

HIGHER  
EDUCATION  
COUNCIL

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Dear Mr West

At the last meeting of the Higher Education Council held on 21 November, the members discussed the contents the policy discussion paper for the Review of Higher Education Financing and Policy produced by your Committee.

Attached is a copy of the Council's response to this paper and I would be pleased to discuss any of the comments made if required.

Yours sincerely

Gordon Stanley

## **COMMENTS ON THE WEST DISCUSSION PAPER**

### *INTRODUCTION*

The West Review Discussion Paper picks up the emergent themes that dominate higher education policy around the world. The nature and extent of public funding, the impact of technological change, increased participation and global competition are all canvassed. While there would be little disagreement about these directions, the impression gained from reading the paper is that little progress has been made in moving towards accommodating this future. It would appear, however, that there has been little attempt to evaluate the changes made in Australian higher education over the last 10 years or to show how the foundations laid over this period might support the future directions. A thorough evaluation is required of progress made towards the future and ideally this needs to be done in comparison with our natural competitors.

The discussion paper makes constant reference to the distinction between public and private institutions but does not define these in relation to our system or in comparison with other systems. In many respects Australian public universities are more akin to US private (not-for-profit) universities than they are like US public universities. The Australian Catholic University which is technically private appears to be no different from the other public universities.

There is an explicit assumption that the present higher education scene in Australia would benefit from an extended dose of competition from new private entrants. However the paper does not make clear whether it is advocating more private non-profit or more private for profit entrants.

### *TECHNOLOGICAL CHANGE*

In raising the issues about the future directions of higher education the discussion paper appears to have drawn very heavily upon the report by Global Alliance. This report reduces higher education to an IT based production process. Given that it is a think piece it is provocative. However it is unashamedly selective in its emphasis and does not put the IT scenario into context. Brigitte Preissl (writing in Prometheus, 1997, Vol 15, No 1) has pointed out there are many critiques of the futuristic IT predictions which need to be taken seriously before one accepts the inevitability of these predictions.

Given the importance of globalisation and technological change in the discussion paper there is a disappointing lack of analysis of the way Australian universities are preparing for these changes and their progress to date. The empirical data on progress in Australia is readily available and compares favourably with progress in most developed higher education systems. Overseas experience to date does not indicate vast economies from the take-up of these new technologies. There are of course high hopes that in the longer term such economies will occur. In many niche areas Australian courseware is already competitive and cost effective.

Clearly it is important to consider issues about the balance of capital investment in the emerging communication technologies and their likely impact on the adult learning market. In pointing to future policy directions it would have been helpful if the Review had made better use of resources to establish whether or not our progress is consistent with directions in our competitor systems. Early entrants can find a major cost disadvantage relative to later entrants who can often use more up-to-date equipment at lower cost. Varying strategies within a system may be more adaptive than a single overall strategy.

An important distinction needs to be made between the needs of school leavers and the needs of adults after entry to the workplace. Traditionally universities were designed to cater for the former, although today the latter are becoming equally important. The costs, infrastructure and other requirements for these two markets are likely to be different, with the latter more contested and competitive with other providers. Multinational employers are most likely to be attracted towards suppliers who can deliver high standard courses throughout their enterprise using converging technologies. This will inevitably lead to greater global competition in distance and packaged adult learning. Already we are seeing Australian universities positioning themselves to be active participants in this arena.

To date the for-profit providers in higher education around the world have been parasitic on the public or non-profit private sector, usually only competing in niche areas. While this may well be changing, it is most likely that courseware development will continue to draw on the research and intellectual capital in the non-profit sector. Some of the distribution and production of academic courseware will be outsourced as has been the case with textbook publishing in the past. In Australia commercial arms of established universities are entering the market and strategic alliances between many universities are already occurring.

## **DEREGULATION**

*In envisaging models that will assist with the development of the industry, we need, first of all, to ensure that the regulatory framework within which institutions operate allows for fair competition between existing institutions, and between existing institutions and new market entrants. Second we must consider issues associated with the prudential supervision of the industry so that there are incentives for institutions to make informed assessments of financial risks, as well as protecting the interests of students and tax-payers. Finally, we must develop incentives for more private investment so that institutions can gain access to the capital resources needed to become globally competitive (p27-Learning for Life).*

There is a clear assumption underlying the discussion paper that Australian universities are over protected and not subject to sufficient competition. A comparative analysis of our system with that of the British, European and the US would have been useful to check this assumption. The fact that Australia is already globally competitive is acknowledged on page 16 of Learning for Life where it is pointed out that '*relative to the size of its population, Australia is a highly successful exporter of higher education services, with more overseas students per capita than the USA, the UK or Canada.*' This would suggest that Australian universities are performing well given that they are often competing with institutions with a much stronger capital base.

All industries work within agreed regulatory frameworks which acknowledge the particular responsibilities of that industry and set the ground rules for competition. There is no analysis f

industry regulatory practice in other countries to provide the context for the assertions that the existing framework in Australia is unsatisfactory or uncompetitive. The preoccupation with facilitating private and new entrants is paradoxical as it acts towards a levering of successful institutions.

Currently Australia has one of the least regulated higher education systems in the developed world. The main legislative base for universities rests with State legislatures and most universities in Australia operate more like US private (not-for-profit) universities because their primary contractual relationship is with the Commonwealth Government while State governments recognise them as autonomous bodies. The major regulatory constraint is in relation to tuition fees.

It is desirable to have more incentives for more private investment, but UK experience with respect to accessing private capital for infrastructure has not been encouraging. Some model of good practice from overseas experience in accessing private capital would be helpful. Even in the US there is not a large amount of private capital available to universities when the overall size of their system is considered. Moreover much of the private capital endowment funds in US private universities is used for tuition subsidy and scholarships.

### ***TUITION FEE FLEXIBILITY***

*Institutions should have the freedom to set tuition fees. This will be an essential element of a funding structure that meets the objectives of increasing flexibility for students and achieving a globally competitive industry. Institutions must have the ability to provide a range of courses and delivery options, and to decide the level of resources that are devoted to them. Fee flexibility is also essential to encourage competition and, in particular, create incentives for the provision of lower cost study options. (page 31-Learning for Life)*

Among higher education systems the US has the most diverse system and one in which there has been significant development of a higher education market. Some 33 per cent of students in four year undergraduate programs attend private institutions and these compete directly with public institutions. The US system is often seen as providing the model towards which most other higher education systems are evolving as we move towards a global higher education market.

In 1996 Congress initiated hearings on the rising costs of college education. The College Board reported that in the previous 15 years the average cost of attending private colleges had increased by 90 per cent, and the average for public colleges by 100 per cent. During the same period the median family income had risen by five per cent.

According to testimony at the Congressional hearings the rising costs of college education were attributed to four factors: an explosive growth in the technology needed by colleges, a decrease in state support for public colleges, the growth of student aid provided by private colleges and an increase in federal regulations.

On-going public concern about costs has been addressed by the recent creation of the National Commission on the Cost of Higher Education approved by the House and signed into law by

President Clinton on June 12, 1997. This commission will study and make recommendations about the increase in tuition; trends in administrative costs, faculty workload and remuneration, construction, renovation, and state fiscal policies; the impact of financial aid and tuition discounting on tuition increases; and the impact of federal, state, and local reporting mandates on cost.

There are some lessons to be drawn from the US experience. Deregulation of tuition charging does not inevitably lead to lower tuition. In fact it appears to lead to increases in tuition because when institutions cannot get increased subsidy from Government they recover costs from tuition. However there are limits to how much tuition costs can rise without reaction from the public. Pressure mounts on Government and institutions to provide tuition subsidies, scholarships and loans.

To date around the world higher education does not operate like other service markets. Students are not all powerful because the value of their education is a complex outcome of their own effort as well as their purchasing power as consumers. Even in mass higher education markets there is no value in being able to buy a way into a selective entry program if the applicant does not have the capacity to succeed in the program. The proposals for funding students directly need to address the issue that places are not readily transportable from institution to institution because of different entrance standards and non-comparable learning environments.

### ***ACCREDITATION, QUALITY ASSURANCE AND ACCOUNTABILITY***

- *Courses or institutions could be accredited as eligible for public funding*
- *The accreditation process should be independent of both government and providers*
- *With deregulation, the community and students must be protected from provider failure*
- *Comprehensive, high quality and accurate information will be necessary for students to exercise choice (p32-3 Learning for Life).*

It is suggested that the issues of accreditation, quality assurance and accountability be addressed by the establishment of an independent accreditation process. This would be a regressive move in that Australian higher education has matured from a stage where an extensive central accreditation process was necessary. Such a process which existed in the old binary system for the CAE sector was never considered appropriate or necessary in the university sector. It only becomes necessary if there are to be a number of small players without established credentials.

This recommendation follows from the adoption of the particular competitive model being considered and is not necessary in the current situation where public and private universities established under legislation are self accrediting and where other operators have to submit themselves in most States to a process set up by State authorities.

The current quality process combined with the availability of information in the public domain provides consumer protection.

### ***STRATEGIES FOR BETTER ASSET MANAGEMENT***

*An infrastructure charge would provide incentives for institutions to manage their assets more efficiently (page 34-Learning for Life).*

Assertions about asset management are made without evidence. The presumption is that *'There are no direct incentives for institutions to manage these assets in a more efficient way'* (page 34-Learning for Life). The competition for students and research grants between Australian universities has become intense. In this environment there are very big incentives for institutions to manage their assets effectively. There has been a marked change in asset management in universities since the end of assured publicly funded growth.

The proposal for an infrastructure charge would act to reduce the competitiveness of our established universities at a point when they are using their capital resources to re-position themselves in response to changes in the global higher education environment. Apart from the inherent difficulties in establishing a fair and rational basis for such a charge there was no serious evaluation of whether or not Australian universities are inefficient in the use of their different capital bases.

### ***RESEARCH POLICY AND FUNDING MODELS***

- *There must be a focus on knowledge, technology and skills transfer*
- *Competitive allocation of research funds*
- *Priorities must be set*
- *Adequate infrastructure*
- *Staff should be free to specialise in teaching (pages 37 and 38 Learning for Life)*

These propositions would be readily accepted and represent much of current practice and policy. However the third and fifth point probably need further discussion.

#### *Priority setting*

The process to be adopted for priority setting is very important. Experience in most higher education systems is that priority setting is most appropriate in those areas requiring expensive infrastructure support. Even so it is not an easy exercise. Perhaps more important is the need to provide opportunities for industry sectors to have a route for accessing higher education research. At present unless there is a specialised industry research funding body there are few opportunities for industry to leverage research in higher education.

### *Staff specialising in teaching*

The major impediment to staff specialising in teaching is that to do so limits career options. This is a universal problem in higher education, but one which is primarily an issue of resources and time constraints. Australian academics are somewhat disadvantaged relative to other systems as basic research grants rarely provide salary costs of the principal investigator. Hence the researcher is unable to buy their time out from teaching for periods, as is common practice in the US.

In the more competitive and contested global market envisaged for the future the nexus between teaching and research becomes more important. Teaching will need to be up-to-date and closely informed by the latest research and innovation. If not it will be discarded in favour of another supplier. Improvement in the teaching and learning delivery of universities is already occurring as a direct result of existing competition and it is already producing results in improved instruction and student progression.

### **CONCLUSION**

Looking to the future, it should not be forgotten that higher education was the first global industry and its history has involved cooperation as much as competition. It is not clearly the case that the liberal traditions and openness of scholarly institutions will be replaced by completely commercially focussed and technologically operated organisations. Moreover the diversity of cultural traditions and experience will militate against the total commodification of higher education envisaged by the Global Alliance paper. The future is never exactly as we imagine it to be, but one can be sure that the flexibility and creativity which has characterised our institutions in their short history is the best assurance that we will meet our future successfully. Governments will be under pressure if they do not provide the basic support needed to ensure the continued health of the sector. For this reason the discussion paper is deficient in not addressing appropriately the comparative context and the comparative performance of our sector relative to our natural competitors. To proceed with adopting some of its recommendations without such analysis would be most unfortunate.

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