth Minister himself has stated clearly that 'universities need longer-term access to more resources'. The most graphic illustration of this is what has happened to academic staff/student ratios. In the 1970s and into the 1980s, there was 1 academic staff member for around 12 equivalent full time students. The ratio is now 1 to around 20. In 1995 it was 1 to 15. In contrast, it might be noted that currently teacher/pupil ratios are 1 to 17 in primary schools and 1 to 12\_ in secondary schools and are continuing to fall slightly. The deterioration in universities since 1995 has been largely due to inappropriate cost escalation arrangements and to the self-inflicted financial commitments of over enrolment. For the next few years there seems little prospect of improvement, unless the universities actually receive the Commonwealth's conditional additional course contributions and, at the same time, are willing to raise HECS charges. If HECS charges were raised by the full 30 per cent, after allowing for associated general staff and infrastructure costs, staff/student ratios could be improved from about 1 to 20 to about 1 to 17. Some improvement in staffing ratios is clearly possible under the proposed arrangements, provided the additional course contributions from the Commonwealth are forthcoming and HECS charges are raised but only in the order of half of the funding erosion that has occurred since 1995 will be able to be made good. In the longer term other solutions must be found.

The Commonwealth Government has conceded that the universities have severe problems. Given that the additional Commonwealth contributions will be required for

salary increases and that other increases in funding are for earmarked purposes, the only scope for overcoming general deficiencies will be by increasing HECS charges. The Commonwealth appears to be relying on students' contributions to redress the shortages of resources in higher education.

### *General*

The Commonwealth's blueprint for reform does not analyse in any depth the main issues now confronting Australia's universities. For example, the following questions are not addressed:

- what should be the targets for the levels of access to and participation in higher education in Australia, now and in the future?
- given the resource requirements of universities, what are the trade-offs between the quantity and the quality of higher education available?
- what are appropriate standards of entry to the various courses offered by universities?
- how can course standards be monitored?
- what is the nature and magnitude of unmet demand for university places?
- what is meant by 'productivity' in the university context (clearly not student throughput per staff member)?
- what is meant by 'quality' in the university context and what are indicators of it?
- what is meant by 'diversity' in the Australian higher education system?
- what are appropriate governance and managerial arrangements for Australian universities?
- what is the state of staff morale and how may it be nurtured?

The blueprint has a strongly interventionist flavour, with the Commonwealth Department of Education, Science and Training assuming significant roles in the application of government policy to the universities. There is a major (and, in my view, welcome) deregulation of fees, but of nothing else. The *dirigiste* spirit of the blueprint contrasts strangely with the government's wholehearted endorsement of the free market and private enterprise in the economic world and its retreat from policies of protection and regulation. The interventionist tendencies of government policy is reflected in the conditions which are to be attached to various funding arrangements in order to influence institutional behaviour. Funding conditional on governance, workplace relations and student union arrangements, earmarked grants, tighter prescriptions of the number and spread of enrolments, and learning and teaching policies are evidence of this and risk restricting even further the individual universities' capacity to manoeuvre.

In my view the case for the independence of the universities from the State, and for a plurality of priorities expressed by the individual universities, is overwhelming. Universities should not be subject to a code of national priorities laid down from on high, although they should take account of them. Nor should their worth be defined in purely utilitarian terms of manpower requirements and the commercialization of research, however important these may be from the point of view of economic growth.

The blueprint makes a great deal of the importance of diversity, but it is largely lip service rather than action. Greater diversity will require, above all, reform of research funding arrangements. But the possibility of change in research funding appears to have been postponed for at least two or three years until the evaluation of current funding programs and a science and innovation mapping exercise have been completed. The blueprint ought to have included major reforms to research funding. The institutional grants scheme, research infrastructure block grants and research training scheme should be rolled into a single pool. This would provide total funding of \$900m which ought to be increased in the medium term. The fund should be distributed, discipline-by-discipline, in a manner designed to concentrate research activity (including research training) in those institutions with strengths and quality outcomes in the relevant discipline. Some form of research assessment exercise would be necessary. Certainly, the allocation of funds by strict formulae is problematic, as recent criticisms by the universities of the new funding arrangements demonstrate. The provision of research training places should be in the hands of the institutions and should be determined by them according to the research funds available to them. This latter would be a great simplification on present arrangements. The activities of the Australian Research Council, the National Health and Medical Research Council and other research funding agencies should continue. Although Commonwealth block funding for research should be distributed in relation to the quality of research on a discipline basis, universities should be free to allocate, at their discretion, block funds to the research activities within their institutions that they judge likely to be most rewarding.

Finally, there is the question of an independent body to monitor higher education in Australia, to provide public advice to the Commonwealth and to administer Commonwealth funding. I am aware that there is no widespread support for such a body. It appears not to have been present in the minds of Commonwealth advisers, nor of university managements, staff or students. Perhaps the sixteen years that have elapsed since such a body was in operation have dimmed memories. But the Australian Universities Commission and the Commonwealth Tertiary Education Commission operated effectively for some thirty years from the AUC's foundation in 1958, during which time the independence of the Australian universities was, to a high degree, protected. Not surprisingly there is no reference to such body in the blueprint.

I remain totally convinced that the establishment of a buffer body to stand between the Commonwealth Government and the universities is of the utmost importance. Over the past fifteen years or so, the universities have become increasingly subject to the electoral, political and ideological predilections of the party in power. This will continue as long as the main advice on higher education to the Commonwealth, and the Commonwealth's dealing with the institutions, are in the hands of a government

department under the direct control of a Minister. The independence of the universities and their societal role are at stake. It should not be forgotten that the *raison d'être* of the universities is the extension, conservation and transmission of knowledge, and it is for the universities themselves to give expression to this.

It is ironic that in recent years, the Commonwealth's intervention in university affairs, in both their management and their operation, should have increased in inverse proportion to its financial commitment. The Commonwealth's contribution to higher education funding is now around only 40 per cent (twenty years ago it was about 90 per cent) and is continuing to head downwards. At the same time its interventions in the affairs of the universities are increasing. Why are not more voices raised in defence of our universities?



**Trinity Papers:**

This paper represents the twenty-fifth in a series published from time to time by Trinity College which focus upon broad issues facing the community in such areas as education, ethics, history, politics, and science.

It is the extended text of the response prepared by Professor Peter Karmel to the Federal Coalition Government's Budget of May 2003. A summary may be found in *TrinityToday*, (July 2003).

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Professor Peter Karmel was educated at the Universities of Melbourne and Cambridge, before taking up teaching appointments in Melbourne and Adelaide. In 1961 he was commissioned to draft a plan for what was to become Flinders University, of which he was Vice-Chancellor from 1966-1971. He was also Vice-Chancellor of ANU from 1982-1987, and President of the Academy of Social Sciences in Australia from 1987-1990. Since 1990, Professor Karmel has been Chair of the Board of the National Institute of the Arts at ANU. In 1973, he published the highly-influential 'Karmel Report' for the Interim Committee of the Australian Schools Commission.

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