

Go8 Backgrounder 27

University Funding 1996 - 2010

May 2012

Key Messages

- The current Government has delivered funding increases for universities. Improved indexation will deliver further real increases from 2012.
- Over the longer term, Commonwealth funding for universities has varied. Spending cuts and funding increases have followed one another. Funding boosts tend not to be maintained in real terms over time.
- Considering growth in the scale of the sector, universities are not much better off than they were in 1996.
- The funding data does not suggest that universities have done markedly better under governments of either political party.
- Rather, the data points to the limits of any government's fiscal capacity to maintain adequate levels of funding to sustain quality in a post-mass higher education system.

Introduction

This paper examines time series data on Commonwealth Government funding for universities from 1996 to 2010. It draws on annual and triennial higher education funding reports released by DIISRTE's predecessors, research income data, Science, Research and Innovation Budget Tables and annual *Higher Education Finance Statistics*.

The paper examines recurrent grants, research funding and capital funding over time in both nominal and real terms, and presents figures for aggregate funding and average funding per Commonwealth-supported EFTSL.

Over the period covered, there were major changes in university funding. As a result, there is little consistency in funding programs or in reporting and data definitions over the years. Time series constructed for this paper represent the best available estimate of broad funding aggregates according to consistent definitions. Data sources and methods are described in detail at Appendix A.

Total Commonwealth funding for universities

Figure 1 shows Commonwealth funding for universities from 1996-2010 at current prices. Total Commonwealth grants include:

- Recurrent grants for learning and teaching
- Recurrent grants for research and research training
- Capital grants
- Commonwealth funding for research, outside recurrent grants.¹

In this paper, recurrent funding is defined as annual funding delivered by formula to fund universities' ongoing core activities in learning and teaching and research (for example, the Commonwealth Grants Scheme (CGS) and research block grants). Non-recurrent funding includes funding for specific projects of limited duration (for example, competitive research grants).

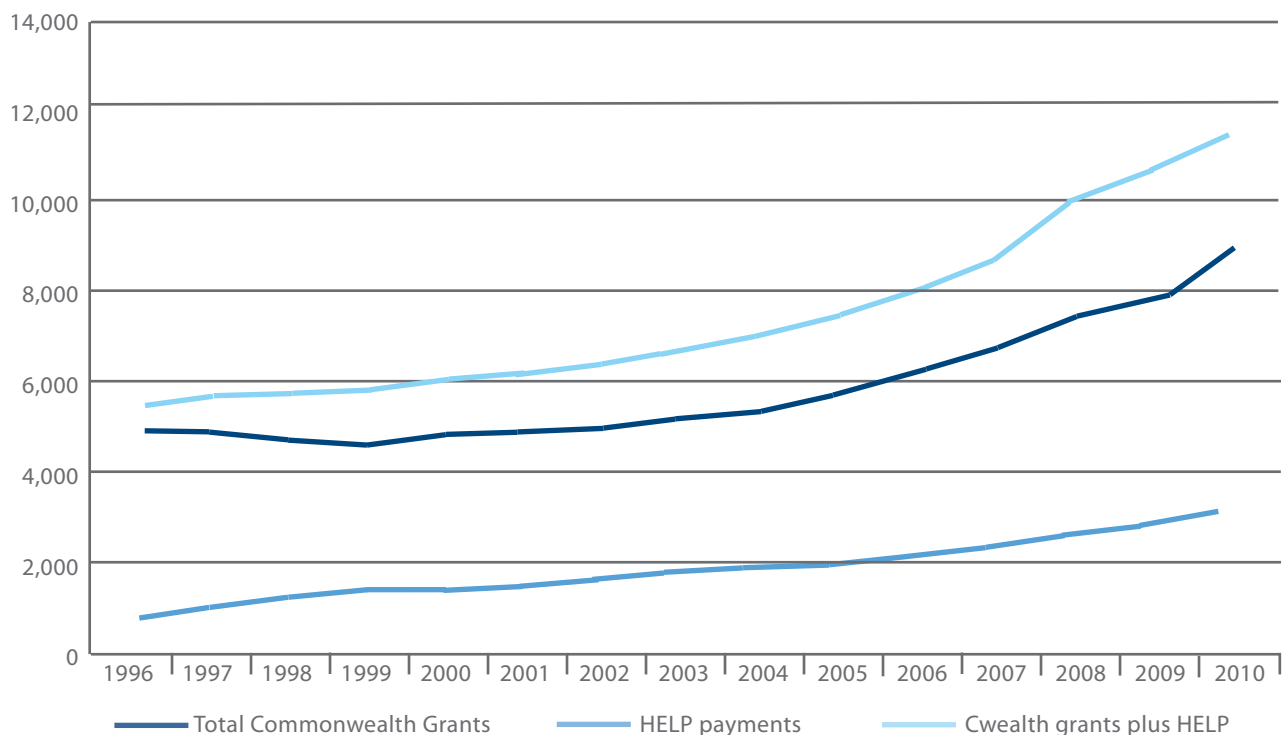
Commonwealth grants fell at the beginning of the period and are then fairly flat until 2005, when the Howard Government's programs *Backing Australia's Future* and *Backing Australia's Ability* made more funding available for universities. There are further increases from 2008, the Rudd Government's first year in office.

As these are aggregate figures, much of the growth has been driven by increased enrolments, especially in the last years of the series.

Australian Government HELP payments increased in the early part of the period due to increased HECS rates, and then grew steadily with enrolments.

¹ See below for definition.

Figure 1. Total Commonwealth funding for universities and HELP payments, nominal (\$m), 1996-2010



To examine time series funding data in real terms, the data are deflated by the non-farm GDP implicit price deflator (ABS (2011), *Australian National Accounts: National Income Expenditure and Product, December 2011*, Table 20: Selected Analytic Series). Deflating by CPI, as is sometimes done, would understate the impact of inflation on university revenues, because staff salaries and related costs account for around 60% of universities' operating expenses. Sensitivity analysis shows that over the period 1996-2010, the cumulative impact of the non-farm GDP implicit price deflator is very similar to the new indexation factor legislated by the Commonwealth Government in 2011 (with effect from 2012), based on a combination of the labour price index for professional, scientific and technical services and CPI.²

Figure 1a shows growth in Commonwealth funding (recurrent and other) to universities from 1996, comparing the effect of using three different deflators (CPI, non-farm GDP implicit price deflator, and the new higher education funding indexation factor).

In nominal terms, Commonwealth funding has grown by 86% since 1996 (though it fell even in nominal terms between 1996 and 1999). Deflating the figures by CPI gives a real increase of 29%. Using the non-farm GDP implicit price deflator reduces the increase to 18% - almost identical to the figure derived using the new indexation factor (19%).

² The new indexation factor is a composite of 90% of growth in the labour price index for professional, scientific and technical services (with a weighting of 0.75) and CPI growth (with a weighting of 0.25).

Figure 1a. Comparison of deflators

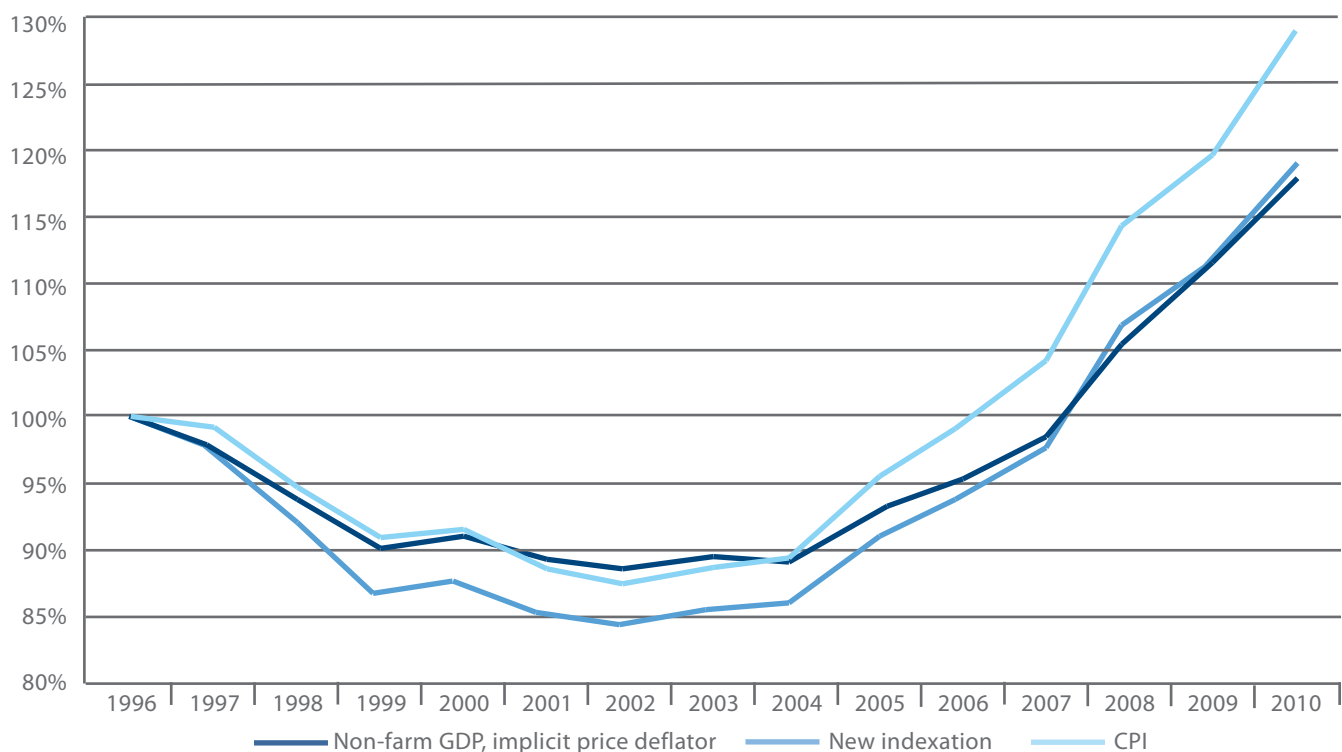
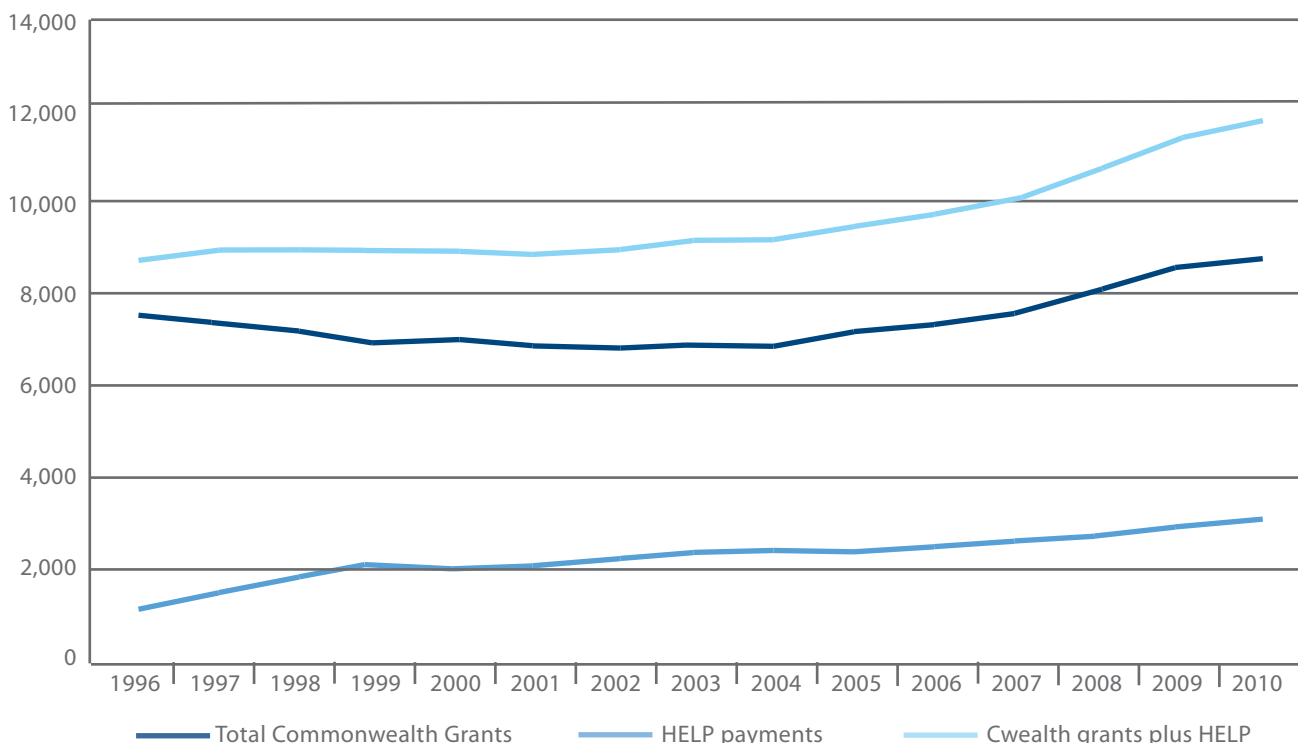


Figure 2 shows overall Commonwealth funding in real terms, deflated by the non-farm GDP implicit price deflator.

Figure 2. Total Commonwealth funding for universities and HELP payments, real (\$m), 1996-2010



Total funding (including HELP payments) was flat in the late 1990s with a slight increase in the early 2000s. Over the period 1996 to 2004, the total rose by just under \$400 million in real terms (or 5%). This was the net effect of differing trends in Commonwealth grants and HELP payments following the 1995 and 1996 Budgets. Following the Keating Government’s final Budget, insufficient indexation from 1995 onwards failed to cover growth in university staff salaries and related expenses. There were significant cuts to Commonwealth outlays

for universities in the Howard Government's first Budget in 1996, and changes to the Commonwealth and student contributions to the cost of university. Between 1996 and 2004, Commonwealth funding fell by \$800 million (11%), while HELP payments more than doubled, increasing by nearly \$1250 million (105%).

After 2004, total funding increased markedly in real terms, following the *Backing Australia's Future* and *Backing Australia's Ability* programs of the Howard Government. Total funding available rose by nearly \$900 million (10%) to 2007, driven by an increase of nearly \$700 million in Commonwealth funding (10%). HELP payments rose by just under \$200 million (8%).

Increases have continued and accelerated under the Labor Government. Between 2007 and 2010, total available funding increased by more than \$1.9 billion (19%). Commonwealth funding increased by close to \$1.5 billion (20%). HELP payments grew by more than \$450 million (18%), following strong enrolment growth at the end of the period.

By 2010, total available funding was 37% above 1996 levels. Commonwealth funding, on the other hand, did not return to 1996 levels until 2008. By 2010, Commonwealth funding was 18% above 1996 values.

Recurrent funding

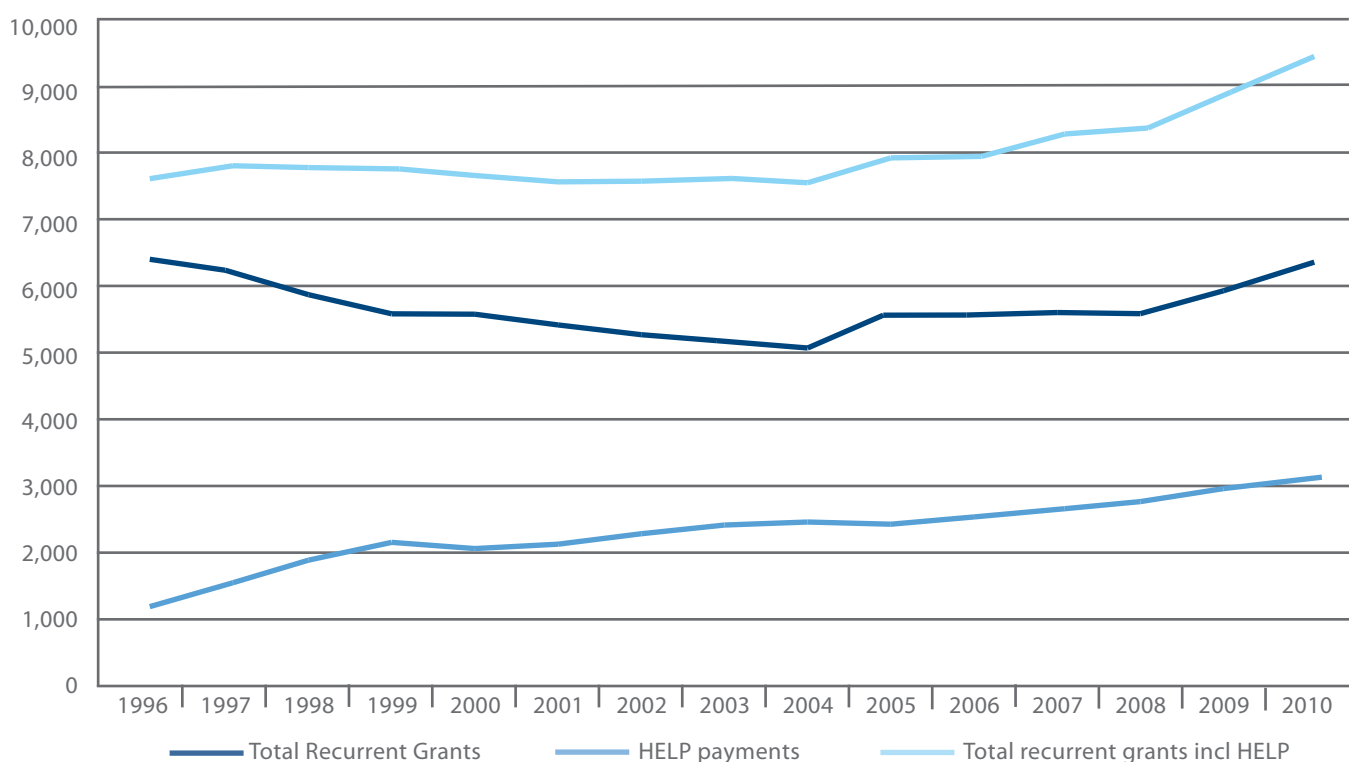
Considering recurrent funding only shows a much clearer pattern of decline from 1996 to a trough in 2004, followed by an increase. Combined revenue from recurrent grants (for both learning and teaching and research) plus HELP was flat over the period 1996 to 2004. Recurrent grants fell by \$1.3 billion (21%) in real terms, while the \$1.2 billion increase in HELP payments kept the combined figure roughly equal to 1996 values.

There was a one-off 10% increase in recurrent grants in 2005 (\$480 million in real terms), with the new level of funding maintained for the next three years. Including HELP payments, the increase in total recurrent funding between 2004 and 2007 was \$715 million (9.5%).

Under the Labor Government, recurrent grants have increased by a further \$900 million (16.5%). Including HELP payments, the increase from 2007 to 2010 was over \$1.3 billion (16.5%).

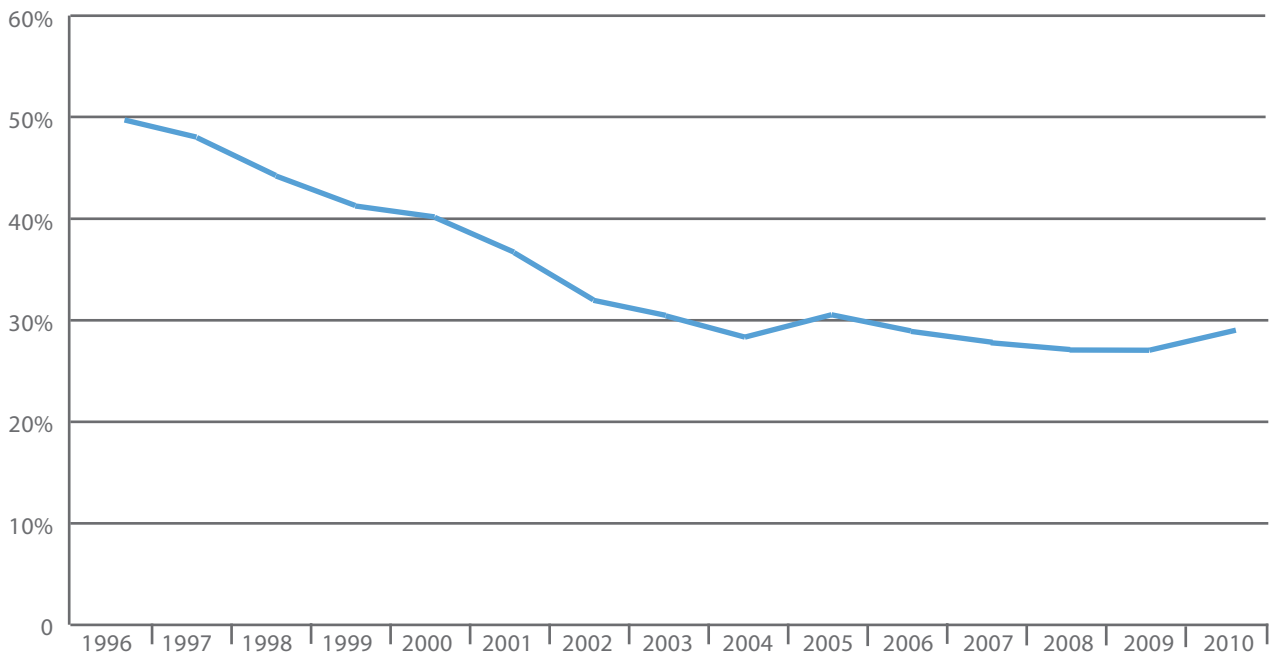
Total recurrent funding (recurrent grants plus HELP payments) was 27% above 1996 levels in 2010. However, recurrent grants only returned to 1996 levels in 2010, rising to just 2% above 1996 values.

Figure 3. Commonwealth recurrent grants and HELP payments, real (\$m), 1996-2010



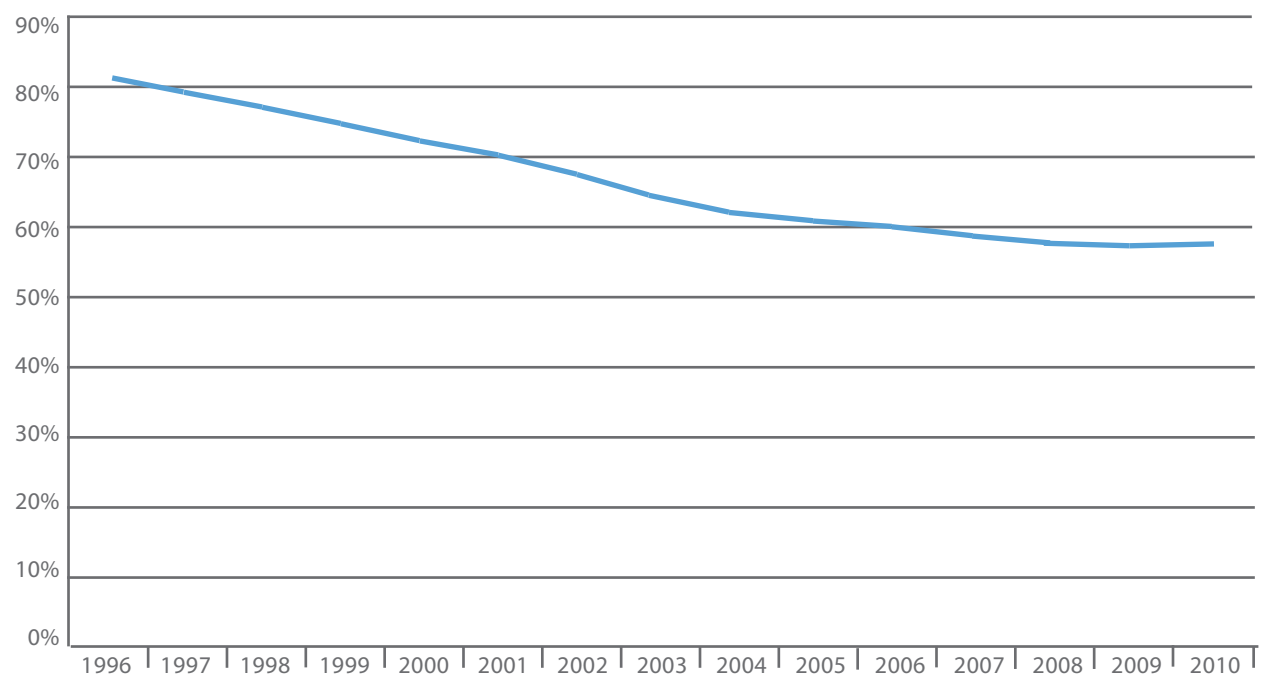
Commonwealth recurrent grants have fallen heavily since 1996 as a proportion of universities' operating revenue. In 1996, Commonwealth recurrent grants accounted for nearly half of universities' operating revenue. This figure fell to 28.6% in 2004 and has been around this level (or slightly below it) ever since. In 2010, Commonwealth recurrent grants made up 28.9% of universities' revenues.

Figure 4. Commonwealth recurrent grants as a proportion of operating revenue, 1996-2010



Part of the decline is explained by the fall in the share of Commonwealth-supported students as a proportion of total EFTSL since 1996, principally due to increases in the numbers of full fee paying international students. The decrease has been large and continuous (Figure 5). In 1996, Commonwealth supported EFTSL accounted for over 80% of total EFTSL. In 2010, the figure was only 58%. It should be noted, though, that the downward trend has flattened somewhat in 2009 and 2010 (as domestic numbers have surged and international growth has stalled).

Figure 5. Commonwealth-supported EFTSL as a proportion of total EFTSL, 1996-2010



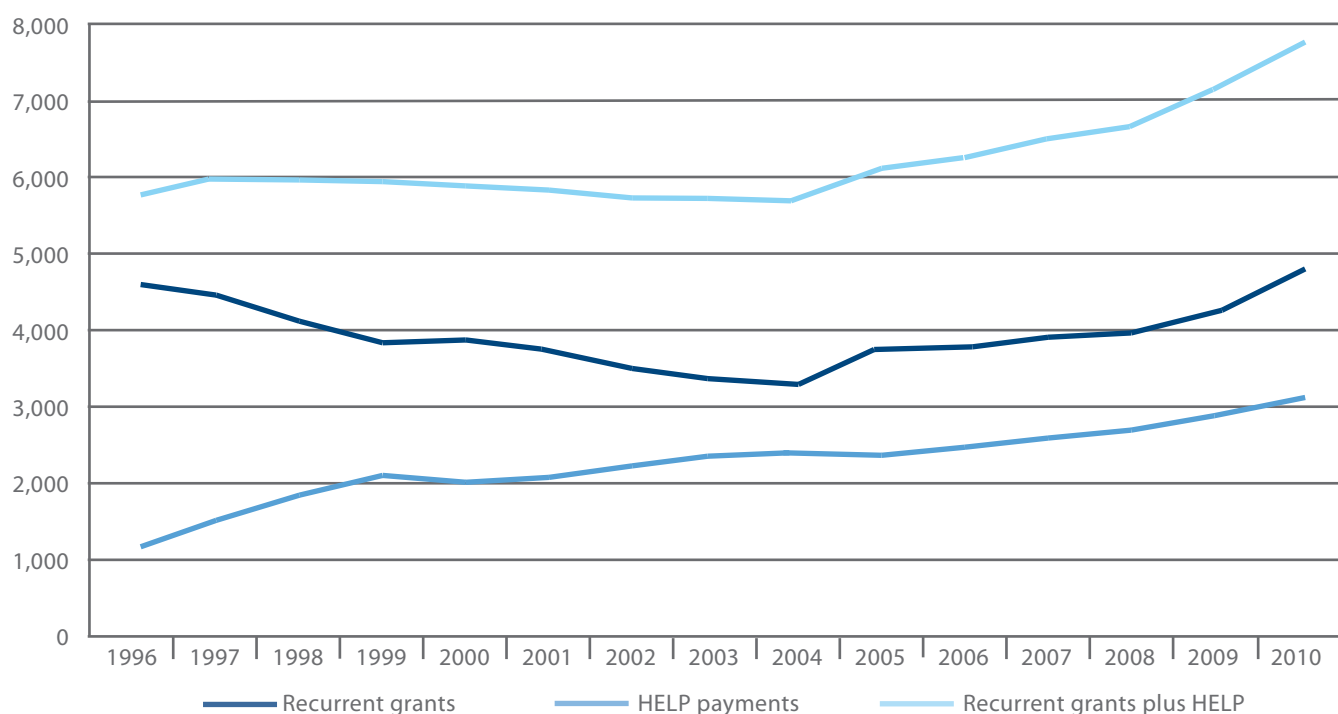
Recurrent funding for learning and teaching

The decline in recurrent funding between 1996 and 2004 was due to cuts to recurrent grants for learning and teaching. Recurrent grants for learning and teaching fell by nearly 30% in real value between 1996 and 2004. In dollar terms, the decrease was \$1.3 billion. As noted above, HELP payments grew by \$1.2 billion over the same period, leaving universities slightly behind 1996 levels of total funding for learning and teaching in 2004.

Recurrent grants grew by nearly \$625 million (19%) between 2004 and 2007. There was further growth of \$860 million (22%) between 2007 and 2010. Combined with continuing increases in HELP payments, these funding boosts made an additional \$2.1 billion available to universities in 2010, compared to 2004. Growth was higher in 2007-2010 than in 2004-2007 (\$1.3 billion compared to \$0.8 billion).

Total recurrent funding for learning and teaching (recurrent grants plus HELP payments) was 35% above 1996 levels in 2010. But recurrent Commonwealth grants for learning and teaching did not return to 1996 levels until 2010. In 2010, recurrent grants were 3.5% above 1996 values.

Figure 6. Commonwealth recurrent grants for learning and teaching, and HELP payments, real (\$m), 1996-2010



Funding per student

While the aggregate figures reported in Figure 6 show a strong recovery from 2004, the pattern shown by recurrent funding for learning and teaching on a per EFTSL basis is less encouraging.

Funding figures per EFTSL show a similar pattern to aggregate figures, but the recovery is much weaker (Figure 7). Recurrent grants plus HELP payments summed to nearly \$14,720 per Commonwealth-supported EFTSL in 1996 (in constant 2010 dollars). This amount fell below \$14,000 in the early 2000s. By 2005, total recurrent funding per EFTSL had increased to just above 1996 levels, and has continued to increase since. By 2009, the figure was \$15,300 (4.5% above 1996 values), but it fell back to 1996 levels in the following year.³

The Commonwealth component of this figure fell from around \$11,700 in 1996 to just over \$8,000 in 2004. Recurrent grants per EFTSL increased to \$9,600 in 2010. Growth between 2004 and 2007 was 14%, falling to 4.5% between 2007 and 2010. In 2010, Commonwealth recurrent grants per EFTSL for learning and teaching were worth 82% of their 1996 value.

³ Note that these aggregates include Commonwealth contributions and Australian Government HELP payments, but exclude up-front payments by students. Hence, they do not represent all of total 'base funding'.

Figure 7. Commonwealth recurrent grants for learning and teaching, and HELP payments, per EFTSL, 1996-2010

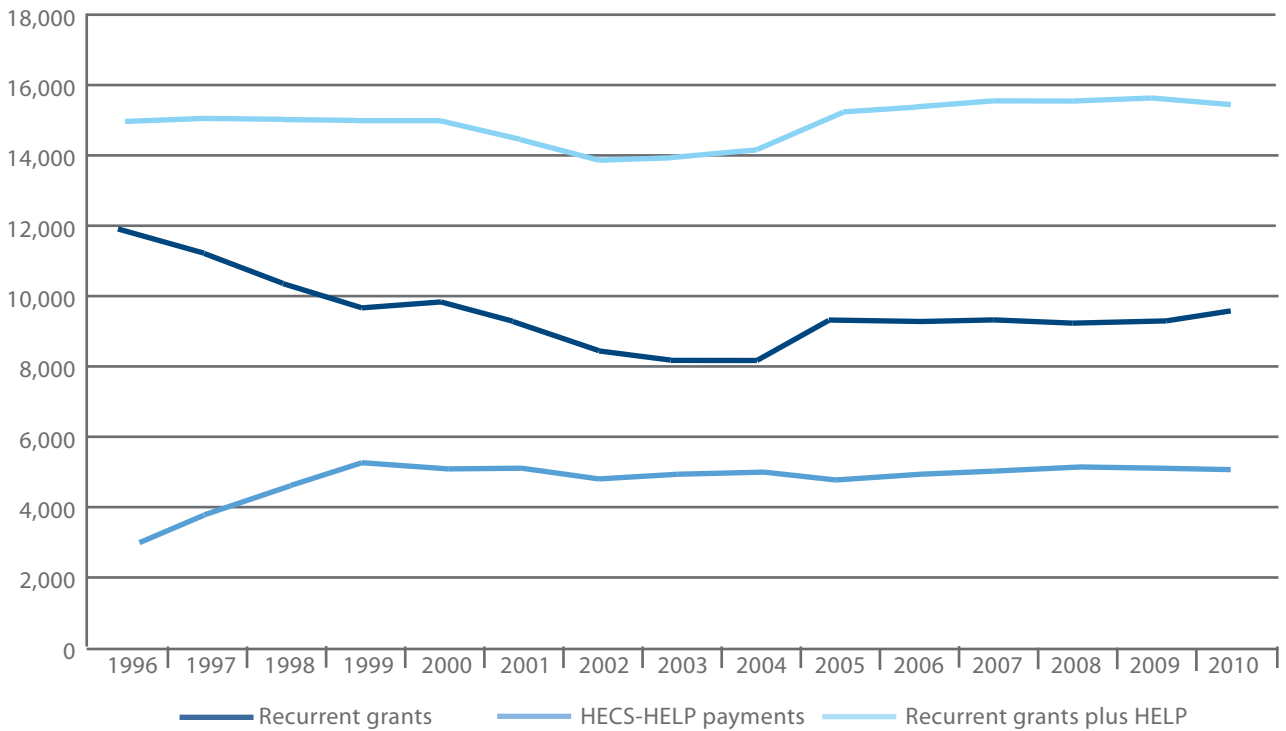
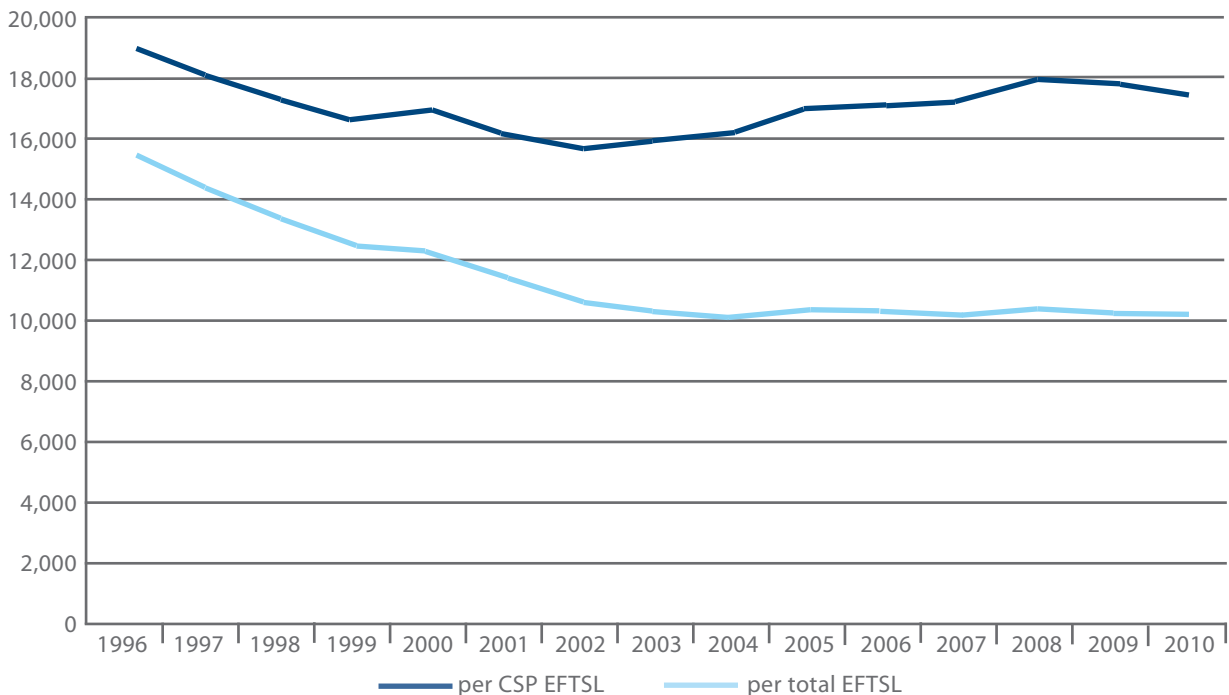


Figure 7a shows a broader measure of Commonwealth Government support for universities on a per student basis. Total Commonwealth funding per Commonwealth-supported EFTSL fell from nearly \$19,000 in 1996 to a low of less than \$16,000 in the early 2000s. The amount rose thereafter, reaching nearly \$18,000 in 2008 but then falling slightly again.

Using total EFTSL as the denominator, real Commonwealth funding per EFTSL fell by more than a third, from over \$15,000 in 1996 to \$10,000 in 2004. Since then, the figure has remained flat.

Figure 7a. Total Commonwealth Government funding for universities per EFTSL, 1996-2010

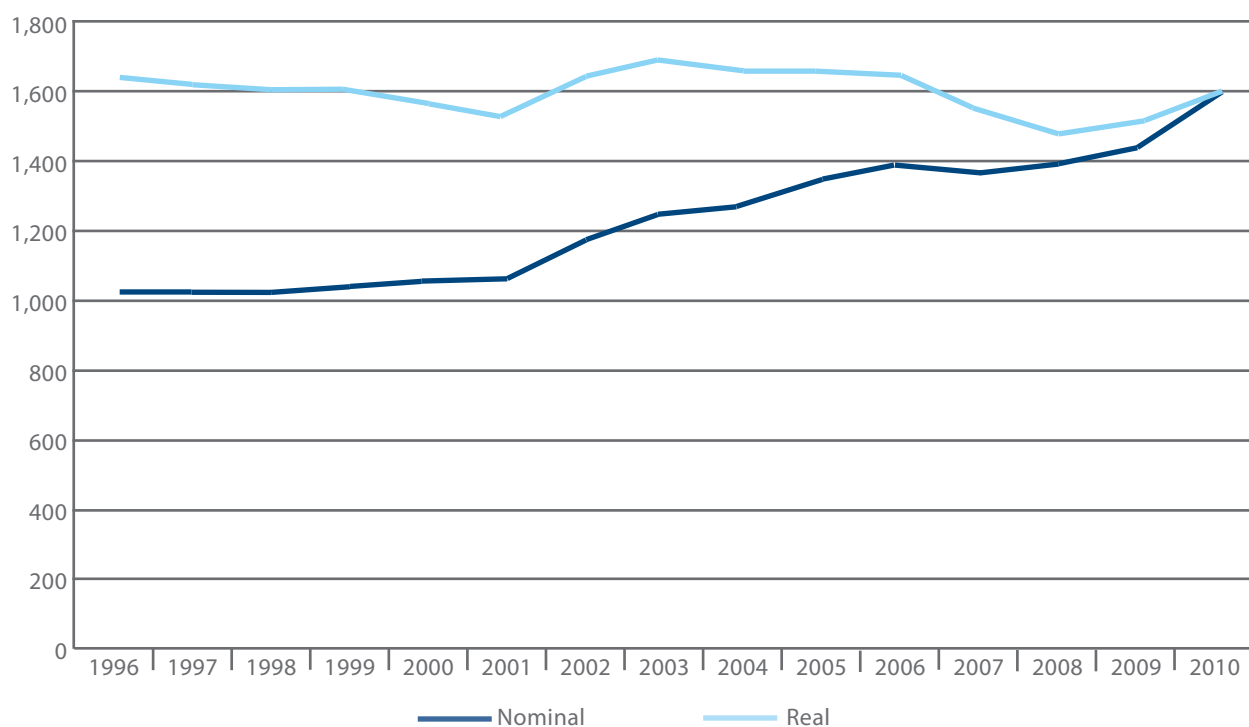


Funding for research and research training

Compared to learning and teaching, overall funding for research and research training has not suffered drastic cuts and has been less volatile. Nevertheless, recurrent funding for research and research training has declined in real terms since 1996.⁴

Recurrent funding for research and research training was not cut after 1996, but increased only slightly in nominal terms, and so declined in real terms. After 2001, a funding boost lifted research funding significantly, with higher levels of funding sustained to about 2006. There was a further real decline to 2008, which the new Labor Government sought to address. Nevertheless, recurrent funding for research and research training was worth slightly less (about 2.5%) in real terms in 2010 than it was in 1996.

Figure 8. Commonwealth recurrent grants for research and research training, nominal and real (\$m), 1996-2010



While recurrent funding for research has declined somewhat, Commonwealth research funding from other sources has increased significantly in real terms. Figure 9 shows non-recurrent research funding from 1996-2010. These data include:

- Australian Competitive Grants (including both Australian Research Council (ARC) and National Health and Medical Research Council funding)
- ‘Category 2’ research income from the Commonwealth Government
- Commonwealth contributions to Cooperative Research Centres
- The Linkage Infrastructure, Equipment and Facilities (LIEF) program, operated by the ARC
- Research Infrastructure Funding from the Major National Research Facilities (MNRF) program, later replaced by the National Collaborative Research Infrastructure Strategy (NCRIS).

Commonwealth funding to universities under the Super Science program, as well as funding from various other Commonwealth Government portfolios is not included.

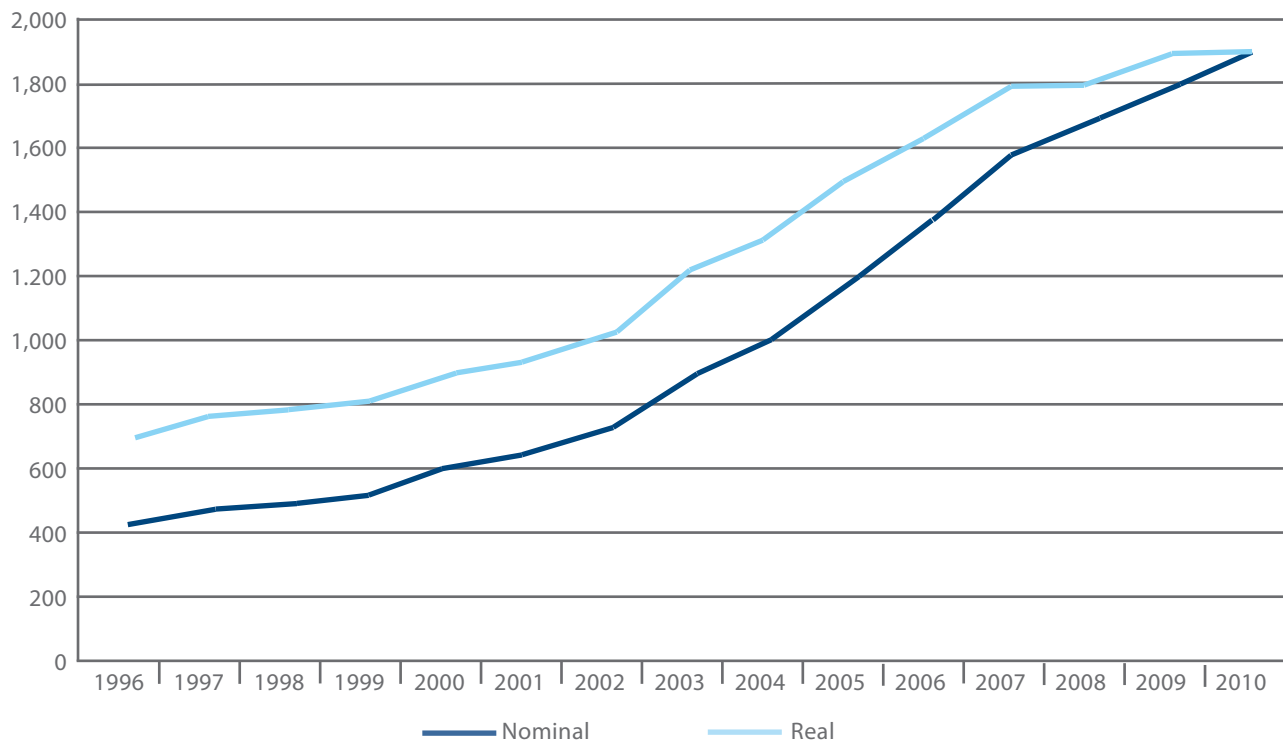
The graph shows a strong linear increase in funding across the period 1996-2010. Growth flatlined (in real

⁴ Recurrent funding for research and research training includes – before 2001 – the Research Quantum, Research Training Component and the Research Infrastructure Block Grant. From 2001, recurrent funding includes Research Block Grants.

terms) in 2008 under the new Labor Government, before a funding boost in 2009 which was partly sustained in 2010.

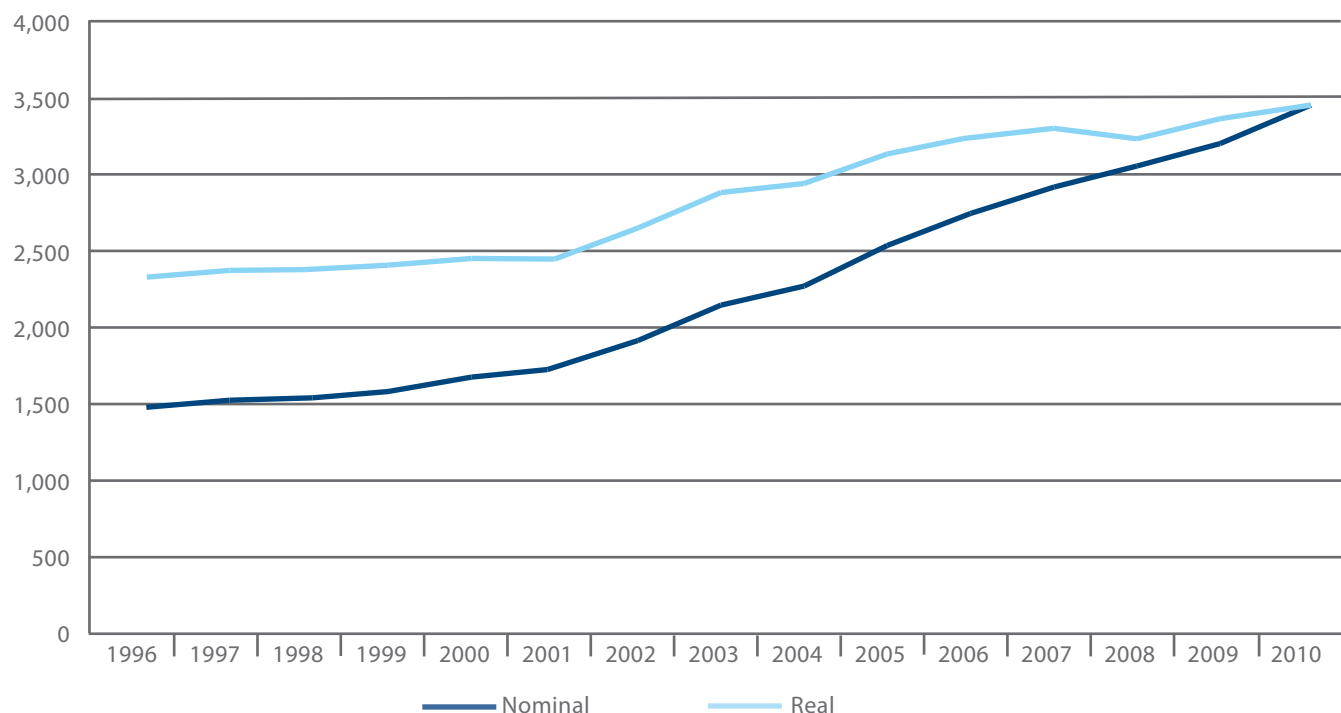
While recurrent funding for both research and teaching was below 1996 levels at the end of the period, non-recurrent funding for research was 2.6 times its 1996 value in 2010.

Figure 9. Other Commonwealth research funding (non-recurrent), nominal and real (\$m), 1996-2010



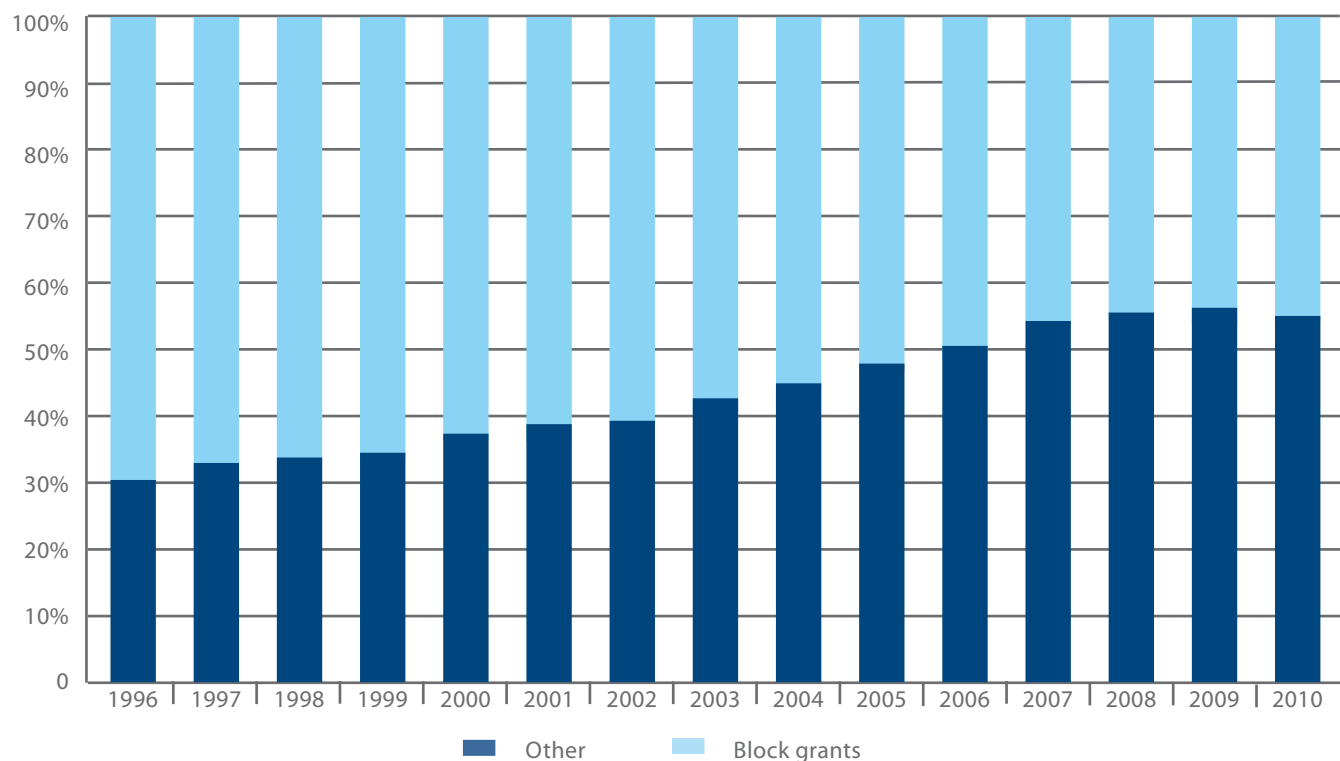
Combining the recurrent research funding shown in Figure 8 with the non-recurrent funding in Figure 9 yields the data series shown in Figure 10 below. In real terms, research funding increased strongly from 2001 before dipping in 2008. By 2010, growth in research funding was back to trend.

Figure 10. Recurrent and other Commonwealth funding for university research, nominal and real (\$m), 1996-2010



There has been a significant shift over the period in the relative shares of research funding provided through block grants. In 1996, 70% of research funding was allocated through the Operating Grant. By 2007, Research Block Grants' share of funding had fallen below 50%. In 2010, the figure was 45.7%.

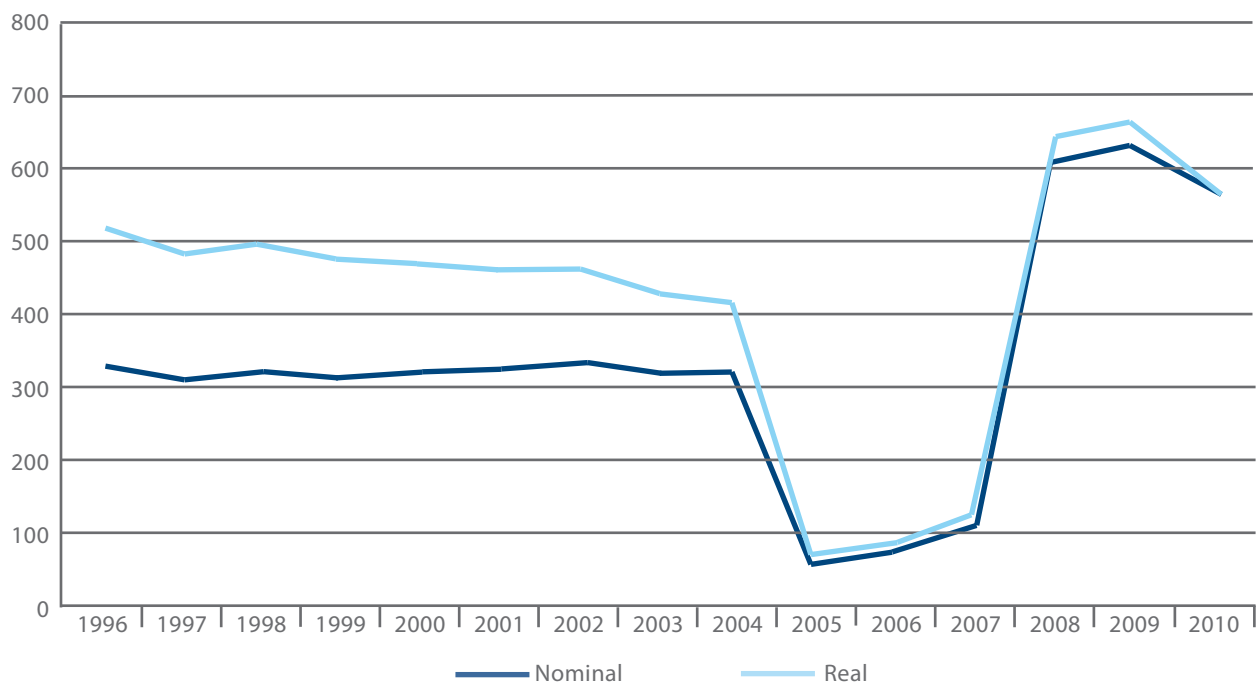
Figure 10a. Share of Commonwealth funding for university research, block grants and other sources, 1996-2010



Capital funding

Capital funding is volatile over time. In the first half of the period, capital funding represents a 'capital roll-in' to the Operating Grant, plus the forerunner of the Capital Development Program (CDP). The capital roll-in ceased to exist after the current system of Commonwealth Grants Scheme (CGS) and research block grants replaced the old Operating Grant from 2005. Accordingly, dedicated capital funding fell very markedly. In the 2007-08 Budget, the Liberal Government set up the Higher Education Endowment Fund (HEEF). Earnings from HEEF were intended to fund capital spending and research facilities. In 2008, the new Labor Government set up the Education Investment Fund (EIF), which subsumed HEEF. The new Government also introduced the Better Universities Renewal Fund (BURF) as a one-off capital funding boost. Since then, the Education Investment Fund (EIF) has made fairly large amounts of capital funding available to universities.

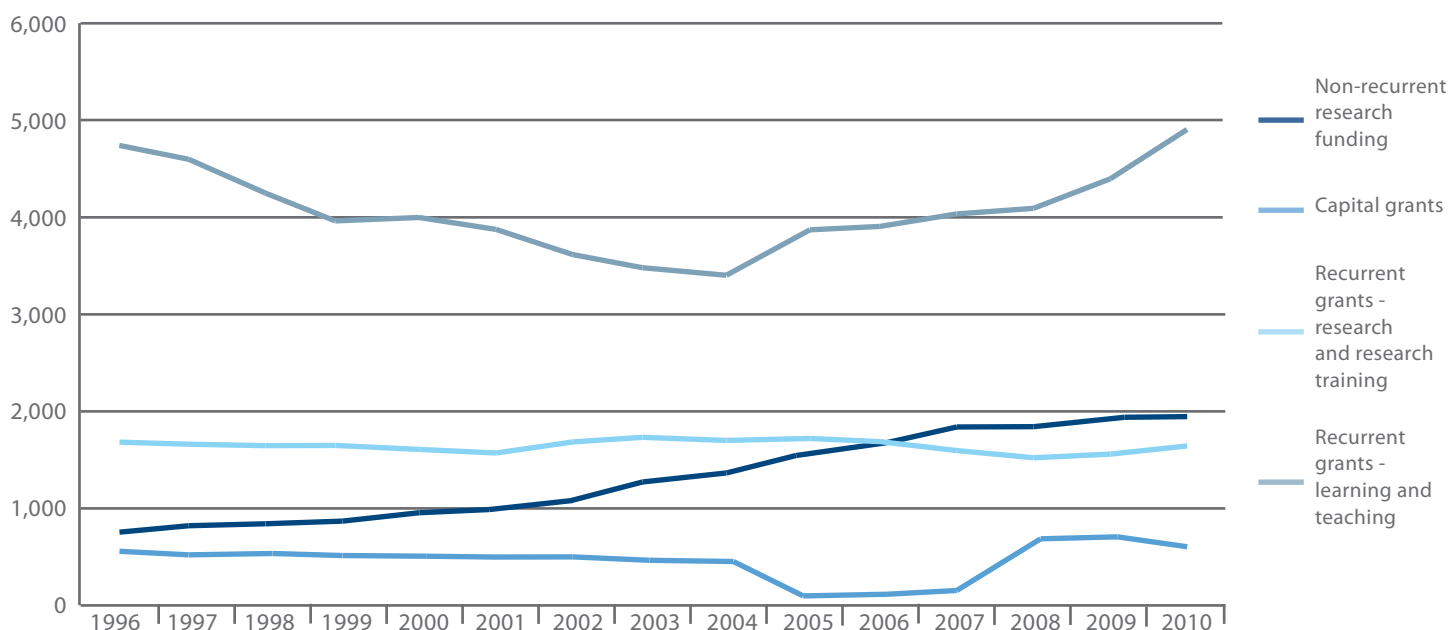
Figure 11. Commonwealth capital grants, nominal and real (\$m), 1996-2010



Conclusion

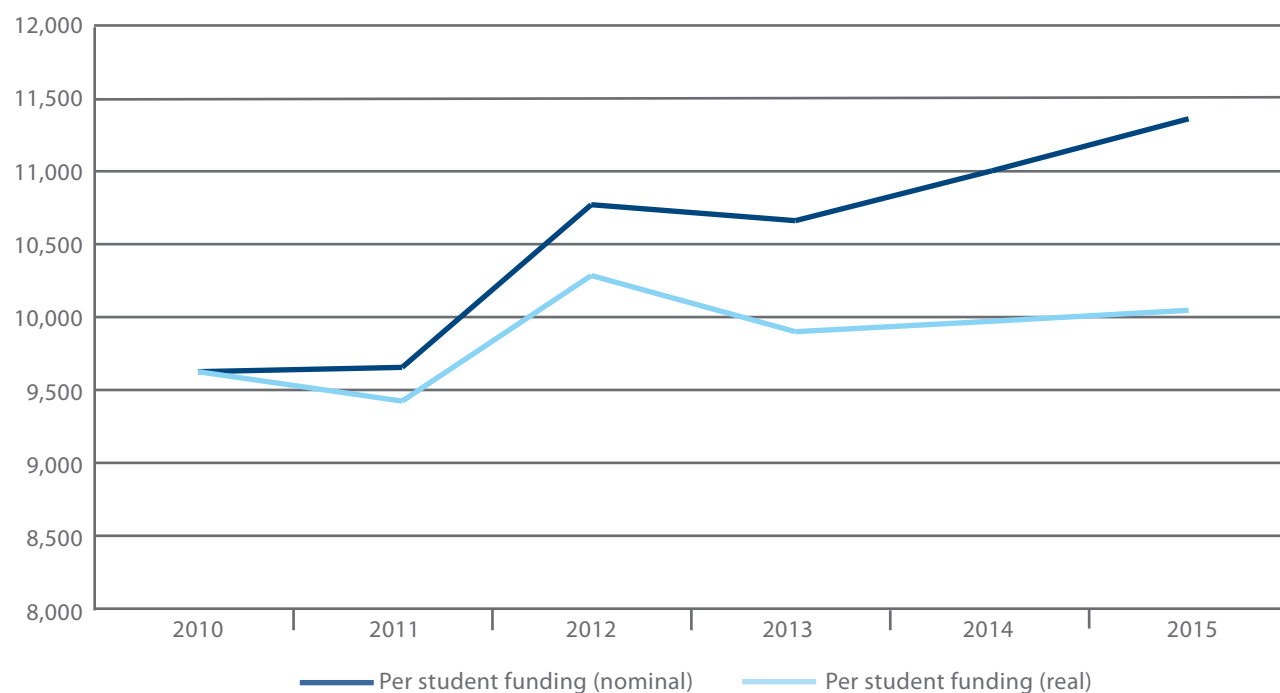
Time series data on Commonwealth Government funding for universities show that there has been a real increase in aggregate funding over the past few years. However, different components of funding have shown very different trajectories (Figure 12). Funding for learning and teaching declined from 1996 to 2004, before recovering to better than 1996 levels in 2010. Some of the recent gains are due to enrolment growth: on a per student basis funding for learning and teaching in 2010 was at about 1996 levels. Research block grants have been fairly flat, since boosts in funding levels in 2001 eventually failed to keep pace with inflation. Other research funding (including competitive grants) has grown strongly and increased as a share of all research funding. Capital funding fell slightly in real terms before a big drop in the mid 2000s. Since 2008, capital funding has exceeded earlier levels, thanks to a large injection of new money since 2008. However, much of the new funding was for new buildings – adding to already large maintenance backlogs – and required universities to put up matching funding.

Figure 12. Funding by category



Improved indexation will further increase real funding in 2012. Budget projections show a further increase in the real value of CGS funding per student, due to the very welcome introduction of more generous indexation in 2012 (Figure 13). But even the Government's projections concede that it will be difficult to maintain the funding boost in real terms.⁵

Figure 13. Budget Projections CGS



The Government has shown little sign of willingness to address underfunding of CSPs identified by both the Bradley and Lomax-Smith Reviews. Universities' capital maintenance backlog remains, and enrolment growth means increased infrastructure costs. Funding for major research infrastructure has terminated, without a clear and developed plan to replace it.

Time series funding data show that Governments of both parties have made efforts to improve funding for universities at different times and in different ways. But governments of both parties have also found themselves unable to fund all of the sector's financial needs, and have had to make Budget decisions that have been unpopular with the sector.

The data in this paper point to the limits of any government's capacity to sustain adequate levels of funding for a mass (and post-mass) higher education system. Future governments may not be able to restore real funding rates per student to an acceptable level, while also adequately funding capital and research, within the current funding framework.

⁵ Projections are deflated by CPI estimates from the Budget Papers.

Appendix A – Data sources and definitions

Recurrent grants for teaching and learning

For the period 1996 to 2004 (inclusive), recurrent grants for teaching and learning are defined as the Operating Grant, minus:

- Research Quantum
- Research Training Component
- Capital roll-in
- Indigenous support
- Australian Government HELP payments

For 1996 to 2003, data on total Operating and on the first five exclusions are from Higher Education Triennium Reports published by DIISRTE's predecessor departments. For 2004, data are taken from the Department's *Higher Education Report*.

Australian Government HELP payments are taken from the annual Higher Education Finance statistics publication, also published by the DEEWR and its predecessors.

From 2005 onwards, recurrent grants for learning and teaching are defined as the Commonwealth Grants Scheme (CGS) plus loadings (regional loading, medical student loading and enabling loading).

For 2005 to 2009, data on CGS and loadings are from the annual Higher Education Report. Data for 2010 are estimates based on DIISRTE Portfolio Budget Statements. Projections to 2015 are from the Budget estimates. These figures are deflated by CPI estimates in the 2012-13 Budget papers.

Australian Government HELP payments

Data on Australian Government HELP payments are sourced from the Higher Education Finance statistics published by DEEWR and its predecessors. From 2002, aggregate figures include Australian Government FEE-HELP payments as well as HECS-HELP payments. FEE-HELP payments are excluded from per EFTSL figures.

Recurrent grants for research and research training

Up to 2001, recurrent grants for research and research training are defined as including:

- Research Quantum
- Research Training Component (RTC)
- Research Infrastructure Block Grants
- Australian Postgraduate Awards (APAs)
- International Postgraduate Research Scholarships (IPRS)
- Funding for the ANU Institute of Advanced Studies

Data are taken from Higher Education Triennium Reports, except for the RTC, which is from Science and Technology Budget Tables.

From 2002, recurrent grants for research and research training are defined as research block grants, plus APAs, IPRS and funding for the ANU Institute of Advanced Studies. Data are from Research Block Grant figures published by DIISRTE.

Capital funding

Capital funding is defined to include:

- The capital roll-in to the Operating Grant (1996-2004)
- Capital Development Programme (later the Capital Development Pool)
- Better Universities Renewal Fund (BURF; in 2008)
- Education Investment Fund (EIF; in 2009 and 2010)

A small number of minor funding programs before 2005 (funding for teaching hospitals, cooperative multi-media centres and advanced engineering centres, and a restructuring and rationalisation program).

Data are sourced from Higher Education Triennium Reports and later Higher Education Reports, except for BURF and EIF, which are from the Higher Education Finance statistics publication.

Non-recurrent research funding

Commonwealth research funding, other than recurrent funding, is defined to include:

- Australian Competitive Grants (ACGs)
- 'Category 2' income (i.e. 'other public sector income') from the Commonwealth
- Commonwealth Government contributions to Cooperative Research Centres (CRCs)
- The Linkage Infrastructure Equipment and Facilities (LIEF) program run by the Australian Research Council (ARC)
- The Research Infrastructure Equipment and Facilities (RIEF) program which preceded LIEF
- Research infrastructure funding provided through the Major National Research Facilities (MNRF) program, later replaced by the National Collaborative Research Infrastructure Strategy (NCRIS).

ACGs, category 2 income from the Commonwealth and Commonwealth contributions to CRCs are sourced from HERDC research income data. LIEF funding data are taken from the ARC website. RIEF funding is from Higher Education Triennium Reports. MNRF and NCRIS funding is from the Science, Research and Innovation Budget Tables, converted from financial to calendar years.

International student fees

Data on aggregate fees paid by international students are sourced from the Higher Education Finance statistics publication.

Total university revenue

Where figures are given in this paper for total university revenue, these represent 'total revenue from continuing operations' in the Higher Education Finance statistics.

Equivalent Full-Time Student Load (EFTSL)

Equivalent Full-Time Student Load (EFTSL) data are sourced from the Higher Education Student Statistics Collection.

