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La Trobe University Submission
National Commission of Audit

La Trobe University welcomes the opportunity to contribute to the National Commission of Audit.

Queries in the first instance should be directed to: [REDACTED], Chief of Staff,
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Yours sincerely

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La Trobe University Submission

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Scope of government

This submission responds to questions of whether higher education is an activity that should be undertaken by government, whether the Commonwealth should retain direct involvement, and whether the activity can be conducted more efficiently by efficiently by the private sector, the not-for-profit sector, the States/Territories, or local government.

The Commonwealth's role in higher education

The Commonwealth government plays a significant role in the funding and regulation of higher education. Australia's higher education system is funded through direct Commonwealth grants for teaching and research and Commonwealth payments through various HELP schemes. In 2011 Australian higher education providers received \$13.3 billion of income through the Commonwealth, accounting for 56% of sector income¹. The scope of government involvement in higher education is a matter of keen interest, and warrants consideration of the underlying purposes of government involvement and investment.

The purposes of higher education

The purposes of Australia's higher education system are articulated in the Higher Education Support Act (2003) (HESA). Whilst government policy and funding of higher education is broader than HESA, this act provides an overarching description of the intent of government higher education policy, and includes reference to:

- Contributing to cultural and intellectual life;
- Meeting social and economic needs for a highly educated and skilled population;
- Promoting free intellectual inquiry in learning, teaching and research;
- Enabling persons to take on leadership roles in intellectual, cultural, economic and social development of their communities;
- Creation and advancement of knowledge;
- Application of knowledge and discoveries to the betterment of communities in Australia and internationally;
- Recognising that universities are established as autonomous institutions under Commonwealth, State and Territory laws;

¹ 2011 Financial Reports of Higher Education Providers, October 2012, Department of Industry, Innovation, Science, Research and Tertiary Education

- To strengthen Australia's knowledge base and enhance the contribution of Australia's research capabilities to national economic development, international competitiveness and the attainment of social goals.

There would be little credible dispute that higher education plays a critical role in Australia's economic, social and cultural development, and that higher education will continue as a fundamental nation-building activity in the long term. The Commission of Audit deliberately questions of whether Commonwealth involvement in funding and regulating higher education is warranted.

Funding Australian higher education

The expansion of Australian higher education over previous decades has been made possible by an increase in government investment and a co-contribution of students to the cost of their education. Australia's income contingent loan scheme has removed the up-front cost barriers to the participation of students, and is a policy innovation that has been emulated across the world. The taxation powers of the Commonwealth and centrality of the income contingent loan system to the funding of teaching and learning in higher education makes the Commonwealth the logical responsible authority for Australian higher education. The continued involvement of the Commonwealth in funding and supporting Australian higher education is warranted as the most efficient mechanism for maintaining an internationally competitive, high quality higher education system that achieves the significant national objectives outlined above.

The magnitude of government funding for higher education has grown significantly over recent years, but by international comparisons, Australia's public investment in higher education is moderate. Australian spending on tertiary education ranks 11th in the OECD, and government spending on tertiary education ranks only 19th in the OECD². There is a case for continuation of funding, and an increasing in funding as economic circumstances will allow.

Government funding of Australian higher education is achieved through multiple channels, including the Department of Education, and government agencies such as the Australian Research Council and National Health and Medical Research Council. There has been long term bi-partisan support and recognition for the role of government in investing in research as an investment in Australia's productivity and future development. Australia's higher education expenditure on research and development has grown from 0.38 % of GDP (\$1.83 billion) in 1995 to 0.58% of GDP (8.2 billion) in 2010³. The growth in higher education expenditure on research and development is in keeping with Australia's gross expenditure on research and development, which grew from 1.5% of GDP to 2.2% of GDP over the same period.

² Australian Innovation System Report 2013, Department of Industry page 86

³ Australian Innovation System Report 2013, Department of Industry page 112

The taxation powers of the Commonwealth and national importance of innovation and research to Australia's long term prosperity warrant the continued involvement of the Commonwealth in funding and supporting research in Australian higher education.

Efficiency and effectiveness of government expenditure

Demand Driven Funding for Teaching and Learning

Government investment in teaching and learning through direct funding, the income contingent loan system and income support measures is a major government outlay. The effective and efficient distribution of these resources has been the focal point of significant recent reforms, particularly the establishment of a demand driven system for undergraduate Commonwealth Supported Places. The Demand Driven System replaced an inefficient and ineffective system of government control over the distribution of places, and has, on the whole, delivered positive outcomes for the higher education sector against its underlying objectives.

The Demand Driven System has only been operating formally since 2012, making it premature to assess the medium to long term implications. There is evidence however, that in anticipating the Demand Driven System, the sector expanded to meet underlying demand. Growth in demand for higher education, measured by applications to Tertiary Admission Centres has stabilised, and growth rates in student enrolments will also stabilise. Growth in student enrolments, have aligned broadly with economic needs, although there is scope for fine-tuning the system to better align student enrolments with industry, occupation and geographic requirements. The Review of the Demand Driven Funding System will contribute to this fine-tuning, but there is no need for any fundamental change to the funding system. The Demand Driven System is the most effective and efficient mechanism for allocation of funding across Australia's higher education system.

The efficacy of the Demand Driven System is related to funding regulation around Australian higher education. The current system sets Commonwealth and student contributions for a Commonwealth Supported Place. There are some exceptions where institutions can levy a higher fee for domestic students (e.g. Summer Schools), but these account for a small proportion of overall system funding. Price controls provide budget certainty for government, optimise the quality of higher education across the sector, and ensure equity of access.

There are recurring calls in some parts of the higher education sector for institutions to be able to set their own fees and charges for undergraduate students. This is already the case for international students and many postgraduate students. Restrictions to the fees that can be levied in higher education may be seen as an undue regulatory burden. However, because the government underwrites the funding of higher education through income contingent loans, fee increases that are likely to occur through moderating of regulatory restrictions are likely to increase the burden

on tax payers. It is in Australia's interests for those who are suitably capable, prepared and interested to be able to access higher education regardless of financial means. Reform of higher education funding policy introduces significant risks to government and undermine the broader equity objectives of the higher education system. A consequence of fee increases is greater impost to Government through the income contingent loan system, for limited gains against the underlying quality, efficiency and equity of access objectives of the system.

Open and Competitive Research Funding

In an increasingly globalised and technologically advanced global economy, the flow of knowledge and innovation is critical to national prosperity. Whilst Australia's contribution to the global innovation system is small, national capacity to absorb, translate and contribute to innovation is critical. Market-based mechanisms are most suitable for ensuring a diversity of research connections are made between Australia and the world. A privileged concentration of research and research funding into specific locations, institutions and research areas limits the interconnections between Australian and international research systems. La Trobe University supports an open and competitive research funding system. Research excellence should be rewarded wherever it emerges or is present. Competitive research funding encourages institutions and researchers to strive for excellence, and optimises the likelihood of rich and diverse connections to the global innovation system.

Deregulation, red tape and reporting

There have been multiple reports focused on the regulatory burden faced by Australian higher education that include the Philips KPA study into higher education reporting and the Lee Dow Braithwaite Review of higher education regulation. Practical policy reform suggestions for reducing regulation, achieving efficiencies in Commonwealth administration and a more effective higher education system include:

- Exploring through the forthcoming Federation White Paper elimination of duplication of reporting across State, Territory and Commonwealth jurisdictions;
- Ensuring the accepted recommendations of the Lee Dow Braithwaite Review of Higher Education Regulation are implemented expeditiously, with particular emphasis on genuine reform of data requirements and reporting;
- Formulating principles for financial reporting to government and government agencies, where organisations with robust governance processes (like universities) are subject to process and compliance audits, rather than providing detailed data at an individual transactional level (as is the case with some research contracts).