



Commonwealth Review of Funding Clusters

UWS Submission

26 February 2007

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Summary

The DEST review aims to examine the current allocation of discipline groupings to CGS funding clusters, including the number of clusters and funding relativities between clusters. The DEST discussion paper assumes that both student contribution (HECS) bands and total CGS funding amounts will remain unchanged and that only the CGS clusters themselves will be reviewed. While UWS welcomes the review, this submission argues that these limitations are inconsistent with its aims.

The current 12-cluster funding model used by DEST is very complex to manage (for higher education providers and for DEST). It also creates potentially significant annual variability in funding outcomes, at both institutional and national levels. Combined with fluctuations in student demand by course, institution and across the sector, these features of the funding model make effective planning very difficult. To reduce this complexity and instability in funding, UWS recommends that the Commonwealth:

1. **provide an agreed CGS funding grant on a three-year rolling cycle, rather than annually**, based on the institution's discipline-based cluster profile in previous years, and periodically reviewing that profile. This would allow for movement of student load between clusters without financial penalty;
2. **allow greater institutional flexibility regarding target student load** within the CGS funding provided, so that student load outcomes could vary within more flexible parameters, without affecting annual funding. This would allow institutions to more effectively respond to changing demand without creating major annual fluctuations in funding;
3. **reduce the number of clusters**, by grouping existing clusters and re-aligning CGS funding and HECS bands accordingly to simplify the cluster funding model

To achieve the simplification of clusters in recommendation three, it is only the total funding per cluster that is meaningful – that is, CGS plus student contributions (HECS). These need to be considered together. There is no simplification if one cluster has multiple HECS bands associated with it – the different CGS and HECS combinations create multiple nominal clusters. Furthermore, by definition, there can be no discussion of the funding relativities of clusters without inclusion of HECS in the funding equation.

Considering the decline in relative funding for the national priority areas of nursing and education, UWS also recommends:

4. that **CGS funding be increased for Nursing and Education**; and
5. that **capped HECS on Nursing and Education be removed**, to facilitate adequate investment in these national priority disciplines

The annual CGS amounts paid to institutions per student for Law (\$1,643) and Business (\$2,704) are totally inadequate. The high HECS charges to students in these disciplines are also linked to misleading assumptions concerning future income potential. UWS therefore recommends:

6. that **CGS amounts for Law and Business be increased** to meaningful levels; and
7. that **student contributions for Law and Business be reduced** to provide equity, to re-balance funding and to facilitate simplification of clusters and HECS bands.

Commonwealth Review of Funding Clusters

The DEST review announced by the Minister in December 2006 aims to examine the current allocation of discipline groupings to CGS funding clusters, including the number of clusters and funding relativities between clusters. The review envisaged by the discussion paper seeks to assume that both student contribution (HECS) bands and total CGS funding amounts remain unchanged and that only the CGS clusters themselves are examined. This submission challenges both of these assumptions and argues for the necessity of changes to total CGS funding and to student contribution (HECS) bands.

Complexity and Variability of CGS funding

UWS supports DEST's suggestions for a simplification of CGS funding clusters. CGS funding for universities is currently tied to both target and actual CGS student load for each of twelve funding clusters (see appendix 1). This creates a complex funding model for universities (and DEST), which is made more complex because cluster student load is calculated from discipline-specific subject unit enrolments (and not, for example, from course enrolments). A student enrolled in one course will enrol in a range of subject units, which in turn link to a number of CGS clusters. So it is not possible to simply project course enrolments and link them to funding clusters without a complex mapping of subject unit enrolment patterns to course and cluster. This is illustrated in appendix 2, which maps taught UWS taught load by course across the 12 clusters. Courses increasingly provide many options for student choice across subject units, which is educationally sound but does increase the complexity of the funding model.

Attempting to specify the achievement of individual cluster load and funding targets in this way creates significant complexity and makes planning difficult for both universities and DEST. It is very difficult for universities (and more difficult for DEST) to manage the variability in CGS funding caused by the interactions of student enrolments in many hundreds of subject units across 12 CGS funding clusters. This creates a high level of uncertainty across the sector concerning annual load and funding outcomes for each institution.

This uncertainty is exacerbated by annual variations in student demand across courses, universities and the sector as a whole. Faced with these levels of complexity and variability, it is virtually impossible for DEST to hold universities to student load targets for each funding cluster, and very difficult for universities to meet their individual targets for each cluster.

The recent downturn in student demand across the sector has illustrated how tightly linking university funding to cluster-based student load targets exacerbates these problems. This downturn in demand has highlighted the potential significant annual variability in an institution's Commonwealth grant. It is not in DEST's or the universities' interests to have such unplanned, and to some extent unpredictable, variability in annual funding. Any alternative should seek to reduce this variability as well as the complexity of the funding equation that creates it.

The inevitable outcome of the overall complexity of CGS funding is that DEST manages a total CGS bottom line for each university (and the sector), rather than for each cluster within each university. In practice this begins to resemble the original "operating grant" arrangements that were applied pre-2005, where each university was given a total grant within which it sought to meet an overall student load target. So the question then becomes – is all the complexity of discipline-based funding actually worth it, except to provide the overall parameters for an individual university's *total* CGS grant? And why do this annually if that creates potentially major variability in funding outcomes?

While UWS continues to support the use of load at the unit (subject) level as the most accurate measure of discipline-based student load, it supports action to simplify CGS funding and reduce the variability in funding identified above. These recommended actions include:

- (a) provide an agreed CGS funding grant on a three-year rolling cycle, rather than annually, based on the institution's cluster profile in previous years, and periodically reviewing that profile. This would allow for some movement of student load between clusters without financial penalty.
- (b) Allowing for greater institutional flexibility in target load, so that total student load could vary within certain parameters each year without affecting funding.
- (c) Reducing the number of clusters – see further discussion below.

At the same time, a detailed review of the current allocation of disciplines to clusters using ASCED (Australian Standard Classification of Education) codes is supported, because even a cursory glance at these allocations indicates that there appear to be some quite arbitrary subject areas distributed to particular clusters. This could occur as part of the simplification of the CGS clusters.

CGS Cluster Funding for National Priority Areas

The DEST discussion paper seeks to assume no change to the level of overall CGS funding for the sector in making suggestions for changes to clusters. This is untenable, given the need to adjust the CGS funding for Nursing and Education to adequately compensate for the capped HECS in those disciplines. The funding shortfall caused by capped HECS to these national priority areas threatens to make them financially unsustainable unless their CGS funding is increased accordingly. One alternative of course is to uncap the HECS on these disciplines to allow these disciplines to receive necessary funding and to make up the funding shortfall this policy has delivered since 2005.

Currently we estimate that UWS loses approximately \$3M pa in funding because of the capped HECS for Education (\$1.6M) and Nursing (\$1.4M). This is based on the 2007 estimate of the difference between capped and premium HECS for the student load in those disciplines.

DEST argues that nursing and education CGS amounts were adequately adjusted in 2005 at the time of introduction of capped HECS in order to compensate for the loss of HECS. However, the amounts 'allocated' to nursing and education for clinical and practicum purposes in 2005 do not appear to have compensated for the relative loss of revenues after the introduction of capped HECS, while other disciplines have access to 25% increases in HECS. Currently an educational equivalent of the "inverse care law" is in effect, whereby the most critical disciplines are chronically under-funded.

For UWS, which introduced premium HECS in 2006, relative funding weights for nursing have fallen from 1.7 in 2005 to 1.57 in 2006; while for education relative funding weights fell from 1.4 to 1.25 from 2005 to 2006. Even the costing studies undertaken 20 years ago found that education had an average relative cost of 1.49 (source: Phillips Curran Pty Ltd 2001) and that was before education departments began requiring payment for supervising trainee teachers. While the 1988 studies had nursing at 1.58, this was in the early days of nursing's integration into higher education institutions and so cost information was less reliable. Furthermore, the costs of managing clinical placements for large numbers of nursing students has increased significantly since that time. Increasingly, health systems are requiring payment for these placements, in addition to the logistics involved in managing the clinical work.

DEST asks how universities are spending the additional funding provided for nursing clinical placements (question 4, page 5 of DEST discussion paper). UWS has provided detailed evidence to DEST in previous funding agreement meetings that demonstrates it actually spends far in excess of the additional CGS amounts on these nursing and education placements. We presume that other universities are in a similar position.

The University recommends appropriate increases in the CGS cluster funding amounts for Education and Nursing to offset these growing losses and the elimination of capped HECS. If possible, these CGS increases should be calculated in a way that permits simplification of the number of clusters.

Number of CGS Clusters

Reducing the number of CGS funding clusters would certainly help to reduce the current level of complexity (although see the caveat with regard to student contribution (HECS) bands below). It would appear that some clusters could be merged to form five or six broad CGS clusters, rather than continuing with the current twelve clusters. Rather than focus on the minutiae of differences between the estimated costs of one discipline versus another, we would recommend that the focus be on the similarities and thus on simplifying and amalgamating funding clusters.

One reason for this is that it is not possible to make more than broad and general estimates with regard to the “costs of teaching” of particular disciplines. Attempts to better understand these costs always run up against the problems of varying historical cost structures and patterns of expenditures for disciplines between universities. More detailed and rigorous studies will not resolve this problem. A “common-sense”, broad-brush and pragmatic approach is recommended. It would also be important to ensure that any proposed changes did not negatively impact individual university funding. Such an impact analysis would need to include student contributions (HECS) because they are integral to calculations of relative funding weights and to the complexity of the funding model.

While UWS does not seek to recommend a specific cluster profile, we can provide an example of one such outcome for illustrative purposes in order to contribute to the dialogue regarding the simplification of CGS clusters. The example in Table 1 combines several clusters and includes both Education and Nursing with other disciplines/clusters.

Table 1: Simplifying the CGS Funding Clusters (example only)

New Clusters	Current Clusters
1	1 Law
	2 Business, Accounting, Economics
	3 Humanities
2	4 Maths, Statistics
	5 Behavioural Science and Social Studies
	11 Education
3	6 Computing, Health
	7 Languages, Visual/ Perf Arts, Media
	12 Nursing
4	8 Engineering, Science
5	9 Medicine, Vet, Dentistry
	10 Agriculture

In truth, such an example raises a lot of questions, the first of which is how to “price” the CGS (and HECS) funding for each cluster. It assumes, for example, that a standard CGS rate could be derived for the current clusters 1, 2 and 3; another standard CGS rate for current clusters 4, 5 and 11; and so on. One “standard” student contribution (HECS) rate for each cluster would also be required.

An alternative would be to keep the national priority areas of education and nursing as separate additional clusters with appropriate additional funding commensurate with their priority status (see example in Table 2).

Cluster Funding Relativities

In addition to the CGS cluster funding amounts, the relative differences in funding between clusters, or the relative total funding weights assigned to each cluster, must be considered. (This requires the inclusion of student contributions per cluster). UWS believes that the highest relative weight should not be much greater than 2.6 times the funding for the lowest cluster, as is the case in the current funding model. The level of development, convergence and utilisation of technologies over the past 10 to 15 years in nearly all professional areas is likely to reduce rather than increase the scale of differences in relative costs of teaching between disciplines.

For example, the accounting and finance disciplines lie in one of the lowest funded clusters, but the increase in the use of sophisticated information technologies in these disciplines over the past 10 to 15 years has been dramatic. Every student in these disciplines must be provided extensive access to, and gain mastery of, complex IT systems as part of their basic professional preparation. A similar case could be made across most professional disciplines.

Both the cluster funding rate and the relative cluster funding weights are tightly linked to the level of student contributions for a cluster. As argued below, simplifying the CGS clusters without making changes in student contributions amounts and bands to ensure that each cluster has a common total funding per EFTSL, creates greater not less complexity. So unless DEST includes student contributions in the review and analysis, it may not be worth making changes to the CGS clusters themselves. This argument is developed further below.

The Total Funding Picture: Include Student Contributions (HECS)

The DEST discussion paper seeks to exclude changes to student contributions (HECS) from the review and assumes that existing arrangements will continue. However, it is essential that the complete funding picture for universities is examined. Student contribution (HECS) bands are intimately linked to the CGS funding clusters and are part of the calculation of relative funding weights. Changes in clusters and cluster rates cannot be undertaken without examining the consequences for total (and per cluster) University funding outcomes, which means including HECS; as well as examining the consequences for the complexity of the relationship between these two key areas of University funding. It is therefore unwise to focus only on one half of the funding equation (CGS), without looking at the total per cluster per EFTSL funding outcomes, including HECS, as well as the overall funding outcomes for an institution.

When looked at in total and with the capacity to model changes in both CGS funding clusters and associated HECS bands, it is easier to create more effective funding options of lower complexity. It would be simpler and far preferable to continue to have one student contribution (HECS) band associated with one CGS funding cluster. If the number of CGS clusters is reduced, for example, HECS bands may need to change to ensure that the one-to-one relationship between a cluster and a HECS band is maintained.

Having multiple HECS bands associated with one funding cluster would therefore defeat the purpose of simplifying the funding system and making it more transparent. It also makes it very difficult for universities to plan and model total load funding outcomes by cluster because of the creation of multiple nominal funding “clusters” when student contribution amounts are included. A range of different total funding amounts per EFTSL are created within each cluster for each HECS band associated with an individual CGS cluster.

The student contribution rates could potentially be simplified by reducing the number of HECS bands – for example, by eliminating the capped HECS rates and by continuing to ensure that only one student contribution rate is applied to each cluster, even if those clusters are reduced in number. The example shown in the table below assumes that only three student contribution rates apply.

We question the assumptions in some existing HECS bands concerning future income capacity – an assumption of questionable validity given the prevalence of generic “business” and “law” degrees that do not necessarily link to lucrative professional careers. In fact the very low CGS amounts for law and business and their associated high HECS create inequities for the many students who graduate with high debts and who pursue career options other than those leading to the stereotypical (and inaccurate) picture of the high income earner.

UWS recommends increasing the Commonwealth CGS funding amounts for both law and business and decreasing their HECS student contributions charges to more accurately balance their respective contributions (as well as relative costs of teaching). This would facilitate the simplification of CGS clusters and balance total discipline funding relativities. Table 2 provides an example with a “low cost” and “high cost” HECS band across the five simplified clusters, with special funding treatment for the national priority areas of nursing and education.

Table 2: Simplifying Funding Clusters and Student Contribution Bands (example only)

New Clusters	Current	HECS Band	Relative Funding weight
1	1 Law	A	1.0
	2 Business, Accounting, Economics		
	3 Humanities		
2	4 Maths, Statistics	A	1.3
	5 Behavioural Science and Social Studies		
3	6 Computing, Health	B	1.7
	7 Languages, Visual/ Perf Arts, Media		
4	8 Engineering, Science	B	2.2
5	9 Medicine, Vet, Dentistry	B	2.6
	10 Agriculture		
6	11 <i>Education – national priority</i>	C	1.4
7	12 <i>Nursing – national priority</i>	C	1.7

Other Clinical Disciplines

Allied health disciplines in addition to nursing also have extensive requirements for supervised clinical placements that are not adequately funding in the current model. For example, occupational therapy, social work and complementary health disciplines require many hours of supervised clinical placements. Increasingly, health systems and professions are requiring payment for these placements, in addition to the logistics involved in managing the clinical work. UWS recommends that such allied health disciplines also receive clinical loadings on the CGS cluster funding amount.

Pipeline Rate of New Places

DEST has also asked for comment on the pipeline rate used for new places. UWS does not wish to comment on the pipeline funding assumptions for new places used by DEST because it does not really have a practical impact on the University's attempt to meet total student load and funding targets. However, we would advise against any attempt to make the system more complex, for example by trying to replicate actual retention rates by course or Field of Education in the DEST assumptions for pipelining new places. This would not add value, but it would create unnecessary complexity.

Conclusion

UWS supports the review of DEST cluster funding and the simplification and stabilisation of cluster and sector CGS funding. However, it can only achieve these aims by incorporating student contributions (HECS) into the review and by considering increases in total funding. UWS would welcome further discussions with DEST on the issues and recommendations outlined in this submission.

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Appendix 1: DEST Funding Clusters: CGS and HECS

DEST Funding Clusters 2007: CGS and HECS

	Funding Cluster	CGS	HECS	CGS + HECS
1	Law	\$1,642	\$8,333	\$9,975
2	Accounting, Business, Econ	\$2,703	\$7,118	\$9,821
3	Humanities	\$4,556	\$4,996	\$9,552
4	Maths, Statistics	\$5,381	\$7,118	\$12,499
5	Behavioural & Social Science	\$7,233	\$4,996	\$12,229
6	Computing, Health	\$8,057	\$7,118	\$15,175
7	Languages, Vis Perf Arts, Media	\$9,908	\$4,996	\$14,904
8	Engineering, Science	\$13,411	\$7,118	\$20,529
9	Medicine, Vet, Dentistry	\$16,810	\$8,333	\$25,143
10	Agriculture	\$17,870	\$7,118	\$24,988
11	Education - <i>priority</i>	\$7,950	\$3,998	\$11,948
12	Nursing - <i>priority</i>	\$10,953	\$3,998	\$14,951

DEST Funding Clusters 2007: in order of relative funding

	Funding Cluster	CGS	HECS	CGS + HECS	Relative weight
3	Humanities	\$4,556	\$4,996	\$9,552	1.00
2	Accounting, Business, Econ	\$2,703	\$7,118	\$9,821	1.03
1	Law	\$1,642	\$8,333	\$9,975	1.04
11	Education - <i>priority</i>	\$7,950	\$3,998	\$11,948	1.25
5	Behavioural & Social Science	\$7,233	\$4,996	\$12,229	1.28
4	Maths, Statistics	\$5,381	\$7,118	\$12,499	1.31
7	Languages, Vis Perf Arts, Media	\$9,908	\$4,996	\$14,904	1.56
12	Nursing - <i>priority</i>	\$10,953	\$3,998	\$14,951	1.57
6	Computing, Health	\$8,057	\$7,118	\$15,175	1.59
8	Engineering, Science	\$13,411	\$7,118	\$20,529	2.15
10	Agriculture	\$17,870	\$7,118	\$24,988	2.62
9	Medicine, Vet, Dentistry	\$16,810	\$8,333	\$25,143	2.63

Appendix 2: Complexity of Cluster Student Load by Course: Example of Modelling Course Load by Cluster

Cluster	1	2	3	4	5	6	7	8	9	10	11	12
	Law	Bus	Human	Maths	Soc Behav	IT; Health	Lang, Arts	Eng, Scien	Medicine	Agric	Nurs	Educ
B. Nursing					12%			25%			62%	
B. Teaching												98%
B. Arts			10%		51%		34%					
B. Psychology			13%		58%			23%				
B. Science-environ						28%	14%	57%				
B. Science				15%		10%		70%				
B. Engineering				25%				71%				
B. Computing				15%		74%	8%					
B. Business-acctg	19%	68%		12%								
B. Industrial Design		13%		11%			29%	48%				
B. Economics		92%										
B. Health Science			12%		50%	25%		12%				
B. Medical Science*				9%		9%		82%				
B. Communication		26%			12%		62%					
B. Social Science		5%			86%							
B. Laws	95%											

*excludes Medicine places

Course enrolments flow across multiple clusters because allocation to a cluster is dependent upon the discipline code of individual subject units