Innovative Research Universities

IRU Brief

Universities are required to do more than teach

Meeting the three requirements to be a university

Late in 2019, the Government endorsed that an Australian university must combine teaching and research, with industry engagement, civic leadership, and community engagement. This decision raised the threshold of research required of a university and made the broader community impact of the university an explicit task.

The Job-Ready Graduates (JRG) changes make it harder for universities to achieve all three outcomes.

This is because, for the first time, JRG seeks to align the revenue per student tightly to the estimate of the average expenditure on **teaching** for a discipline.

JRG continues a decade-long trend to transform the major Commonwealth funding program, from one that uses student numbers to estimate funding for each university towards tying funding directly to its use for student education.

This alignment of funding may look sensible, but it ignores how universities are to achieve the three-part goal the Government has set for them.

For the majority of academics, their salary for the research they do is reliant on funding from the Commonwealth Grant Scheme (CGS) and student contributions. Outside the CGS, no Commonwealth funding program covers the base salary and related research costs of academics, with the facilities and resources required to do the research.

The funds from ARC and NHMRC assume that the researcher's salary and basic resources are provided ($1.3 billion in 2018). Industry and others that contract research usually assume the same ($2.4 billion in 2018). The Research Training Program ($1.0 billion in 2020) supports research students. The Research Support Program ($900 million in 2020) targets the additional costs of major research projects, to support external funded projects and to allow some targeted research development.

At heart, it is the flexibility to use Commonwealth Grant Scheme funding for the best outcomes that allows universities to achieve their teaching, research and community engagement requirements. Along with revenue from international students paying for university education, that is, education from an institution that combines teaching, research and civic leadership and community engagement.

The JRG was designed to respond to the looming boom in the number of young people across the 2020s. It proposes to squeeze revenue from the CGS, the only government grant that allows universities to respond in times of crisis and to plan for the future.

As Covid-19 struck, following a summer of bushfires, the expectations that universities would refocus research, teaching and support to respond was both strong and correct. Universities did respond. They became crisis shelters in areas affected by bushfires, and they redirected research to the challenges of Covid-19.

The impact of Covid-19 on universities severely constrains their capacity to educate international students, and therefore the breadth of qualifications and subjects within them available to Australian students is reduced. The impact on research looks substantial through the loss of fee revenue and reduced industry investment.

While universities are adjusting to all these changes, it is a very risky strategy to try to squeeze revenue from the only major government grant that allows them to play their role in returning Australia to a fully functioning economy and society.

The assessment of teaching expenditure

The Deloittes Access Economics report that underpins the assessment of expenditure on teaching reflects the best efforts of universities and Deloittes to split out the university costs that are directly attributable to teaching. This means that expenses for all other activities are excluded.

Setting funding to cover strictly direct teaching expenditure avoids supporting the two other roles a university is required to perform: research and industry engagement, civic leadership, and community engagement.

The Deloittes assessment includes a proportion of depreciation and similar expenses to cover the contribution of facilities to teaching. It does not cover the use of annual surpluses to invest in the renewal of the university. Tying funding to meeting just the identified direct expenses reduces the potential to generate the annual surplus required to invest in the future needs of the university.

There is a tension between wishing universities to be distinctive in their delivery, to use their revenue to best advantage and the expectation that precisely $20,200 be spent on each nursing student each year.

That universities do each spend roughly similar amounts on each discipline is a natural result of several decades of funding for disciplines being roughly similar to current funding levels.

The idea that the Deloittes report estimates are precise sits uneasily with the grouping of disparate disciplines at the same level, for example, the alignment of nursing and languages into one discrete cluster. It is clear that the grouping of disciplines and the level of government and student contribution continue to be set to be broadly right, not precisely correct.

Because it only measures teaching expenditure, the JRG reduces revenue per student for universities.

The proposed revenue for STEM, agriculture, and several of the health sciences are particularly concerning for universities which are being asked to enrol more of these students by the Government.

The past evidence is clear that growth in disciplines is tied to university revenue incentives for them. Why would universities enrol more students in engineering if they receive almost $5,000 less per student to do so?

Table one sets out the impact of reduced revenue for each major discipline.

Innovative Research Universities

Table one: Difference in funding by discipline, current system to JRG

	Difference per EFTSL		
Field	CGS	Student	Total
Communications	-$12,447	$7,696	-$4,751
Humanities	-$5,126	$7,696	$2,570
Law & Economics	-$1,137	$3,145	$2,008
Management & Commerce	-$1,137	$3,145	$2,008
Society & Culture	-$9,915	$7,696	-$2,219
Clinical Psychology	-$297	-$2,854	-$3,151
Education	$1,788	-$2,854	-$1,066
English	$7,024	-$2,854	$4,170
Mathematics	$2,235	-$5,748	-$3,513
Languages	$2,703	-$2,854	-$151
Nursing	$1,125	-$2,854	-$1,729
Allied health	-$297	-$1,748	-$2,045
Architecture & building	$2,235	-$1,748	$487
Creative Arts	-$297	$1,146	$849
Health	$2,235	-$1,748	$487
Information technology	$2,235	-$1,748	$487
Engineering	-$3,010	-$1,748	-$4,758
Environmental Studies	-$8,196	-$1,748	-$9,944
Science	-$3,010	-$1,748	-$4,758
Agriculture	$2,554	-$5,748	-$3,194
Dental	$2,554	-$55	$2,499
Medicine	$2,554	-$55	$2,499
Vet Science	$2,554	-$55	$2,499

Avoid the VET outcome

Much of the Government's arguments echo those of VET funding changes over the past 15 years.

The challenges of higher education are clear. That the challenges of VET are worse is very clear. To introduce the failed nostrums of VET funding reform from early in the century to higher education looks an unlikely success story.

The VET sector shows the risks from long-term application of efficient pricing theory. Setting the price for a given qualification to that of the most efficient and sufficiently capable provider across all areas only served to gut the capacity of the major providers, the TAFEs, to respond to changes in need, and to address the more difficult cases whether that be regions, students and industries.

VET has more rationale for its changes of emphasis for which industry areas should be encouraged, yet there is little evidence that the various different state preferences produce a good long-term outcome.

In a context of uncertain work futures, the value of the degree that prepares for the longer-term is very clear. That requires continuity and responsiveness that allows students to drive which areas grow, and which shrink.

IRU solution

The proposed JRG funding and charges cluster should ensure that the average funding per student remains at current levels as set out in the model in Table one. The structure intentionally preserves the grouping of disciplines the Government has developed through JRG, with the relative amount of revenue from one group to the next similar to those the Government proposes.

Innovative Research Universities

Table one: IRU model for mix of student and government contributions

Disciplines	Government	Student	University
Management & Commerce, Arts, Humanities (excl. languages), Law, Economics & Communications	$ 2,400	$ 11,400	**$ 13,800**
Teaching, Postgraduate Clinical Psychology, Maths & English	$14,000	$ 6,600	**$ 20,600**
Nursing, Languages	$ 15,900	$ 6,600	**$ 22,500**
Health, Architecture, Information Technology, Creative Arts	$ 14,000	$ 9,100	**$ 23,100**
Engineering, Environmental Studies & Science	$ 20,000	$ 9,100	**$ 29,100**
Agriculture	$ 27,000	$ 6,600	**$ 33,600**
Medical, Dental & Veterinary Science	$ 27,000	$ 11,300	**$ 38,300**

The model:

- maintains the total revenue per student (EFTSL) to universities by improving the Government rates to ensure a better alignment of incentives for students and university.
- moderates the range of student charges, keeping the current highest rate rounded up at $11,400, and maintaining a reduction in charge for disciplines in the lower two groups.

The Government's proposed Commonwealth and student contribution rates are set out in Table two for ease of comparison.

Table two: JRG proposed levels of student and government contributions

Disciplines	Government	Student	University
Management & Commerce, Arts, Humanities (excl. languages), Law, Economics & Communications	$ 1,100	$14,500	**$15,600**
Teaching, Postgraduate Clinical Psychology, Maths & English	$13,250	$3,950	**$17,200**
Nursing, Languages	$ 16,250	$3,950	**$20,200**
Health, Architecture, Information Technology, Creative Arts	$ 13,250	$7,950	**$21,200**
Engineering, Environmental Studies & Science	$ 16,250	$7,950	**$24,200**
Agriculture	$ 27,000	$3,950	**$30,950**
Medical, Dental & Veterinary Science	$ 27,000	$11,300	**$38,300**

A full explanation of the IRU Funding and Charges Matrix is published in IRU JRG Brief One *Improving the rates: Government funding and student charges*

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