



Innovative
Research
Universities

Pre-Budget Submission 2010-11

Charles Darwin University
Flinders University
Griffith University
James Cook University
La Trobe University
Murdoch University
The University of Newcastle

Introduction

The Government's 2009-10 budget statement¹ acknowledged the integral role played by higher education in achieving the Government's vision of a stronger and fairer Australia:

The Bradley Review affirmed that the reach, quality and performance of this nation's higher education system is central to Australia's economic and social progress. To be globally competitive and to secure the high skilled jobs of the future, Australia needs an outstanding, internationally competitive higher education system with increased participation and higher attainment levels. Australia also needs a quality higher education system to sustain the international education industry which is Australia's third largest export. (p. 6)

The initiatives and funding announced in the last budget were welcomed by our members and represented a significant turning point for the Australian university sector after more than a decade of neglect and declining public funding. The Government's determination to increase public investment in higher education in a particularly challenging budget cycle has boosted morale within the sector and has been a key factor in mobilising universities to positively support the Government's policy objectives and reform agenda.

The emphasis of the 2009-10 budget, however, was on 'catching up' rather than transforming higher education. It fell short on delivering a comprehensive investment strategy designed to build an internationally competitive higher education system and to fully implement the government's landmark reforms.

Investing in higher education as a driver of productivity growth

The Prime Minister has recently argued that productivity growth must play the central role in building Australia's future economic growth². Investment in higher education now will be vitally important to national

productivity and labour force participation in the future. As noted by Universities Australia³:

Each dollar spent now is an investment in much greater future national income and government revenue. Using the Treasury "3Ps Framework", graduates are seventy per cent more productive as calibrated by the market; their workforce participation is twenty five per cent higher; and international students account for over half of increased skill migration to Australia, so underpinning population growth. This in turn lays the foundation for future outlays on other national priorities including health, social support, national security and culture. (p.7)

The Productivity Commission has recently reinforced that a lot more needs to be done in building human and knowledge capital if Australia is to achieve improvements in productivity⁴.

IRU has identified five priorities for funding in the 2010-11 budget, all of which aim to ensure that adequate incentives are in place to drive the Government's higher education reforms and achieve national productivity gains over the coming decade.

Sustaining 2009-10 budget commitments

As noted in the Treasurer's call for pre-budget submissions, the global recession has had an impact on national revenues, resulting in a need for fiscal discipline and the offsetting of new spending with savings in the forthcoming budget.

Decisions announced in the Mid-Year Economic and Fiscal Outlook statement to defer spending on the Education Investment Fund and other higher education programs have raised concerns that the forthcoming budget may further erode the Government's previous budget commitments.

The 2009-10 budget contained a range of measures to correct past deficiencies in higher education funding. These represent essential investments for ensuring that incentives are in place for the Government's

¹ Commonwealth of Australia, *Transforming Australia's Higher Education System*, 2009.

² Prime Minister of Australia, *Building Australia's future: beginning a building decade for a stronger Australia*, Speech to Australia Day reception, 18 January 2010.

³ Universities Australia, *Driving Economic Recovery for Australia Through Knowledge: Universities Australia Pre-Budget Submission 2009-10*, January 2009.

⁴ Productivity Commission, *Australia's Productivity Performance*, Submission to the House of Representatives Standing Committee on Economics, September, 2009.

higher education reforms to be successful. These included:

- A commitment to revised indexation arrangements for base funding
- Increased funding for the indirect costs of research
- Initiatives to renew and transform critical infrastructure
- Changes to student income support.

These measures represent baseline requirements to protect the sector's ongoing sustainability and need to be retained in the forthcoming budget.

IRU recommends that the 2010-11 budget:

- Fully retain the higher education budget commitments made by the Government in last year's budget.

Teaching and learning

The 2009-10 budget responded to the Bradley Review's recommendation to introduce a more suitable indexation formula for higher education base funding.

The Bradley Review also recommended that the Government increase the base funding to teaching and learning in higher education by 10 % from 2010 (Recommendation 26). This was in recognition of the fact that 'Real reductions in funding to universities have occurred over a prolonged period of time' (p153). The Review report argued:

In order to have an internationally benchmarked higher education system based on high-quality teaching and general excellence in the student experience it will be necessary to redress this historical shortfall for teaching and learning ... (p. 153).

This recommendation was not addressed in the 2009-10 budget.

If universities are to embrace the Government's ambitions of student growth, they need to be confident that growth will be sustainable over the longer term. Some universities are choosing to over-enrol this academic year, in some instances above the 10% cap. The motivations for this are largely twofold: to respond to community demand to make more student places available; and/or to be better positioned for the new student centred funding model to be introduced in 2012 and for the first round of compact negotiations.

These motivations, however, will become less attractive to institutions if continued expansion proves to be financially unviable. Universities already face considerable financial constraints and uncertainties over the next few years due to a number of factors:

- The reputational damage to Australia as a safe and high quality destination for international students is projected to have a significant detrimental impact on international student demand and associated revenues over the next period.
- The new student centred funding model will introduce considerable uncertainties into the system.
- Two of the Government's funding commitments, revised indexation arrangements and increased funding for the indirect costs of research, which are critical to the future sustainability of the sector will not fully flow to universities until 2011 and 2012.

IRU recommends that the 2010-11 budget:

- Include an increase in the base funding for teaching and learning in higher education by 10% from 2011, consistent with the recommendation of the Bradley Review.

Infrastructure

The Government has defined its goal for growth in higher education, so that by 2025, 40% of all 25 to 34 year olds will hold a qualification at bachelor level or above. The achievement of this ambition will produce around 217,000 additional graduates by 2025.

Growth of this magnitude has significant infrastructure consequences across the sector. Demographic analysis⁵ indicates that growth of this scale will require a major expansion in university campus construction.

While distance education has a role to play in meeting the government's ambitious targets for growth, it is only part of the solution and in any event is not without its physical infrastructure requirements (e.g. communications technologies, space for

⁵ Birrell, B. and Edwards, D., 'The Bradley Review and access to higher education in Australia' in *Australian Universities Review*, Vol 51, no. 1, 2009. This article examined the more ambitious Bradley Review recommended target of 40% attainment for 25 to 34 year olds by 2020, however, the main conclusions remain relevant to targets extending to 2025.

teaching staff and distance education operations centres).

The issue of infrastructure capacity and quality remains a priority concern of all Australian universities, including the members of IRU. With most of our member institutions being established in the 1960s and 1970s, many of our core campus buildings are close to the end of their life or are in need of radical refurbishment.

With the dual pressures of a substantial backlog in capital investment and student growth, universities will face enormous challenges in providing their students with a high quality learning environment.

IRU has welcomed the recent 'one-off' injections of infrastructure funding provided by the Government

The Education Investment Fund (EIF) is currently the only recurrent stream of funding available to assist with the significant building projects required to address current infrastructure deficiencies and space shortages. The deferral of \$200 million funding announced in the Mid-Year Economic and Fiscal Outlook statement was consequently a significant disappointment.

While the selection criteria for EIF Round 3 projects include 'Supporting the ambition for growth in higher education attainment', the reality is that the EIF rounds are extremely competitive, funding a relatively small number of 'transformational' projects, many of which are targeted at research rather than teaching and learning. While all of these projects are extremely worthy, the focus of the EIF is not on meeting basic capacity requirements.

In order to maintain incentive for growth across the higher education system over the next decade, the Government needs to ensure that expansion is matched by access to adequate infrastructure funding.

IRU recommends that the 2010-11 budget:

- *Include provision for a \$500 million Higher Education Expansion Capital Fund, with funding distributed on the basis of institution-specific growth targets*
- *Source \$200 million of this funding from a reversal of the deferral of EIF funding announced in the Mid-Year Economic and Fiscal Outlook statement.*

Research

The Government has a goal for Australia to be in the top group of OECD nations for university research and knowledge diffusion. The Review of the National Innovation System highlighted that Australia is falling behind developed and emerging economies in its commitment to investment in research at universities, public research agencies and other bodies conducting public-funded research, with government expenditure on R&D falling well below the average for OECD countries⁶ (p. 65).

Last year's budget addressed the serious shortfalls in research funding for the indirect costs of research. When fully implemented, these initiatives will reduce the degree of cross-subsidisation currently required to fund the full costs of research and will provide strengthened incentive for universities to increase their research efforts.

Universities have also put in place a range of strategies and human resources policies to create incentives for their academic staff to enhance their research productivity and output. These efforts, however, are currently being hampered by the low success rates in the key competitive grant schemes.

Success rates for the Australian Research Council's (ARC's) flagship Discovery Grants program peaked at 31% in 2005 and have since dropped as low as 20% in 2007 and 2009, rising slightly to 23% for funding in 2010. The application process for grants requires a substantial investment of time and effort on the part of university researchers and their institutions.

With success rates this low, many nationally important projects are not supported; in the last funding round, 3143 projects missed out. Low success rates have a deleterious impact on the research community's morale. Success rates for Discovery Grants should not fall below 25% and should be closer to 30%.

Success rates in the ARC's Linkage Grants program are higher, ranging from a maximum of 56% in 2004 to a minimum of 36% in 2006, with the most recent round recording 45%. It is desirable to maintain a success rate of at least 50%, reflecting the

⁶ Cutler & Company Pty Ltd, *venturousaustralia: building strength in innovation*, 2008.

fact that Linkage Grant applications have already been assessed and endorsed by industry and government contributing partners before they are submitted.

In the global knowledge economy, Australia cannot afford to squander its research and innovation potential. Low success rates are not a reflection of the quality of the research being proposed or conducted. The recent trial of the Excellence in Research for Australia (ERA) evaluation of research quality concluded that Australian university research matched or exceeded world performance in all 20 of the physical, chemical and earth sciences fields of research evaluated, with 70% of the fields rated as excellent performers making major international contributions.

Evidence also suggests that the productivity of Australian researchers is high: while government investment in R&D as a percentage of GDP is below the OECD average, scientific articles per million are 20 % above the OECD average⁷.

The government addressed the shortfalls in funding for the indirect costs of research in the 2009-2011 budget. The forthcoming budget needs to target increased success rates so that more of Australia's untapped research potential can be realised.

IRU recommends that the 2010-11 budget:

- Allocate an additional \$100 million per annum to the Australian Research Council to increase success rates in Discovery Grants and Linkage Grants to at least 25% and 50% respectively.

Regional higher education provision

The IRU universities provide higher education in over 35 locations nationally, including city and outer-metropolitan areas, regional centres and remote locations. IRU knows from experience that education needs to be taken to the people rather than vice versa if educational aspirations and outcomes are to be raised. Deep engagement with communities is required, not arms length provision.

Recent demographic analysis⁸ demonstrates that:

- Most of the future growth in the school leaver population will occur in outer suburban areas, and in some States, in non-city locations.
- Regional and outer suburban areas record very low higher education attainment rates compared with inner city areas and represent the most fertile ground for increasing educational attainment rates overall, and in particular for increasing participation by low SES and Indigenous students; and,
- Place is important – higher education attainment rates are strongly impacted by ease of access to university campuses.

The take-up of higher education by rural and regional students has been declining. This clearly needs to be reversed if the Government's higher education attainment and low SES participation targets are to be met.

Delivering higher education in regional areas, however, is more complex and expensive than it is in inner-city locations for a range of reasons: diseconomies of scale; increased costs associated with geographic isolation and distance (e.g. construction, utilities); lack of access to the major facilities available in cities (e.g. state libraries, museums, industry and R&D centres); and, the need to duplicate facilities and services across multi-campus operations. In some locations, the potential to diversify funding sources is also relatively limited.

The relatively higher costs of delivering education to regional areas could readily act as a disincentive to the expansion of regional campuses. IRU strongly supports the need for continued funding injections for regional provision.

The Review of Regional Loading currently being conducted by the Department of Education, Employment and Workplace Relations will investigate a range of key issues, including possible funding models to support regional provision.

⁷ Commonwealth of Australia, *Universities, Innovation and Education Revolution*, May 2009. (p. 12)

⁸ Birrell, B. & Edwards, D., 'The Bradley Review and access to higher education in Australia' in *Australian Universities Review*, Vol. 51, no.1, 2009.

Funding needs to be allocated in this year's budget to at least retain the real value of funding provided in 2009 (\$31.2 million) and to make provision for estimated growth in student load at regional campuses.

IRU recommends that the 2010-11 budget:

- *Continue previous levels of funding for the regional loading, with additional funding allocated to support anticipated expansion of student load on regional campuses.*

About IRU

Innovative Research Universities (IRU) is a network of seven comprehensive universities committed to conducting research of national and international standing and applying their collective expert knowledge, capabilities and resources to enhance the outcomes of higher education.

The members of IRU are:

- Charles Darwin University
- Flinders University
- Griffith University
- James Cook University
- La Trobe University
- Murdoch University
- The University of Newcastle.

We teach over 150,000 students each year, representing 15 per cent of all Australian university enrolments⁹. Over 20% of our domestic undergraduate students are from regional or remote locations, with 19% classified as low SES.

We enrol over 34,000 overseas students each year, drawn from over 120 countries.

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⁹ All figures are for 2008.