Higher Education Infrastructure Working Group (HEIWG): IRU response

Overview

The evidence from the PhillipsKPA report and the tenor of the IRU's discussion with the Working Group confirms the considerable diversity across the sector be it in the state of capital infrastructure, degree of universities' autonomy from the respective state government or current level of borrowing. For any university its position changes from year to year in response to infrastructure investment decisions and other financial decisions.

The IRU supports creation of a medium term strategic government approach to higher education infrastructure that addresses:

- Government's capacity to invest in higher education infrastructure, other than high cost cross institutional research needs;
- setting realistic levels of State Government controls and reporting that supports effective, timely action by universities while meeting States' needs to be aware of the actions of State instrumentalities;
- Government support for greater private sector and philanthropic investment, in response to proposals from the Working Group or others for how to raise investment from both sources.

The following sections address the questions set out in the Working Group's request to meet the IRU. Through them we cover the main points made in the IRU and HEIWG meeting:

1. the impact of State Government requirements for loans, surpluses and use of land. These are significant but variable;
2. impact of Councils, where experience with major investments can sometimes be low, even with the generally smaller, more skills-based, councils most universities now have;
3. ensure focus is given to digital infrastructure needs, not just physical;
4. philanthropy tends to target recurrent uses, where the outcome is clear to the donor, rather than support for buildings and infrastructure;
5. interest in opportunities that open up new options, such as:
    - collective bond arrangements, giving ongoing access to funds when needed, with long term borrowing rates shared across participating institutions
    - to mix Government and private investment through private support for the infrastructure with Government commitments to recurrent funding for its use;
6. IRU members are using debt. The extent varies and reflects recent histories. There is some tendency to pay down debt to reduce risks for uncertain future arrangements.

Item 1: General Observations on the PhillipsKPA (PKPA) report

- IRU challenges the assertion in the PKPA report that "the sector has generally shown the capacity to generate sufficient financial resources from its operating activities including depreciation to deliver its infrastructure programs over the triennium…"[1]. This statement implies a benchmark of adequacy that is not explained. No university considers that it has 'adequate' capacity relative to its aspirations.
- The tendency for universities to have annual surpluses is a result of being non for profit bodies operating within the revenue streams available to them. The level of surplus can be misleading through the inclusion of funds earmarked by external bodies for particular purposes, commonly research projects.
- The use of averages in the PKPA report disguises the information provided. Use of the report would be better focused at the ranges of outcomes, and the evidence they show for considerable variety within universities.

Item 2-4: Factors impacting the borrowing behaviour of institutions

- Institutional size and location are critical to how infrastructure is developed and financed.
  - In the tropics (e.g. CDU or JCU), there are significant energy and maintenance costs from air-conditioning and the impact of weather on the buildings, including being resistant to major storms.
  - In other contexts, other factors come into play such as fluctuating demand and prices for student accommodation.
- The removal of Government capital grant programs over the past half-decade, other than the major Education Investment Fund projects, has pushed universities to find funds internally or via borrowings, to be repaid from revenue. This is the case for the vast majority of standard building and infrastructure development and redevelopment. EIF was for major novel investments, often with a strong research outcomes focus.
- In some states, borrowing for capital investments is a complicated process requiring the Treasurer's approval or requirements about the generation of annual surpluses. Universities would be better placed to make considered decision about debt if there were consistent rules from States that ensure sensible decisions rather than making borrowing unnecessarily complex to do.
- Not all Universities are necessarily paying down debt. Some IRU universities are currently taking on debt. This reflects recent histories, with a ramping up of renewal and replacement of older buildings, in response to many IRU members working with many 35 to 50 year old buildings designed for different higher education delivery.
- There is some tendency to pay down debt to reduce risks for uncertain future arrangements. Griffith, which has used borrowing to support much work on both its new Gold Coast campus and renewal of its original Nathan campus, has been paying down debt in response to the Queensland government's encouragement to do so.
- Some Universities, for example JCU, have created revenue-generating buildings which are full or partly self-funding, including depreciation.

[1] Pg. 41 of the PhillipsKPA report (Report to HEIWG)

Innovative Research Universities

Item 5: Impact of deregulation on the funding of Research Infrastructure

- The deregulation debate has reignited arguments for research and teaching to be funded distinctly. Despite loose statements to the contrary, the Commonwealth Grant Scheme funds are not for 'teaching' but support any of the array of activities a university can pursue. Student are the driver of the allocation, on the assumption that their number and discipline is a robust proxy for the funds needed for all activities.

  Over time there has been greater use of explicit additional research programs, and sometimes extracts form the base grant to allow this. It is possible that a further excision may occur.

  Deregulation of student fees is now not likely until 2017 at the earliest, potentially not for some years after that. Nevertheless the need to consider its impact remains, but the potential to test theory and rumour with practice will not occur for some time.

- Base levels of research infrastructure are supported through the base revenue plus the explicit research programs through the research block grants. The role of student charges may be seen as ambiguous, with formally no requirements for how student payments are used, they are part of university revenue. In a deregulated world, there may be greater pressure to show use of student derived income. However, to the extent that students will pay more for a university with a strong research record there is a logic that they would expect some of their fees to ensure the research continues at the level expected.
- In sum, should deregulation come to pass universities should continue to be able to invest in local research capacity including infrastructure but the need for Government investment will remain strong.

Item 6: Accommodating anticipated growth in student numbers within existing space footprints

- A 2010 PhillipsKPA report for the Victorian Growth Areas Authority concluded that for outer metropolitan Melbourne there was no lack of available land on existing university campuses. The challenge was to provide the buildings and other resources to use that land as demand increased and to keep campuses operational until demand reached higher levels. The report is available at http://www.mpa.vic.gov.au/wp-content/Assets/Files/Phillips%20KPA%20Report.pdf
- The problem is that space is often available but it is not fit for purpose. Digital infrastructure requires full roll out across universities and will require renewal at highly rapid rates. Older facilities were designed prior to any appreciation of how digital provision should change delivery, in particular reducing use of large lectures. Supporting staff and student web access remains a challenge, particularly for campuses furthest from the major cities. Among the IRU CDU has a predominantly off campus student population.

Item 7: Existing Restrictions on Universities

- Though in New South Wales there have been some changes giving universities more autonomy when it comes to borrowing, this is not necessarily the case for other states. The impact of State Government requirements for loans, surpluses and use of land are significant but variable. For instance in Victoria, there are considerable restrictions from the State Government with regard to borrowing, disposal of assets and lease of land. In other states, permission from the Treasurer is required for borrowing whereas in other states, some Universities need to go through the Supreme Court to dispose of land or building leases due to the nature of the original gifting of the land.

- It would be a major outcome for HEIWG if it provided the basis for the Commonwealth to work with the States and Territory to achieve realistic levels of State Government controls and reporting that supports effective, timely action by universities while meeting States' needs to be aware of the actions of State instrumentalities.
- Dealing with University Councils can also be challenging particularly when members' experience with major investments is limited even with the generally smaller, more skills-based councils now in place. Research investments can be particularly challenging for all members to understand sufficiently the purpose and outcome from the investment to make a considered decision to support it.

Item 8: Policy settings enabling Universities to invest in infrastructure

- The IRU is wary of an assumption that universities should fund infrastructure entirely from standard revenue flows. It remains for Government to invest to ensure sufficient facilities for both teaching and research, particularly to ensure parity of opportunity across all universities.
- A step change is required that would significantly alter the way in which successive governments approach infrastructure. Rather than adopting a three year electoral timeframe, it would make much more sense to follow an approach whereby there is a long-term investment in capital infrastructure. For example, Saskatoon in Canada where the capital investment was designed, built and guaranteed by government for 25 years.
- The IRU members are interested in new approaches to sourcing infrastructure investment. This includes those raised in our meeting with the Working Group:
    - collective bond arrangements, giving ongoing access to funds when needed, with long term borrowing rates shared across participating institutions
    - mixing government and private investment for the building of the infrastructure itself while the running of the infrastructure would be ensured through government commitments to recurrent funding.
- IRU members' receipts from philanthropic contributions tend to target recurrent uses, where the outcome is clear to the donor, rather than support for buildings and infrastructure.

20 April 2015