


The Importance of Accuracy in the Funding of Teaching Services


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1 Background

This is a submission to the Universities Accord Review on the issue of the funds allocated to universities on a discipline basis with respect to the delivery of teaching services. This topic is not to be confused with the concept of charges to students which are generally paid through the HECS-HELP loan system and, because of the implicit subsidies involved, have little connection in reality to the so-called “maximum student contributions” that have been part of the higher education budget process for at least 10 years. While there is sometimes a conflation of these “prices” they are separate issues and should be dealt with independently.

Given the complexity of government higher education funding the goal in what follows is quite limited and modest. It is to highlight the importance of having course-specific funding reflecting as accurately as possible the true costs of the efficient delivery of the service. At this point in time, and perhaps for most of the last three decades or so, there does not seem to be a clear connection between the provision of the amounts of funding by discipline and the costs of teaching.

An important aspect of this issue comes from the work of Keith Houghton and the team at the Higher Education and Research Group (see HERG submission and Houghton presentation on May 16th, 2023). This work suggests that the “true” costs of both teaching and research have not been accurately measured and, if this is the case, highlights the importance of this issue for the activities of a newly constituted Tertiary Education Commission (TEC) (see below).

2 The Potential Costs of Inaccurate Pricing

It should be an issue for the Accord Review that there is apparently duplication of course offerings between separate universities, which might be considered to be useful in a world in which price competition plays a part in the operation of the system. But for very sound reasons price caps have been set to allow the proper functioning of the HELP system; allowing price discretion in the context of universally available income-contingent loans (ICL) would be a poor outcome, a point made and explained fully in Chapman (2020).

I raise one very simple point with respect to course duplication in the context of the use of inaccurate funding arrangements. This is that the most efficient system is one that would deliver the right outcomes in terms of specialisation of university activities: to reap the rewards of comparative advantage, to help in the delivery of economies of scale and, potentially, to provide strengthened concentrations of academic talent providing positive effects on the quality of education provided. These benefits won’t be maximised if the system is designed in a way that delivers financing for inaccurate costs of delivery of teaching funding as a result of the potential rents (“profits”) available to universities. This would happen, for example, if a particular course is funded well above its true cost.

If inefficient resource allocation is occurring within universities there are allocative efficiency costs and it is important to understand that these are ultimately a burden carried by taxpayers. Correcting these misallocations thus has the potential to deliver more financial resources to alternative higher education activities, such as research.

3 *Assisting the Role of a Tertiary Education Commission*

The *Interim Report* promotes the institution of a Tertiary Education Commission (TEC), a proposal with important potential benefits to policy development related to funding arrangements and much more. A critical role for the TEC would be, in consultation with the universities, to put in place processes that lead to the most accurate measurement of the costs of delivery of teaching services. Once this becomes clearer and helps inform the government of the most accurate levels of financing for course delivery, important steps would have been taken along the path towards more sector-wide efficiency.

A challenge for the TEC is to find consultative and informed ways to encourage within-university resources efficiency. We all know that top-down micro-management and prescription from the government has to be avoided, and I recommend Corden (2005) on this issue. A complex balancing act for a TEC is to find ways to allow maximum institutional autonomy in a context that gives weight to taxpayer costs, which might involve the use of targeted incentives. This task can be assisted importantly with funding arrangements for course delivery that are as close as possible to the true costs.

References

- Bruce Chapman (2020), Submission to the Productivity Commission's Enquiry on National Agreement for Skills and Workforce, Canberra.
- W. Max Corden (2005), "AUSTRALIAN UNIVERSITIES: MOSCOW ON THE MOLONGLO", *Quadrant Magazine*, Vol XLIX, No 11 (November) 2005: 7-20.