
NOTES AND TOPICS

Do Higher Education Amalgamations Work? The Case of Victoria College

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THE major structural change that occurred in Australian higher education during the 1980s was the replacement of the binary system with a unified system. One of the main justifications for this was the possible achievement of greater economies of size and scope.¹ The higher education White Paper of July 1988 argued that the consolidation of small colleges into institutions of university size would achieve 'economies in administration and other overheads including capital costs' (Dawkins, 1988:47).

Since the amalgamations have taken place, the considerable confusion within the higher education system, and the changing role of the institutions themselves, have made it difficult to determine whether the hoped-for economies have been achieved. Some studies, however, have found that the Dawkins round of amalgamations have shown 'modest cost gains which are, in general, due to scale effects' (Lloyd et al., 1993:1089).

One way of investigating whether economies can be realised by amalgamations is to examine the outcome of an earlier round of amalgamations of Australian higher education institutions, whose effects can be studied over a longer time span. In 1981-82 a number of amalgamations occurred involving teachers' colleges and colleges of advanced education (CAEs). These mergers were, like the more recent ones, designed to achieve economies of size and scope. Yet the few studies that have been made of them concentrate on the affects of amalgamation on staff morale and operation rather than on the effectiveness of achieving economies (Riehm, 1989; Harman et al., 1985; Beeson, 1986). Years after the mergers occurred uncertainty remains about whether the process was a success. A Task Force reporting on higher education amalgamations expressed some doubts about the 1981-82 mergers: 'many of the 1981-82 mergers involving teacher education institutions did not work out as well as expected' (National Board of Employment, Education and Training, 1989:6).

¹ Economies of size arise where the unit costs of providing a constant standard of education for a given educational profile falls as student load rises. Economies of scope arise where the amalgamation of two institutions, with different types of output, results in lower costs for some or all outputs.

This note analyses the change in average costs per student and student/staff ratios of one Melbourne higher education institution with a view to establishing whether any evidence exists of the achievement of economies of size and scope. In 1981 four higher education institutions — Prahran CAE and Burwood, Rusden and Toorak State Colleges — were merged to create Victoria College. During the 1980s increasing student numbers and stable resources at Victoria College led to falling unit costs. It is not easy to determine whether this was brought about by State-wide movements or by changes attributable to the amalgamation itself. And since it is also possible that the reduction in resources was accommodated by declining education quality rather than greater efficiencies, the costs of administration per student are analysed as well.²

The most significant result of the merger appears to have been that the new institution, by offering a more diverse range of courses, was able to expand student numbers by shifting resources into business and applied science studies and away from teacher education. This made possible lower average unit costs as fixed costs remained relatively constant with rising student numbers. It would have been difficult to achieve this had the colleges remained separate and three tied to teacher education.

The Origins of Victoria College

Three of the four colleges that were combined into Victoria College — Burwood, Rusden, and Toorak State Colleges — trace their origins to the expansion of teacher training in Victoria during the 1950s and 1960s. The Prahran CAE was an entirely different institution. Beginning as the Prahran Mechanics Institute, it became the Prahran Technical School in 1915, providing secondary technical education and apprenticeship training. From 1950 it offered tertiary level diploma courses in art and design, and expanded its offerings in the 1960s. After the federal government began funding CAEs in the 1960s, Prahran's growth was strong, the tertiary enrolment rising from 289.5 equivalent full-time students (EFTS) in 1967 to 1,338.5 in 1980 (Institute of Colleges, 1967; CTEC, 1980).

As the expansion of the CAEs was getting under way, the structure of teacher training in Victoria began to change. In 1973 an independent corporate body, the State College of Victoria, was established to coordinate the operations of the teachers' colleges. Just after its creation, the boom years of teacher education expansion ended. Teacher resignations declined as unemployment worsened and more women continued teaching full-time. By the late 1970s Victoria had too many teachers, being trained in too many CAEs and universities. At Burwood, Rusden and Toorak growth of student numbers came to an end around 1976/77 (SCV, 1977). In contrast, student numbers at the Prahran CAE continued to grow, especially in business studies. The decline in student numbers in teacher education in the late 1970s encouraged the

² It is possible that the same results could have been achieved with alternative policies. The cross crediting of subjects and joint courses may have facilitated the better use of resources; or the closing of one or two teachers' colleges could have allowed the transfer of staff and students to the remaining colleges and thereby raised numbers within the separate colleges.

move toward amalgamation of these institutions, and talks were held between the Prahran and Toorak Colleges concerning a possible merger in the late 1970s.

Cost Savings at Victoria College in the 1980s

The economic downturn at the beginning of the 1980s led the federal government to try to rationalise higher education institutions. The total student load in the advanced education sector was to be maintained, and there was to be modest expansion in the technologies and business studies at the expense of teacher education (CTEC, 1981). After an increase in funding per student in the early 1970s, total real funding per EFTS declined over the ten years 1976-85. The federal government planned to reduce recurrent grants in real terms during the triennium 1982-84, and, in order to prevent education standards declining, smaller institutions were consolidated into larger units, allowing savings to be progressively realised (CTEC, 1981).

On 30 April 1981, a federal government expenditure review committee announced that 30 higher education institutions around Australia, including nearly all the Victorian teachers' colleges and CAEs, must arrange amalgamations if they were to continue receiving federal funding. On 5 May 1981 the Victorian government announced that the number of CAEs in Victoria would be reduced through amalgamations. According to the Commonwealth Tertiary Education Commission (1981), the main purposes of the amalgamation included: to rationalise and relocate resources; to create institutions with a greater adaptability; and to provide better services and a wider range of courses within institutions. Given that the mergers were brought about as part of a wide range of expenditure cuts, the main rationale of the amalgamations would appear to have been the financial benefits from economies of size and scope. The main strategy was to amalgamate metropolitan teachers' colleges with institutes of technology so that resources could gradually be transferred from teacher education to science, technology and business studies, allowing overall student numbers to rise further. As a part of this process the multi-campus Victoria College was formed in December 1981.

After the amalgamation students were gradually relocated from the Prahran campus to Burwood, Toorak and Rusden campuses. Enrolments in the combined college increased as the number of business and applied-science students rose. Before the merger in 1981, education students made up 77.1 per cent of the total combined colleges. This declined to 45.2 per cent by 1990. The proportion of students studying business subjects rose from 10.8 per cent in 1981 to 22.9 per cent and applied science from 2.9 per cent to 7.9 per cent (VPSEC, 1981; Victoria College, 1990). This reflected a state-wide trend of rising student numbers at the CAEs in business, science and technical studies.

As student numbers at Victoria College rose during the 1980s, the real cost of educating students began to decline. The real expenditure per EFTS (that is deflated by the Consumer Price Index at constant 1982 prices) saw a gradual reduction in the real cost per student from a peak of \$5,609.2 in 1974 for the four colleges combined to \$3,965.2 in 1989 (a reduction of approximately 29 per cent) (ABS, 1974-89; Prahran CAE, 1974; Burwood State College, 1974; Rusden State College, 1974; State

College of Victoria at Toorak, 1974; Victoria College, 1989). At first it might appear that this reduction in real costs for Victoria College arose from the amalgamation. But similar cost reductions occurred at other Victorian higher education institutions. For instance, at the Melbourne State College the real cost per EFTS fell from a peak of \$5,628.1 in 1976 to \$4,326.0 in 1988 (approximately 23 per cent) (SCV, 1976; CTEC, 1988). The calculation of real expenditure per EFTS for Victoria College therefore says more about the funding policies of the federal government than about the cost minimising decisions of Victoria College.

As the federal government imposed funding cuts on all higher education institutions in Victoria, regardless of size and type, the issue was really whether economies could be made without affecting the level of services and quality of education. The federal government recognised this when the Commonwealth Tertiary Education Commission wrote in its report for the 1982-84 triennium that: 'The reduced level of funding for the 1982-84 triennium means that a decline in the operating standards of some Universities is now unavoidable' (CTEC, 1981:Vol. 2, Part 1). The purpose of the amalgamation that created Victoria College would therefore seem to have been to reduce spending without sustaining any cut in services and education quality and to relocate resources from teacher education to business and applied science.

Education Quality

Did the level of services and education quality actually decline at Victoria College during the 1980s? One, imperfect, measure of education quality is the ratio of students to academic staff. The main way that the cuts in funding were accommodated at Victoria College (as elsewhere) was not so much through administrative savings as by changing the ratio of students to academic staff. At Victoria College this ratio rose from 10.17 for the combined colleges in 1974 to 11.94 in 1982). It then rose steadily to peak at 16.20 in 1989 (SCV, 1974; Victoria College, 1982, 1989). One striking aspect of the student/staff ratio at Victoria College was that the four colleges together had a higher ratio than the large, single campus of Melbourne State College during the 1970s. In 1974 the student/staff ratio in the combined four colleges was much higher at 10.67 than the 7.45 ratio at Melbourne State College (SCV, 1974). Later in the 1980s the ratio at Victoria College, although rising through the 1980s, fell below that of the Melbourne College; in 1986, 13.0 compared to 14.0 (Victoria College, 1986; Melbourne CAE, 1986). This suggests that the amalgamated college, although forced by expenditure cuts to raise the student/staff ratio, did not have to push it as far as the colleges would have in the absence of the amalgamation. It could be argued, therefore, that had the colleges remained separate then the quality of education, at least in terms of student/academic staff ratio, would have suffered more than it did.

The amalgamation of the four colleges possibly led to lower administrative costs as the combined institution organised greater numbers of staff and students. At Victoria College the real administration expense per student (that is, nominal expense deflated by the CPI) rose after the amalgamation from \$585.0 (in 1982 prices) in 1980 to peak at \$637.9 in 1985. This may have occurred because of the additional costs incurred in trying to coordinate the four colleges. After 1985, however, real admini-

stration expenses per student gradually declined, from the peak of \$637.9 to \$537.9 in 1990 (Burwood State College, 1980; Prahran CAE, 1980; State College at Toorak, 1980; Rusden State College, 1980; Victoria College, 1985, 1990). It appears that the amalgamation may have achieved some economies of size in general administration but only after a number of years of reorganisation. Even then the general cost of administration of the four colleges appears to have remained fairly steady during the 1980s after amalgamation, amounting to 12.6 per cent of total expenses in 1982 (\$3,427,000 of \$27,178,000) and 12.3 per cent in 1990 (\$6,981,000 of \$56,280,000) (Victoria College, 1982, 1990).

Despite the gains made in the late 1980s, Victoria College was not to survive into the 1990s. The abolition of the binary system in the late 1980s saw the number of higher education institutions in Victoria fall from 21 in 1985, with an average size of 3,400 students, to only nine in 1993 with an average size of 14,400 (VPSEC, 1985; CTEC, 1993). In Victoria all of the CAEs disappeared as they were merged with larger universities or tried to establish themselves as universities in their own right. As a part of this process Victoria College in 1992 became a part of Deakin University.

Conclusions

A few implications for the process of higher education amalgamations during the Dawkins round of the late 1980s can be derived from the creation of Victoria College. First, financial gains from administration economies can be made but they take a number of years to be realised and even then are clouded by a number of issues. In the case of Victoria College, most of the gains from the fall in real administration costs per student may have occurred solely because of the surge in student enrolments in the second half of the 1980s (from 5,603.0 EFTS to 7,800.5 in 1990). Of course, such gains might have been made if the four colleges had remained separate and if three of the colleges been had not tied to teacher education, enrolments in which stagnated during the 1980s. The amalgamation's greatest contribution was in shifting resources out of the teacher education sector to business studies and applied sciences.

Second, the main economies achieved during the 1980s stemmed from higher student/staff ratios rather than from any administrative savings. The merger helped this process occur by facilitating a continued expansion of student numbers in the combined college and the achievement of economies, even though teacher education, the major subject field provided, stagnated throughout the 1980s. The low student/staff ratio at Victoria College relative to Melbourne College also implies that economies may have been made that enabled the combined college not to have to push the ratio too high in order to accommodate the cut in funding imposed by the federal government. The main advantage of amalgamated institutions would therefore seem to lie in the creation of institutions that are adaptable enough to transfer resources out of contracting fields, like teacher education in the Victoria College case, and into expanding fields, like business studies. If this process enables institutions to realise economies then it is quite possible that the process of merging higher education institutions can lead to the more efficient use of resources.

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