

Review of Higher Education Base Funding

IRU Submission

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Table of Contents

Overview and recommendations	3
1. The case for greater investment	5
2. The use of base funding to support teaching and learning, scholarship and research	7
3. The Student contribution	8
4. Defining access to base funding consistent with a demand driven focus.....	10
5. An allocation model that provides incentive for universities to enrol all suitable students	13

Review of Higher Education Base Funding: IRU submission

A positive outcome from the Review of Higher Education Base Funding is essential to the effective implementation of the 2008 Review of Higher Education (Bradley Review).¹

In accepting the bulk of the Bradley recommendations the Government put in train major changes in higher education to achieve a significant increase in the proportion of the population with higher education. Those changes involve funding all Australian students admitted to a place at a funded university backed by a national quality assurance framework to ensure that students are able to achieve learning outcomes of the required level. Universities' capacity to enrol all suitable students and provide the required learning depends on receipt of sufficient resources from Government and student.

The heart of the issue for the Review is to identify the amount of revenue that universities require to achieve the Government's objectives and develop a suitable structure for universities to access that level of revenue through an allocation model for Government funding and a fair and simple system of student contributions.

The Review team has released a consultation paper with a supporting background paper. In response to the paper, and against the Terms of Reference for the Review, the IRU submission targets five main issues:

1. the case for greater investment in Government funded higher education;
2. the use of base funding to support the breadth of university activity across teaching and learning, scholarship and research;
3. determining a simpler, fair approach to student contributions;
4. defining access to base funding consistent with a demand driven focus; and
5. the nature of the allocation model such that it provides sufficient incentive for universities to enrol all suitable students.

Overview and recommendations

The IRU puts forward the following guiding themes.

- There is a clear case for additional public investment per student to support the student centred funding system, being introduced from 2012 to ensure that graduates continue to receive a high quality qualification. This funding should target the attainment of a bachelor qualification.
- The base funding provided is to cover all core activities of a university. These include teaching, research, engagement with communities which use the learning of the university, and the services and facilities that support those activities.

¹ Australian Government, *Review of Australian Higher Education Final Report*, December 2008. Report prepared by Professor Denise Bradley, Mr Peter Noonan, Dr Helen Nugent and Mr Bill Scales.

- The IRU strongly supports caps on student contributions as essential to a demand driven system of publicly funded university places. Universities should compete for students based on the teaching and learning and other benefits they will provide, not the charge they will levy.
- The financial contribution students make to their education should be limited to a level that should not deter any suitable potential student. The current system of multiple maxima has no long term rationale and should be simplified to a single maximum contribution that applies to all students.
- The funding allocation model should be a coherent mechanism that brings together into a single scheme the suite of funding programs and loadings driven by student characteristics, courses, and campuses.

IRU recommendations

1. The IRU recommends that the Review support a further 4.5% increase in base funding to complete the Bradley recommendation for a 10% increase in Government base funding.
2. The IRU recommends that the Review propose support for the capital costs of universities which are expanding to meet the Government target for higher education attainment.
3. The IRU supports the Review Team's argument that scholarship is critical to the role of universities and their staff such that it should be supported by the base funding. This should be extended to explicit recognition that base funding covers the employment of academic staff whose role covers teaching and learning, research, and scholarship.
4. The IRU supports retention of a cap to the charge levied on a student. The IRU considers the amount now paid in total by students to be of the right order to provide a reasonable contribution by students without creating a significant burden on students and their families, currently, or in the future, through HELP repayments.
5. The IRU recommends that the current suite of maxima be replaced by a single maximum charge. The single maximum should be set to generate the same total amount from student charges as would be raised using the current maxima.
6. The IRU recommends that Government funded places for postgraduate coursework qualifications be limited to courses which are the initial degree for a professional area. Funding should be on a comparable basis to undergraduate courses such that all students in the course are Government funded and funding is allocated at the same rate as undergraduate courses in the same field.
7. The IRU recommends that Government funded places for pre-bachelor higher education qualifications continue at the same rate as undergraduate courses in the same field.
8. The IRU recommends that Government funded places for enabling programs be funded at the same rate as undergraduate courses in the same field and that the supplement be set at an amount per EFTSL equal to the HECS-HELP maximum.
9. The IRU proposes that the funding allocation model should be a coherent mechanism that brings together into a single scheme funding driven by load, discipline, load, SES and other equity group status, location, and teaching and learning performance.

10. The IRU recommends that the Review consider the following options for change:
 - simplifying the number of funding bands as part of an overall increase in funding;
 - inclusion of studio based units in a high end funding band;
 - refocusing the regional loading to provide an offset for operating in high cost regional locations with provision for wind back of the funding in line with growth in student numbers;
 - a better definition of load to allow for options to concentrate delivery over a shorter total time frame; and
 - ensuring that all loadings are demand driven, being paid for all eligible students at the set rate.
11. The IRU recommends that the rate of funding should not vary by the level of the course.

1. The case for greater investment

The Review needs to establish the level of funding universities require now, and across the coming ten to twenty years, to provide, with efficiency, a quality university education to the broad range of Australian students whom the Government wishes to complete higher education.

The Bradley report concluded that “there are now clear signs that the quality of the educational experience is declining ... student-to-staff ratios are unacceptably high” leading it to argue that “a significant increase in public investment and funding for higher education is warranted”. It proposed an increase of ten percent to the base grants from the Commonwealth but not an increase to student contributions (Bradley, p xii and xv).

The Government responded in part to the recommended 10% increase in the base funding. The Higher Education Participation and Partnerships Program (HEPPP) and the performance funding stream provide about a 5.5% increase, (the HEPPP funding element to support additional university activity in schools and the community is not included since it does not directly impact on the delivery of teaching and learning or research). Indexation changes will ensure that the value of the funding will not deteriorate as rapidly as previously.

It is now necessary for the Government to commit to provide the remaining 4.5% to address the major pressures on university resources.

The effective operation of universities requires that they attract good quality staff, both academic and general. To do so universities need to offer competitive salaries which consume between 50% and 60% of university revenue. Student teacher interaction remains fundamental to student learning, regardless of the form of learning across distance, web-based and in class room modes of delivery. Across the whole period academic salaries have at best maintained pace with community wage and salary increases but this has been higher than the indexation of funding. For example Griffith University estimates that the salary for a Senior Lecturer (Level C, pt 1) has increased by twice the indexation factor since 1996. The indexation changes now underway substantially reduce this worsening in the future, but do not address the past gap.

In response, universities have had no choice than to reduce the number of teaching staff proportionate to students, with the data on the student to teacher ratio shows that access to academic staff has declined significantly since the mid 1990s. The only period during which the

worsening ratios stabilised was in the mid 2000s when there was per head funding increases beyond indexation and a major increase in student contributions.

In addition, there are substantially more general staff than previously. It is driven by the increase in administrative requirements on universities, the changed needs of students for advice and support, and greater Government requirements for reporting and general Government requirements for administrative due process. Universities engage in much more public promotion and information than previously, necessary to inform potential students as well as to operate effectively in the more competitive market.

Universities have achieved significant efficiency and productivity gains to continue to provide high quality education research and engagement against the reducing value of base funding.

Against the conclusions of Bradley the review team in its paper and its consultations has set out an apparent quandary: universities claim that current funding levels considerably underfund against the resources needed to provide a good quality educational outcome for students; in contrast the Background paper presents Figure 3.3 which appears to show that funding per head, adjusted for inflation, is roughly constant since the early 1990s with funding per head in 2008 higher than in 1996. By contrast Figure 27 of the Bradley report shows funding per head in 2008 as lower than in 1996. The difference is due to the factor used to adjust past year revenue to bring it into comparable 2009 (Review) or 2008 (Bradley) values. Bradley is based on a CPI factor, the Review paper's factor is not defined. The difference in outcome shows the impact of different adjustment factors based on differing approaches to compare today to periods in the past.

Underlying both Figures is the assumption that if universities use the same array of inputs now as twenty years ago the funding should be as sufficient or almost so. However, it is not sufficient for universities to replicate what they did fifteen or twenty years ago. Rather, the nature of what universities do has developed considerably in response to changed expectations for the outcomes they are to produce.

It is beyond the capacity of the IRU to present a detailed modelling of university cost structures now as compared with the early 1990s when the basis for the current funding model was initially determined. However, it is clear that there are major factors which are different.

- Universities now engage with much larger proportion of Australians, a proportion that the Government wishes to increase a further major step transforming the means of teaching and research.

In response universities have developed extensive services over the past two decades to ensure effective learning for students both directly targeting teaching and indirectly through supporting students' broader needs. This includes:

- developing and encouraging academic staff's teaching skills and understanding to ensure best outcomes for the full array of students;
- supporting student learning skills at the university level
- supporting students with career advice and placements.
- Information and other technology requires renewal over short periods due to rapid obsolescence rather than equipment failure.
- University knowledge is of relevance to a wider array of Government, industry and community bodies.

- Funding for capital developments was much more widely available up until the 1990s. The recent decision to remove the Capital Development Pool entrenches the position that the expansion and renewal of university facilities is to come from surpluses from operating revenue, a major additional cost that universities did not previously bear to the same extent. To meet the Government targets for attainment universities, like those of the IRU, need to expand provision beyond the inner city capital districts. This requires funds to support new facilities on existing and potentially new campuses.

The combination of the factors outlined above creates the ongoing pressure for additional Government investment as a necessary factor for universities to educate a significant proportion of Australians to the levels required while maintaining universities as centres for knowledge and research of support to industry, Government and community. The recent BCA statement *Lifting the Quality of Teaching and Learning in Higher Education* raises business concerns that the expansion in places could be undermined if the quality of provision is not re-enforced.

IRU Recommendation

1. The IRU recommends that the Review support a further 4.5% increase in base funding to complete the Bradley recommendation for a 10% increase in Government base funding.
2. The IRU recommends that the Review propose support for the capital costs of universities which are expanding to meet the Government target for higher education attainment.

2. The use of base funding to support teaching and learning, scholarship and research

Base funding through the Commonwealth Grant Scheme is the successor to the operating grant of the 1990s. Over the past two decades universities have generated substantial other revenue driven by the teaching of international students and research and consultancy for business Government and community. In addition, elements previously part of the operating grant have been split off to form the research block grants while Government competitive funding for research has grown substantially. The nature of base funding has thus changed from being the predominant revenue of universities to being one major source. This sometimes leads to it being mislabelled teaching and learning funding.

The Review's papers make clear that base funding has a broad purpose to support the range of university activity. In particular it recognises the importance of scholarship to the effective provision of a university education. This is set out at pp7-8 of the Consultation Paper and at p12 and p17 of the Background Paper.

The IRU strongly supports the ongoing use of base funding to support the full array of university operations. It is consistent with the responsibility for a university to combine teaching and learning with research and engage with local and regional communities (Draft Provider Standards, University category). This distinguishes university programs from other higher education provision.

Base funding is the prime revenue that supports the salaries of academic staff employed to undertake both teaching and research. The research grants that are awarded to universities from nationally competitive grants and similar sources are "grants in aid" which have never been funded at sufficient levels to cover the direct costs of research. Similarly, the funding of indirect costs of

research through the block-funding schemes fall well short of covering these costs (as most recently recognised in the 2009 Allen Consulting report). Further, academics' expertise, which derives from their research, is called upon to support government, industry and the community in many applied ways is based in academic salaries funded through base funding.

Recognising that academic staff, and in support of them most general staff, work across the breadth of university activity it is sensible for the main funding stream to support the same suite of activity.

Base funding is allocated based on universities' enrolment profile as a reasonable means to reflect the broad needs of the university. The role of scholarship as central to a university education is crucial against the Government's objective for 40% of those aged 25-34 have a degree by 2025. To extend the delivery of higher education in response to demand will require universities to employ more suitably skilled staff.

IRU Recommendation

3. The IRU supports the Review Team's argument that scholarship is critical to the role of universities and their staff such that it should be supported by the base funding. This should be extended to explicit recognition that base funding covers the employment of academic staff whose role covers teaching and learning, research, and scholarship.

3. The Student contribution

The IRU strongly supports the Government policy to maintain capped student contributions. The questions for the Review to address are what level of contribution is reasonable and whether and how it should vary across different students.

The IRU rejects the argument that a student demand-driven system must be joined to uncapped student contributions. Rather than an unsustainable half way step to a market, the planned mix of uncapped places and capped charges is a viable system to promote choice of university based on quality and other perceived benefits of a university as the best way for students to gain a suitable higher education.

The cap on student contributions is a necessary part of the system of Government funding for places and income contingent loans to support contributions. Removal of the caps would risk under utilisation of the Government's direct funding and increase unpaid HECS-HELP loans through students committing to higher charges. The one case of unlimited funding for places, tied to uncapped charges backed by loans (at commercial rates), in New Zealand, rapidly became unsustainable due to the loan amounts students incurred.

The IRU position is consistent with the case made in the 2008 Review of Higher Education. The report recommended the use of a market demand factor to give potential students the capacity to select the course they want, with a reasonable chance of being offered a place. The 'market' for universities is to compete for students based on what each university can do using the same broad revenue base.

The IRU considers the current student contribution arrangements are badly in need of a major overhaul to restore coherence to the charges through charging all students on a similar basis. The current discipline by discipline contribution maxima have little rationale. Rather they reflect the accumulation of short term changes. Some of those were to increase the amount paid by students

whether to offset reductions in the Government contribution (1997) or to increase the revenue per student (2005); others looked to stimulate interest in areas of concern through reducing the charge for particular disciplines.

The most recent major change was to move units of commerce, business and accounting from Band 2 to Band 3 (the highest). This change undermined any sense that the higher bands reflected either the likely cost of the course, which has superficial validity, or the potential for graduate earning, a very unsatisfactory basis for setting charges based on generalisations about graduates in particular disciplines.

Rather the change emphasises that there is no good rationale to distinguish the student payment by discipline. Australia requires graduates across a range of disciplines. Students should not be influenced by a cost factor in their choice of course but focus on what is likely to best suit them. That is the nature of a student driven system. It also fits well with research that students will pursue their preference for a course, regardless of the variation in charges. Graduate earnings will then contribute through taxation system to enhanced Government revenue, based on actual student earnings rather than generalisations about particular professions.

Analysis of the choice of course following the introduction of the three band system from 1997 and again the shift of commerce and related units into the highest band from 2008 shows little to no impact. Equally holding down charges for particular disciplines through the national priorities base level student contribution has had limited success in raising either applicant numbers or capability in the target areas. Rather, nursing and education schools united to argue for access to the 25% increase in student contribution amounts from 2005 provided to all other disciplines.

Hence the IRU recommends that the review develop a single common maximum charge that would generate a comparable amount of revenue overall as the current student rates. The Government would then fund the variable additional amounts required to provide courses in each field. The IRU position allows for Governments to set a lower contribution rate from time to time, with compensation to the universities, for courses of national concern where it considers the change will stimulate greater interest.

A single standard or maximum charge is consistent with most international practice in both public and private systems such as the US State systems and the current and proposed English charge.

The IRU has estimated the average student contribution required to raise an amount equal to the student contribution raised under the current arrangements. A standard charge of approximately \$6633 for 1 EFTSL would raise the same amount as the current four maxima. This rate falls between the maxima for band 1 and band 2. If a single maximum were set at either band 1 or band 2 rate there would be a loss to the sector of about \$500 million or a gain of about \$500 million respectively. The figures are estimated to allow reasonable consideration of the proposal, by using the 2011 student contribution rates applied to the 2009 distribution of student load by discipline (latest available public data), for all CGS funded institutions. The actual figures for 2011 will be different but broadly similar.

	Estimated Revenue	Difference to current
Current student contribution maxima:	\$3.043 billion	
All units at Band 1 maxima (\$5442)	\$2.496 billion	-\$0.547 billion
All units at Band 2 maxima (\$7756)	\$3.559 billion	+\$0.516 billion

The IRU recognises that a single band to raise current level of revenue would mean a reduction for some students and an increase for others. As with previous changes to the contribution rates the change would apply to new students only.

An alternative approach is that students should pay a common proportion of the notional revenue for their units. This is dependent on setting the variable funding per discipline in a meaningful way. The consequence is to strengthen assumptions that universities should spend on an area precisely what they receive for it rather than encourage greater diversity in approach, through universities using their total revenue to provide suitable courses for all their students. It would discourage differentiation in the provision of courses and the creation of interdisciplinary programs.

IRU Recommendation

4. The IRU supports retention of a cap to the charge levied on a student. The IRU considers the amount now paid in total by students to be of the right order to provide a reasonable contribution by students without creating a significant burden on students and their families, currently, or in the future, through HELP repayments.
5. The IRU recommends that the current suite of maxima be replaced by a single maximum charge. The single maximum should be set to generate the same total amount from student charges as would be raised using the current maxima.

4. Defining access to base funding consistent with a demand driven focus

The focus for the creation of demand driven funding is on students enrolling in bachelor degrees. The initiative also applies to enrolments in enabling programs, higher education qualifications offered at the diploma and advanced diploma level, and to some postgraduate qualifications subject to course by course Government approval.

In its consultations with institutions the Review team has raised questions about the precise extent of the student eligibility for funding:

- should students of all postgraduate coursework programs be eligible?
- should students of all sub-degree programs, including enabling courses be eligible?

Postgraduate programs

The funding of postgraduate coursework programs requires a clear, consistent, basis for funding that supports Government policy objectives and relates in a coherent way to undergraduate funding and to full fee postgraduate courses.

Government funding for postgraduate courses, other than research degrees, reduced to a small number of courses, primarily for education and nursing, by the mid 2000s. The large majority of students enrolled on a full fee basis, with access to FEE-HELP to reduce access barriers. The Bradley review recommended extension of Government funding to postgraduate courses subject to further analysis of its implications.

Since its endorsement of the Bradley review the Government has considered applications from universities to include funded places within individual courses. The approval process is not consistent with cases of similar courses in the same city being approved for funding in one university and not in another. This should be addressed immediately by DEEWR in advance of any decisions about the longer term arrangements for postgraduate coursework programs.

The number of postgraduate coursework programs, and students, is extensive with over 67,000 domestic EFTSL in 2009. Transforming some of this from fee paying to Government funded has the risk of replacing private funding with Government with little change to the number or mix of students. The main restraint upon this is that Government funding plus a student contribution will usually be less than the full fee equivalent. Hence universities under current arrangements need to balance the higher fee based revenue against broadening the size of a course with additional places at a lower revenue per head.

The IRU is concerned about the potential for Government funding to be diverted from its key objectives through their use to support postgraduate courses. Most postgraduate courses do not directly expand attainment of a higher education qualification but work to deepen the skills of individuals with an existing qualification. Substantial Government money could be used in this way that would be better used to improve the rate of funding for undergraduate programs.

However, as some professional fields move into postgraduate courses as the initial qualification in some institutions Government has agreed to fund these to maintain access to all professional outcomes for the full range of potential students. In addition a growing number of professional bodies require a second, postgraduate, qualification for endorsement to practice.

It is these programs where Government funding should be targeted but allocated on a basis consistent with undergraduate programs. That raises two issues.

Postgraduate coursework should be funded at the same discipline rate as undergraduate qualifications to avoid perverse incentives. Where they are delivered on an accelerated timetable this should be funded by recognising the amount of load delivered over the shorter timeframe.

If such courses were funded at a higher level it would increase the likelihood of universities offering such places putting more pressure on Government expenditure and reducing fee based enrolments. It would also encourage universities to rework bachelor courses into the postgraduate AQF levels, adding to the suite of graduate professional degrees, to gain the higher level of funding.

The second issue is that all students in undergraduate programs are Government funded. Where a postgraduate course is to access the same funding it should be on the same basis that all students in

the course are funded. Other courses, the majority of the current provision, should remain fee based for all students, with access to FEE-HELP for students, continuing current practice.

Hence the solution is to limit Government funding to those courses which are the initial degree for a profession and provide the funding on the same basis as for undergraduate programs – that all students in a funded course are in receipt of Government funding paying a contribution, with Government funding set to the same rate.

Pre-bachelor programs

The case for pre-bachelor programs is quite different. These programs are currently few in number (approximately 17,800 EFTSL in 2009), targeting students who need to establish the learning and study skills required for bachelor level study. These courses may be enabling (not leading to a specific qualification) or providing the basis for higher level study through completion of a diploma or advanced diploma. Their students come from diverse backgrounds and often have limited experience with formal education requiring intensive learning support, which if not met can lead to high levels of attrition.

The strong focus on widening access to higher education, expressed through the Government's 20% target for low-SES enrolments, has placed greater attention on sub-degree programs as a way to increase the number of people ready for bachelor level study. It also extends to VET diplomas and advanced diplomas, many of which have links to bachelor programs.

Higher education sub-degree programs are currently eligible for Government funding. The situation for enabling programs is different than that for other Diploma or Advanced Diploma courses. For enabling programs universities are provided with a loading (in place of the student contribution) from a pool of funding that has a total fixed amount; this total amount does not vary with increased enrolments. As enrolment in enabling programs increases the dollar amount for which universities are supplemented per student actually decreases. Changes to the funding of enabling programs are required if expansion of these programs is to continue.

The IRU supports the implied outcome for pre-bachelor programs that provide credit in undergraduate programs (ie. not enabling programs), but given the high rate of attrition for low SES and non-traditional cohorts, there is a very real risk that many of these students will acquire a HECS debt with no academic credit. This outcome will be counterproductive and will act as a real disincentive for these students to continue with higher education. For students who successfully complete with suitable levels of credit for the pre-bachelor study the additional cost for completing a bachelor degree will be moderate. Since any increase in this area is consistent with the Government objective, assuming a reasonable flow onto bachelor degrees, there is no argument to restrict numbers or exclude these students.

The amount of funding should be consistent with that for bachelor programs to ensure that universities are able to develop learning skills as the basis for entry to a bachelor degree for people who require support to make the transition. This requires a strong focus on students, and is not a cheap educational option.

IRU Recommendation

6. The IRU recommends that Government funded places for postgraduate coursework qualifications be limited to courses which are the initial degree for a professional area. Funding should be on a comparable basis to undergraduate courses such that all students in the course

are Government funded and funding is allocated at the same rate as undergraduate courses in the same field.

7. The IRU recommends that Government funded places for pre-bachelor higher education qualifications continue at the same rate as undergraduate courses in the same field.
8. The IRU recommends that Government funded places for enabling programs be funded at the same rate as undergraduate courses in the same field and that the supplement be set at an amount per EFTSL equal to the HECS-HELP maximum.

5. An allocation model that provides incentive for universities to enrol all suitable students

The final product for the Review should be a renewed allocation model encompassing Government funding and student contributions. The measure for the model is that it gives universities sufficient incentive to enrol all suitable students in response to students' preferences for course and provider while retaining university flexibility in the use of all revenue.

At its simplest an allocation model would allocate universities funding at the same amount for each student enrolled thus recognising university enrolments but not otherwise differentiating. The arguments against such a model are that:

- actual differences in the cost of some courses compared to others will discourage universities from enrolling in higher cost areas;
- some groups of students are likely to require higher levels of support to achieve their optimum outcome; and
- some institutions may have cost factors not related to course or student that make their costs noticeably higher.

These arguments are concerned with ensuring that the funding model is essentially neutral in determining how student and institution determine their best fit.

Design Issues

There are various factors that will determine how robust a model will be in practice which need to be considered in constructing a more coherent future allocation mechanism that can bring together the CGS with the array of loadings currently used to determine funding.

- The various Government funding programs should work together to provide a coherent set of incentives and support to universities. Hence the review should consider the interaction of the CGS with other Government programs that support the operation of the university and in particular teaching and learning such as performance reward funding and the various loadings for low-SES, regional students, enabling students, and to meet the cost of practicum and placements in certain disciplines.
- The model needs to take account of institutional interpretation of allocation mechanisms. Most universities use the current CGS funding model as the basis for internal allocations although Government funding is provided as an overall estimate of the relative need of the institution compared to others with no requirement to expend funds on the same basis. It is important that the funding model encourage universities to take responsibility for the best

use of funds provided. The more specific the funding inputs the more it encourages a complementary granular approach to internal university allocations.

- There could also be cases where the Government wishes to encourage a particular outcome such that it offers financial rewards to one or both of institution and student. Past experience is that it is hard to influence student preferences significantly but that institutions will respond to such incentives. Such elements have a place to effect short term change but tend to distort activity in the longer term towards gaining funding over delivering the best programs to students.
- The funding model should not distort university provision such that funding rather than educational factors drive decisions about what courses to provide, how to provide them, and how many or which students to enrol in them. This is the risk from the long term use of any given proxy indicator, where universities learn to target the indicator to the potential neglect of the underlying outcome.

Discipline variables

IRU supports continuation of broad discipline based cost differences as the key driver of the allocation model.

The current variables by discipline go back to the 1990 relative funding model rates for undergraduate programs, with the subsequent changes altering the relativity at the margin only.

Universities have used the revenue provided roughly in line with those relativities, such that a study of university expenditure is likely to confirm them in a circular argument. The Review has commissioned work on the cost drivers for universities. In addition the various discipline bodies are providing submissions about the particular challenge their discipline(s) face. If these produce a consistent pattern there may be the basis for reworking the relativities.

The one area where the IRU particular considers that the current funding badly understates the actual need is the support for studio based creative courses. The impact of standard student to staff ratios if applied to such courses would be extremely detrimental. To avoid this universities support these areas to ensure they are taught effectively. Placement of studio units in a higher band would cover the cost of such courses at a more realistic level.

A possible generic view is that the relativities have come together since 1990 based on the greater use of computer technology pushing up costs in the lower costs areas and reducing them in higher costs areas through efficiencies from greater use of simulation.

If so, there would be a case to simplify the number of funding bands, the main distinctive factor between Australia and similar funding systems elsewhere. Six of the eleven discipline bands (taking account of both CGS and student contributions) fall within a narrow range between \$13,980 and \$18,229 (2010, p19 Background paper). In the context of additional funding by Government the small differentials should be removed to produce a set of five to seven bands. In reworking the grouping of disciplines the English approach of defining bands by the type of teaching (clinical, laboratory, studio) provides a possible model. However, without an increase in funding the simplification would not outweigh the necessary reduction in some bands and the redistributive impact from university to university.

Level of course

The IRU does not consider it necessary to distinguish funding by the level of course for either postgraduate courses or AQF 5 and 6 qualifications. The evidence for higher (or lower) necessary costs in each case is negligible, with universities expanding Government funding postgraduate courses under the current funding arrangements and considering with care the value of extending pre-bachelor options.

In both cases the IRU considers that funding should remain standard to encourage universities to create programs to meet students' educational needs through use of the full allocation for all students and avoid incentives to enrol students in ways that optimise revenue.

Determining load for courses

The CGS is based on a traditional full time load equivalent of one delivered across a standard two semester year. The majority of courses retain this approach but there are growing numbers of others that do not through the use of trimester arrangements or extended semesters. These open up the potential for a student to undertake more than the current standard 1 EFTSL in a calendar year, giving students an alternative to consider. Universities should have the capacity to provide courses over a shorter period through receiving the same total funding for providing overall the same amount of teaching. Suitable safeguards would ensure that the total load funded for a student completing a course is equivalent, regardless of the semester or trimester structure of the course.

Student characteristics

The Low-SES loading targets enrolment of students from backgrounds that overall are under-represented and also acts as a proxy for recognising university programs to support students' learning skills and needs, an important factor for underperformance from students from some backgrounds. It should be an explicit part of the base funding allocation, not treating distinctively as an Other Grant with its own expenditure based reporting requirements.²

It is difficult to measure directly student needs for a high level of university support services. It needs to be addressed through proxies that reflect the likelihood such as low-SES but could extend to factors such as students with whose basis for entry is low against externally measured benchmarks.

Enabling loading

Students of enabling programs do not pay a student contribution, recognising that the programs are intended to establish capacity for formal study. Enabling students come from diverse backgrounds and often have limited experience with formal education. They often have intensive learning support needs, which if not met can lead to high levels of attrition. The funding for these initial programs should be equal to that provided for bachelor programs.

The enabling loading was created to offset the lack of student contribution. Initially it was set to cover a contribution equal to the lower band of student contribution. Over time the structure of the loading has led to its value reducing since it is a fixed amount that is allocated according to the total number of enabling students. As the number of students grows the loading per student shrinks. For \$2011 is it \$2044, less than 40% of the band one student contribution rate.

² IRU submission on HEPPP reporting requirements <http://www.iru.edu.au/policy.aspx>

Hence for students of enabling programs universities should receive a loading equal to the student contribution that is not charged. Consistent with the demand driven funding approach the loading should be paid for all enabling students. This would bring the enabling loading into line with the nursing clinical placement, teaching practicum and medical student loadings.

Course characteristics

An ongoing concern for Government is where some courses or areas of teaching dwindle through lack of students despite an apparent regional or national interest to encourage provision. Languages have been a common concern but so too have been small professional niches. The issue is that with better numbers of students the standard funding models would suffice. Where there are not sufficient students the area will inevitably be closed down. Demand driven funding could intensify the process through explicitly directing funding to students.

To counter this where there is a Government level endorsement of the need to ensure provision in an area it could be supported through:

- identifying the lead university to maintain the area;
- involve other universities whose students might link to the lead university;
- identify a threshold enrolment of viability;
- fund to ensure the threshold revenue is generated, with clear provision for winding back the funding if numbers return and for withdrawal should performance falter.

Supporting provision in the regions

The introduction of demand driven funding has led to arguments that some institutions will lose students placing their viability at risk. One group targeted is universities or campuses of universities in regional areas should their students choose to enrol in metropolitan universities and campuses. The assumption is that enrolment is for lack of available places elsewhere rather than any local preference. There are also large numbers of students who enrol, often by distance, from regionally based universities.

IRU universities are confident in their capacity to attract a growing number of students but are conscious of the high costs to operate outside major metropolitan regions. Hence the substantive question is the cost impact of operating from some regions.

The regional loading serves to address this through a loading initially calculated on student numbers by a distance factor but since frozen. The case for additional support is strong, the amount remains a question of judgement. The arrangements should recognise that as institutions grow the need for such support will reduce, hence the mechanism should provide for withdrawal but at a rate that does not create a reason not to expand.

Performance funding

The teaching and learning performance framework now being implemented to carry through the Bradley recommendation should be considered one element of the base funding provided to universities. It thus adds an aspect focussed on how well universities do with the funds received to balance the otherwise input driven set of factors. The details of how the performance element is structured remain an area for further work.

The Review discussion paper opens up questions about funding that is substantially or primarily driven by outputs. For example the Netherlands funds its universities based on a mix of first year enrolments and completions. The notional gain of such an approach is that it focuses on whether the desired outcome of graduates is being achieved. However, the evidence suggests that Australian completion rates are within the international standard. Efforts to improve them are important but only if there remains a strong focus on the quality of the education being provided. Funding for completions (of qualification or of units within a qualification) can create unwanted incentives to pass students who have not yet acquired sufficient knowledge or skill.

The Performance fund provides the additional incentive to consider outcomes without distorting university provision.

IRU Recommendation

9. The IRU proposes that the funding allocation model should be a coherent mechanism that brings together into a single scheme funding driven by load, discipline, load, SES and other equity group status, location, and teaching and learning performance.
10. The IRU recommends that the Review consider the following options for change:
 - simplifying the number of funding bands as part of an overall increase in funding;
 - inclusion of studio based units in a high end funding band;
 - refocusing the regional loading to provide an offset for operating in high cost regional locations with provision for wind back of the funding in line with growth in student numbers;
 - a better definition of load to allow for options to concentrate delivery over a shorter total time frame; and
 - ensuring that all loadings are demand driven, being paid for all eligible students at the set rate.
11. The IRU recommends that the rate of funding should not vary by the level of the course.