

A system of capped funding?

What does it mean to change university funding to a capped funding amount which universities can use as they will? Can it both give Government certainty of expenditure and protect universities from micro managing of their operations?

Under current arrangements universities receive base funding based on the load of enrolled students in particular discipline areas. There are also various additional amounts, some such as regional loading added through the main Commonwealth Grant Scheme, others controlled as Other Grants which includes the university research block grants.

In most cases the requirements on universities about use of those funds is light. The CGS is to be spent on university activities; research funds on research like activity. Some of the Other Grants, like the low-SES participation payment are caught in foolishly precise requirements about expenditure and acquittal which should be removed (see <http://www.iru.edu.au/news/executive-director's-comment/why-acquitting-the-low-ses-loading-is-a-waste.aspx>). Reporting is extensive, control of expenditure light.

In effect once the amount of funding is clear, driven by the relevant inputs, it is already up to universities to decide the use of most Government money they receive. There is no requirement to spend the precise amount of money the formula allocates for 500 EFTSL of nursing on nursing or on undergraduate nursing if the university would rather spend some of it elsewhere or at a different level.

The major external constraint is that the university does need to have students enrolled in the disciplines and levels consistent with the allocation of funding. You cannot claim 500 EFTSL of undergraduate nursing if there are not 500 worth of students so enrolled.

The practical realities are that the majority of funding is allocated according to the basis on which students enrol. Universities are committed to providing a good education to all students and use the funds available to achieve this as best possible. But universities are over reliant on the funding formulae for internal distribution decisions.

So how could funding at a capped amount be different in terms of use of the funds?

First, a university could reduce the number of places. This would increase the average funding available per place. For example a large inner city university currently enrolling 30,000 EFTSL could use that funding to enroll 15,000 EFTSL, doubling the Government resources for those students (see note 2 below). Should every university take that route we could halve the take up of university places but devote much greater resources to those students.

Second, in theory it would permit universities to enroll more students at the cost of lowering average funding per place. This is not much of an advance on current arrangements whereby full rate additional funding will flow for the additional students, if undergraduate.

Third, universities could decide the balance of undergraduate to postgraduate places. As others have said this concentrates more funds on fewer students, supporting them through undergraduate and postgraduate degrees. The current arrangements privilege undergraduate places and constrain postgraduate.

The common element of all three is to challenge the current underlying principle that *like* activity is supported with *like* funding. Instead we would move towards supporting *unlike* activity with *unlike* funding.

The major stumbling block is how the Government could decide the funding cap for each university.

The simplest would be to take the funds available each year, based on current budgetary capacity, and divide it by the 37 publicly funded universities. Or that would be simple if starting afresh.

The option assumed in discussion to date would be to use the allocation from a recent year or average of recent years, and adjust that over time based on university bids for extra funds when available and Government decisions to reduce funding when it is not.

Initially the current funding relativity among universities would be locked in, derived from a like for like paradigm. Over time universities would then set their own direction in response to the funding opportunities and their preferred directions. The incentives would strongly be to reduce places, easing the pressure on staff, and increase base funding used for research. A skeptical person might argue that it would encourage universities to do less and less each year.

Universities would still report what they were doing, so Government could observe the use of its funds. Ultimately it is hard to avoid the conclusion that it would also make a judgment about whether that use was sufficient to justify the investment. Such a judgment would likely include a view on the number of students, the disciplines they study and the evidence for learning, and detailed discussions about a university's expenditure patterns.

Such systems exist internationally. Government and university agree funding levels based on history, available funding, and institutional capacity to influence decisions. It is opaque, has no coherence across institutions, and invites extensive micro managing of university expenditure.

Two notes

1. I do not ascribe the consequences of the proposal to Professor Davis, comments from whom, as reported, have set off this discussion. Reporting is very likely to have simplified if not distorted his argument.
2. I have ignored student contributions on the basis the argument as put is to cap the Government's contribution. The student element adds further complications but does not significantly change the conclusions. Without other changes the university would continue to receive student contributions based on students' enrolment. This would add an incentive to maintain enrolments in relatively highly student financed disciplines (business, law) and reduce in those more highly Government financed such as engineering, the sciences and health professions, acting counter to the impact of demand driven funding since 2009.

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