

## **Submission to the Senate Education and Employment Legislation Committee**

### **Higher Education Support Amendment (Job-Ready Graduates and Supporting Regional and Remote Students) Bill 2020**

**by**

**Mark Warburton**

**September 2020**

#### **About the author**

I have worked on tertiary education funding for more than 13 years with Government, Universities Australia and as a consultant. I am an Honorary Senior Fellow at the LH Martin Institute, part of the Melbourne Centre for the Study of Higher Education, University of Melbourne.

I spent over 30 years in the Australian Public Service, obtaining extensive practical experience in designing and implementing policy for major government funding programs. This included:

- two major reviews of higher education funding;
- leading the implementation of Australia's first national paid parental leave scheme;
- managing the Australian Government's family payments system and its role in the Government's response to the 2008 Global Financial Crisis.
- developing the legal and policy framework for 'income management' arrangements during the Northern Territory Emergency Response.

I was an adviser to Australian Government Ministers for nearly six years during the 1990s.

Dear Committee Members

Thank you for the opportunity to provide a submission on *the Higher Education Support Amendment (Job-Ready Graduates and Supporting Regional and Remote Students) Bill 2020*.

I have attached a copy of my recently released paper entitled *Unravelling the Tehan vision for higher education*. The Government's *Job-ready Graduates* proposals are extremely difficult to understand. Many changes have been packaged together and the released explanatory material does not clearly explain them. My paper seeks to do so. It examines some aspects of the rationale for those changes. It also aims to clarify how the main changes affect university revenue and government expenditure, particularly over the long term.

I recommend the Executive Summary for those without time to read the paper in detail. I would be happy to discuss the paper if it would be of assistance to the Committee. In addition to those in the Summary, I would like to make the following brief points on the *Job-ready Graduates Bill* and associated policy.

- 1. Little regard for timing and full impacts:** Australian universities now educate around 40 per cent of the population. They engage in research for our economic and social advancement. They are a major service industry and a significant part of our economy - an economy that is now in recession. Any evaluation of the merits of *Job-ready Graduates* needs to consider its impact in each of these areas. In addition to the merits of particular changes, the optimal timing of desirable changes should be considered. There is no imperative to implement changes in less than four months.
- 2. Makes universities' COVID-19 adjustment task more difficult:** Government policy has strongly supported trade in educational services and both governments and universities have co-operated in its development. Both have benefitted financially, as has the broader Australian community. This trade has allowed Australia's research effort to grow beyond what would otherwise have been possible. From 1992 to 2016, real higher education research and development expenditure grew by more than 5 per cent annually and it has been powered by international student fee revenue. A greater level of risk management by universities engaged in this trade may have been desirable, but it would not have prevented the unprecedented deterioration in their financial circumstances that is now occurring as a direct result of COVID-19. Adjusting to the new financial circumstances is requiring universities to make extremely difficult decisions about reducing research, in addition to scaling back teaching in areas with significantly reduced student load. There is no reason to make the process of adjustment more difficult than it already is.
- 3. Evidence base for discipline costs ignores impact on range of offerings and quality:** *Job-ready Graduates* seeks to align total funding for teaching with discipline costs. The Deloitte Access Economics report, *Transparency in Higher Education Expenditure*, has been used to provide the evidence base. That report studies costs in 2018 when international education was strong. There were large differences in identified costs between universities, consistent with universities having discretion over what they teach and how their resources are deployed. There are unavoidable differences in the costs of teaching different sub-specialties within disciplines (for example aeronautical, civil and chemical engineering). Differences in university missions, choice of specialisations and quality of courses explain some of the differences found in the study, but these matters did not receive detailed consideration. It is a serious omission to set rates of funding for a service without regard to the implications for the quality of that service. Over time, adjusting funding based on 'average costs for each discipline' could make some specialisations unviable and would drive down the overall quality of offerings across our universities.
- 4. Collateral damage to other university operations:** On the basis of the Deloitte's study, *Job-ready Graduates* reduces total funding for student places by around 6 per cent or nearly \$1 billion (\$300 million of it already effectively claimed due to the current funding cap policy). This gives rise to two important questions: *What was that 6 per cent of funds being spent on? What will be the impact of removing it?* Some improved efficiency in university operations may be possible, but it is important to recognise that they are large complex organisations. As public statutory entities, they are subject to a very complex array of regulation which is only being increased by the current Bill. Most likely, the proposed reduction in funding will further reduce universities' capacity to fund research, adding to the difficulties associated with lost international student fee revenue.

5. **Role of student contributions misunderstood:** *Job-ready Graduates* appears to be based on a misunderstanding of the current system of student contributions. It is a method of funding higher education, not a mechanism for Government to influence student behaviour or career choice. The reason there is no upfront cost for domestic students is to effectively remove this as a factor deterring people from undertaking study. Similarly, people will not be encouraged or discouraged to study particular disciplines by differences in the level of their student contribution. The factors that drive people to undertake study in a particular field are many and varied. Despite governments continually fiddling with this funding parameter, there is scant evidence that it has much effect. Attached Charts 1 and 2 broadly indicate that there has been little change in commencements associated with past changes in student contribution levels for maths, science, teaching and nursing and 'other factors' have had a greater impact on commencements. Law, economics and business studies, which have the highest rates of student contribution, continue to grow and provide another example of student contribution rates playing at best a minor role in student's choices.
6. **Lessens the sustainability of student contribution arrangements:** The effectiveness of the system of student contributions depends on the subsequent level of income of former students. Contributions are repaid through a form of tax surcharge on incomes. Not all contributions are repaid and in these cases the amount is an additional subsidy paid by the government. In general, Government costs would be reduced by requiring higher contributions from students likely to obtain higher incomes. This is the opposite of what is proposed in *Job-ready Graduates*. It proposes future doctors have a lower annual student contribution than future librarians, curators, religious ministers, human services managers and accountants.
7. **Paucity of labour market analysis:** *Job-ready Graduates* does not present any evidence that people are paying insufficient attention to their future labour market prospects before deciding to spend several years undertaking higher education study. There is no evidence that the Government is better able to guide students about their future employment prospects than students themselves. Labour market evidence or analysis is not used to support the specific proposals in *Job-ready Graduates* concerning which disciplines should be encouraged or discouraged. Those proposals do not align with current Government information on skill shortages and medium and long-term strategic skill needs.
8. **Exacerbates inequality:** *Job-ready Graduates* increases student contributions by around 8 per cent. It does so in an inequitable way. Greater annual contributions would be required from students unlikely to be the highest income earners. Currently repayment of HELP debts takes one to two decades, depending on what a person has studied and their personal circumstances. The poor integration of student contribution repayment arrangements with the tax-transfer system results in single persons with children and single earner couples with children having effective tax rates exceeding 70 per cent for income from \$50,000 to \$120,000. The proposal exacerbates the significant intergenerational disparity in the burden of taxation.
9. **Poorly targeted rural and regional student assistance:** *Job-ready Graduates* purports to implement recommendations of the Naphthine Review. The Review's proposed actions to improve regional and remote students transition to higher education are on page 64 of the Final Report and are mainly about improving income support policies and arrangements, the supply of accommodation and provision of information.
  - *Job-ready Graduates* will further fragment relocation assistance for regional and rural students. There is already rent assistance and relocation scholarships administered by the Department of Social Services and Rural and Regional Enterprise Scholarships administered by the Department of Education, Skills and Employment. There is now to be a fourth program, the Tertiary Access Payment which will be administered by universities. This fragmentation of assistance is inefficient and makes it difficult for all students to understand and access the support available to them. Disadvantaged students are likely to have greater difficulty accessing this fragmented array of supports than students from middle and high-income families. Improved income support and rent assistance for all low-income students, including those from regional and rural areas should be the preferred approach.

- The *Naphthine* Review did not propose reducing assistance for students from low SES backgrounds to improve support for rural and regional students, irrespective of their financial means. Students from rural and regional areas who are from low SES backgrounds are already able to be assisted through the HEPPP program. *Job-ready Graduates* shifts resourcing from the most disadvantaged students to less disadvantaged students.
10. **Reduces transparency and increases Ministerial discretion:** *Job-ready Graduates* significantly increases Ministerial discretion in the allocation of funds. This is a less desirable approach than predictable, legislated funding arrangements. Universities may become beholden to the Minister, potentially compromising their autonomy and academic freedom. The basis on which funds are allocated to universities is likely to be less transparent and more open to being allocated to meet political ends, rather than the public policy purpose for which they were appropriated. The proposal to combine many currently well-defined and targeted programs into a large ill-defined discretionary grant pool should be of concern. *Job-ready Graduates* proposes that CGS funding caps become a structural feature of arrangements, but indexation of those caps would be a discretionary decision of the Minister. The previous arrangements for funding caps were not legislated as a structural feature of the CGS program.
11. **Uncertainty about promised growth in student places:** While funding for existing student load is to be reduced by around \$1 billion dollars per annum, *Job-ready Graduates* is promising to return that funding through the allocation of additional places and increases in funding caps according to an unlegislated formula. Both of these aspects of *Job-ready Graduates* are discretionary decisions of the Minister and in the case of the formula driven increases in funding caps, the promised benefits are spread over the next decade.
- The claims in *Job-ready Graduates* and the Bill's second reading speech that 39,000 student places will be created in 2023 appear inconsistent with the details supplied in the package's information materials. The funding formula does not appear to generate sufficient funds to increase the number of places consistent with the package's claims.
  - The '39,000 places in 2023' claim also appears inconsistent with the attached PowerPoint slide (Chart 3 below) from a briefing session on *Job-ready Graduates* for Vice-Chancellors and university groups. This slide was obtained under Freedom of Information provisions. It appears to indicate that fewer than 30,000 places will be created in 2023 and around 37,000 in 2024.
  - I am not able to understand or explain the claimed growth in student places on the basis of the material that has been released.
  - The Financial Statement in the Bill indicates "The measures contained in Schedules 1, 2 and 3, and items 17 and 18 of Schedule 5, of the Bill ... were budget neutral. Subsequent amendments to Schedule 1 of the Bill mean measures announced as part of the Package produce a net saving of approximately \$125 million over the forward estimates". This statement is misleading given that it relates to a range of promises being made outside of the Bill, as well as items included in the Bill.

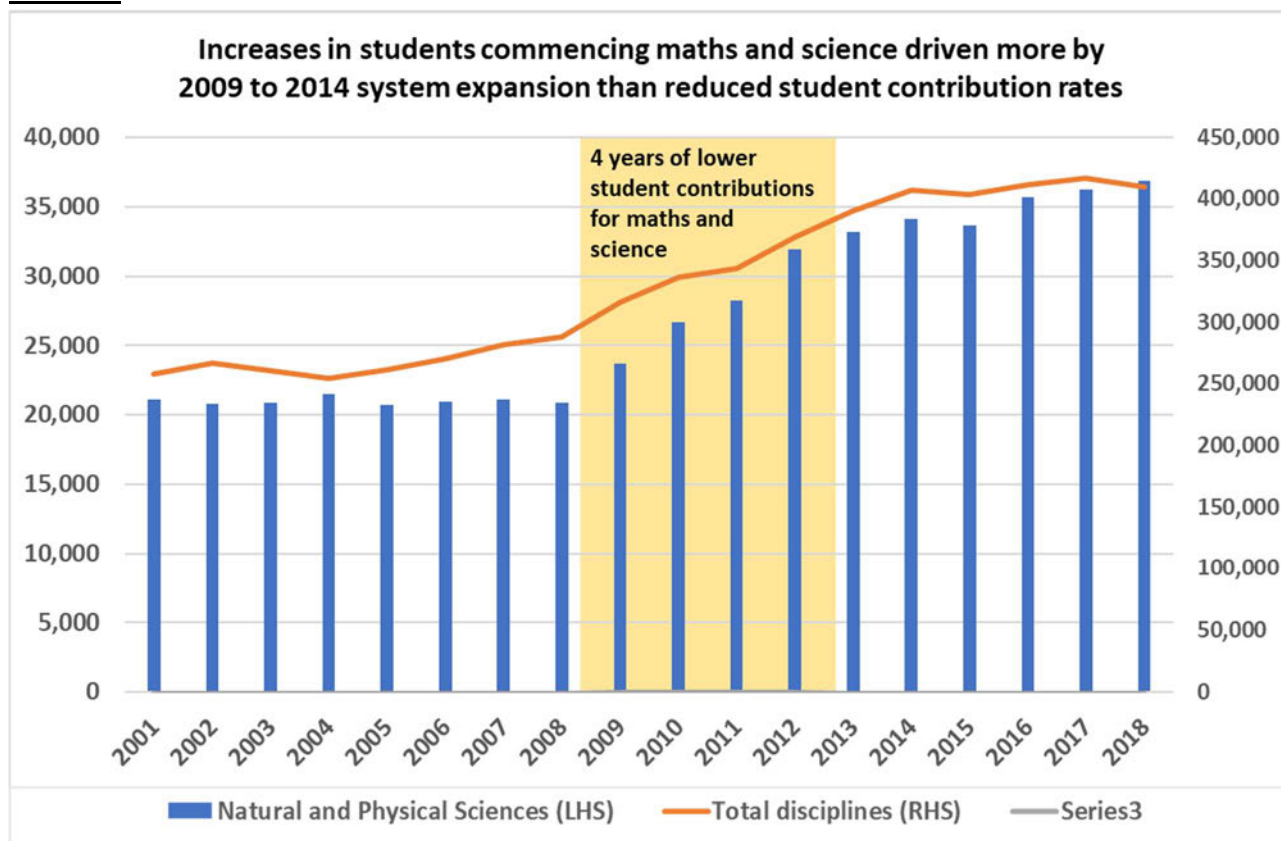
I hope this information assists the Committee.

Yours sincerely

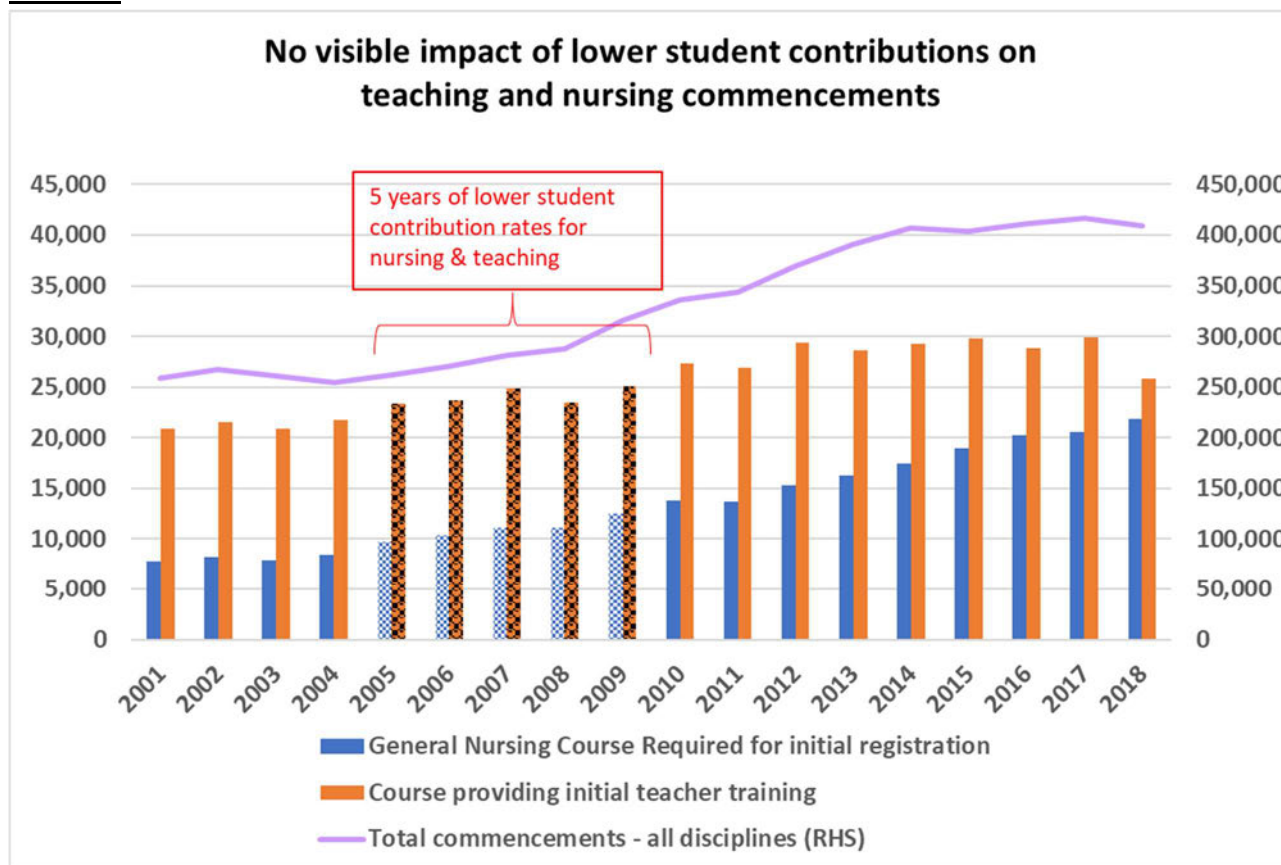
Mark Warburton

7 September 2020

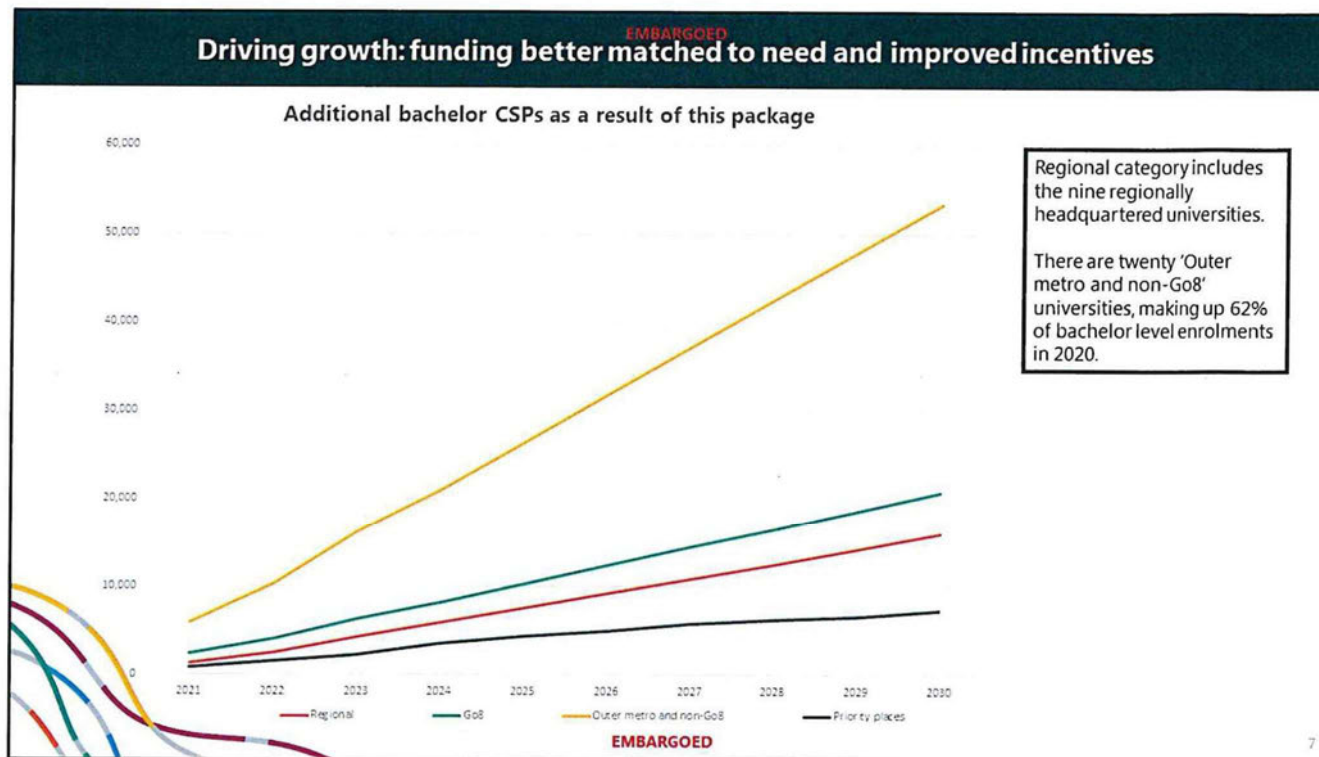
**Chart 1**



**Chart 2**



**Chart 3: Slide from briefing for Vice-Chancellors and University groups, 19 June 2020**





# Unravelling the Tehan vision for higher education



**Mark Warburton**  
**Honorary Senior Fellow**  
**Centre for the Study of Higher Education**  
**University of Melbourne**  
**August 2020**

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I would like to thank all of them for the time they took to assist me. Their valuable input is greatly appreciated.

The views expressed in the paper and any errors are my own.



## A. Executive Summary

Few would disagree that a country's education system is important to its future prosperity. Decisions that are taken now on the funding of higher education in Australia will determine how that system develops over the next decade, the role that it plays in our economic recovery and the opportunities it affords our youth.

For over half a decade, government policy has sought to increase the share of higher education funding contributed by students and to reduce its share. Major policy packages with this goal were released in the 2014 and 2017 Budgets but were rejected by the Parliament.

Frustrated in its attempts, the Government resorted to taking executive action to cap the level of funding it contributes. It froze funding in 2018 and 2019, increased it by less than inflation in 2020 and was set to do so again in 2021. This paper finds that this will have effectively removed government subsidies from nearly 23,000 student places.

This policy has strengthened the Government's negotiating position when seeking future agreement to change the balance of government and student contributions to funding higher education teaching. This is the preeminent objective of the recently released *Job-ready Graduates* policy package. Until the release of *Job-ready Graduates*, the Government was effectively refusing to allow any growth in student places despite it being widely known that there would be a surge in young people seeking higher education around 2024.

*Job-ready Graduates* has been released during a period of considerable debate about how Australia should prepare to recover from the COVID-19 economic slowdown and the changes that will result from it. In this period, universities are losing billions in revenue from travel restrictions affecting international students, are engaged in major restructuring of their operations and face continued uncertainty about their finances.

*Job-ready Graduates* would significantly increase the restructuring task. University revenue for teaching would be reduced by nearly one billion dollars in 2021 and every year thereafter for the same domestic student load as in 2018 as a result of the funding caps imposed in 2018 and the 2021 funding cluster changes in *Job-ready Graduates*.

In return for increasing student contributions and lowering its funding share, the Government has made two promises. One is that it will return this lost revenue to the higher education sector by funding more student places. The other is that, while funding caps will be permanent, they will be indexed each year in line with inflation.

Neither of these promises are in the amending legislation currently before the Parliament. The legislation lowers government contributions to courses and increases student contributions. It abolishes two loadings. One is for the increased costs of delivery in regional areas. The other compensates for the lack of student contributions for 'enabling courses' used to prepare disadvantaged students before they start their course. The Government is promising to pay these loadings in another form until 2023.

These loadings, current funding to support students from low SES backgrounds and National Institute grants are to be rolled into the Indigenous, Rural and low SES Attainment Fund (IRLSAF). This would put \$300 to \$500 million in the fund, depending on what happens to the ANU's National Institute grant which provides over \$200 million in research funding. IRLSAF would be a large discretionary grant pool at the disposal of the Minister. Little is known about how it will be used beyond 2023.

The changes which have been announced to the Higher Education Participation and Partnerships Program (HEPPP) mean that over 60 per cent of the \$190 million currently allocated for 2021 will now support regional and rural student participation. Less than 40 per cent will be for low-SES and indigenous students. This is a disproportionate response to the low tertiary education attainment of rural and regional students, given the continued need to lift attainment by the much larger group of low-SES students which already includes rural, regional and indigenous students of low SES background.

The claim that this package will deliver 39,000 student places as early as 2023 is something of a mystery. The 'National Priority' places to be allocated by the Minister and the growth funding formula would not normally increase student places as rapidly as is being suggested. This claim requires further explanation from the Government.

*Job-ready Graduates* implies the Minister's decisions to grow the level of capped funding beyond indexation will be based on a formula which preferences rural and regional campuses and to a lesser extent high growth metropolitan areas. Insufficient details on the formula are available to enable analysis of its operation. Under the legislation before the parliament, any decision to increase funding according to the formula will be entirely at the discretion of the Minister.

The analysis in this paper assumes growth consistent with 39,000 new student places in 2024. This is actually only 16,000 more places than in 2018, when account is taken of the 23,000 places which have had subsidies removed by funding caps since that time. Any significant increase in student places will not occur until after 2024 - beyond the Budget forward estimates period and the next election.

If the Government delivers the extra funding it claims to be promising, university revenue by 2024 will be around \$280 million more in real terms than in 2021. It will have returned only around \$14 million more than the \$266 million taken from the sector by the operation of the current funding cap.

Universities only get paid for the student places they deliver. Earning this revenue will require teaching 39,000 additional students each year. If 6,000 places are not filled (if they are not allocated, they are allocated to regions where they cannot be filled, or they are otherwise poorly allocated), overall revenue for teaching may well decline.

Despite the financial difficulties now confronting Australia's universities, the Government is assuming they will be able to teach more students with significantly reduced average revenue per student place. Per place revenue is being lowered to around 94 per cent of the value it had prior to the 2018 introduction of funding caps - a reduction greater than proposed in the Government's 2017 Budget proposals which were rejected by the Parliament.

The government share of funding for each student place will be much smaller and delivers a much greater saving than was proposed in the 2017 Budget. *Job-ready Graduates* would reduce the government share to less than 52 per cent. The 2017 Budget proposed lowering it to 54 per cent.

The savings to government from these policies are substantial. The gross saving will be approximately \$1.3 billion annually, of which \$0.3 billion is due to the current funding cap and no longer in the budget forward estimates. Grandfathering of students, transition funding and assumed new places will initially increase outlays, but by 2024 the Government will be saving \$324 million a year in real terms (2021 dollars). It will make 'real annual savings' up to and including the 2027 academic year. Modest changes to the allocation of new student places, the IRLSAF or the National Priorities and Industry Linkages Fund (NPILF) could ensure savings until 2030.

There may be a case for increasing student contributions towards the cost of higher education, but it has not been made in *Job-ready Graduates*. It tries to make the case by decreasing student contributions in some disciplines for which it suggests there will be future labour market demand and making much larger increases in other disciplines that it suggests have excess supply.

The Government is explicitly discouraging study in disciplines that comprise nearly 40 per cent of current teaching load and encouraging study in those which comprise less than 25 per cent. While the objective is to steer graduates to obtain skills and experience in areas of future labour market need, no labour market analysis has been provided to justify the proposals. There are professions on the strategic skills list for migration which are being discouraged. Disciplines being encouraged are largely not in short supply. Disciplines currently in shortage and on the strategic skills list for migration are treated much the same as at present.

The decisions made by the Government in setting the discipline-based student contribution amounts are not consistent with other government information on current skills shortages or the Medium and Long-term Strategic Skills List (MLTSS) used for skilled migration purposes. They may be based on subjective preferences about what students should study. They are possibly a judgement about how to generate support for the legislative amendments required to implement *Job-ready Graduates* and finally secure the increase in the student share of higher education funding which the Government has been seeking. Evidence for this is provided by the last-minute changes to the proposals made in the Joint Party Room at the request of National Party members of the Government.

*Job-ready Graduates*, if agreed by the Parliament, will have a profound impact on Australia's higher education sector. There is no public evidence that the Government has considered the many potential implications of its proposed changes or their potential flow-on consequences.

Every university will need to think about how it responds. There are many potential responses and they will be driven by each university's unique circumstances. Right now, those circumstances are changing radically. Universities will make their decisions in the context of attempting to adjust to massively reduced international fees, maintain their research efforts and manage their staff and related industrial relations issues. The outcome will emerge out of these pressures. The resulting impacts are uncertain.

Before the *Job-ready Graduates* changes are agreed there are some important questions to be answered:

*Will it better prepare our universities, and the students they teach in coming years, for the rapidly changing technical, economic, social and geopolitical changes that are occurring? Will it better position them to support Australia's recovery from the COVID-19 economic slowdown?*

#### **A note on the last-minute changes to the Job-ready Graduates legislative amendments**

The Government tabled in the Parliament the legislative Bill to give effect to *Job-ready Graduates* on 26 August 2020. Several changes were made to the Government's proposals.

New disciplines referred to as 'Professional Pathway Psychology' and 'Professional Pathway Social Work' are being created. Normally disciplines are assigned to funding clusters using 4- or 6-digit field of education codes. The Government has not explained if its proposal will work in the normal way or which fields of education will make up these new disciplines.

These disciplines will no longer be in funding cluster 1, with a student contribution set to discourage students from undertaking them. They will be moved to funding cluster 2(b). There is no public estimate for the number of student places this involves and so it is not yet possible to incorporate it into the analysis in this paper.

The change increases the government subsidy for these disciplines. To offset this cost, the Government has increased by \$250 the student contribution for all funding cluster 2 and 3 disciplines and lowered its subsidy by the same amount. The intention appears to be for the change to be cost neutral. Consequently, the modelling in this paper should still provide a reliable guide on the overall *Job-ready Graduates* package.

The other change that has been made is to include provisions for a minimum funding cap. These state that the minimum for 2021 to 2024 will be in the CGS Guidelines which must be tabled in Parliament. This provides little assurance for universities. The Minister could specify any figure in the Guidelines and if the Guidelines were disallowed, there would be no minimum MBGA. This would not create any legal problem and is effectively no different from the situation that existed in the exposure draft.

The funding cap for 2024 becomes the floor for the 2025 year. For 2025 and beyond, the minimum MBGA is that of the previous year. The Bill does not ensure that the previous year's figure is indexed.

## B. Introduction and outline of proposals

### 1. Purpose of the paper

*Job-ready Graduates*, a government policy statement on the future of Australia's higher education sector, was released on 19 June 2020. The release of the policy package was unexpected, and it arrived with a flurry of 'information material':

- the *Job-ready Graduates* (JRG) policy paper
- six web pages
- 18 separate PDF documents of explanatory questions and answers
- a technical note with information to help universities work out the student places and funding they would get under the package,

The statement contains multiple individual proposals merged into a complex package. There is no material on the financial impacts of individual measures. The discussion of the public and private benefits is not coherent and, despite statements to the contrary, doesn't support the changes that have been made.

An exposure draft of the Bill to amend the Higher Education Support Act 2003 was released on 11 August 2020, providing interested parties six days to provide comments on whether the amendments accurately implemented the announced policy. An amended Bill for consideration by the Parliament was tabled in the House of Representatives on 26 August 2020.

The current Bill has amended the Government's original proposals in response to concerns of the National Party. It has clarified some aspects of how *Job-ready Graduates* would work. The Bill also includes a large number of provisions that have little to do with *Job-ready Graduates* and which are mostly regulatory in nature, many with civil penalty provisions attached to them.

Many details of the policy are still not public and universities have been struggling to work out the impact of the package on them. In its submission on the exposure draft of the Bill, the Go8 requested "that it is expressly noted, that despite formal requests to the Department of Education, Skills and Employment, the Department has been unable to provide modelling to Go8 institutions to explain the Government's projections of the JRG package".

This paper seeks to concisely explain the changes which are proposed and examine some aspects of the rationale for those changes. It also presents the results of financial modelling of the proposed changes and looks at their long-term financial impacts.

The overall aim is to help people make judgements about the extent to which the package will improve the higher education sector and whether it will advance Australia's economic and social interests beyond the current health and economic crisis.

### 2. Raising student contributions: a short history of frustrated efforts

Since 2014, the Government has attempted to increase the contributions that students make to the cost of their courses, allowing it to lower the level of subsidy which it contributes. It has argued long and hard that the funding system is unsustainable.

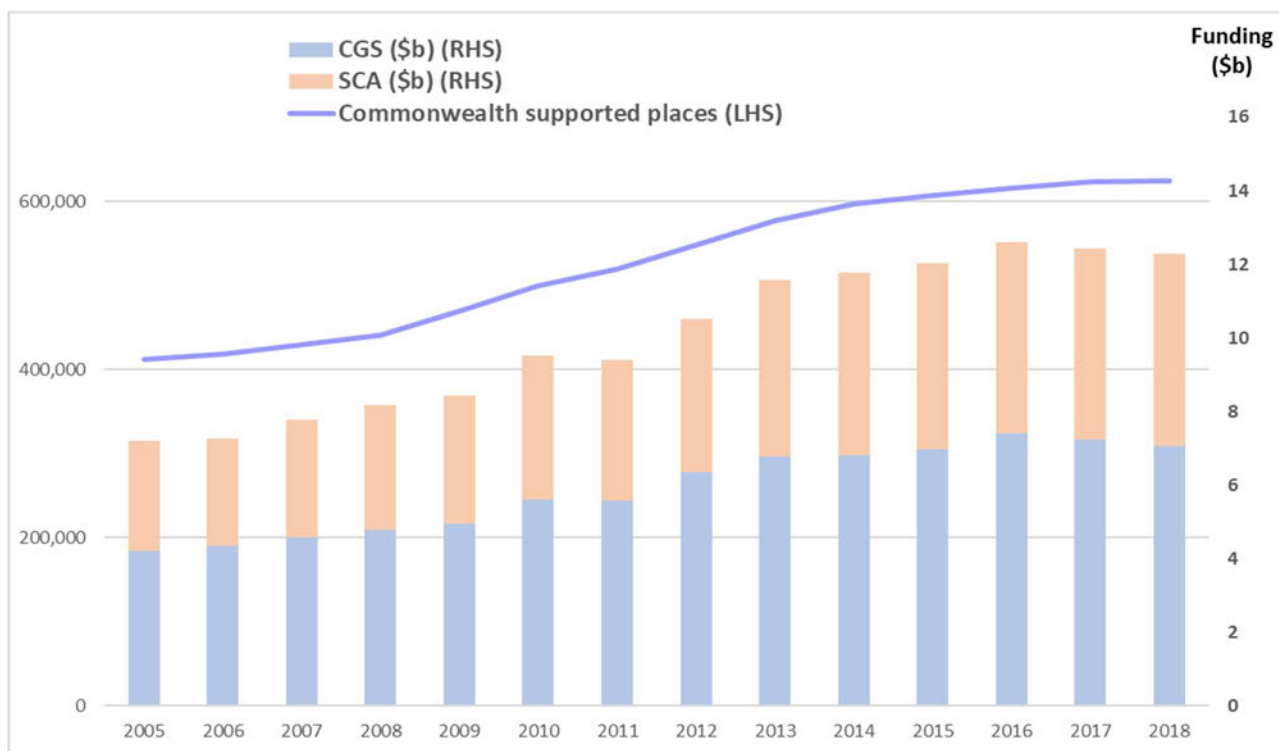
The Government's prime piece of evidence for the system being unsustainable has been the growth in the cost of funding for student places, a cost that has been shared between students and government over the past three decades since the introduction of the Higher Education Contribution Scheme (HECS). Charts like that produced below have been produced in government discussion papers to demonstrate this growth in funding.

Chart 1 shows the real growth in funding that has occurred since 2005. It shows the level of government subsidies made available through the Commonwealth Grant Scheme (CGS) and student contributions amounts (SCAs). SCAs are generally deferred for repayment through the tax system in years when a student’s income is above a set threshold. Repayments generally take one to two decades.

The major cause of growth in funding has been the policy to increase the share of the population with a higher education from around 30 per cent to 40 per cent. Chart 1 shows the growth in student places that occurred to implement that policy. In 2005, the number of Commonwealth supported places per 1,000 working age population was at a 15-year low, as can be seen in Chart 2.

The other important factor causing the growth seen in Chart 1 was an increase in the average funding for a student place, as can be seen in Chart 3. The increase in average funding from 2003 to 2005 relates to a 25 per cent increase in student contributions. After 2005, the increase was primarily due to indexation arrangements including a component for professional salary movements that delivered increases above Consumer Price Indexation (CPI). These indexation arrangements were amended in 2016 and CPI indexation has applied since 2017.

**Chart 1: Commonwealth supported places, real government subsidies (CGS) and real student contribution amounts (SCA) from 2005 to 2018 (2021 dollars)<sup>1</sup>**

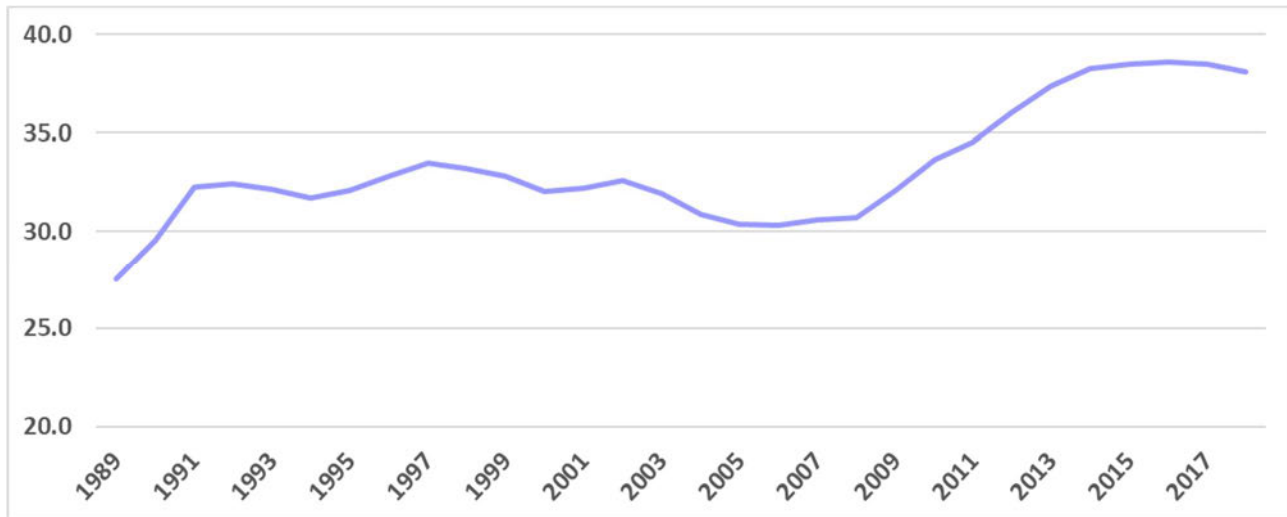


1. Note that the CGS subsidy in this chart excludes regional, enabling and medical loadings

Sources: Department of Education, Skills and Employment, Higher Education Statistics Data Cube (uCube), August 2020. Australian Parliament, 2017-18 Additional estimates, Education and Employment Committee, Education and Training Portfolio, Portfolio question number: SQ18-000299.

Chart 1 does not deal with all sources of funding for higher education teaching because it omits the other teaching funding programs which have existed over time. Capital and teaching quality programs, as well as former concessions within the student contributions loans scheme, have been removed to help pay for the increases evident in the above chart. By around 2017, the only remaining funding program for teaching of any significance was the Higher Education Participation and Partnership Program (HEPPP) which supports efforts to increase attainment by students from low socio-economic backgrounds. More recently, relatively small initiatives to improve rural and regional participation have started to proliferate.

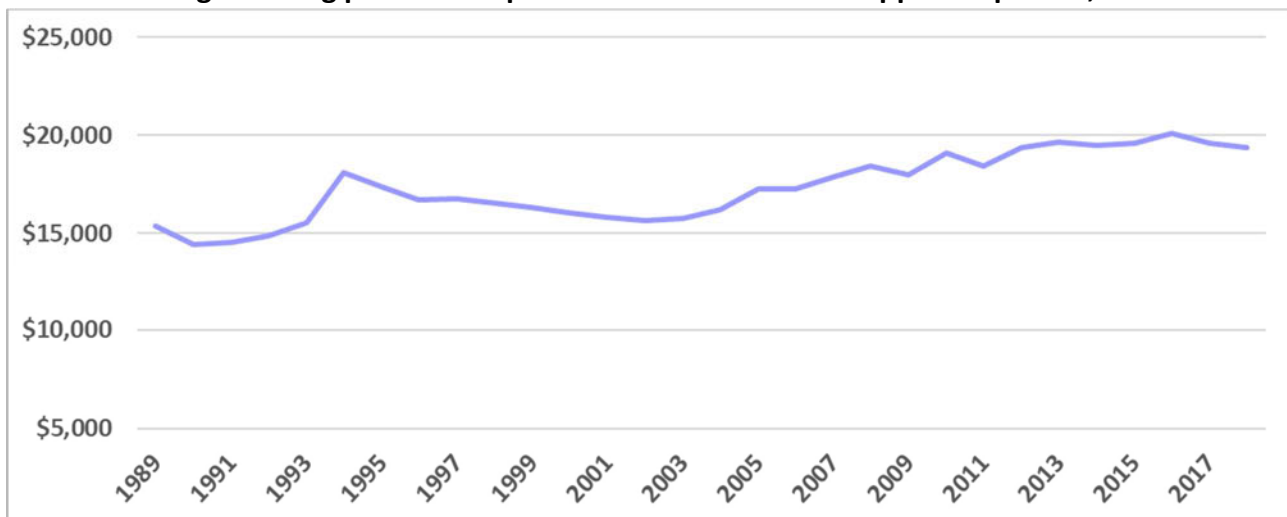
**Chart 2: Commonwealth supported places per 1000 working age population<sup>1</sup>, 1989 to 2018**



1. Prior to 2005, government subsidised places were known as HECs places, rather than Commonwealth supported places. Population aged 15-64 years.

*Sources:* Department of Education, Skills and Employment, Higher Education Statistics Data Cube (uCube), August 2020. Australian Parliament, 2017-18 Additional estimates, Education and Employment Committee, Education and Training Portfolio, Portfolio question number: SQ18-000299, ABS (2019).

**Chart 3: Average funding per student place for Commonwealth supported places<sup>1</sup>, 2089-2018**



1. Prior to 2005, government subsidised places were known as HECs places, rather than Commonwealth supported places. Funding includes CGS loadings.

*Sources:* Department of Education, Skills and Employment, Higher Education Statistics Data Cube (uCube), August 2020. Australian Parliament, 2017-18 Additional estimates, Education and Employment Committee, Education and Training Portfolio, Portfolio question number: SQ18-000299, ABS (2019); 2018 HESA payment determinations.

Despite major attempts in 2014 and 2017, the Government failed to convince the Parliament to give effect to its most strongly advocated policy change, increasing the level of student contribution and lowering the government contribution to the funding of student places. With its efforts frustrated in late 2017, it took ‘executive action’ to terminate growth in the level of government subsidies for student places.

Table 1 on the next page details the major milestones in a significant national debate about how much students should contribute to the cost of their higher education, how much should be met from general taxation revenues and how many people should receive a higher education. There are significant issues related to these questions:

**Table 1: Milestones in debate on higher education attainment & the level of student contributions**

<p><b>2009 Budget proposals – implemented and major objectives generally achieved</b></p> <ul style="list-style-type: none"> <li>➤ Demand driven funding for bachelor degree student places at public universities from 2012</li> <li>➤ 40% of 25-34-year-olds to have a bachelor degree or higher by 2025</li> <li>➤ Government/student share of funding at around 58% / 42%</li> <li>➤ Indexation arrangements above Consumer Price Increases (CPI), due to inclusion of a component for professional salary movements</li> <li>➤ Equity funding increased to support low SES attainment</li> <li>➤ Subsequent measures to cut costs saved the Government around \$1.2 billion annually with around \$400m affecting universities and \$800m being increased costs for students</li> </ul>
<p><b>2014 Budget proposals – not passed by the Parliament</b></p> <ul style="list-style-type: none"> <li>➤ CGS subsidies to be cut by 20% and fees to be deregulated</li> <li>➤ Would likely have resulted in the government funding share dropping under 50%</li> <li>➤ Would have extended demand driven funding to diploma, advanced diploma and associate degrees and to any registered higher education provider</li> <li>➤ Would have returned indexation to CPI and lowered the HELP repayment threshold (These two proposals were subsequently agreed by Parliament in the Budget Savings (Omnibus) Bill 2016)</li> </ul>
<p><b>2017 Budget proposals – not passed by the Parliament</b></p> <ul style="list-style-type: none"> <li>➤ Through multiple proposals, CGS subsidies to be cut by 10-13% and student contributions to be increased by 7.5%.</li> <li>➤ Would have resulted in Govt/student shares of funding moving to around 54% /46%</li> <li>➤ Would have extended demand driven funding to approved diploma, advanced diploma and associate degrees, but not to other registered higher education providers</li> <li>➤ Would have substantially lowered the HELP repayment threshold and made changes to repayment amounts for student loans/contributions</li> </ul>
<p><b>2017 Mid-Year Economic and Fiscal Outlook (MYEFO) proposals - implemented</b></p> <ul style="list-style-type: none"> <li>➤ Government freezes funding for bachelor degree student places for two years (2018 &amp; 2019)</li> <li>➤ CPI indexation of government funding ended and replaced with ‘indexation based on population growth’ (i.e. indexation reduced from around 2.5% to just under 1.5%). Amount of indexation increase to become a separate fund with payments to universities conditional on performance</li> <li>➤ Reductions in the number of funded non-bachelor student places</li> <li>➤ Policy’s effect is to progressively reduce the number of places receiving the standard government subsidy (due to government subsidies remaining indexed in legislation)</li> <li>➤ Student contributions continued to be subject to CPI indexation, including for ‘unsubsidised’ student places</li> <li>➤ Modified the proposals for changes to HELP. These were agreed by the Parliament in 2018, including lowering the HELP repayment threshold, changing repayment amounts and introducing a single loan limit across all HELP programs.</li> </ul>

- To what extent is the Government seeking to shift higher education from public universities to private Higher Education Providers? This year it has expanded the CGS scheme to an additional 15 higher education providers, a 34 per cent expansion on the 44 providers (primarily public universities) to which the scheme has been restricted for many years.
- To what extent should universities expand into technical forms of education?
- What are the relationships between Australia's higher education system, funded primarily by the Commonwealth Government, and the vocational education and training sector funded jointly with State and Territory governments?

### 3. The fiscal brake and the Government's negotiating position

Some elements from both the 2014 and 2017 higher education budget proposals were agreed by the parliament, as outlined in Table 1. The most significant element in each, shifting a greater share of the cost of higher education to students, was rejected on both occasions. Following the rejection of the 2017 proposals, a revised *The Higher Education Reform Package* was announced in December 2017 as part of the Government's Mid-Year Fiscal and Economic Outlook (MYEFO).

The revised package did not require legislation. The Government took executive action to freeze its component of the funding going to universities for student places for two years. The level of CGS subsidy in 2018 and 2019 would be the same as in 2017. After those two years, subsidies would increase only in line with growth in the working age population, a rate lower than legislated indexation based on the consumer price index (CPI).

This executive action utilised a provision included in the Higher Education Support Act 2003 (HESA) when that act was amended to provide for the demand driven funding of bachelor degree places. The provision allowed the Government to set, for each university, a funding cap for bachelor degree places beyond which it would not pay student place subsidies, regardless of how many places a university provided. The cap is referred to as the Maximum Basic Grant Amount (MBGA).

The relevant provision was included in HESA to help manage exceptional circumstances. At the time it was legislated, there was no intention for it to be used on an ongoing basis as part of the funding architecture. It was an 'in case of fiscal emergency, break glass' provision, an 'emergency break' to stop the cost of student place subsidies from growing in a period of crisis affecting the Government's fiscal position.

Since 2017, there have been no alternative long-term funding proposals released by the Government and no public consultation process on future student place funding arrangements. Over the two and a half years since that time, the higher education sector has worked with the Government on the various measures in the revised package. These include:

- the proposal to make some CGS funding contingent on performance;
- the efforts to make the cost of teaching and research more transparent through more regular reporting of some financial data; and
- the range of measures to support regional higher education delivery.

The Government has portrayed its policy of increasing the funding cap in line with growth in the working age population as though it increased the number of student places consistent with growth in the working age population. In reality, it substitutes for CPI indexation of the total CGS grant. It produces a percentage increase in the total CGS grant payable to a university that is less than CPI.

When this policy was introduced, CPI was expected to be between 2.5 and 3.0 per cent and the policy would have resulted in increases only around half the size of CPI. Actual economic circumstances have been weaker than estimated and CPI has been tracking at around 1.8 per cent, though it is forecast to rise. This results in funding increases in 2020 and 2021 under the current policy being around 70 per cent of those that would occur under CPI indexation.



It was only a matter of time before this policy would demonstrate its own unsustainability. The approach of eroding the real value of funding, often referred to as obtaining an efficiency dividend, would likely have an adverse impact on the quality and quantity of higher education being delivered. At a system wide level, the policy effectively results in fewer places receiving the full government subsidy specified in funding legislation.

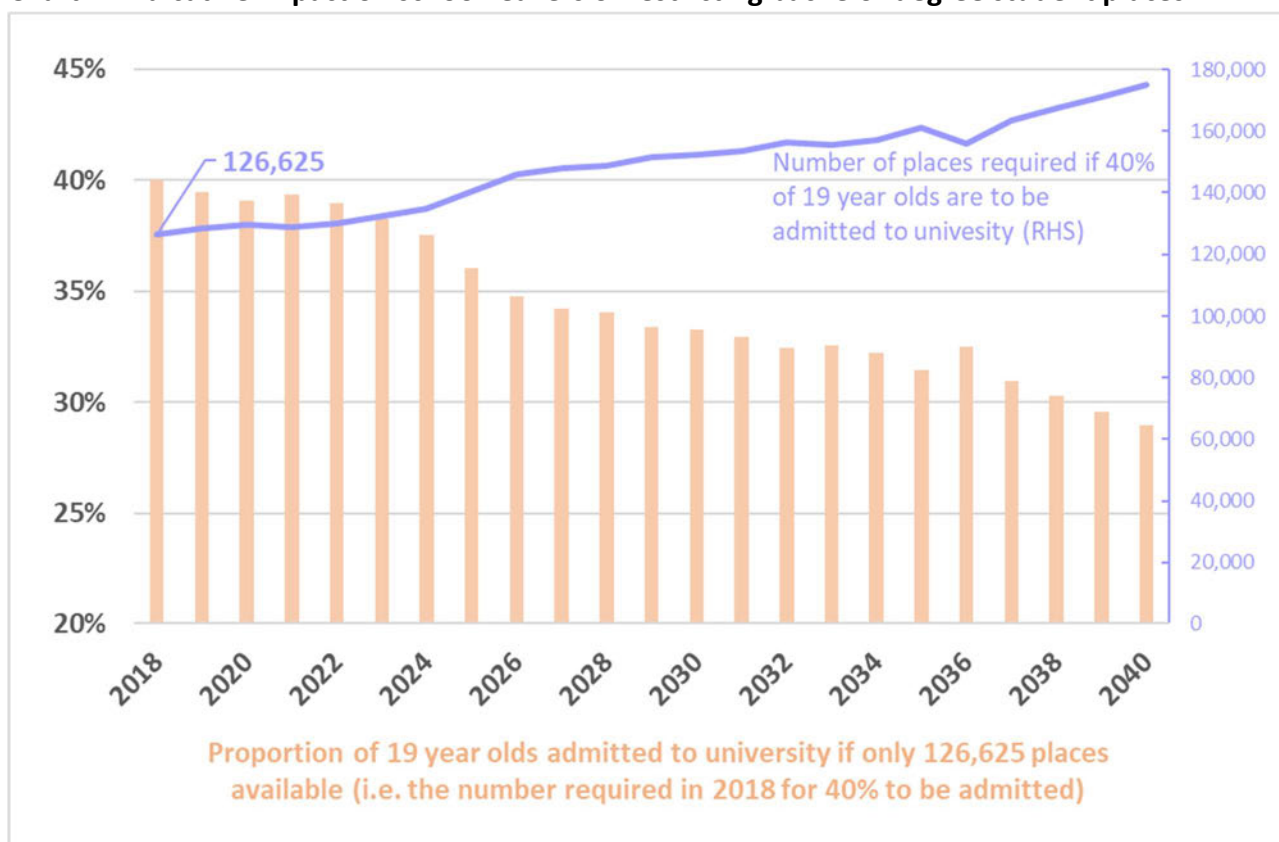
Universities have the option to reduce the number of places they provide, receive the same overall level of funding and avoid the efficiency dividend, but this does not appear to have occurred to any significant extent. As a result, the impact of the policy has been to remove government subsidy from some student places. The extent of this is quantified later in this paper.

A significant problem with the ‘emergency break’ is the absence of any coherent plan for long-term growth in student places to maintain access to higher education as the population grows. The ‘emergency break’ by itself amounts to a policy to reduce over time the proportion of the population with a higher education. Chart 4 illustrates how quickly the policy might restrict young people’s opportunity to undertake higher education study if there is no growth in the system over time.

The blue line is the number of places required to provide 40 per cent of 19-year-olds with a full-time student place and this is increasing over time. The 19-year-old population is estimated to increase by 23% over the 14 years from 2018. The orange bars show how the share of 19-year-olds who get a full-time student place declines if you just hold the number of available places constant.

As can be seen in the chart, the policy would not have significantly tightened opportunities for young people until around 2024. That situation might change if student demand for higher education increases rapidly due the economic slowdown associated with COVID-19.

**Chart 4: Indicative impact on school leavers of restricting bachelor degree student places**



Sources: ABS population projections, Australia 2017-2066, ABS.Stat, extracted 5 Oct 2019.

Overall, the cap on subsidies is unsustainable policy, but the adverse consequences do not emerge rapidly. It has created a large amount of uncertainty about future funding arrangements. It has strengthened the Government's negotiating position on the policy shift it has been seeking - to increase the student share of funding costs and decrease its own share.

Until the release of *Job-ready Graduates*, the Government was effectively refusing to allow any growth in student places despite it being widely known that there would be a surge in young people seeking higher education around 2024, a direct consequence of successful government efforts to raise the birth rate at the start of this century. The situation has been of concern to people wanting to increase higher education opportunities in high-growth population areas.

#### 4. Under cover of COVID: a new rationale and a reworked package

*Job-ready Graduates* does not mention the Government's past efforts to change higher education funding arrangements, though it does mention the need to restore growth in student places. It doesn't purport to correct problems identified in any analysis of current arrangements, other than the Productivity Commission's finding that the demand driven system did not reduce gaps in indigenous and rural and regional higher education participation. There is no mention that over the period of operation of the demand driven system, skills shortages in professional and managerial occupations were considerably reduced. Forty of these occupations experienced shortages in 2008 and by 2017 only five did<sup>1</sup>.

The stated context for *Job-ready Graduates* is the need to recover from the unprecedented crisis of COVID-19:

*"The International Monetary Fund predicts that, as a result of the pandemic, Australia is about to experience its worst economic contraction since the great depression ... The higher education system ... will need to meet an unexpected spike in demand from school leavers, and provide more options for upskilling and reskilling workers who have lost jobs due to COVID-19. It will need to focus on delivering more graduates in areas of industry and community priority, and ... ensure graduates have the job ready skills and experience they will need in a challenging labour market.*

...

*Tertiary education is a key driver of employment and income. ... Nearly all the gains in employment over the last forty years (96 per cent) have been made by people with tertiary qualifications (Certificate III or higher)."*<sup>2</sup>

In the section on Key Objectives in *Job-ready Graduates*, the Government states:

*"Within the higher education funding system there are opportunities to restore growth, better align funding with the average cost of delivery, offer greater flexibility and provide incentives to produce graduates in disciplines that support the national interest. Through restructuring the Government's investment in higher education this way, we can increase accountability and maximise outcomes for all Australians."*<sup>3</sup>

There are over 20 new policies identified in the table on page 10 of the policy paper. Most of the initiatives are minor. The way they are presented serves to obfuscate the substantive changes proposed to the funding of student places. Figure 13 on page 28 of the paper claims to demonstrate the simplicity of the proposed new funding model but conflates all of the new policies into a single diagram, despite many of them being quite distinct. Many of the proposed policies remain completely underdeveloped.

*Job-ready Graduates* is better understood as two separate sets of policy changes. The first is the core of the package, illustrated in Chart 5 below. It is a self-contained set of changes.

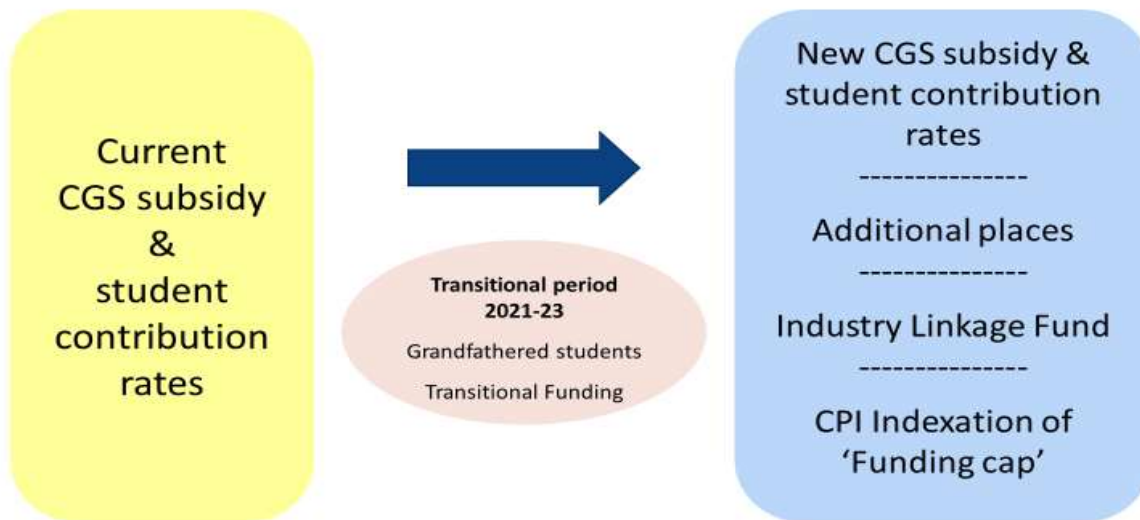
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<sup>1</sup> Norton, A., Cherastidham, I., and Mackey, W. (2018), p72.

<sup>2</sup> Australian Government (2020a), p4.

<sup>3</sup> Australian Government (2020a), p8.

**Chart 5: The ‘core funding elements’ of the Job-ready Graduates package**



The Government proposes to move from the current government subsidy and student contribution arrangements to a new set of government subsidy and student contribution arrangements. It is seeking to more closely align the funding of disciplines with their delivery cost. It wants to re-balance the government and student shares of the total funding of disciplines to influence students’ choices about what they study.

These changes save money through a major shift of costs to students. The Government claims this allows it to fund the ‘additional student places’ announced in the package. The Government claims these savings also pay for a resumption of the already legislated CPI indexation of the subsidies for student places.

The savings pay for one of the two funds announced in the package, the National Priorities and Industry Linkage Fund (NPILF) - \$222 million in grants to foster closer industry engagement are to be made from this fund. Smaller universities will get a higher share of funding than would occur on the basis of student place shares. The policy paper refers to “embedding performance-based funding in the NPILF”<sup>4</sup>, but does not explain this.

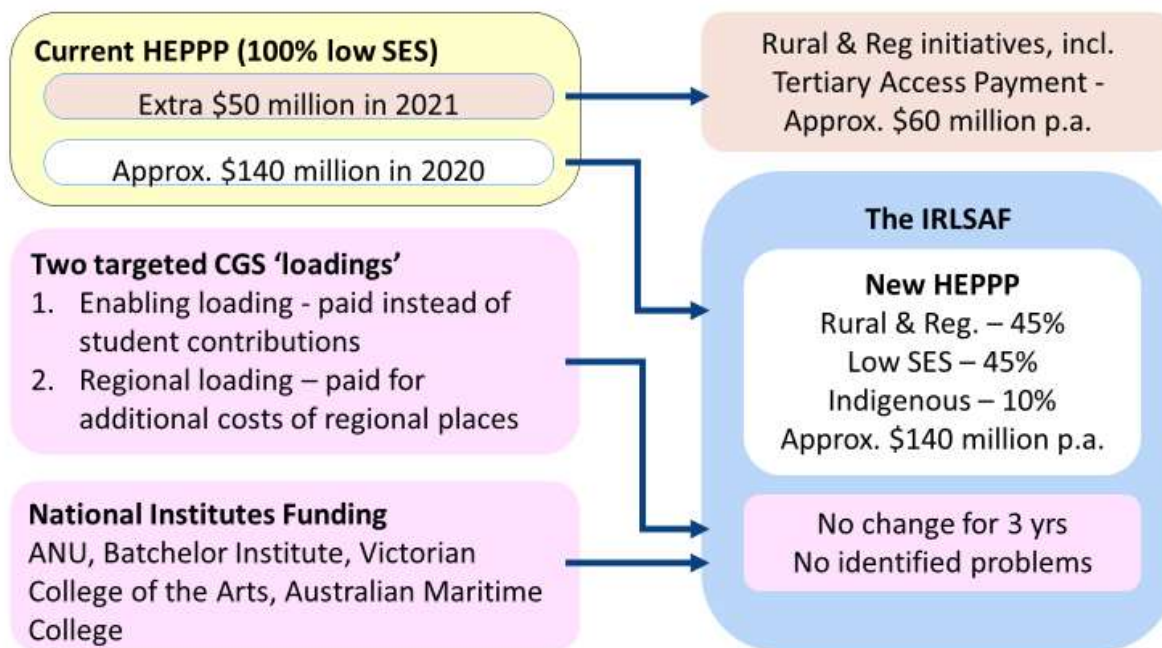
Parts C and D of this paper focus on analysing the above elements of the package. The July 2020 Economic and Fiscal Update<sup>5</sup> indicates there is additional government spending in the first two years following the changes, but by the final year of the forward estimates, substantial savings are being realised. The initial costs are associated with the arrangements for grandfathering students and a Transition Fund to reduce the initial impact on universities of an overall reduction in funding of student places and a future distribution of student place funding away from metropolitan universities in low population growth areas.

The second set of policy changes are illustrated in Chart 6 below. Much of the policy for this set of changes is yet to be determined. To the extent that policies have been developed, they are primarily about re-directing equity funding away from supporting higher education attainment by people from low socio-economic status (SES) backgrounds to support attainment by people from rural and regional areas and indigenous people, irrespective of their socio-economic background.

<sup>4</sup> Australian Government (2020a), p25.

<sup>5</sup> Australian Government (2020d), pp 121-124.

**Chart 6: The equity and transparency elements of the Job-ready Graduates package**



The existing level of funding for the Higher Education Participation and Partnership Program (HEPPP) will continue to be distributed on the basis of a formula, but that formula will be changed. In future, only 45 per cent of funds will be distributed based on a university’s share of students from a low SES background, rather than 100 per cent. Forty-five per cent will be distributed based on a university’s share of students from rural and regional areas and ten per cent based on a university’s share of indigenous students.

In 2021, the HEPPP was to increase by around \$50 million but this will no longer proceed. These funds and a small amount of additional funding will be directed into financial assistance for students from rural and regional areas. Most is for the Tertiary Access Payment - a one-off, non-indexed payment of \$5,000 to school-leavers from outer regional or remote areas who relocate to undertake full-time, higher-level tertiary education. It will be a demand driven payment with generous means testing, precluding only those with combined parental income exceeding \$250,000 a year.

These changes mean that over 60 per cent of the \$190 million currently allocated for HEPPP in 2021 will now support regional and rural student participation. Less than 40 per cent will be for low-SES and indigenous students. This is a disproportionate response to the low tertiary education attainment of rural and regional students, given the continued need to lift attainment by the much larger group of low-SES students which already includes rural, regional and indigenous students of low SES background.

A generous description of the remainder of the proposals in the second set of policy changes is ‘enigmatic’. Two student place ‘loadings’ currently paid as part of the CGS and ‘relevant element’ of the National Institute grants, along with the new HEPPP, are to be rolled into the second of the funds announced in the package - the Indigenous, Rural and Low SES Attainment Fund (IRSLAF).

To date, there is no concrete proposal as to how the money in IRSLAF will ultimately be distributed. Policy is to be inferred from the fund’s name. We are assured that the arrangements will be simple and more transparent and there will be accountability for public funding<sup>6</sup>. It is unclear how such an assurance can be given.

<sup>6</sup> Australian Government (2020c).

The amending bill removes the two loadings from the CGS. The current regional loading (\$72.4 million in 2018) seeks to compensate universities for the higher cost of delivering student places at regional campuses. The current enabling loading (\$31.1 million in 2018) partially compensates public universities for the lack of student contributions for enabling courses. There is no lack of transparency about either of these loadings and they are clearly targeted to well defined needs.

Enabling courses primarily assist disadvantaged students to prepare to undertake a higher education course. The funding cluster changes examined below will reduce subsidies for these courses by \$20—25 million a year or around 15 per cent. Enabling loading is not being increased to compensate for this loss and we do not know its long-term future. The 2017 budget package sought to abolish this loading and replace it with student contributions.

The National Institute grants have little to do with higher education attainment. The largest of these grants goes to the Australian National University (ANU) and is essentially research funding. It comprises over \$207 million of the nearly \$230 million for National Institutes in 2020. Nearly \$8 million goes to the University of Tasmania to help support the National Maritime College. Around \$7.6 million goes to the Batchelor Institute of Indigenous Tertiary Education to support the delivery of vocational education and training for indigenous students. The University of Melbourne receives \$5.8 million to help support the Victorian College of the Arts which would not be viable with standard student place funding due to the small and intensive nature of its programs.

This funding, if all of it were merged into the IRLSAF, would make it a discretionary grant pool of nearly half a billion dollars and place it at the disposal of the Minister. The Government's proposals in this area seem unlikely to improve transparency or accountability for the funds being distributed.

## C. Funding cluster changes and skill needs

### 5. Translation of 2018 student places to proposed funding clusters

Prior to his June 2020 Press Club speech, the Minister released his ‘pitch’ for the *Job-ready Graduates* package. It contained details on the field of education of Commonwealth supported places (CSPs) in 2018 and showed how their funding would change under the arrangements proposed for 2021. This data is at Appendix 1. Subsequently, the Government released information on the proposed 2021 allocation of units of study to funding clusters and student contribution bands according to their field of education code.

These two pieces of information can be used to derive how CSPs in current funding clusters will translate to the proposed new funding clusters. Table 3 below summarises how the 2018 CSP load would translate to the 2021 arrangements. Appendix 2 provides greater detail, including the current and proposed amounts of student contribution, CGS subsidy and total funding for each field of study.

Table 3 has been colour coded to enable the reader to identify which units of study are to be ‘discouraged’ by having a high level of student contribution, which are to be ‘incentivised’ by having a low level of student contribution and which are to continue to have a broadly similar student contribution to the current arrangement (referred to as ‘standard’). The colour coding is explained at the bottom of the table.

Table 3 deals with the total number of CSPs at all higher education providers<sup>7</sup>. Table 4 provides similar estimates for non-medical bachelor degree student places at Table A institutions. To analyse the changes to funding proposed in *Job-ready Graduates* requires the estimates in Table 4. This is because the funding cap (or MBGA for non-designated courses) is applied only to non-medical bachelor degree student places at Australia’s public universities.

The estimates in Table 4 are derived broadly by assuming CSPs in each current funding cluster move to each proposed new funding cluster as in Table 3. Some error would be associated with this procedure as the distribution across disciplines of bachelor degree CSPs at public universities is not identical to the distribution of total CSPs across disciplines. The error is likely to be relatively small as bachelor degree student places comprise the vast bulk of CSPs and there is a relatively high level of aggregation into funding clusters. Adjustments that have been made to improve the estimation procedure are outlined in the footnotes to Table 4.

### 6. The goals of funding cluster change

The goals the Government is seeking to achieve in changing the funding clusters of higher education disciplines are threefold:

1. To better align the total funding for each discipline with the efficient cost of delivering that discipline;
2. To increase the average cost to students, lower the average cost to government and provide savings to fund future growth in student places; and
3. To decrease student contributions in disciplines for which there will be future labour market demand and to increase them in disciplines for which there is excess supply.

A rigorous evaluation of the Government’s proposals would assess how successful the Government has been in achieving each of these tasks in developing its proposed new funding arrangements.

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<sup>7</sup> This paper considers the financing of all CSPs (just under 625,000). Most of these are provided by Australia’s public universities (628, 000), but some are provided through other Higher Education Providers (8,000). While this paper refers to universities when discussing revenue and financing, this is to improve readability. The results of the analysis in Parts C and D of this paper relate to all CSPs, irrespective of the provider supplying those places.

**Table 3: Translation of 2018 student load from old funding clusters to proposed 2021 funding clusters<sup>1</sup>**

Current Cluster	Current funding per place in 2021 [student contribution]	Fields of study	Student load moving to new clusters	New cluster	Proposed student load for new cluster	Proposed funding per place [student contribution]	
1	\$13,602 [\$11,355]	Law, accounting, administration, economics, commerce, food & hospitality, personal services, mixed fields	114,462	1	237,473	\$15,600 [\$14,500]	
2	\$13,030 [\$6,804]	History, archaeology, indigenous studies, justice, law enforcement, philosophy & religious studies	17,967	2a	91,227	\$17,200 [\$3,700]	
		English	7,584				
3a	\$20,713 [\$9,698]	Mathematical sciences (mathematics & statistics)	22,694	2b	109,107	\$21,200 [\$7,700]	
		Computing, built environment, public & other health	53,815				
3b	\$17,819 \$6,804]	Human movement	4,371	3a	52,992	\$20,200 [\$3,700]	
		Behavioural science, social studies, human welfare studies and services (e.g. care for aged, disabled, children)	79,329				
		Librarianship, curatorial studies Sport and recreation					
4	\$18,266 [\$6,804]	Education	59,987	3b	108,770	\$24,200 [\$7,700]	
5a	\$20,351 [\$6,804]	Clinical psychology	962				
		Foreign languages (including Australian Indigenous languages)	7,114				
		Performing arts, visual arts & crafts, Graphic and design studies, other creative arts	24,132				
		Communication & media arts	25,715				
5b	\$23,245 [\$9,698]	Allied health (excluding indigenous health)	26,789	4a	2,921	\$30,700 [\$3,700]	
6	\$21,929 [\$6,804]	Nursing	45,878				
7	\$28,958 [\$9,698]	Science, engineering, surveying	99,286	4b	22,214	\$38,300 [\$11,300]	
8a	\$35,801 [\$11,355]	Medical science	4,869				
		Dentistry, medicine, veterinary science	21,002				
8b	\$34,144 [\$9,698]	Pathology	1,212				
		Environmental studies, other agriculture, environmental and related	4,615				
		Agriculture, horticulture, forestry science, fisheries science	2,921				
		<b>Total</b>	<b>624,704</b>		<b>624,704</b>		
New FC 1 discouraged		New FC2 incentivised		New FC3 incentivised		New FC4 incentivised	
		New FC2 standard		New FC3 standard		New FC4 standard	

1. Under last-minute changes, Professional Pathways for Social Work & Psychology to move to cluster 2(b). Student contributions in clusters 2 & 3 to increase by \$250. No changes to proposed per place funding.

**Table 4: 2018 Table A bachelor degree CSPs moving to new funding clusters & subject to funding cap**

Current Cluster	Bachelor student load for current cluster	Fields of study	Bachelor student load subject to funding cap & moving to new clusters	New cluster	Proposed student load for new cluster
1	108,330	Law, accounting, administration, economics, commerce, food & hospitality, personal services, mixed fields	108,330	1	219,522
2	22,357	History, archaeology, indigenous studies, justice, law enforcement, philosophy & religious studies	15,721	2a	70,343
		English	6,636		
3a	67,463	Mathematical sciences (mathematics & statistics)	20,011	2b	96,801
		Computing, built environment, public & other health	47,452		
3b	76,692	Human movement	4,005	3a	47,033
		Behavioural science, social studies, human welfare studies and services (e.g. care for aged, disabled, children)	72,687		
		Librarianship, curatorial studies Sport and recreation			
4	42,844	Education	42,844	3b	101,078
5a	51,320	Clinical psychology	852		
		Foreign languages (including Australian Indigenous languages)	6,303	4a	2,998
		Performing arts, visual arts & crafts, Graphic and design studies, other creative arts	21,381		
		Communication & media arts	22,784		
5b	23,963	Allied health (excluding indigenous health)	23,963	4b	8,853
6	40,730	Nursing	40,730		
7	92,793	Science, engineering, surveying	92,793		
8a	18,857	Medical science	3,549		
		Dentistry, medicine, veterinary science	8,320 (a)		
8b	8,267	Pathology	533 (b)		
		Environmental studies, other agriculture, environmental and related	4,736 (c)		
		Agriculture, horticulture, forestry science, fisheries science	2,998 (c)		
	<b>553,616</b>	<b>Total</b>	<b>546,628</b>		<b>624,704</b>

(a) In 2018, there were 6,988 undergraduate medical and 5,482 postgraduate medical CSPs. Undergraduate medical places have been subtracted after application of the relevant percentage of cluster 8a student load moving to new cluster 4b (i.e. this cell =  $[18,857 \times 0.812] - 6988$ ).

(b) As 44 per cent of medicine is postgraduate, pathology is likely to be more concentrated at the postgraduate level than other disciplines. This cell has been assumed to be 56 per cent of the total number of places for pathology (i.e.  $1212 \times 0.56$ , see pathology line in Table 3).

(c) As a result of (b), these cells have been calculated by subtracting the 533 pathology places from the load in old cluster 8b and then apportioning the remainder in accordance with the respective shares moving to cluster 3b and 4a (e.g. Environmental studies, other agriculture, environmental and related =  $[8,267 - 533] / [52.8 / 86.2]$ ).



The Government has relied on the Deloitte Access Economics report, *Transparency in Higher Education Expenditure*, to provide the evidence base for the first of the above goals. As Massaro has pointed out, it is a study of “what is spent on teaching delivery rather than of the efficient cost of teaching”<sup>8</sup> but it is being used as the basis for billion dollar decisions with significant implications for Australia’s higher education sector and its universities. These financial implications are examined in detail in Part D of this paper.

The changes to funding rates are to occur at a time when universities are already experiencing major disruption to their financing due to the loss of international students associated with COVID-19 travel restrictions. It is difficult to understand why the Government is exacerbating what it must know is a precarious situation. The extent of the changes in funding for disciplines is evident in Tables 5 and 6 below.

Table 5 lists the disciplines in which total funding will increase by more than 5 per cent and Table 6 lists those disciplines in which it decreases by more than 5 per cent. As we will see in Part D below, the combined impact of the current funding cap policy and the *Job-ready Graduates* funding cluster changes will be to reduce total funding for higher education teaching by around \$1 billion for the equivalent of 2018 student load. It is therefore not surprising that the number of disciplines experiencing funding decreases in Table 6 and the magnitude of those decreases far outweigh the increases evident in Table 5.

The goal of ensuring that the total funding for teaching disciplines aligns with what is required to efficiently deliver quality teaching is reasonable, but it is a complex task to establish efficient costs. The efficient cost of delivery may not be the same as what has been spent in the past, particularly when it was conflated with the requirements of attracting and teaching a very large number of international students. It cannot be assumed that former costs are what will be needed to produce quality students in the pandemic-affected future. Establishing efficient costs should be undertaken with the same sort of rigor, ongoing review and consultation with sector experts as is the work undertaken on hospital services by the Independent Hospital Pricing Authority (IPHA).

**Table 5: Total funding increases of more than 5%**

Disciplines	Change in total funding rates	Total funding increase (percentage increase)
English language, literature and linguistics	\$13,000 to \$17,200	\$4,200 (32%)
History, archaeology, indigenous studies, justice, law enforcement, philosophy and religious studies	\$13,000 to \$15,600	\$2,600 (20%)
Human movement	\$17,800 to \$21,200	\$3,400 (19%)
Law, accounting, administration, economics, commerce, food & hospitality, personal services, mixed fields	\$13,600 to \$15,600	\$2,000 (15%)
Pathology	\$34,100 to \$38,300	\$4,200 (12%)
Medicine, dental and veterinary	\$35,800 to \$38,300	\$2,500 (7%)

<sup>8</sup> Massaro, V., (2020)

**Table 6: Total funding decreases of more than 5%**

Disciplines	Change in total funding rates	Total funding decrease (percentage decrease)
Medical science	\$35,800 to \$24,200	\$11,600 (32%)
Environmental studies, other agriculture, environmental and related	\$34,100 to \$24,200	\$9,900 (29%)
Communication and media studies	\$20,400 to \$15,600	\$4,800 (23%)
Mathematical sciences	\$20,700 to \$17,200	\$3,500 (17%)
Engineering, science and surveying	\$29,000 to \$24,200	\$4,800 (16%)
Clinical psychology	\$20,400 to \$17,200	\$3,200 (15%)
Behavioural science, social studies, human welfare studies and services (Care for aged, disabled, children) Librarianship and curatorial studies Sport and recreation	\$17,800 to \$15,600	\$2,200 (12%)
Agriculture, horticulture, forestry science, fisheries science	\$34,100 to \$30,700	\$3,400 (10%)
Allied health	\$23,200 to \$21,200	\$2,000 (9%)
Nursing	\$21,900 to 20,200	\$1,700 (8%)
Education (Teaching)	\$18,300 to \$17,200	\$1,100 (6%)

The second of the goals of funding cluster change, increasing the average cost to students and lowering the average cost to government to fund future growth in student places, has been the dominant Australian Government policy for funding the expansion of higher education teaching over the three decades since the Higher Education Contribution Scheme (HECS) was first introduced.

The expansion during the Rudd / Gillard Government period, when demand driven funding of bachelor degree places was introduced to increase higher education attainment, is something of an exception to this policy. *Job-ready Graduates* is effectively an attempt to retro-fit it – to change the balance of government and student contributions so that much of the cost of the expansion in student places that occurred from 2009 to 2014 will in future be met by students. The Government is clearly indicating that it is also a prerequisite of any future increase in student places.

Analysis later in this paper will show that *Job-ready Graduates* will be highly effective in increasing student and lowering government costs. The extent to which it will fund any further expansion of the system is not yet clear. Part D discusses the ambiguities in the proposals for future expansion of student places.

The third of the goals of funding cluster change, decreasing student contributions in disciplines for which there will be future labour market demand and increasing them in disciplines for which there is excess supply, is examined in the next section of this paper using the Government’s own information on current skill shortages and strategically important skills.

There is not time to consider in this paper the significant questions that arise from the Government’s proposal to attempt to use student contributions to influence student behaviour. Student contributions are an effective way of funding our higher education system, but they are paid through the tax system and this usually does not occur until many years after a student’s study is complete. There is not much evidence that they are a major factor in student choices about their study and future careers.

The proposal also raises other important questions:

- Is it reasonable for some students, who are doing less costly courses and will likely have lower future incomes than some other students, to be required to contribute more than those other students towards the funding of our higher education system? For example, should our future librarians, social workers and accountants pay more for their higher education than our future doctors?
- What impact will the increases have on the likelihood that students will ultimately contribute these amounts? To what extent will they increase the level of debt not expected to be repaid?

These questions should be answered before the changes being proposed in *Job-ready Graduates* are agreed.

## 7. Future skills and discouraged and incentivised disciplines

The Government is attempting to discourage students from undertaking disciplines that currently comprise around 38 per cent of student load. Table 7 indicates that it is incentivising disciplines that comprise under 24 per cent of student load. Around 38 per cent of student load is in disciplines that will be treated much as they are now.

**Table 7: Share of student load in the Government’s preferred disciplines**

Discouraged disciplines	38.0%
Incentivised disciplines	23.6%
Standard disciplines	38.4%

The Government’s policy paper does not identify the data or research used to support the decisions it has made about which disciplines should be discouraged and which incentivised. Despite this, it is possible to assess the Government’s proposals using well-established Commonwealth information sources. These are the occupational skills shortages information produced by the Department of Education, Skills and Employment (DESE) and the skilled occupations lists used for migration purposes.

Table 8 shows that the Government intends to discourage study in areas which prepare people for occupations that are identified as strategically important and which provide a basis for skilled migration to Australia. These occupations are identified in the Medium and Long-term Strategic Skills List (MLTSS).

Table 9 shows that the Government is encouraging disciplines which prepare people for occupations that are not currently in shortage, though most are regarded as strategically important.

Table 10 shows that the Government has not sought to encourage study in many disciplines which prepare people for occupations that are both currently in shortage and identified as strategically important.

**Table 8: Discouraged disciplines with occupations on the MLTSS<sup>1</sup>**

Childcare centre manager	Accountants – general, management and taxation
Welfare centre manager	Economist
Social worker <sup>2</sup>	Barrister; Solicitor

2. *Medium and Long-term Strategic Skills List*

3. *The Government announced on 25 August 2020 that ‘Professional Pathway Social Work’ would become part of Funding Cluster 2(b), making it a ‘standard discipline’ as that description is being used in this paper.*

**Table 9: Incentivised disciplines, occupational shortages and the MLTSS<sup>1</sup>**

Profession	Occupational shortage	On the MLTSS
Early childhood teachers	Not generally Shortages in SA and regional areas of NSW. Tasmania has difficulty with recruitment.	Yes
Primary school teachers	No	No <sup>2</sup>
Secondary school teachers	No	Yes
Registered nurses	Not generally Shortages in NSW and regional areas of Vic and NT. Victoria has difficulty with recruitment in metropolitan areas.	The list identifies 13 subspecialties, rather than just ‘registered nurses’
Midwives	Yes	Yes
Agricultural consultant/scientist	No	Yes
Forester	No	Yes
Clinical psychologist	Does not appear in the occupational skills shortage assessments (as either being in shortage or not in shortage)	Yes
Statistician	Does not appear in the occupational skills shortage assessments (as either being in shortage or not in shortage)	Yes

1. *Medium and Long-term Strategic Skills List*

2. *Note the MLTSS includes some teaching specialties -special needs, special education and teachers of the hearing and sight impaired – and these are likely required across all teaching levels*

**Table 10: Standard disciplines with occupations that are both in shortage and on the MLTSSL<sup>1</sup>**

Surveyor	Medical diagnostic radiographer
Engineers – a wide variety of the various specialties	Medical radiation therapist
Veterinarian	Occupational therapist
Audiologist	Physiotherapist

1. *Medium and Long-term Strategic Skills List*

There is no clear relationship between how a discipline is to be treated and whether it prepares people for occupations that are in shortage or that have been identified as strategically important. The policy paper does not produce evidence to support its views on what will be nationally important for economic recovery or what disciplines should be encouraged and discouraged to help people secure future jobs. It doesn't appear to take into account that workers of the future may change their jobs more often than in the past, that jobs and skills needs constantly change over time and that when someone is being trained for a profession it is often on an expectation that we know what it will be like in five years' time. These considerations support broader-based pedagogical approaches, rather than narrowly focussed instrumentalism.

Overall, it appears that decisions about whether to discourage or encourage particular disciplines have not been made on labour market grounds. They may have been based on subjective preferences about what students should study. They may have been based on a judgment about how to generate support for an overall increase in student contributions and reduced government contributions, the policy the Government has been seeking to implement for over half a decade.

## D. Financing and the student places promise

### 8. Gross impact on funding

This section examines the impact of the proposed funding cluster changes in isolation. It uses the student places in the sector in 2018 to demonstrate the nature and magnitude of those impacts. In this paper I refer to these impacts as ‘gross impacts’ because they are before considering any growth in student places, the proposed student grandfathering arrangements or the transition grants. These impacts will be looked at in the last section of this paper, allowing us to see the net impact with these other changes included.

It is a relatively easy exercise to use Tables 3 and 4 to determine the gross impact of the proposed change to funding clusters on the level of government subsidy, student contribution and university revenue for student places. It is simply a matter of multiplying the number of places by the government subsidy rate and then doing the same for student contribution amounts, both before and after the proposed change. The sum would be the total revenue for the sector, except for the funding cap which is in place.

Appendix 3 provides four tables containing the relevant calculations for total CSPs and non-medical bachelor degree CSPs at public universities. Both current and proposed funding rates have their 2021 values. These rates were provided in the *Job-ready Graduates* policy paper.

The data in Appendix 3 shows that, based on the 2018 discipline mix, the Government is proposing to reduce university revenue for teaching to around 94 per cent of its value under current rates, or by around \$738 million. This is less than half the reduction that would have occurred if the Government had attempted to completely align revenue with the headline estimate from the Deloitte Access Economics report, *Transparency in Higher Education Expenditure*. That report indicated on average for a bachelor degree student, universities only spend approximately 89% of discipline funding on teaching.

Funding caps will have been in place for 3 years by 2021. It is necessary to determine the aggregate national value of the cap on funding for bachelor degree places at public universities (the MBGA) to work out the package’s financial implications in 2021, the year of implementation. The national value of the funding cap is the sum of MBGAs for each university. These amounts are available in each university’s 2018 funding agreement. Table 11 below provides the amount for 2018 and shows how that amount has been increased to what will be its 2021 value under the current funding arrangements. For the purposes of this paper, it is assumed that non-bachelor degree student load is fully funded.

**Table 11: The aggregate national funding cap for non-medical CSPs at public universities**

Year	Percentage increase to previous year’s MBGA (frozen in 2019 and increase in relevant population for 2020 & 2021 only)	Funding cap for non-designated load (MBGA)
2018		\$5,952m
2019	0.0%	\$5,952m
2020	1.36%	\$6,033m
2021	1.27%	\$6,110m

In 2021, universities 2018 student load would receive \$6,376 million in CGS subsidies<sup>9</sup>, but under the current funding cap only \$6,110 million could be paid. Hence, the funding cap would save the Government \$266 million in that year.

Table 12 provides an estimate of how many places would no longer receive funding due to this \$266 million saving. Using the average CGS subsidy for a non-medical bachelor degree student place, we see that around 22,800 places would not be funded in 2021 because of the funding cap.

In 2021, the Government is proposing to 'convert' the MBGA so that it will only fund the same number of student places. Under the proposed funding arrangements, the Government will contribute less to the cost of student places and students will contribute more. Consequently, the amount of CGS subsidy that the cap will save will go down. Using the proposed new average CGS subsidy rate, we find that the proposed new funding cap will save around \$220 million. These figures are also in Table 12.

**Table 12: The aggregate national funding cap for non-medical CSPs at public universities**

Amount of 2018 non-medical bachelor degree student load at public universities that would not receive CGS funding in 2021 under current funding arrangements	\$265.9m
Average CGS for a non-medical bachelor degree place at current rates in 2021 <sup>1</sup>	\$11,664
Number of places for which CGS will not be paid in 2021 due to current funding cap (assuming the same student load is in 2018)	22,800
Average CGS for a non-medical bachelor degree place at proposed new rates in 2021 <sup>2</sup>	\$9,626
Amount of student load assumed to be in excess of proposed funding envelope in 2021	\$219.5m

2. Average derived from Table C3, Appendix C.

3. Average derived from Table C4, Appendix C.

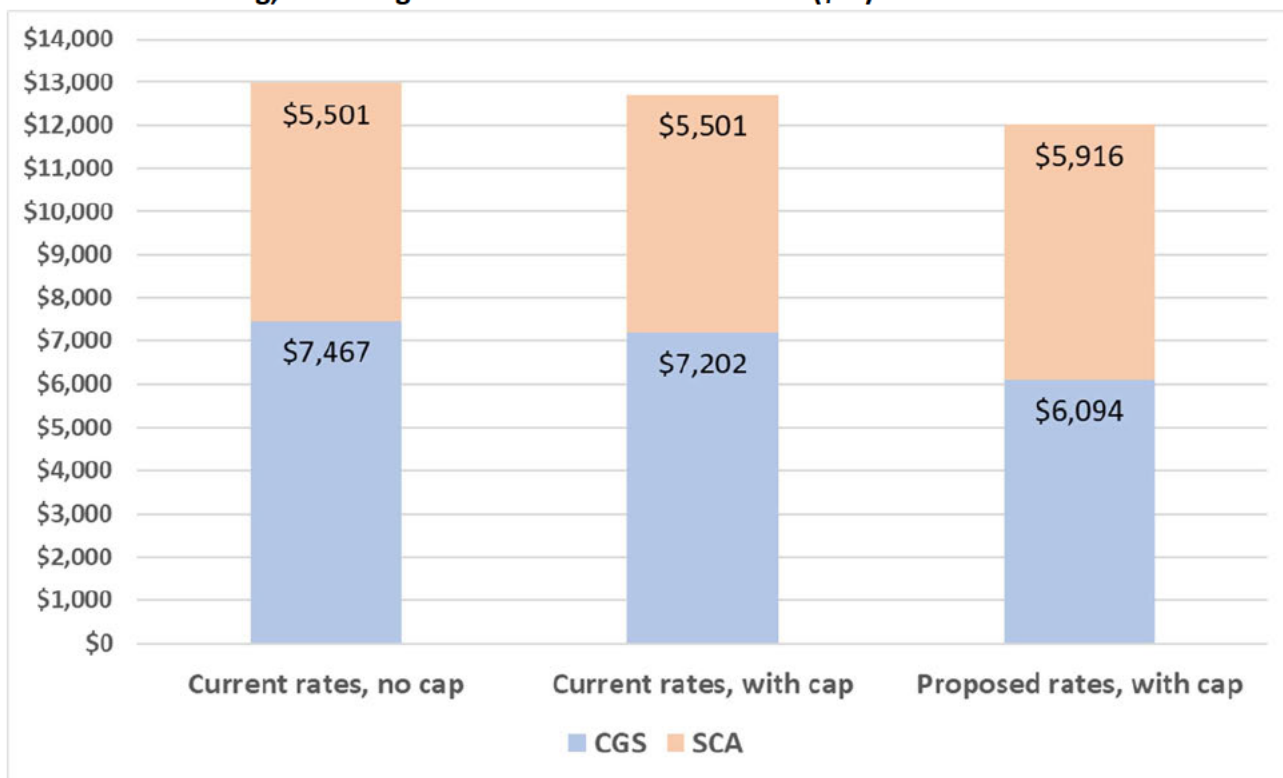
It is now possible to identify both the gross impact of the current funding caps and of the impact of the proposed changes to funding clusters on CGS subsidies and student contribution amounts (SCA) This is illustrated in Chart 7 on the next page.

Table 13 below provides the figures for the aggregate increase in student contribution, the government saving in CGS subsidies and the impact on university revenue associated with the change in total funding. The gold highlighted row in the table provides the starting point for the subsequent analysis of the net financial impacts for universities and government of the various *Job-ready Graduates* policies.

The gross impact of the Government's policy on the revenue of all higher education providers is to reduce it by nearly \$700 million. Students would pay over \$400 million extra for their courses of study. The Government would make a saving of over \$1.1 billion in CGS subsidies, but this would be reduced by around \$80 million in extra costs for additional student loan amounts (20% of \$416 million). This leaves the Government with a gross saving of over \$1 billion.

<sup>9</sup> This is the 'Total CGS' figure from Table C3, Appendix C.

**Chart 7: Student load funding scenarios, excluding grandfathering, additional places, NPILF and transitional funding, assuming same student load as in 2018 (\$m)**



**Table 13: 2018 Student load funding scenarios - student contributions increases, government subsidy savings & total student place funding reductions (i.e. university revenue impact).**

	Student contribution amounts (\$m)	Government CGS subsidies (\$m)	Total funding for student places (\$m)	Subsidised places (no.)
A. Current rates & no funding cap	5,501	7,467	12,968	624,704
B. Current rates with current funding cap arrangement	5,501	7,202	12,702	601,904
C. Proposed new rates with funding cap	5,916	6,094	12,010	601,904
Change from A to B	0	-266	-266	-22,800
Change from B to C	416	-1,108	-692	0
Change from A to C	416	-1,373	-958	-22,800



The Minister in his press club speech was keen to stress:

*“And our Government will continue to provide record funding for higher education, including through the HELP scheme, and that funding will increase over time.*

*We are putting more funding into the system in a way that encourages people to study in areas of expected employment growth.”*

This statement, if it is to be true, will fundamentally depend on how many additional student places the Minister is prepared to subsidise in future years.

- The money provided for the National Priorities and Industry Liaison Fund is only \$222 million a year - not enough to offset gross savings of over a billion dollars a year.
- Similarly, the transition fund seems insufficient to outweigh the gross saving from the funding cluster changes and it is only in operation for the first three years. The funding is to ensure that during this period no university obtains less revenue than it would with the same student load under the old funding arrangements. Changes being made to equity funding will be taken into account in the process. The Government has estimated it will require \$705 million over the three years for this purpose.

## 9. Student places and the mysterious growth funding formula

Many minor technical aspects of the package are unclear, but the increase in student places, one of the most significant claimed benefits of the package, is particularly unclear. Given the significance of this aspect of the package, it is difficult for anyone to assess the implications of the package.

The policy paper and supporting *Frequently Asked Questions* (FAQ) documents are replete with references to increased student places. Table 14 summarises the various ways in which it is proposed to increase them. The combined impact is described as follows in the policy paper.

*These reforms will provide the funding needed to support an additional 39,000 university places by 2023 and almost 100,000 places by 2030.<sup>10</sup>*

The legislative amendments currently before Parliament do not ensure that funding for any of these places is provided to universities or other higher education providers and they do not ensure that the proposed funding cap for student places will be indexed. The indexation of the funding cap is the other significant claimed benefit of the package.

**Table 14: Summary of the 5 proposals for increasing student places in *Job-ready Graduates***

<p><b>A. Focussing growth in outer metro and regional areas</b> Additional funding from 2021:</p> <ul style="list-style-type: none"> <li>➤ 3.5% allocated to rural, regional and remote campuses</li> <li>➤ 2.5% for campuses in high-growth metropolitan areas</li> <li>➤ 1% for campuses in low-growth metropolitan areas</li> </ul>	<p><b>D. Extra targeted funding in national priority areas and courses to boost skills in the workforce:</b></p> <ul style="list-style-type: none"> <li>➤ Initially providing 300 commencing places in 2021, rising to 900 commencing places in 2024 and 2000 commencing places per year by 2030</li> <li>➤ The phasing of Budget initiatives table indicates a second round of commencing priority places are to be allocated from 2024</li> </ul>
<p><b>B. Introduce demand driven funding for regional indigenous students</b></p> <p><b>C. 5 commencing medical places for CSU</b></p>	<p><b>E. 485 places for the University of Notre Dame Australia</b></p>

<sup>10</sup> Australian Government (2020a), p11.

Four of the 5 proposals in Table 14 will provide only a modest number of places and would return little of the Government’s gross saving from the funding cluster changes to the sector. An estimate of the number of these places, based on statements in the explanatory materials, is in Table 15.

**Table 15: Estimated extra student places from small targeted initiatives**

	2021	2022	2023	2024
National priority places	300	525	694	820
➤ 300 commencing places in 2021		350 <sup>2</sup>	613	809
➤ increasing to 900, in 2024 <sup>1</sup>			400 <sup>2</sup>	700
				900
University of Notre Dame Aust.	485	485	485	485
5 commencing medical places for Charles Sturt University	5	10	15	20
Regional indigenous students to benefit from demand driven funding <sup>3</sup>	160	673 <sup>2</sup>	1187 <sup>2</sup>	1,700
<b>Total extra places each year</b>	<b>950</b>	<b>1,893</b>	<b>2,930</b>	<b>4,038</b>

1. Commencing places are assumed to increase in subsequent years by the standard ‘pipeline’ allowing students to complete their studies.
2. Estimates made by the author to accord with statements in Job-ready Graduates information materials.
3. Job-ready Graduates refers to number of indigenous students benefitting, not funded places. The table assumes in this instance that they are the same.

Any substantial growth in the number of student places can only come from the proposed formula driven growth of funding (item A in Table 14 above). There are a range of statements about how this is to work in the Job-ready Graduates explanatory materials. These statements include:

*“Note: this funding will be applied on a “commencing” basis – that is, it is calculated to allow for a 3.5 per cent increase in commencing student load at regional campuses. By 2024 total funding for bachelor places at regional campuses will increase by 3.5 per cent per year.”<sup>11</sup>*

*While universities will be able to use CGS funding within the envelope for sub-bachelor, bachelor, or postgraduate courses, a “notional bachelor funding”, based on current non-designated MBGAs (subject to the effects of the cluster redesign), will be maintained for the purposes of calculating additional places growth funding.<sup>12</sup>*

Increasing funding of student places ‘on a commencing basis’ would normally be taken to mean increasing funding in the manner required to support the number of student places associated with an expansion of commencing student places. Under long standing practice, introducing one extra commencing place into the system results in a standard pattern of increase in the number of funded places. This provides for the commencing student to continue their studies in subsequent years and for one more student to commence in each of those years. It broadly takes into account factors such as course length and student attrition. Under the standard pipeline the increase stops after 4 years and remains at the new higher plateau.

<sup>11</sup> Australian Government (2020b), p1.

<sup>12</sup> Australian Government (2020b), p3.

Table 16 shows how this pattern of increase would normally work for a single commencing student place. It also shows in percentage terms how the increase in places is phased in.

**Table 16: Students places pipeline for one commencing place and phase in percentages**

	Year 1	Year 2	Year 3	Year 4	All subsequent years
One commencing student place	1	1.75	2.3	2.7	2.7
Phase in of one commencing student place expressed as percentage year 4	37%	64%	85%	100%	100%

Government publications and Ministerial press releases might announce the increase in student places in Table 16 as the government funding one commencing place or the government funding 2.7 student places. During the 9 years I worked in the education department, it would most likely be announced as the government funding an additional 7.5 student places, a figure arrived at by adding across years. Such practices often make it difficult to work out what is being proposed.

The most accurate statement of how growth funding for additional student places is to be calculated should be in the *Technical Note* issued by DESE. The purpose of this note is to help universities understand how much funding they will receive next year (2021) and to help them plan their student admissions. The technical note stepped out how growth funding could be calculated at Step 5. The detail included:

- “a. Additional funding is calculated for each year by adding a growth rate of 3.5 per cent for regional, 2.5 per cent for high-growth metropolitan, and 1 per cent for low-growth metropolitan areas.*
- i. The growth rate and funding for each of these areas will be phased in, in line with the application of growth in commencing student load each year, until being fully realised in 2024.*
  - ii. For example, for regionally based student load, the growth rates will be applied as 1.3 per cent for 2021, 2.3 per cent for 2022, 3 per cent for 2023, and 3.5 per cent in 2024 and subsequent years.”<sup>13</sup>*

Depending on campus location, the relevant share of bachelor degree level student load is to be increased by 3.5 per cent, 2 per cent and 1 per cent, producing a sector average of around 2 per cent. I interpreted the above statement as meaning that the number of growth places added to the sector would be around 2 per cent by 2024. This resulted in the student place estimates outlined in Table 17.

**Table 17: Estimated places<sup>1</sup> to fully realising 2 per cent growth in bachelor degree places in 2024.**

	2021	2022	2023	2024	All subsequent years
General growth places	4,272	7,476	9,879	11,681	11,681

1. *Introduced / phased in on a commencing basis.*

<sup>13</sup> Australian Government (2020d), p3. Underlined words are emphasis added by the author of this paper.

As a result of that analysis, I concluded that the formula driven growth of funding would result in only around 12,000 places in 2024 and subsequent years. Combined with the new places identified in Table 15 above, the increase in student places would be insufficient to reinstate the CGS subsidies for places which have lost them due to the funding cap. The billion-dollar saving from funding cluster change would not be reinvested in new student places. The conclusions of this analysis were published in an article in *The Conversation* on 10 July 2020<sup>14</sup>.

DESE has advised that my estimates are not correct, and that the formula driven growth in funding for new places is cumulative and continues to 2030. I have been advised that the '39,000 student places by 2023' are not spread across four years but are in 2023. I have sought detailed clarification of how the formula will work but have not received a response.

The detailed information in *Job-ready Graduates* on the student places to be created does not appear to be consistent with the overall number of additional student places in 2023 being 39,000. Using the DESE advice that I have received, the closest estimate I can derive has 23,000 places in 2023. Combined with the non-formula driven student places in Table 15, this is only 26,000 additional places in 2023, not 39,000.

The IRU has published a chart from the 'Briefing for Vice-Chancellors and University groups', 19 June 2020<sup>15</sup>. It shows the number of student places for regional, Go8, outer metro and non-Go8 universities and the number of priority places being promised over the next decade. It appears to have only approximately 28,500 places in 2023. This is also well short of the 39,000 additional places being promised by the Minister.

The source of the 39,000 places in 2023 is a mystery. There may be an explanation. These additional places may be quite different in character from the current average student place. For example, they could be a student place for a new sort of 'micro-credential', requiring a much lower level of funding. Given the importance of the issue for the Government's higher education policy, there should be more transparency about the additional places promise, consistent with the policy's objective of greater transparency.

In this paper I have not attempted to replicate the formula for growth in funding of student places because there is insufficient information to do so. I have assumed that the number of new student places to be funded each year from 2021 to 2030 is as outlined in Chart 8. This pattern of increase has been derived by:

- assuming that an additional 39,000 places will be subsidised in 2024 and using the percentages from Table 16 to 'phase them in on a commencing basis'; and
- assuming that growth rates after 2024 are constant and cumulative. A growth rate of just under 1.67 per cent produces 100,006 places by 2030, slightly higher than in the Government's statement that almost 100,000 new places will be funded by 2030.

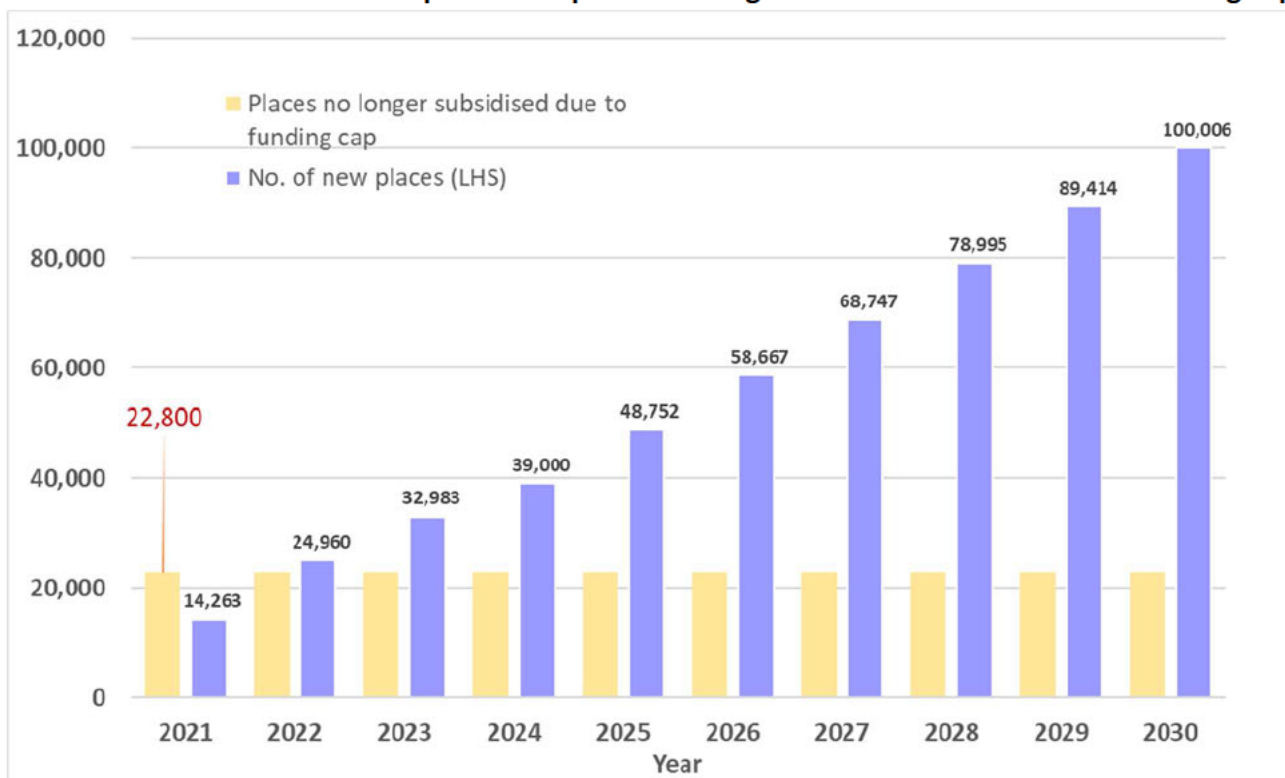
Table 18 provides details of the impact of these places on university revenue and government expenditure over 2021 to 2024.

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<sup>14</sup> Warburton, M. (2020).

<sup>15</sup> Innovative Research Universities, (2020). This presentation is listed in the DESE FOI Disclosure Log as having been released under the FOI Act. The FOI Act requires agencies and ministers to publish information which has been released under the access provisions of the FOI Act, subject to certain exemptions. This is the disclosure log requirement. Despite this, the document is not available for download and must be requested. I requested it on 26 August 2020 but have not yet received a copy.

**Chart 8: Assumed new student places and places no longer subsidised due to current funding cap**



**Table 18: Funding for assumed new student places, university revenue and cost to government**

	2021	2022	2023	2024
<b>Growth places</b>	14,263	24,960	32,983	39,000
<b>Student contribution amount (SCA)</b>	\$137m	\$240m	\$317m	\$375m
<b>CGS subsidy</b>	\$137m	\$240m	\$317m	\$375m
<b>University revenue</b>	\$274m	\$480m	\$634m	\$750m
<b>Total govt cost per extra place (CGS plus 20% of SCA)</b>	\$165m	\$288m	\$381m	\$450m

## 10. Net impacts on university revenue and government expenditure

Assuming that the number of new student places to be subsidised is as outlined in Chart 8 above, it is possible to estimate the net impacts on university revenue and government expenditure.

By the end of Section 8 above, we had concluded that the gross government saving associated with the proposed funding cluster changes for the equivalent of 2018 student load would be just over \$1 billion and the gross reduction in university revenue would be nearly \$700 million. Net impacts are now produced by adjusting gross impacts in three steps:

1. The university revenue and government costs for the new places in Chart 8 are added to the relevant gross estimates to produce an estimate for each year over the decade to 2030.
2. The annual \$222 million cost of the National Priority and Industry Liaison Fund (NPILF) is added to these estimates; and
3. Adjustments are made to account for the impact of the transitional arrangements during the first three years (2021 to 2023).

Further details on each of these adjustments are in Appendix D, including the model results for university revenue and government expenditure impacts for the 2021 to 2024 calendar years.

The transitional arrangements are complicated:

- Existing students whose student contribution is to increase are grandfathered. This means they continue to pay the current student contribution and the current CGS subsidy **may** be paid for that student. The CGS subsidy for a grandfathered student can only be paid if a university delivers student places to a value less than its funding cap.
- University funding caps are to be adjusted to allow for CGS subsidies for grandfathered students to be paid during the first three years. The specific arrangements are embedded in the process for the downward adjustment of funding caps in line with the funding cluster changes. These arrangements are described in Appendix D.
- A final adjustment occurs at the end of the process. A university will receive an extra grant if its non-research revenue for students in the relevant year is less under the proposed arrangements than under current arrangements. This grant from the Transition Fund is to prevent any revenue reduction during the first three years. It is also to take account of the changed distribution of HEPPP funding, but for the purposes of this paper this minor adjustment has been omitted.

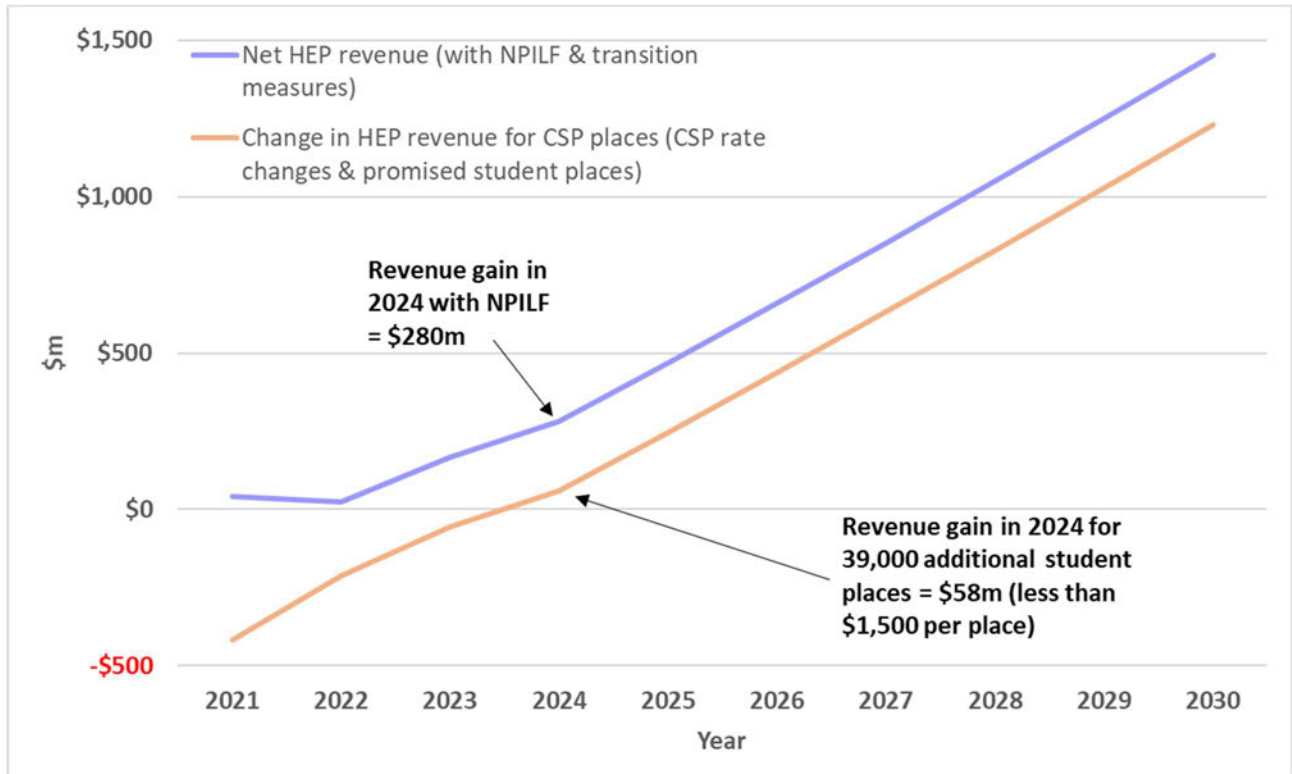
Charts 9 and 10 show the net impact on university revenue and government expenditure based on the assumption that the Government increases funding for student places in a manner consistent with Chart 8 above.

Chart 9 shows the impact of *Job-ready Graduates* on the future funding of student places (yellow line) and the net impact on university revenue after NPILF and transitional measures are taken into account (purple line). It is yet to be determined what universities will be required to do to earn their NPILF grant. Universities will have to teach an additional 39,000 students to obtain the \$58 million increase in revenue being promised by the Government – less than \$1,500 for each additional student place.

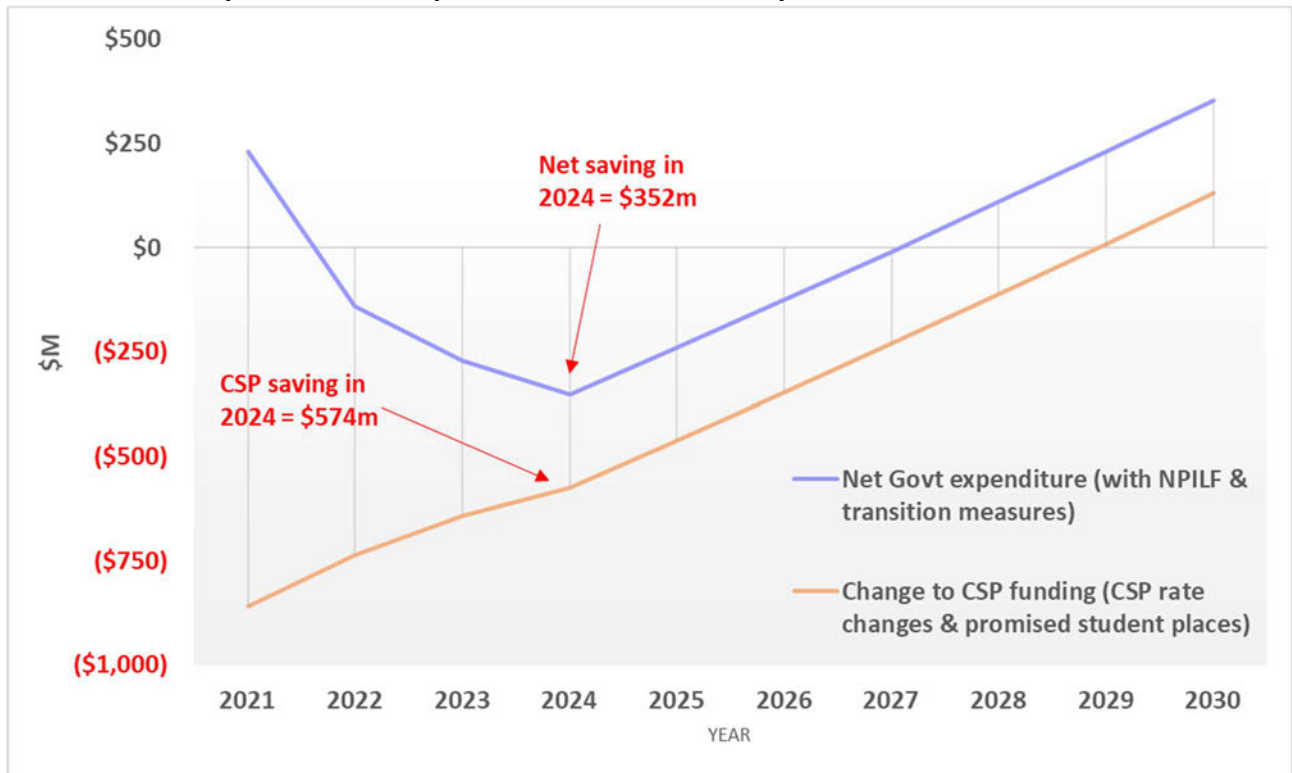
Universities only get paid for the student places they deliver. If 6,000 places are not filled because, for example, they are not allocated, they are allocated to regions where they cannot be filled, or they are otherwise poorly allocated, overall revenue for teaching may well decline.

Chart 10 shows the net impact of *Job-ready Graduates* on government expenditure (purple line) and the impact on the future government expense associated with Commonwealth supported places (yellow line). The expenses associated with student loan schemes have been included on the assumption that these do not change because of either the increases in student contributions or the changes to Australia's economic circumstances.

**Chart 9: Net impact on university revenue - assumed new places, NPILF & transitional assistance**



**Chart 10: Net impact on Govt expenditure - assumed new places, NPILF & transitional assistance**



The Government saving associated with the changes to CSP rates (CGS subsidies and student contributions) would enable it to fund 39,000 extra places in 2024 at a saving of \$574 million. It could continue to grow student places, consistent with its promise to deliver around 100,000 places in 2030, and incur no additional cost until the last year. If the NPILF is retained for the entire decade (and such programs are rarely retained for that long), the Government would make net savings up to and including the 2027 year.

Charts 9 and 10 highlight how the overall impacts on university revenue and government expenditure will depend heavily on whether the Government chooses to provide the extra funding for new places that it appears to be promising over the next ten years. They depend on the Government continuing to pay the \$222 million allocated to the NPILF. Both sources of funding depend on purely discretionary decisions of the Minister. It does not require Parliamentary approval to cease providing this funding.

While university revenue is projected to increase, this revenue will only be forthcoming if the Government's projections for the number of student places is accurate. It is assuming that universities will be able to teach more students with significantly reduced average revenue per student place. Per place revenue is being lowered to around 94 per cent of the value it had prior to the 2018 introduction of funding caps - a reduction greater than proposed in the Government's 2017 Budget proposals which were rejected by the Parliament.

The government share of funding for each student place is much smaller and delivers it a much greater saving than was proposed in the 2017 Budget. *Job-ready Graduates* would reduce the government share to less than 52 per cent. The 2017 Budget proposed lowering it to 54 per cent.

Most of the promised benefits of *Job-ready Graduates*, the increased student places and university revenue required to support them, are beyond the Budget forward estimates period. Governments have a poor record of delivering any promise that is more than four years into the future. It is beyond the next election when there will be new commitments that must be delivered. Even in the most stable of times, the economic outlook four years from now would be far from certain.



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Appendix A**Excerpt from *Job-ready Graduates* ‘pitch’ circulated prior to  
Minister’s Press Club speech on 19 June 2020****Proposed changes in Commonwealth and student contributions**

Field	EFTSL (2018)	Current cluster	Current CGS rate (2021)	Current band	Current band rate (2021)	Proposed CGS rate	Proposed band rate
Food and hospitality	34	1	\$2,237	3	\$11,355	\$1,100	\$14,500
Management and commerce	67,339	1	\$2,237	3	\$11,355	\$1,100	\$14,500
Mixed fields	2,498	1	\$2,237	3	\$11,355	\$1,100	\$14,500
Law and Economics	44,590	1	\$2,237	3	\$11,355	\$1,100	\$14,500
Humanities	17,967	2	\$6,226	1	\$6,804	\$1,100	\$14,500
English	7,584	2	\$6,226	1	\$6,804	\$13,500	\$3,700
Architecture and building	14,376	3	\$11,015	2	\$9,698	\$13,500	\$7,400
IT	23,397	3	\$11,015	2	\$9,698	\$13,500	\$7,400
Mathematics	22,694	3	\$11,015	2	\$9,698	\$13,500	\$3,700
Health	20,413	3	\$11,015	2	\$9,698	\$13,500	\$7,400
Society and Culture	79,329	3	\$11,015	1	\$6,804	\$1,100	\$14,500
Education	59,987	4	\$11,462	1	\$6,804	\$13,500	\$3,700
Clinical Psychology	962	5	\$13,547	1	\$6,804	\$13,500	\$3,700
Communications	25,715	5	\$13,547	1	\$6,804	\$1,100	\$14,500
Languages	7,114	5	\$13,547	1	\$6,804	\$16,500	\$3,700
Creative arts	24,132	5	\$13,547	1	\$6,804	\$13,500	\$11,300
Allied health	26,789	5	\$13,547	2	\$9,698	\$13,500	\$7,400
Nursing	45,878	6	\$15,125	1	\$6,804	\$16,500	\$3,700
Engineering	36,159	7	\$19,260	2	\$9,698	\$16,500	\$7,400
Science	63,127	7	\$19,260	2	\$9,698	\$16,500	\$7,400
Agriculture	2,921	8	\$24,446	2	\$9,698	\$27,000	\$3,700
Dental	2,345	8	\$24,446	3	\$11,355	\$27,000	\$11,300
Environmental studies	4,615	8	\$24,446	2	\$9,698	\$16,500	\$7,400
Medical science	4,869	8	\$24,446	3	\$11,355	\$16,500	\$7,400
Medicine	17,106	8	\$24,446	3	\$11,355	\$27,000	\$11,300
Vet science	2,763	8	\$24,446	3	\$11,355	\$27,000	\$11,300

Code for new funding clusters (FC) and 'incentives' for employment in a post-COVID world	New FC1 discouraged	New FC3 incentivised
		New FC3 standard
	New FC2 incentivised	New FC4 incentivised
	New FC2 standard	New FC4 standard

Old 2018 Funding clusters	Unit description (see footnotes for exceptions)	Field of education code	<i>Old funding arrangement</i>			<i>New funding arrangement</i>		
			Maximum student contribution amounts	Government contribution amounts	Total funding	Maximum student contribution amounts	Government contribution amounts	Total funding
<b>Funding Cluster 1</b>	Law	0909						
	Accounting	0801						
	Business and Management	0803						
	Sales and Marketing	0805						
	Tourism	0807						
	Office Studies	0809						
	Banking, Finance and Related Fields	0811	\$11,355	\$2,237	\$13,602	\$14,500	\$1,100	\$15,600.00
	Other Management and Commerce	0899						
	Economics and Econometrics	0919						
	Food and Hospitality	1101						
	Personal Services	1103						
	General Education Programmes	1201						
Other Mixed Field Programmes	1299							

<b>Funding Cluster 2</b>	History	090305						
	Archaeology	090307						
	Indigenous Studies	090311	\$6,804	\$6,226	\$13,030	\$14,500	\$1,100	\$15,600
	Justice and Law Enforcement	0911						
	Philosophy and Religious Studies	0917						
	Language and Literature	091500						
	English Language	091501						
	Linguistics	091521	\$6,804	\$6,226	\$13,030	\$3,700	\$13,500	\$17,200
	Literature	091523						
	Language and Literature not elsewhere classified	091599						
<b>Funding Cluster 3</b>	Mathematical Sciences	0101	\$9,698	\$11,015	\$20,713	\$3,700	\$13,500	\$17,200
	Computer Science	0201						
	Information Systems	0203						
	Other Information Technology	0299						
	Architecture and Urban Environment	0401						
	Building	0403						
	Public Health	061300						
	Occupational Health and Safety	061301						
	Environmental Health	061303						
	Health Promotion	061307						
	Community Health	061309	\$9,698	\$11,015	\$20,713	\$7,700	\$13,500	\$21,200
	Epidemiology	061311						
	Public Health not elsewhere classified	061399						
	Rehabilitation Therapies	061700						
	Massage Therapy	061711						
	Rehabilitation Therapies not elsewhere classified	061799						
	Complementary Therapies	0619						
	Other Health	069900						
	First Aid	069907						
	Health not elsewhere classified	069999						

<b>Funding Cluster 3</b>	Human Movement	069903	\$6,804	\$11,015	\$17,819	\$7,700	\$13,500	\$21,200
	Political Science and Policy Studies	0901						
	Studies in Human Society	090300						
	Sociology	090301						
	Anthropology	090303						
	Human Geography	090309						
	Gender Specific Studies	090313						
	Studies in Human Society not elsewhere classified	090399						
	Human Welfare Studies and Services	090500						
	Social Work	090501						
	Children's Services	090503						
	Youth Work	090505	\$6,804	\$11,015	\$17,819	\$14,500	\$1,100	\$15,600
	Care for the Aged	090507						
	Care for the Disabled	090509						
	Residential Client Care	090511						
	Counselling	090513						
	Welfare Studies	090515						
	Human Welfare Studies and Services not elsewhere classified	090599						
	Behavioural Science <sup>1</sup>	0907						
	Librarianship, Information Management and Curatorial Studies	0913						
Sport and Recreation	0921							
Other Society and Culture	0999							
<b>Funding Cluster 4</b>	Teacher Education	0701						
	Curriculum and Education Studies	0703	\$6,804	\$11,462	\$18,266	\$3,700	\$13,500	\$17,200
	Other Education	0799						

Funding Cluster 5	Clinical Psychology <sup>(2)</sup>	090701	\$6,804	\$13,547	\$20,351	\$3,700	\$13,500	\$17,200.00
	Northern European Languages	091503						
	Southern European Languages	091505						
	Eastern European Languages	091507						
	Southwest Asian and North African Languages	091509						
	Southern Asian Languages	091511	\$6,804	\$13,547	\$20,351	\$3,700	\$16,500	\$20,200
	Southeast Asian Languages	091513						
	Eastern Asian Languages	091515						
	Australian Indigenous Languages	091517						
	Translating and Interpreting	091519						
	Performing Arts	1001						
	Visual Arts and Crafts	1003	\$6,804	\$13,547	\$20,351	\$7,700	\$13,500	\$21,200
	Graphic and Design Studies	1005						
	Communication and Media Studies	1007	\$6,804	\$13,547	\$20,351	\$14,500	\$1,100	\$15,600
	Other Creative Arts	1099	\$6,804	\$13,547	\$20,351	\$7,700	\$13,500	\$21,200
	Pharmacy	0605						
	Optical Science	0609						
	Indigenous Health	061305						
	Radiography	0615						
	Physiotherapy	061701						
	Occupational Therapy	061703						
	Chiropractic and Osteopathy	061705	\$9,698	\$13,547	\$23,245	\$7,700	\$13,500	\$21,200
Speech Pathology	061707							
Audiology	061709							
Podiatry	061713							
Nutrition and Dietetics	069901							
Paramedical Studies	069905							

<b>Funding Cluster 6</b>	Nursing	0603	\$6,804	\$15,125	\$21,929	\$3,700	\$16,500	\$20,200
<b>Funding Cluster 7</b>	Physics and Astronomy	0103						
	Chemical Sciences	0105						
	Earth Sciences	0107						
	Biological Sciences	0109						
	Other Natural and Physical Sciences	019900						
	Forensic Science	019903						
	Food Science and Biotechnology	019905						
	Pharmacology	019907						
	Laboratory Technology	019909						
	Natural and Physical Sciences not elsewhere classified	019999						
	Manufacturing Engineering and Technology	0301	\$9,698	\$19,260	\$28,958	\$7,700	\$16,500	\$24,200
	Process and Resources Engineering	0303						
	Automotive Engineering and Technology	0305						
	Mechanical and Industrial Engineering and Technology	0307						
	Civil Engineering	0309						
	Geomatic Engineering	0311						
	Electrical, Electronic Engineering and Technology	0313						
	Aerospace Engineering and Technology	0315						
	Maritime Engineering and Technology	0317						
Other Engineering and Related Technologies	0399							

Funding Cluster 8	Medical Science	019901	\$11,355	\$24,446	\$35,801	\$7,700	\$16,500	\$24,200
	Medical Studies	060100						
	General Medicine	060101						
	Surgery	060103						
	Psychiatry	060105						
	Obstetrics and Gynaecology	060107						
	Paediatrics	060109						
	Anaesthesiology	060111	\$11,355	\$24,446	\$35,801	\$11,300	\$27,000	\$38,300
	Radiology	060115						
	Internal Medicine	060117						
	General Practice	060119						
	Medical Studies not elsewhere classified	060199						
	Dental Studies	0607						
	Veterinary Studies	0611						
	Agriculture	0501						
	Horticulture and Viticulture	0503						
Forestry Sciences	0505	\$9,698	\$24,446	\$34,144	\$3,700	\$27,000	\$30,700	
Fisheries Sciences	0507							
Environmental Studies	0509							
Other Agriculture, Environmental and Related Studies	0599	\$9,698	\$24,446	\$34,144	\$7,700	\$16,500	\$24,200	
Pathology	060113	\$9,698	\$24,446	\$34,144	\$11,300	\$27,000	\$38,300	

1. Excluding clinical psychology.

2. Clinical psychology units of study are postgraduate coursework psychology units of study (Field of Education code 090701) that contribute to courses that are accredited for the purposes of professional registration by the Australian Psychological Society (APS) College of Clinical Psychologists, the APS College of Clinical Neuropsychologists, the APS College of Counselling Psychologists, the APS College of Educational & Developmental Psychologists, the APS College of Forensic Psychologists, the APS College of Health Psychologists, the APS College of Sport Psychologists and the APS College of Community Psychologists.



Appendix C

**Table C1:**

**Funding for 2018 total student load, current rates, no funding cap**

Cluster	Places	SCA	CGS	Total SCA	Total CGS	Total funding
<b>Cluster 1</b>	114,462	\$11,355	\$2,237	\$1,299,716,010	\$256,051,494	\$1,555,767,504
<b>Cluster 2</b>	25,551	\$6,804	\$6,226	\$173,849,004	\$159,080,526	\$332,929,530
<b>Cluster 3a</b>	76,509	\$9,698	\$11,015	\$741,984,282	\$842,746,635	\$1,584,730,917
<b>Cluster 3b</b>	83,700	\$6,804	\$11,015	\$569,494,800	\$921,955,500	\$1,491,450,300
<b>Cluster 4</b>	59,987	\$6,804	\$11,462	\$408,151,548	\$687,570,994	\$1,095,722,542
<b>Cluster 5a</b>	57,923	\$6,804	\$13,547	\$394,108,092	\$784,682,881	\$1,178,790,973
<b>Cluster 5b</b>	26,789	\$9,698	\$13,547	\$259,799,722	\$362,910,583	\$622,710,305
<b>Cluster 6</b>	45,878	\$6,804	\$15,125	\$312,153,912	\$693,904,750	\$1,006,058,662
<b>Cluster 7</b>	99,286	\$9,698	\$19,260	\$962,875,628	\$1,912,248,360	\$2,875,123,988
<b>Cluster 8a</b>	25,871	\$11,355	\$24,446	\$293,765,205	\$632,442,466	\$926,207,671
<b>Cluster 8b</b>	8,748	\$9,698	\$24,446	\$84,838,104	\$213,853,608	\$298,691,712
<b>TOTAL</b>	<b>624,704</b>			<b>\$5,500,736,307</b>	<b>\$7,467,447,797</b>	<b>\$12,968,184,104</b>

**Table C2:**

**Funding for 2018 total student load, proposed rates, no funding cap**

Cluster	Places	SCA	CGS	Total SCA	Total CGS	Total funding
Cluster 1	237,473	\$14,500	\$1,100	\$3,443,358,500	\$261,220,300	\$3,704,578,800
Cluster 2a	91,227	\$3,700	\$13,500	\$337,539,900	\$1,231,564,500	\$1,569,104,400
Cluster 2b	109,107	\$7,700	\$13,500	\$840,123,900	\$1,472,944,500	\$2,313,068,400
Cluster 3a	52,992	\$3,700	\$16,500	\$196,070,400	\$874,368,000	\$1,070,438,400
Cluster 3b	108,770	\$7,700	\$16,500	\$837,529,000	\$1,794,705,000	\$2,632,234,000
Cluster 4a	2,921	\$3,700	\$27,000	\$10,807,700	\$78,867,000	\$89,674,700
Cluster 4b	22,214	\$11,300	\$27,000	\$251,018,200	\$599,778,000	\$850,796,200
	<b>624,704</b>			<b>\$5,916,447,600</b>	<b>\$6,313,447,300</b>	<b>\$12,229,894,900</b>

**Table C3:**

**Funding for 2018 Table A bachelor student load, excl. medicine, current rates, no funding cap**

Cluster	Places	SCA	CGS	Total SCA	Total CGS	Total funding
Cluster 1	108,330	\$11,355	\$2,237	\$1,230,087,150	\$242,334,210	\$1,472,421,360
Cluster 2	22,357	\$6,804	\$6,226	\$152,117,028	\$139,194,682	\$291,311,710
Cluster 3a	67,463	\$9,698	\$11,015	\$654,256,174	\$743,104,945	\$1,397,361,119
Cluster 3b	76,692	\$6,804	\$11,015	\$521,812,368	\$844,762,380	\$1,366,574,748
Cluster 4	42,844	\$6,804	\$11,462	\$291,510,576	\$491,077,928	\$782,588,504
Cluster 5a	51,320	\$6,804	\$13,547	\$349,181,280	\$695,232,040	\$1,044,413,320
Cluster 5b	23,963	\$9,698	\$13,547	\$232,393,174	\$324,626,761	\$557,019,935
Cluster 6	40,730	\$6,804	\$15,125	\$277,126,920	\$616,041,250	\$893,168,170
Cluster 7	92,793	\$9,698	\$19,260	\$899,906,514	\$1,787,193,180	\$2,687,099,694
Cluster 8a	11,869	\$11,355	\$24,446	\$134,772,495	\$290,149,574	\$424,922,069
Cluster 8b	8,267	\$9,698	\$24,446	\$80,173,366	\$202,095,082	\$282,268,448
<b>TOTAL</b>	<b>546,628</b>			<b>\$4,823,337,045</b>	<b>\$6,375,812,032</b>	<b>\$11,199,149,077</b>

**Table C4:**

**Funding for 2018 Table A bachelor student load, excl. medicine, proposed rates, no funding cap**

Cluster	Places	SCA	CGS	Total SCA	Total CGS	Total funding
Cluster 1	219,522	\$14,500	\$1,100	\$3,183,063,185	\$241,473,759	\$3,424,536,944
Cluster 2a	70,343	\$3,700	\$13,500	\$260,269,418	\$949,631,659	\$1,209,901,076
Cluster 2b	96,801	\$7,700	\$13,500	\$745,369,886	\$1,306,817,333	\$2,052,187,219
Cluster 3a	47,033	\$3,700	\$16,500	\$174,022,216	\$776,045,016	\$950,067,232
Cluster 3b	101,078	\$7,700	\$16,500	\$778,300,805	\$1,667,787,439	\$2,446,088,244
Cluster 4a	2,998	\$3,700	\$27,000	\$11,091,259	\$80,936,212	\$92,027,471
Cluster 4b	8,853	\$11,300	\$27,000	\$100,042,696	\$239,040,069	\$339,082,765
	<b>546,628</b>			<b>\$5,252,159,464</b>	<b>\$5,261,731,487</b>	<b>\$10,513,890,951</b>

## **Details on funding cap adjustments and adjustments to produce net impacts on university revenue and government expenditure**

### Funding cap adjustments for grandfathered students

The current funding cap (MBGA) for bachelor degree places will be adjusted in line with the change in the amount of CGS subsidy for each discipline. For disciplines in which existing students are grandfathered, those students are assumed to leave the system and be replaced with non-grandfathered students in accordance with the standard pipeline percentages described in Table 16 above. As an example, in the first year (2021), 37 percent of student places in humanities will be assumed to be commencing students and the funding cap will allow a CGS subsidy of \$1,100 for each of those places (the proposed new rate). The funding cap will allow \$6,226 for each of the remaining 63 per cent of humanities places (the current rate).

In practice, there are some real-world complexities associated with the adjustment of funding caps. These include the need for assumptions about the discipline mix of subsidised and unsubsidised places and technicalities associated with the move from current population-related increases of funding caps to CPI indexation of funding caps. These complexities have always been fertile ground for governments seeking to reap a little extra in expenditure savings.

### Adjustments to produce the net impacts on university revenue

Table D1 provides the 2021-24 estimates used in the adjustments required to produce the net impact on university revenue of *Job-ready Graduates*. It is worth noting that:

- the grandfathering arrangements only have a small impact on university revenue (see first row of table). The reason for this is that, at the national level for grandfathered disciplines, the decreases in total discipline funding largely offset the increases in total discipline funding. The grandfathering arrangements have a much greater impact on government expenditure.
- The use of aggregated national data will underestimate the need for transitional funding. The reason for this is that the Government is significantly altering how it is distributing revenue between universities. Some universities are gaining revenue at the expense of others. The Government does not get to use increases in specific university's revenue to compensate for decreases in revenue in other universities. This creates a greater need for transition funding than can be calculated using national level data.

**Table 19: Model results for university revenue impacts using national level data, 2021 to 2024**

	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Proposed revenue for 2018 student load with grandfathering	\$11,970m	\$11,987m	\$12,001m	\$12,010m
Revenue for new places and NPILF	\$496m	\$702m	\$856m	\$972m
Proposed revenue before transition funding	\$12,466m	\$12,689m	\$12,857m	\$12,983m
Current revenue for 2018 student load	\$12,702m	\$12,702m	\$12,702m	\$12,702m
Reduction in revenue - To be offset by transition funding	<b>-\$236m</b>	<b>-\$13m</b>	\$0	\$0

Adjustments to produce the net impacts on government expenditure

Table D2 provides 2021-24 estimates used in the adjustments required to produce net impacts on government expenditure of *Job-ready Graduates*. These are the extra CGS subsidies associated with the grandfathering of students. These are partially offset by reduced student loan costs as the student contributions do not increase for grandfathered students. The other adjustments required to calculate the net impact on government expenditure are the costs of the assumed additional student places that have already been provided in Table 18 above and the expenditure required for NPILF which is \$222 million a year.

**Table 20 Additional government expenses associated with grandfathered students, 2021 to 2023**

	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
CGS subsidies	\$800m	\$457m	\$190m	\$0
Savings from reduced SCAs	-\$168m	-\$96m	-40m	\$0