Submission to the Senate Education and Employment Legislation Committee on Inquiry on the Tertiary Education Legislation Amendment (There For Education, Not Profit) Bill 2025

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Wednesday 27 August 2025

We thank the committee for the opportunity to make a submission on the *Tertiary Education Legislation Amendment (There For Education, Not Profit) Bill 2025.* This submission is presented by Dr Marija Taflaga, a Senior Lecturer in the School of Politics and International Relations and Director of the Australian Politics Studies Centre at the Australian National University (ANU), and Dr Francis Markham, an ARC DECRA Fellow at POLIS: The Centre for Social Policy Research at the ANU, and a former staff-elected representative on ANU's university council. Both authors share a strong interest in university governance, and write in our personal capacities. We recently submitted a preprint titled *Neither corporate nor government: Why university governance needs to be different, and better*[1] as an attachment to this committee's inquiry into university governance.

It is widely accepted that the Australian university sector is in a governance crisis. We believe that issues such as excessive executive pay are symptoms of underlying structural problems with governance, rooted in failures of accountability and misaligned incentives. As the Minister put it last week, "if you don't think that we've got challenges with university governance you've been living under a rock".[2] Senator Lambie, in her speech introducing this Bill, spoke of a "culture of obscene entitlement" at the top of Australia's universities and states that such salaries are "indefensible", leading to an erosion of the sector's social license.

In this submission, we aim to do three things:
1. Outline why, from a rational choice perspective, excessive executive pay, including Vice-Chancellor (VC) pay, creates incentives for poor university performance.
2. Explain why setting executive pay via the Remuneration Tribunal, as has been recently suggested by the University Chancellor's Committee, is a bad idea.
3. Agree that some form of executive pay regulation is called for, perhaps as a loading on top of the salary associated with their substantive position, or in the form of a hard cap as proposed in this Bill.

Structural problems with excessive executive pay

Any institutional design needs to consider the types of incentives that rules and structures create. As is well understood, the amount of renumeration is an important incentive. Getting pay levels right helps to attract good quality candidates at the right skill level and the right institutional fit. Pay that is too low will deter people of high talent from applying in the first place. But there is also a cost to offering too much money. It can attract individuals that may have perspectives, skills and interests that do not align with the organisation's goals and mission.

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[1] Taflaga, M., Markham, F. & Dowding, K. (2025, August 25). 'Neither corporate nor government: Why university governance needs to be different, and better.' Preprint. https://doi.org/10.25911/MWW4-9781
[2] https://ministers.education.gov.au/clare/transcript-afr-higher-education-summit-sydney

Universities are not for profit businesses. They are public institutions with public goals. Excessive pay for senior executives, including VC pay, contributes to poor university performance by exacerbating “principal-agent problems” within university governance. We diagnose five problems of this sort, using a rational choice framework.[3]

First, in the corporate world, high executive pay is often justified on the grounds that it aligns a CEO’s incentives with the organisational goal of maximising shareholder value. But universities have no equivalent measure — no share price, no dividends. This is because universities aim to produce and disseminate knowledge through teaching, research and public dissemination. For the average academic, this means the university’s mission is to generate revenue sufficient to cover its costs and liabilities, but focus on research, teaching and public dissemination of knowledge. This is very different from firms, where profit maximisation is the core mission.

This can become an issue when high salaries in the university sector become attractive to individuals with experience from the business world. These individuals bring many valuable skills, but they can also lack experience and understanding in the production of knowledge and the core mission of a university. Thus, when senior executives are increasingly recruited from spheres without academic experience, the metrics by which they are rewarded can shift. Instead of knowledge production—the quality of teaching, research and public impact—executives are rewarded for growth in revenue or prestige. In such cases, the incentives quickly drift.

The result is a bias towards chasing other outcomes, while the core academic mission is neglected.

Second, excessive pay also introduces **moral hazard**. Moral hazard arises where the incentives for risk between managers and staff, students and the public are misaligned. In the case of the university, senior executives enjoy the upside of bold strategic bets, such as new campuses or grand philanthropic ambitions, but rarely bear the costs when those ventures fail. This is in part because they serve for relatively short terms compared to academic staff. It also because senior executives without research experience or any intention of returning to research activities will never be directly affected by any down-grading of teaching or resource capacity. Instead, those losses fall on staff through job cuts, or on students through reduced services and quality. With many executives serving terms of five years, they pocket the rewards of risky choices while long-term damage becomes someone else’s problem.

Third, there is also the issue of adverse selection. Oversized remuneration packages attract candidates who view universities as career stepping stones rather than as communities devoted to knowledge. Instead of selecting leaders committed to teaching and research, councils risk recruiting corporate managers whose main motivation is financial gain or reputation enhancement. The aim for such executives is to move on to the next management role, rather than to invest in the long-term success of the institution. Universities are not for-profit businesses—they do not excel at chasing market share. They are not meaningfully in a

[3] Rational Choice is a body of work that thinks about the world from the perspective of how individuals maximise their preferences based on a cost-benefit analysis. It tries to understand how incentive structures can produce positive or perverse outcomes. The ideas originate in economics, but have travelled widely, including into public policy and the social sciences.

competitive market. Instead, they are incubators of scholarly communities, processes which are built up over decades. In this context, excessive pay can attract precisely the wrong kind of leadership for institutions that depend on long-term dedication to learning.

Fourth, information asymmetry makes matters worse. This is where managers have significantly less understanding of how core business (teaching, research etc) operates on the ground. Without appropriate dialogue between frontline staff and senior managers, it can lead to situations where decisions are made that don't make sense or are difficult to implement on the ground. In the case of universities, councils rely heavily on management for data and reporting. When bonuses and pay rises depend on hitting certain financial or other metrics, executives face strong incentives to massage figures, downplay problems or kick the can of difficult decisions down the road. Too often, this blinds councils to issues festering within the university — from wage theft to risky financial exposures — until scandals erupt.

Finally, there is the question of legitimacy. When vice-chancellors are paid two, three or even five times the Prime Minister's salary, while staff endure casualisation and students see standards slip, it undermines trust and the university's social license as a publicly funded entity. Leadership begins to look self-serving, detached from the institution's public purpose. This is all the more concerning where a large part of a university's budget comes from the public purse. That erosion of legitimacy damages morale inside universities and, ultimately, the social licence they depend on to maintain credibility with the public.

Why setting executive pay via the Remuneration Tribunal is a bad idea

The University Chancellor's Committee recently proposed the idea that Vice-Chancellors' salaries should be set by the Remuneration Tribunal, the body that determines the pay of senior public servants.[4] This might sound like a sensible reform. But in practice, it risks entrenching the problems it is trying to fix.

First, salaries across the senior ranks of the Australian Public Service (APS) are themselves excessive. The head of the Department of the Prime Minister and Cabinet now earns more than $1 million a year, with other departmental secretaries close behind on around $960,000. If the Tribunal is providing the benchmark, we are hardly bringing university pay back into line with community expectations.

Second, the Tribunal's advice is already taken into account by at least one institution — the Australian National University — when setting its Vice-Chancellor's package.[5] The result has not been restraint. On the contrary, ANU's VC pay remains strikingly out of step with the values and expectations of the public.

A deeper problem lies in how the Tribunal approaches pay determinations. It has long given too much weight to private market comparisons that have little relevance to public institutions. Vice-Chancellors are not interchangeable with corporate CEOs. In most cases, if the VC roles did not exist, their occupants would not be running banks or mining companies; they would be

[4] https://ucc.edu.au/publications/2025-07-15-media-release
[5] https://www.anu.edu.au/about/renew-anu/chancellor-and-pro-chancellor-statement-on-vc-salary

senior managers within universities. Yet the current approach prices them as though they could walk into the C-suite of a listed company — a fiction that drives pay packages ever higher.

Finally, the Tribunal itself has been criticised for its weak grasp of public sector realities. Its members are often drawn from backgrounds that privilege private-sector perspectives, with limited experience of public service management or culture. This lack of understanding blinds the Tribunal to the idea of "public service motivation" — the reality that many people choose to lead in universities not for outsized financial reward, but for the intrinsic value of contributing to the accumulation of knowledge, for the good of humanity. If the Tribunal fails to temper private-sector logic in the APS, it is even less equipped to do so in universities, which are further removed from corporate norms.

In short, outsourcing executive pay to the Remuneration Tribunal risks legitimising inflated salaries rather than curbing them. Universities need a different benchmark — one that reflects their purpose as public institutions devoted to knowledge, not the fiction that their leaders are CEOs in disguise.

Executive pay regulation

Given the failures of current governance arrangements, and the inadequacy of leaving matters to the Remuneration Tribunal, some form of direct regulation of executive pay in universities is now necessary. Without it, there is little prospect of restoring accountability or aligning incentives with the public purpose of these institutions.

One concrete proposal is the *Tertiary Education Legislation Amendment (There For Education, Not Profit) Bill 2025*. It would impose a statutory limit of $430,000 a year on Vice-Chancellor remuneration. The cap would apply to the Australian National University through amendments to its governing Act, and to all other public universities — the so-called "Table A" providers — through changes to the TEQSA Act. Compliance would be made a condition of registration with the higher education regulator.

There should be no principled objection to Parliament setting limits on the pay of executives in public universities. This is not an encroachment on academic freedom; it is a straightforward matter of democratic accountability over what is largely public money.

In our view, the proposed cap of $430,000 is reasonable and proportionate, although we are not wedded to this particular threshold. It reflects the real responsibilities of Vice-Chancellors when viewed within the wider context of Australian public sector leadership. As the Australia Institute has noted in its submission, this level is still far higher than the inflation-adjusted salaries of Vice-Chancellors prior to deregulation in the 1980s (around $300,000). It also remains above what many Vice-Chancellors earn at leading universities in Europe.

The National Tertiary Education Union has rightly pointed out that the Bill's scope is too narrow. Limiting only Vice-Chancellor pay leaves untouched the hundreds of other senior executives across the sector on excessive, performance-linked contracts. A more comprehensive approach would extend regulation to all public university executives who occupy such roles.

One weakness in the current Bill is that the proposed cap is not indexed. Over time, this would see it eroded in real terms, which may create unintended distortions. A better approach would be to tie executive remuneration to existing pay structures in the sector — for example, setting Vice-Chancellor and executive salaries as a loading on top of the base pay set out in university enterprise agreements. The loading could be calculated relative to a full professor's salary (e.g. twice or three times as much, or some other multiple). This would allow for predictable adjustments while keeping pay within the bounds of community expectations.

Pay regulation is both necessary and workable. A statutory cap would not solve every problem of university governance, but it would send a powerful signal that leadership in our public universities should be about service to knowledge and the public interest, not private enrichment.