TERTIARY EDUCATION FUNDING IN TIMES OF CONTRACTION

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The four R's of tertiary education: reduction, reallocation, reassessment and retrenchment.

Introduction

The Problems in Funding
Australian tertiary education is dependent almost wholly on one funding source: the Commonwealth Government. Given the current well-publicised Commonwealth Government deficit, this is hardly a good source on which to be dependent. Non-government sources account for a very small proportion of tertiary education funding.

As Karmel has stated:

> *The Commonwealth Government provides 100 per cent of government funding for higher education and about 15 per cent for Technical and Further Education (TAFE) recurrent expenditure and 60 per cent for TAFE capital expenditure; State governments are the main funders of TAFE. The larger and older institutions of higher education have some funds from private sources, but in only two cases do these exceed three per cent of operating expenditure and generally they are very small.*[1]

Recurrent funds for higher education levelled out after 1978 and have since fallen slightly.[2] In this situation however, institutions are faced with the task of finding funds for new activities and they are faced with inevitable cost increases such as incremental creep, which results from the movement of staff up incremental salary scales. Inflationary increases are, at least to some extent, covered by the system of cost supplementation which, after a brief period of replacement by "out-turn funding" has been restored by the current government.

The Importance of the Problems
In the current funding situation, institutions lack the funds to meet new needs and have a reduced capacity to meet present commitments. In theory, rearrangement of programmes is possible, but with high proportions of tenured staff, this is not often easily done. Without growth and with the current age structure of staff, there is also little opportunity for the recruitment of new staff who might bring new knowledge and new methods. In short, the no-growth situation could result in institutional stagnation.

Varieties of contraction
There is a danger that we might believe that Australian institutions will suffer only a mild form of contraction and nothing worse; that we will not see the English experience happen here. It is sobering to consider what one observer has described as the varieties of contraction.[3] In Table 1, these varieties of contraction are set out in graduated form. The author has noted that the most common response to conditions of slowed growth among United States and United Kingdom institutions has been twofold: (i) stimulation of demand through increased marketing efforts; and (ii) efficiency measures to cope with reduced rates of growth. It is interesting to consider the scope for these responses in the Australian situation.

Some solutions to funding problems
It is worthwhile to consider some possible options in trying to solve funding problems at the institutional level; if only to help focus on where attention should be best placed.

On the income side, an institution might consider the scope for increasing its government grant. For most institutions, this would require a significant increase to be achieved in student enrolments. The introduction of good new programmes, the strengthening of existing programmes and the effective marketing of programmes will help to increase student enrolments. Some institutions are greatly favoured by their environment, while others will need to move to new modes to increase their student enrolments. For example, Milperra College of Advanced Education (about to become the McArthur Institute of Higher Education) has substantial growth potential in the south-western suburbs of Sydney, while an institution such as Armidale College of Advanced Education must become more dependent on external enrolments. In the short term, there is little scope for most institutions to increase their share of government funding.

TABLE 1

VARIETIES OF CONTRACTION

Category	Most Common Causes	Characteristic Institutional Response
1. Slowed institutional growth and possibility of contraction	Externally imposed fiscal constraints, e.g., recession govt. spending limits Stable enrolments or decline in enrolment growth rate Inflation above rate of budget increase	Efficiency measures Deferral of planned programs and buildings Self study Increased student marketing efforts Increased fund raising activities
2. Moderate, 'temporary' contraction	Externally imposed budget cuts High rates of inflation Decline in enrolment	Intensified efficiency measures Deferral of certain types of expenditure (principally one-time cuts) Some staff redeployment and development Program reviews as basis for selective cuts Intensified student marketing and fund raising activities Early retirement policies
3. Substantial contraction over relatively short time	Fiscal crisis, e.g., severe recession or depression or fiscal solvency Sharp decline in enrolments Reorganisation/merger of institutions	Crisis personnel policies; redundancies Suspension of capital expenditures Intensive mission/program studies Reduction or closure of selective programs
4. Long-term contraction	Permanent state of uncertainty surrounding institutional viability Organisational, political or economic entropy	Program closures Heavy emphasis upon personnel policies Planned disposal of assets

As mentioned previously, non-government funding accounts for a very small proportion of institutional funding. On the one hand this might seem to be an untapped field but the current economic recession means that non-government funds are less likely to be forthcoming. There is, however, potential for fund raising from non-government sources and this is considered later under the heading of alternative sources of funding.

The greatest scope for dealing with contraction lies in tight control of expenditure. With salary and salary-related costs often accounting for up to eighty-five per cent of the recurrent budget, measures which must be considered include: freezing of vacancies, abolition of positions, early retirement schemes and a greater use of short-term appointments. All of these measures are being used by tertiary institutions.

While these and other measures will help to solve immediate budgetary problems, they can impose severe strains on academic programmes. Depending on how reductions are imposed, it may take some years to restore a programme to its former strength.

Amongst salary-related costs, a major cost is superannuation. A number of institutions have decided to join the new Superannuation Scheme for Australian Universities (SSAU) which will initially require an employer contribution of fourteen per cent of salary. While there are various reasons for the introduction of this scheme, including portability, for some institutions the scheme provides an opportunity to reduce the employer cost.

In non-salary areas, significant cost items include: consumables, travel and conference, and energy. Tight control of consumables can be facilitated by integrated computerised purchasing and stores systems. Travel and conference expenditure can be subjected to severe restriction, although this may be at a longer term cost to the staff member and to the institution. It has been reported that in the Faculty of Arts at the University of New South Wales, no money was set aside for travel during 1983.[4] Sophisticated energy management systems, using computerised controls, can result in substantial savings. The Australian National University is one institution which has achieved success in this area. Conversion from one energy form to another form may result in savings, but this can depend on subsequent price movements.

Apart from trying to increase income and control the level of expenditure, institutions may try to reallocate resources from one programme to another. Reallocation raises questions as to who will make decisions and on what criteria will decisions be made. In academic institutions, it can be difficult to achieve the hard decisions which will result in significant reallocations. This is because of the participatory nature of management. There may be a need for new, more hierarchical management structures if the hard decisions are to be made. There may also be value in having genuine participation in resource allocation decisions by outside experts.

Notwithstanding the problems, it is worth noting some alternative methods of resource allocation.

Alternative methods of resource allocation
Some of the available methods of resource allocation are as follows:[5]

Historical, Incremental Method
This method involves taking the percentage allocations used in the previous year and applying them to the budget which is under consideration. If there is any increase in total funds available, the increment is applied pro rata across the various budget areas. This method involves a minimum of decision making from year to year. In fact, this method avoids the making of hard decisions, when it may be desirable that hard decisions be made.

Intuitive Method
This method is based on the assumption that the decision makers 'know' what are appropriate allocations to operating divisions. By discussion, consensus is reached about appropriate allocations.

The New Initiatives' Method
This method may involve the use of the historical, intuitive or some other method in relation to the bulk of the resources but a small part of the resources is identified for particular new developments. Decisions are made about which new developments should be supported.

Formula Methods
These methods allocate resources according to some quantifiable base, such as the number of weighted student units (WSUs) in each division.

Assessment of Performance Method
This approach involves an evaluation of the relative value of outputs from divisions in previous periods and the making of decisions about what resources to give to each division for the coming period.

Programme Priority Method
This method involves:

- the identification of programmes of activity, where programmes may not be synonymous with organisational divisions;
- the ranking of programmes by priority, in terms of the mission, goals or objectives of the institution; and
- the allocation of proportions of the resources available, to each programme.

Alternative sources of funding
When times are difficult for tertiary institutions, it is probably worth considering all possible options for extra funds, including those options which are controversial. In this category, it is worth considering the possibility of having tuition fees reintroduced. Tuition fees were abolished from 1974, when the Commonwealth Government assumed total responsibility for the funding of higher education. Tuition fees came close to being reintroduced by the Fraser Liberal Government in 1981 and 1982.

In considering tuition fees from the viewpoint of the institution, an important question is whether or not the fees would actually result in larger institutional income. In the Fraser Government's proposal, government grants would have been reduced by the amount of fees due and consequently, after meeting the administrative expense of collecting the fees, institutions would have been worse off. On the other hand, if government grants were to be maintained at previous levels, after the introduction of fees, institutions would have more income and would have increased accountability to the general community. What would be more revolutionary would be to have varying fees as between academic programmes and as between institutions. Is Australian society too ridden with uniformity to consider such possibilities?

Apart from tuition fees which are not currently charged for credit courses, there are many short non-credit courses for which fees are charged. These fees account for only a very small proportion of institutional income at present. However, if continuing education expands further, such short course fee income could become significant.

Fund raising, or institutional development as it is sometimes called, is well established in many countries, particularly in the U.S.A. and Canada, and is now becoming common in Australian institutions.

The types of funds which may be sought, can be classified as follows:[6]

Outright Gifts of Cash or Negotiable Securities
These gifts are obviously the most desirable type of funds because of their immediate availability and because they may be converted into forms which give the best possible return. They also usually give complete control to the institution.

Pledges
The pledge takes the form of a promissory note, payable in instalments over a period of years. There is obviously delayed benefit to the institution and there is the risk that the pledge will not be fulfilled.

Annuities
An arrangement of this kind provides that the actual title to certain assets is transferred from the donor to the institution, in return for a contract by which the institution guarantees to pay a stated annual income to the donor during his life. The assets given on an annuity basis are not available for the stipulated purposes until the contract matures on the death of the annuitant. The institution is expected to keep the assets of the fund invested and to use the income from the invested assets to meet the annual payments to the annuitant. The rate of payment to the annuitant, however, is normally expected to be somewhat larger than the earnings of the invested assets.

Bequests Written into Wills
While bequests are desirable and should be sought, they have a number of disadvantages:

- the will is subject to change,
- the collection of bequests in favour of the institution may be difficult,
- the benefit may be long delayed,
- if the donor has written into his or her will a bequest for some particular purpose connected with the institution, there is a chance that the needs of the institution may change before the bequest is received.

Other Types of Funds
There are many other ways in which an educational institution can raise funds, including: conferences, letting of accommodation, hire of sports facilities, regular giving plans, support from philanthropic and welfare foundations, sponsorship of research and through indirect cost money added to research grant applications.

Australian institutions have adopted many of these fund raising activities, particularly in the last five years. If there is one cardinal rule in fund raising, it is that an appeal should have a narrow focus, both as to the purpose of the appeal and as to the target market. A good example of such an appeal is provided by the University of Melbourne School of Engineering which is planning a multi-million dollar computerisation programme.[7] The former chairman of the Broken Hill Proprietary Company and ANZ Banking Group, Sir Ian McLellan, is heading a committee to raise $2.5 million over the next five years. The appeal will establish a foundation to finance a computer-aided design centre and the appeal was launched to celebrate the School's centenary. The appeal is a good example of a narrow focus, in terms of the purpose and the market, the latter being mainly engineering graduates and engineering firms.

There are further activities which can provide alternative sources of funds, some with more certainty than others. One of the most promising areas is the commercial sponsorship of research. In this area, the field of biotechnology is gaining strong support. There may be issues such as institutional autonomy which need to be considered, but commercial sponsorship offers considerable scope for fund raising.

Some alternatives for fund raising are less certain as to their prospects and practicality, but they should be mentioned. Many institutions have set up marketing organisations designed to make services available to industry and to the community. Testing services and consulting are commonly provided through these organisations. While these organisations are not primarily established to make profits, they may do so. However, there have been few in Australia, if any, which have reported significant profits so far.

Finally there is the possibility of exploiting existing physical assets. This might involve the hiring out of assets or the sale of assets.

An interesting example of exploiting assets occurred at Park College, Missouri, U.S.A. When officials of the college realized that they were sitting on top of an estimated 31 million tons of limestone, they signed a royalty agreement with a company giving the company permission to mine the limestone. The company will pay 25 cents for every ton it removes, bringing the college as much as $7.75 million. In addition, the company will rough finish the mined areas for future development as rental property.[8]

This may seem to be an unusual case, but it might prompt some unconventional ideas for Australian institutions. At The Australian National University, the university gained an enormous area of underground storage when a freeway was built through one edge of the campus. The space between the underground freeway and ground level has been developed into valuable underground storage.

It may seem unacceptable to consider selling assets such as campus land, but the matter may be worth considering. In Britain, it has been reported recently that the universities may be forced to sell surplus land and buildings or run the risk of an equivalent reduction in their grants. The Treasury suggested that because the institutions will soon have spare plant as a result of the downturn in activities, their grants should be reduced by an amount equal to the value of their disposable assets.[9]

A model for dealing with contraction

The various elements of institutional income and expenditure can be represented in a model. Associated with the various elements are possible actions designed to maximize the income elements and control the expenditure elements. Such a model is presented in Figure 1.

FIGURE 1

A MODEL FOR DEALING WITH CONTRACTION

INCOME (to be maximized)		**EXPENDITURE** (to be controlled)	
Element	Actions	Element	Actions
Government grants — Recurrent — Capital	Increased student marketing effort Change in student mix Improved submissions for funds	Salary and salary related	Freezing of vacancies Abolition of positions Early retirement Short-term appointments New superannuation schemes
		Consumables	
Fees — Tuition — Short course	Improved marketing	Travel and conference	Restrictions
		Energy	Change of energy type Control systems
Interest from investments	Improved cash management, better investments	Miscellaneous	
Fund raising	Increased activity		
Commercial sponsorship of research			
Income from business undertakings	Marketing units for testing, consulting etc		
Sale of assets			
Other		Capital	Deferrals, suspension

Conclusions

This paper has sought to identify ways in which tertiary institutions should deal with the current funding situation. Various ways of maximizing income and controlling expenditure have been noted. A basic conclusion is that it is necessary to think broadly and to consider all the options which might be available; even the options which might at first seem to be impractical.

On the income side, marketing has a role to play, but in the Australian context, the potential of marketing is somewhat limited. There is potential for increasing income through interest on investments, fund raising, commercial sponsorship and disposal of assets. However, all of these activities are likely to contribute only a small proportion of total income, in comparison with government grants.

The greatest potential for dealing with the current funding situation rests in tight control of expenditure. Reallocation of resources may be useful to the institution but there can be difficult problems to overcome in achieving reallocation and the total impact of reallocations is often small. Expenditure on recurrent and capital items may be deferred. New schemes for superannuation and early retirement may be introduced. In all of these attempts to control expenditure, consideration should be given to the consequences on academic programmes. Tertiary institutions are primarily about students, teaching, research and public service; not about money.

Finally this discussion has illustrated the need for institutions to study themselves. Detailed consideration is needed of how resources may be best obtained and used in order to achieve mission, goals and objectives.

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