



Australian Universities and the need to maintain current values by appropriate indexation

In its submission to the Nelson Review in June 2003 the Business/Higher Education Round Table (B-HERT) recommended that "... where funds are payable in future years they be indexed to maintain their "real" value. Without this, "inflation creep" will diminish the value of the additional funding. B-HERT is of the view that the CPI is not the most suitable index for this purpose and suggests that the Government directs the Australian Bureau of Statistics to develop an index for this purpose."

The investment in Australia's Higher Education sector each year amounts to over \$11 billion, of which the Commonwealth Government contributes some \$5 billion and students some \$2 billion.

Each year the impact of inflation sees the value of that investment decline.

To maintain the real value of that investment, indexation of future Government funding must be implemented, otherwise the system will simply fall back into the same underfunded level of recent years before the recently approved Nelson reforms.

The investment in Australian universities, in the quality of their students, in their teaching and research, is vital to the future well-being of this nation.

Our university system needs and warrants a higher level of investment. Indexation of Government funding is a fundamental prerequisite.

As the cost of salaries and materials rise, recurrent funding has to rise as well.

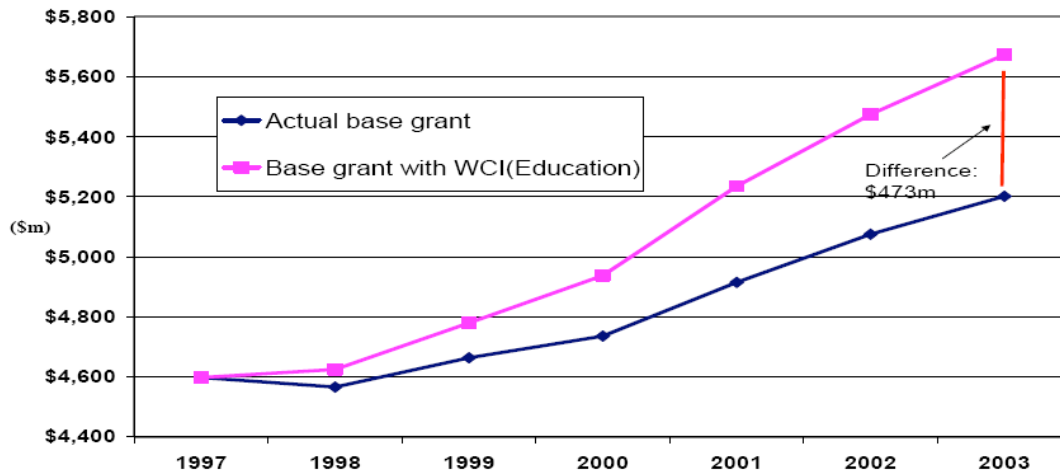
Since 1996 the Government has indexed its funding by a mixture of the Consumer Price Index and the Safety Net Adjustment for wages. The wage adjustment is much less than the real increase in salaries in universities. The effects will be rising levels of student to teacher ratios, larger class sizes, reduced access to staff, greater use of casual staff, and restrictions on access to library and other resources.

The point that must not be overlooked is that an increasing number of students will also require additional funding.

The funding per student has to be maintained (or conversely not diluted) if we are to realise the full potential of higher education in Australia.

Providing access to all who are qualified must be accompanied by providing adequate funds to all who enter.

According to the Australian Vice-Chancellors Committee (AVCC), funding for universities by 2003 was \$473 million less than it should have been using an appropriate index (see chart below). This is nearly 10% of universities' core education funding.



Source: Gerald Burke and Paul White, *Price measures in education and training: opening a discussion* (2003) p15; ABS.

B-HERT urges all political parties to recognise the importance of this issue and agree to index government funding.

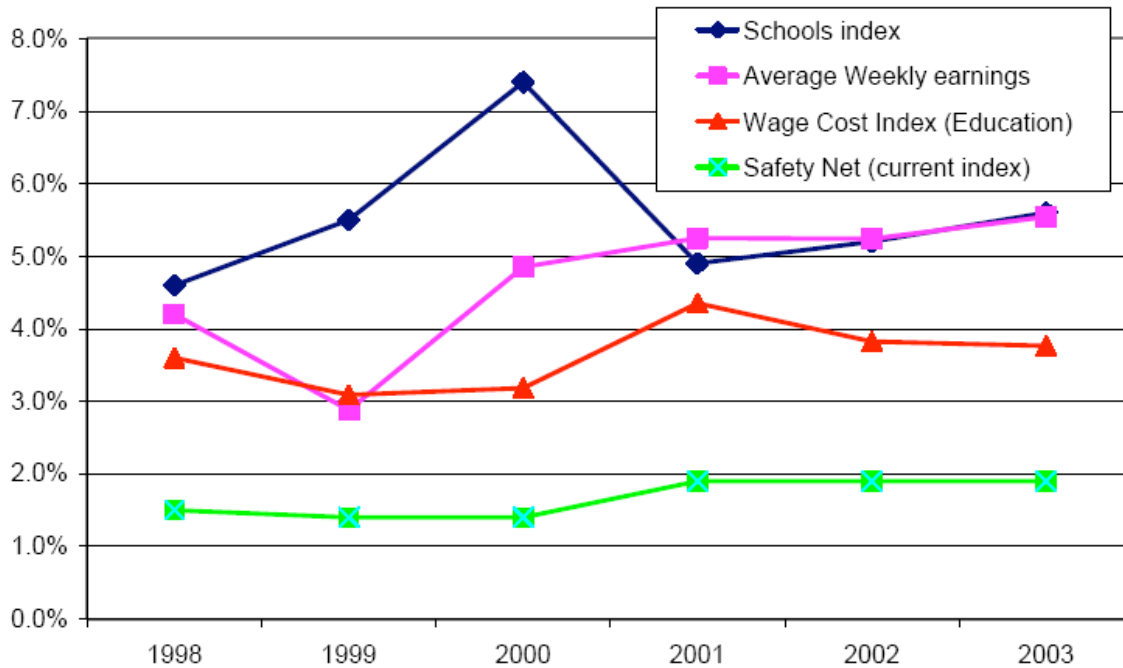
As B-HERT recommended one year ago there needs to be a realistic and relevant index to apply in these circumstances.

There are a number of existing indices which could be considered. These include Average Weekly Earnings, the Government School Recurrent Cost Index, and the Wage Cost Index (Education). The annual increase in these is shown below compared with the existing index.

Based on its analysis, the AVCC recommends that the Government replace the salary component of the index with the Wage Cost Index (Education). The Wage Cost Index measures the underlying increase in education salaries, net of productivity gains. This properly reflects the real change in costs for universities. Since universities are but one part of the education sector, changes in university salaries could not drive the WCI (Education) but it would be a reasonable indicator of general changes in the underlying level of education salaries. This increase is still less than increases in average weekly earnings.

The Consumer Price Index could be used to index the non-salary component of Government grants.

Possible salary indices: annual increase 1998-2003



Index	1998	1999	2000	2001	2002	2003	Average
Schools Index	4.6%	5.5%	7.4%	4.9%	5.2%	5.6%	5.5%
Average Weekly Earnings	4.2%	2.9%	4.9%	5.2%	5.2%	5.5%	4.7%
Wage Cost Index (Education)	3.6%	3.1%	3.2%	4.4%	3.8%	3.8%	3.6%
Existing Index	1.5%	1.4%	1.4%	1.9%	1.9%	1.9%	1.7%

Source: Gerald Burke and Paul White, *Price measures in education and training: opening a discussion* (2003) p15; ABS

² Higher Education Support Act 2003 section 198-25

³ Australian Labor Party, *Aim Higher: Learning, training and better jobs for more Australians*, 2003, p.21.

Logically, to treat all stakeholders equitably the levels of HECS contributions and the income levels at which HECS repayments commence should also be appropriately indexed.

B-HERT also supports the need for universities to continually improve the efficiency of their operations and financial management, including restructuring to remove courses with low student support, so that critical mass for these courses can be achieved at few universities. B-HERT also supports the universities seeking additional funding from non Government sources. However, these efficiency improvements and additional income opportunities should not be at the expense of indexing Government funding.

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