



**Submission on the *Higher Education Support Amendment (Job-ready Graduates and Supporting Regional and Remote Students) Bill 2020***

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This is a personal submission that should not be taken to represent the views of the Australian National University.

## 1. Overview

The *Higher Education Support Amendment (Job-Ready Graduates and Supporting Regional and Remote Students Bill 2020)* has problems that are too fundamental to be fixed by amendment. The bill should be rejected.

This submission argues that for two key objectives, promoting the number of students graduating in fields with strong employment potential, and assisting regional universities, Job-ready Graduates runs a significant risk of producing worse outcomes than current policies (chapters 2 and 5).

For a third key objective, increasing the number of student places, Job-ready Graduates and status quo policies are likely to produce similar aggregate numbers of student places in the next few years. However, Job-ready Graduates may leave fewer places for commencing students in 2021 (chapter 3).

Three policy errors are behind the fundamental problems of Job-ready Graduates:

- Changing the overall funding rate by discipline to one based on average teaching and scholarship costs, which means that:
  - There is a reduced incentive to supply student places in key disciplines (chapter 2);
  - The regional universities that have unavoidable reasons for high costs are significantly disadvantaged (chapter 5).
- The evidence that student contribution levels have a major effect on student courses choices is weak (chapter 2).
- Changing the student contributions, so that that there are much wider differences between them, means that:
  - The offsetting high Commonwealth contributions to fund lower student contributions mean that universities will supply fewer student places per \$1 million in Commonwealth Grant Scheme funding in key disciplines the government wants to promote (chapter 2);
  - It is less financially attractive for universities to take student contribution only enrolments in key disciplines the government wants to promote (chapter 3);
  - Some students will have to repay debt HELP debt for much longer periods of time (chapter 4).

Less fundamental errors exacerbate the legislation's problems:

- The decision not to grandfather all continuing students on current Commonwealth contribution rates drives up the system's Commonwealth Grant Scheme costs in the early years, reducing the potential for new commencing student places (chapter 3);
- The decision not to grandfather all continuing students on current Commonwealth and student contributions, combined with the requirement to be budget neutral over the forward estimates, is leading to Commonwealth Grant Scheme cuts close to the middle of the 2020s, when student places need to start increasing for the Costello baby boom cohort (chapter 3);
- The decision to pull money out of the Commonwealth Grant scheme for a new special purpose fund reduces resources for new student places (chapter 3);
- The decision to pull money out of the Commonwealth Grant scheme for a new special purpose fund could negatively affect regional universities with higher teaching costs (chapter 5);
- The decision to include unrelated 'student protection' measures in the bill creates further disproportionate negative effects on some students (chapter 4).

## 2. Matching enrolments with jobs

A key goal of the Job-Ready Graduates bill is to get more students graduating from courses with relatively good job prospects. The main mechanism for doing this is cutting maximum student contributions in fields the government sees as national priorities. The Job-ready Graduates policy assumes that universities will alter enrolments in line with student demand.

This chapter argues that demand normally moves in the direction of employment opportunities, without course price incentives. Some prospective students might miss suitable opportunities, but their choices can be influenced at a much lower cost than reduced student contributions.

Universities responded with enrolment changes to student applications trends under the demand driven system of 2012-2017.

However, the Job-ready Graduates package would create two obstacles to universities adapting to demand.

First, the total funding rate – Commonwealth plus student contributions – would decline in key courses. Taking additional students would be less financially attractive than under the current system.

Second, Commonwealth contributions in some target fields would increase. This means that universities can provide fewer places per \$1 million of Commonwealth Grant Scheme funding than under the current system. It will cost universities more of their total CGS funding just to maintain existing numbers.

### *Influences on student demand*

Most students choose courses based on their interests, including intellectual interest in their chosen field and preferences for jobs that engage their interests. An international literature shows that interests tend to be stable aspects of personality that predict course and job choices, as well as persistence and success in education and work.<sup>1</sup>

A cut to student contributions, or any other policy intervention, is unlikely to persuade students to take courses that were of no previous interest. Fewer years spent repaying HELP debt is little compensation for the boredom of uninteresting courses and careers. But people often have multiple interests, or several ways of satisfying the interests they have. A Grattan Institute analysis explored multiple interests through applications data, looking at second and lower-preference

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<sup>1</sup> R Su, "The Three Faces of Interests: An Integrative Review of Interest Research in Vocational, Organizational, and Educational Psychology," *Journal of Vocational Behavior* 116 (2020), J Rounds, and R Su, "The Nature and Power of Interests," *Current Directions in Psychological Science* 23, no. 2 (2014).

courses to see what course applicants were interested in other than their first-preference course. This revealed clusters of interests: cross-preferencing between commerce, humanities and law courses; between engineering, science and agriculture courses; and between science and various health courses.<sup>2</sup>

Within the clusters of interests, perceived job prospects and other financial factors plausibly influence course choices. Especially in courses with close links to occupations, applications and enrolments respond to changes in labour market conditions.<sup>3</sup> If a course has good job prospects, increased earnings provide a strong financial incentive to enrol. The biggest growth in enrolments over the last decade has been in health-related courses, reflecting the long-term growth of health-related occupations as a percentage of all employment.<sup>4</sup>

Australia's history with differential student contributions supports the argument that more fundamental factors than student contribution levels drive application and enrolment trends.

In 2005, education and nursing were held back from a general 25 per cent increase in student contributions. In words echoed by today's policymakers, the justification given was that 'the new national priorities student contribution band will be used to attract students to courses that are a national priority for the Government.'<sup>5</sup> In subsequent years, applications for nursing went up while applications for teaching courses declined.<sup>6</sup> A Deloitte Access Economics report, which examined price effects by looking at application shares by course, concluded that nursing's increased share was not statistically significant.<sup>7</sup>

In 2010, nursing and teaching contributions were increased by 25 per cent, without changes in other disciplines. Unfortunately, major changes to the way applications statistics were recorded in 2010 prevent a direct comparison with preceding years. After 2010, nursing applications continued to grow, in line with long-term structural

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<sup>2</sup> See my blog post: <https://andrewnorton.net.au/2020/06/21/jobs-interests-and-student-course-choices/>

<sup>3</sup> See my blog post: <https://andrewnorton.net.au/2020/06/28/financial-influences-on-job-seeking-university-applicants/>

<sup>4</sup> DESE, *Ucube - Higher Education Statistics* (Department of Education, Skills and Employment, 2020), ABS, *Labour Force, Australia, Detailed, Quarterly, Cat. 6291.0.55.003* (Australian Bureau of Statistics, 2020)

<sup>5</sup> B. Nelson, *Our Universities: Backing Australia's Future* (Canberra: Commonwealth of Australia, 2003), p. 18.

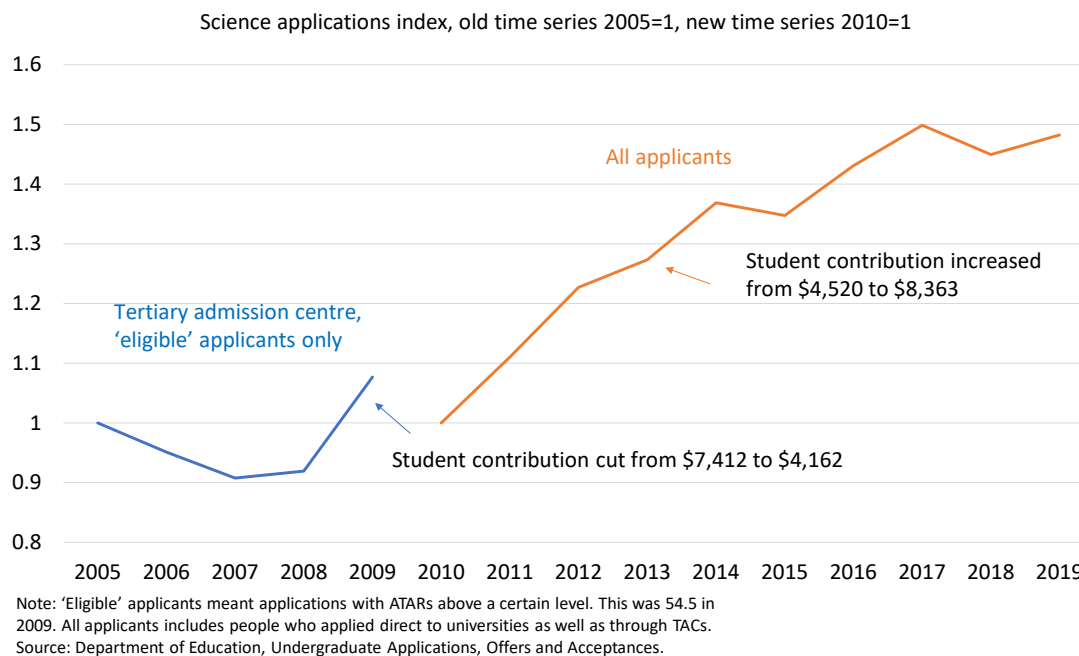
<sup>6</sup> DEEWR, *Undergraduate Applications, Offers and Acceptances 2009* (Department of Education, Employment and Workplace Relations, 2009)

<sup>7</sup> Deloitte Access Economics, *The Impact of Changes to Student Contribution Levels and Repayment Thresholds on the Demand for Higher Education* (Deloitte/Department of Education, Employment and Workplace Relations, 2011), p. 43.

changes in the workforce towards health-related occupations.<sup>8</sup> Teaching applications continued to struggle, with employment prospects and tougher admission requirements weighing on demand.<sup>9</sup>

The main case study in student contribution changes having an apparent effect is the cut to science student contributions in 2009. As Figure 1 shows, demand for science spiked in 2009. But as Figure 1 also shows, demand for science continued increasing after student contributions were put back up again in 2013. In 2009 the science contribution cut was supported by general promotion of STEM courses. Although science courses did not have good employment outcomes, the student market was being told that they did.<sup>10</sup> Students taking science courses as a step towards health courses with high entry requirements also boosted science demand. Science therefore fits with the general pattern of applicants responding to apparent real-world events and trends, albeit also providing a reminder that many claims about future employment are inaccurate. The 2013 increase in student contributions had no impact because it was not well publicised and did not fundamentally change the career calculations applicants were making.

*Figure 1: Science applications before and after changes to student contributions*



<sup>8</sup> Department of Education and Training, *Undergraduate Applications, Offers and Acceptances 2019* (Department of Education and Training, 2019)

<sup>9</sup> See my blog post: <https://andrewnorton.net.au/2020/06/28/financial-influences-on-job-seeking-university-applicants/>

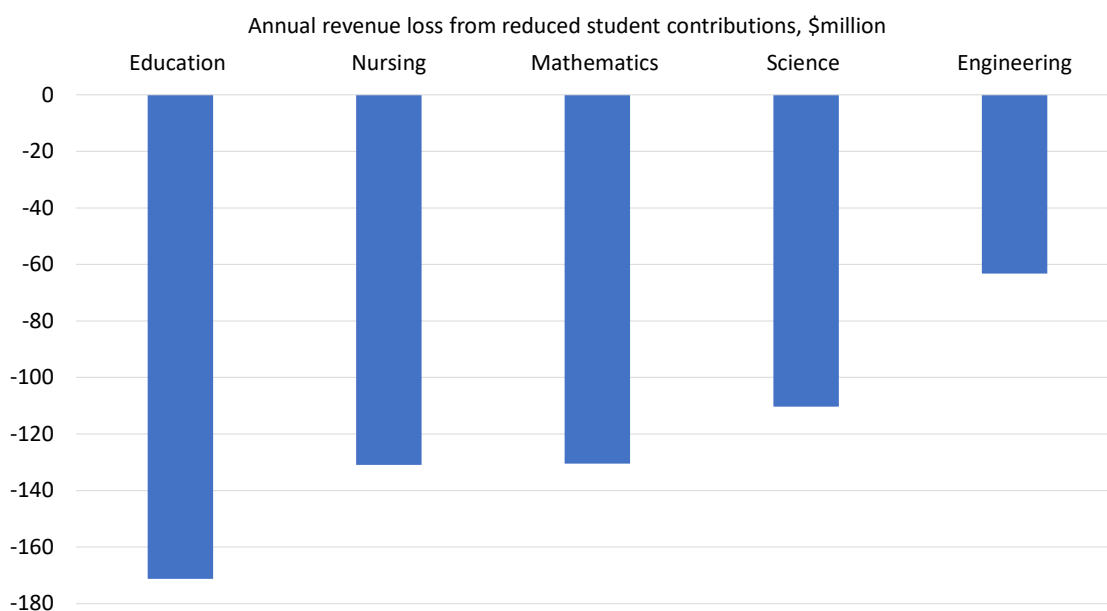
<sup>10</sup> A. Norton, and B. Cakitaki, *Mapping Australian Higher Education 2016* (Grattan Institute, 2016), chapter 10.

The broader literature on student price sensitivity in higher education systems with income-contingent loans supports the conclusion that the decision to enrol is not strongly affected by fee levels.<sup>11</sup> Course costs are too small as a proportion of career earnings to significantly influence educational choices.

*Cheaper ways of influencing course applications*

Even where they help publicise target courses, student contribution reductions are an expensive way of intervening in the student applications market. As Figure 2 shows, in several disciplines targeted by Job-ready Graduates annual revenue losses from reduced student contributions would exceed \$100 million a year.

*Figure 2: Reduced revenue from lower student contributions*



Note: Based on 2018 full-time equivalent enrolments.

Prospective students can be alerted to employment opportunities more cheaply than by cutting student contributions. The government has established a National Skills Commission to better inform the public of labour market trends, and a National Careers Institute to help people make study and job decisions.

<sup>11</sup> R Murphy, Judith Scott-Clayton, and G Wyness, "The End of Free College in England: Implications for Enrolments, Equity, and Quality," *Economics of Education Review* 71 (2019), A. Norton, *Graduate Winners: Assessing the Public and Private Benefits of Higher Education* (Grattan Institute, 2012)

These organisations target people who are yet to make a decision or who are open to changing their mind, rather than delivering windfall gains to people who have already chosen a course.

### *Influences on university supply decisions*

The pattern of enrolments reflects a mix of student choices and university supply decisions. This section looks at how Job-ready Graduates would change university incentives.

#### *Reduced university incentives to meet student demand*

Universities respond to financial incentives more than students. Students can defer student contributions via HELP, while universities must cover the cost of delivering their courses each year. The decline in international students has made that task much more difficult. Increasing the university funding rate – Commonwealth plus student contributions – for ‘job-ready’ courses would have given universities an attractive incentive to meet existing student demand and to market those courses to potential applicants.

Instead of creating these incentives, the government decided instead to base new funding rates on a Deloitte Access Economics analysis of teaching and scholarship costs.<sup>12</sup> The new funding rates are set at or near the average cost of teaching and scholarship, as determined by Deloitte’s analysis.

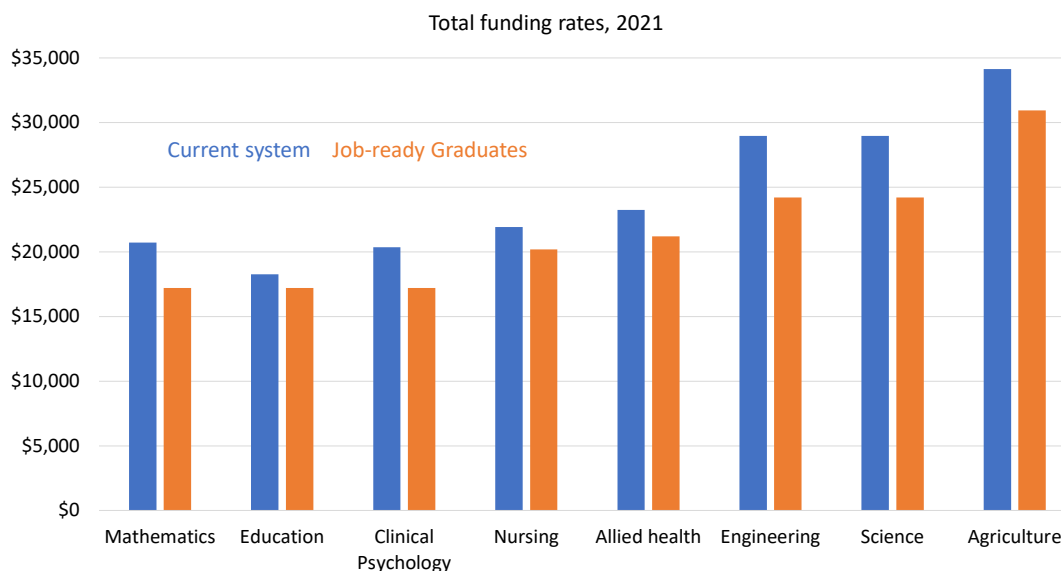
In many fields of likely employment growth universities would, under the Job-ready Graduates bill, earn a lower per student funding rate (Figure 3). These fields include allied health, nursing, clinical psychology, engineering and education. Fields without good employment prospects but which are government ‘national priorities’, such as science and mathematics, would also receive less funding per student place. The financial incentive to supply student places in these fields would be higher if the current system remains in place.

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<sup>12</sup> Deloitte Access Economics, *Transparency in Higher Education Expenditure: November 2019* (Deloitte Access Economics/Department of Education and Training, 2020)



Figure 3: Funding rates under status quo policies and Job-ready Graduates



Note: Annual funding rate for a full-time student.

### *Contradictory student and university incentives*

The university incentives in the Job-Ready Graduates package are likely to be more influential than the student incentives. However, it is worth noting that in many disciplines the two contradict each other – the students are encouraged to increase demand but the university is discouraged from meeting that demand, or vice versa (Table 1).<sup>13</sup>

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<sup>13</sup> See my blog post: <https://andrewnorton.net.au/2020/07/12/funding-incentives-for-students-and-universities-in-the-tehan-reforms-some-are-aligned-others-contradict-each-other/>

*Table 1: Aligned and misaligned demand and supply incentives in the Job-ready Graduates bill*

Aligned – positive incentives to both parties (lower student contribution, higher funding rate)	Aligned – negative incentives to both parties (higher student contribution, lower funding rate)	Misaligned – negative to students, positive to providers (higher student contribution, higher funding rate)	Misaligned – positive to students, negative to providers (lower student contribution, lower funding rate)
English	Social sciences	Law	Allied health
IT	Communications	Business & economics	Nursing
Architecture	Psychology (except clinical & professional pathway)	Humanities	Engineering
Other health		Creative arts	Science
Dentistry†		Professional pathway social work	Agriculture
Medical studies†		Professional pathway psychology	Environmental studies
Veterinary studies†			Medical science
			Mathematics
			Education
			Clinical psychology

† Very small reduction in student contribution.

*Reduced places from increased Commonwealth contributions in priority areas*

Several priority fields have increased Commonwealth contributions under Job-ready Graduates. These fields include English and foreign languages, IT, education, and nursing. The last two especially are worse off overall, but this is due to their low student contribution.

Although increased public funding sounds positive, it creates new problems. In these disciplines each \$1 million in Commonwealth Grant Scheme funding buys fewer places than under the current Commonwealth contribution levels (Table 2). While the drop in places is small in some fields, in one growing field, IT, the number of places per \$1 million would fall from 91 to 75. In education, the number of places per \$1 million would fall from 87 to 75.

In other fields – including the priority fields of engineering, science, allied health and clinical psychology – there would be more student places per \$1 million. This is how enrolments overall may expand (see chapter 3).

But with total CGS funding for each university to decline under the Job-ready Graduates (chapter 3), and student demand likely to exceed supply, universities may be reluctant to divert scarce funding towards fields that yield reduced numbers of student places.

*Table 2: Status quo and Job-ready Graduate places per \$1 million of Commonwealth Grant Scheme funding, fields with increased Commonwealth contributions*

Field	Places per \$1 million of CGS – current Commonwealth contributions in 2021 under status quo polices	Places per \$1 million of CGS – proposed Commonwealth contributions in 2021, under Job-ready Graduates
English	160	75
Foreign languages	74	62
IT	91	75
Education	87	75
Nursing	66	62
Agriculture	41	37

### 3. Growth in the total number of places

The government says that its policies will 'support an additional 39,000 student places by 2023 and 100,000 places by 2030'.<sup>14</sup> These are needed to meet demand triggered by the COVID-19 recession and, from the mid-2020s, the so-called 'Costello baby boom' cohort. These young people will increase school leaver university applications by approximately 20,000 per year.<sup>15</sup>

The government has not explained how these figures were calculated. Is the 39,000 compared to 2018, the last published year of enrolment data, or 2020, or the counter-factual of the current system remaining in place? Is it comparing the student places formally funded by the government, or the higher number of places actually delivered by universities?

If the 39,000 figure is meant as an increase on student places above what the current system would produce then, as subsequent sections explain, it is likely to be an exaggeration.

The 100,000 places by 2030 is too far outside the forward estimates for it to be meaningful. The government has not specified teaching funding levels beyond 2021, and the *Higher Education Support Amendment (Job-Ready Graduates and Supporting Regional and Remote Students Bill 2020* bill does not guarantee funding increases for any future year, although it does limit further cuts from 2025.

#### *Core teaching funding will be reduced*

The government says that it will start allocating growth funding from 2021.<sup>16</sup> However, this is misleading. New allocations of funding are from a new lower base, after cuts to Commonwealth contributions in some fields. The government's documents show that spending on the Commonwealth Grant Scheme (CGS), from which Commonwealth contributions are paid, would drop \$200 million between 2020 and 2021, with \$48 million put back in for growth funding, leaving an overall reduction of approximately \$150 million.<sup>17</sup> This

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<sup>14</sup> DESE, *Job-Ready Graduates: Higher Education Reform Package 2020 (Discussion Paper)* (Department of Education, Skills and Employment, 2020), p. 11.

<sup>15</sup> J. Daley, and others, *Commonwealth Orange Book 2019: Policy Priorities for the Federal Government* (Grattan Institute, 2019), p. 116.

<sup>16</sup> DESE, *Better University Funding Arrangements: Targeting Growth to Needs* (Department of Education, Skills and Employment, 2020)

<sup>17</sup> DESE, *Better University Funding Arrangements: More Transparent and Accountable Funding* (Department of Employment, Skills and Employment, 2020) The National Party compromise on professional pathway social work and psychology courses will, according to government figures, lead to further savings of \$125 million over the forward estimates. The government says that these savings will be reinvested in student places, by some unspecified means. See the *Higher Education Support Amendment (Job-Ready*

money will be returned via the new National Priorities and Industry Linkage Fund (NPLIF), but it will create new costs rather than new student places.

Reductions to the underlying base of CGS funding will increase in future years, as grandfathered students on historical higher Commonwealth contributions graduate, and are replaced by new students on lower Commonwealth contributions. As Table 3 shows, total public funding for higher education will be lower in 2022-23 and 2023-24 than under current budget forecasts. As NPLIF funding comes from savings on the CGS, the CGS funding for 2022-23 and 2023-24 will be cut by more than the figures in the forward estimates figures.

*Table 3: Effects on the forward estimates of the Job-ready Graduates package (\$millions)*

	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>
<b>DESE</b>	203.9	202.2	-116.6	-321.6

Source: *Economic and Fiscal Update, July 2020*

The growth in total funding during the early years of the forward estimates is due to transitional funding, to leave universities in the same overall financial position until 2023 than if Job-ready Graduates had never happened. Transitional funding is mainly needed because, in the fields with reduced student contributions, current and former students will pay the lower amount from 2021. The revenue losses shown in Figure 2 in chapter 2 will be immediate. However, offsetting increases in student contributions from arts, business and law students only apply to new students (student contributions are discussed further in chapter 4).

While the Job-ready Graduates bill would let the government cut CGS funding, the current *Higher Education Support Act 2003* guarantees 2020 funding levels for bachelor-degree places.<sup>18</sup> Even if the government withdraws its previously promised increases in funding in line with population growth, status quo policies will provide more CGS bachelor-degree funding than Job-ready Graduates. Due to the timing of cuts and increases to student contributions, status quo policies would also provide more student contribution revenue than at the start of Job-ready Graduates.

### *Reduced average Commonwealth contributions*

The main policy for increasing the number of student places over the forward estimates is not by increasing funding, but by requiring universities to deliver

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*Graduates and Supporting Regional and Remote Students Bill 2020 Explanatory Memorandum, p. 6.*

<sup>18</sup> Under section 30-27(3).

more places for a reduced amount of CGS funding. The weighted average Commonwealth contribution would drop by around 15 per cent.<sup>19</sup>

An overall average, however, gives an inaccurate impression of how Job-ready Graduates would work. In some fields Commonwealth contributions will increase (chapter 2), but these are offset by reduced Commonwealth contributions in law, business, humanities, social sciences, communications and psychology (other than courses leading to clinical psychology). All these fields will have Commonwealth contributions of \$1,100 a year, with cuts ranging from \$1,137 (business and law) to \$9,915 (social sciences). Commonwealth contributions will also be cut by \$4,750 a year in science and engineering, although these fields will be left with \$16,500 Commonwealth contributions.

The effect of cutting Commonwealth contributions is that universities have to deliver more places per \$1 million of CGS funding, as shown in Table 4. As shown earlier in Table 2, however, in some priority fields universities need to provide fewer places per \$1 million of CGS funding. The Job-ready Graduates package will therefore succeed in its overall growth objectives to the extent that it does not deliver major enrolment increases in national priority fields.

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<sup>19</sup> The actual average Commonwealth contribution could drop by less than this, depending on the level of over-enrolments discussed in the next section. The 15 per cent figure was the original weighted estimate from the Job-ready Graduates package as announced in June 2019. As it is not clear how many places will be affected by the changes to pathway social work and psychology courses I have not been able to update the figure accurately. From the government's forward estimates figures the figure will be slightly higher, driven by offsetting cuts to other disciplines.

*Table 4: Fields with lower Commonwealth contributions and more places per \$1 million of CGS funding*

Field	Places per \$1 million of CGS – current Commonwealth contributions in 2021 under status quo policies	Places per \$1 million of CGS – proposed Commonwealth contributions in 2021, under Job-ready Graduates
Business	447	909
Law	447	909
Humanities, except English & foreign languages	160	909
Social science	91	909
Psychology (except for clinical or pathway to clinical psychology)	91	909
Communications	74	909
Engineering	52	62
Science	52	62

### *Student contribution only places ('over-enrolments')*

The previous section discussed 'fully-funded' student places – that is, student places for which a university is paid both a Commonwealth and a student contribution. Except for capped medical student places, however, enrolments are not legally limited by Commonwealth funding allocations. Universities can take additional enrolments on a student contribution only basis. These students are commonly described as 'over-enrolments'.

Table 5 estimates the number of over-enrolments in 2018. Bachelor-degree CGS support is distributed in dollars rather than student places, and so 'allocated' student places are estimates only.<sup>20</sup> In 2018, Table A universities are estimated to have over-enrolled by 13,264 places, or 2.2 per cent.

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<sup>20</sup> As the section above illustrates, the same amount of CGS funding can convert into very different numbers of student places. Table 5 uses a weighted average to calculate the base and over-enrolment level.

*Table 5: Estimated over-enrolments of Commonwealth supported places at Table A universities, 2018*

	<b>Allocated</b>	<b>Delivered</b>	<b>Over-enrolled</b>
<b>Sub-bachelor &amp; enabling</b>	12,464	18,869	6,405
<b>Non-medical postgraduate (estimate)</b>	36,847	35,036	-1,811
<b>Non-medical bachelor (estimate)</b>	537,048	545,718	8,670
<b>Total</b>	<b>586,359</b>	<b>599,623</b>	<b>13,264</b>

Sources and notes: Sub-bachelor and postgraduate calculations are based on allocations in the 2018 funding agreements compared with places delivered, as reported in the DESE *uCube* site. Medical postgraduate EFTSL not reported; assumes allocated and delivered are the same. Non-medical bachelor degree courses received an allocation based on dollars rather than student places. Using the DESE *Student Load Time Series PowerBI* numbers on places delivered by Table A universities by funding cluster the total value of these places at 2018 funding cluster rates was calculated. This was divided by the number of places to get a weighted average funding rate. The total amount actually paid for these places was derived from DESE's funding determinations. The difference between the total value of the places the amount paid was divided by the weighted average to estimate over-enrolments.

The latest published enrolment data is from 2018. But there is a leading indicator source, university estimates of upfront student contribution payments and HECS-HELP borrowing. Underlying full-time equivalent student numbers can be inferred from these revenue predictions. The latest data are estimates for 2020 as of December 2019. The unusual nature of 2020 adds to the methodological issues described in the notes to Table 6, but with this caveat I estimate that Australian higher education institutions provided 4,500 more student contribution liable places in 2020 than 2018, indicating further over-enrolment since 2018.<sup>21</sup>

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<sup>21</sup> Some universities experienced soft demand early in 2020 and some students may have deferred their studies due to COVID-19 campus closures. But later in the year discount student contribution short courses and mid-year commencements attracted additional students.



*Table 6: Estimated student contribution liable places, 2020*

	<b>Student places</b>
<b>Actual student contribution liable 2018</b>	612,443
<b>Estimated student contribution liable 2020</b>	620,081
<b>Estimated additional student places</b>	7,638
<b>Less new fully-funded places allocated for 2020</b>	3,115
<b>Estimated 'over-enrolled' additional places</b>	4,523

Sources and notes: DESE, *Selected Student statistics*, student liability tables. DESE, HECS-HELP funding determination for 2020, dated December 2019. The actual average student contribution for 2018 was calculated, and then indexed according to DESE's formula to 2020. Estimated student liabilities were then divided by the indexed student contribution to arrive at estimated student places. Enrolment changes towards higher or lower student contribution fields would affect the accuracy of the weighted average. These numbers differ from those in Table 5. Medical student places and Commonwealth supported places outside the public universities are included. Enabling places, which are student contribution exempt, are excluded. Usually determinations are updated several times per year. Unusually, this has not happened in 2020 with only December 2019 data available. The government guaranteed HECS-HELP payments as part of its COVID-19 response so under-enrolling universities did not need to revise down. However, upward revisions of over-enrolling universities should still appear. New places information from university funding agreements.

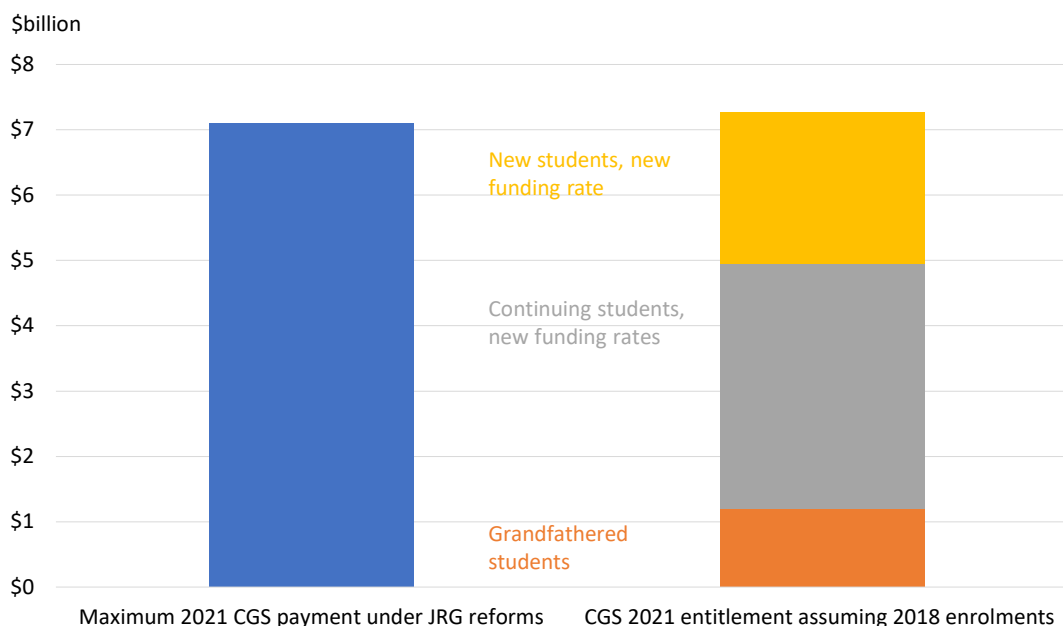
### *Zero or few new fully-funded places in 2021*

Over-enrolments combined with the overall CGS funding cut mean that, despite lower Commonwealth contribution rates for new students in some fields, there could be as few as zero 'growth places' in 2021 compared to 2020.

On the original Job-ready Graduate funding rates, universities already enrolled enough students in 2018 to get their 2021 maximum Commonwealth Grant Scheme payment (Figure 4). This is not factoring in the additional student contribution only places since. The net lower Commonwealth contributions after the August 2020 revision to funding rates slightly reduce the CGS value of existing places. But by converting existing student contribution only over-enrolled places to fully-funded places universities could deliver no or few new places and still earn their maximum CGS grant.<sup>22</sup>

<sup>22</sup> Another complicating figure is the pattern of under- and over-enrolments. In 2018 two universities were under-enrolled in all the categories shown in Table 5. They would probably need to enrol more students beyond 2018 levels to get their 2021 funding. Many other universities had mixed results depending on category. However, the government's plan to create a 'funding envelope' making sub-bachelor, bachelor and postgraduate coursework funding interchangeable means that means that more universities will be able to meet or exceed their funding target. The funding envelope has already been largely implemented in revised 2020 funding agreements. See

*Figure 4: Universities can probably receive their maximum 2021 CGS funding without delivering any new student places*



Note: Commencing and continuing EFTSL by funding cluster from DESE, *Student load time series PowerBI*, with some apportionments based on EFTSL data provided by the DESE in June 2020. Does not include changes made in August 2020.

*The government’s grandfathering policy will reduce student places for commencing students*

Another complicating factor is that additional student places will not necessarily convert into additional opportunities for new students, if they are used on continuing students.

Due to the COVID-19 recession, students who were enrolled in 2020 will use more student places than in 2021 than would otherwise have been the case. During the global financial crisis, first-year to second-year retention rates spiked by two percentage points.<sup>23</sup> Some students who would otherwise have left university to work decided to stay, probably because jobs were harder to find. With a much worse economic downturn due to COVID-19, retention should again increase. More students than usual completing bachelor degree pass courses in 2020 may proceed to an honours year, rather than face the toughest

also DESE, *Better University Funding Arrangements: A Funding Envelope for Commonwealth Supported Places* (Department of Education, Skills and Employment, 2020).

<sup>23</sup> Department of Education and Training, *Students: Selected Higher Education Statistics 2018* (Department of Education and Training, 2019), table 15.1. It should be noted that retention did not increase during the smaller end of the mining boom increase in unemployment for young people from 2013. However, underlying trends are hard to analyse in this period due to rapid enrolment growth, which included major attrition spikes in some institutions.

graduate labour market in Australia's history. Although honours enrolment trends have multiple causes, in the early 1990s recession honours years experienced double digit growth rates.<sup>24</sup>

In trying to protect opportunities for new students, the government's decision to not grandfather all continuing students will again cause problems. Continuing students in priority fields will receive higher Commonwealth contribution rates before the full savings of reduced Commonwealth contributions for non-priority fields are received. As a result, continuing students will consume a larger proportion of all CGS funding, leaving less available for new commencing students.

*Under either status quo policies or Job-ready Graduates, university willingness to take more over-enrolments is critical to growth*

Neither status quo nor Job-ready Graduates CGS policies will do much in the short term to increase student places. Only significant extra allocated funding or a return to the demand driven system could do that.

Under either realistic scenario, non-CGS funded student contribution only enrolments are the key to short-term increases in student places. At least one university has publicly committed to this strategy to meet demand.<sup>25</sup>

Undergraduate over-enrolments have been as high as 10 per cent a couple of times this century.<sup>26</sup> The numbers always subsequently fall, making over-enrolments unsuitable for dealing with significant structural shifts in demand, such as for the Costello baby boom cohort. But for a one to two year spike in demand caused by the COVID-19 recession over-enrolments may mitigate the negative effects of CGS policies.

As Table 7 shows, the Job-ready Graduates \$14,500 student contributions make the affected fields – business, law, arts – more attractive for student contribution only enrolments. Universities will get 93 per cent of the maximum possible funding for a Commonwealth supported student in these fields. \$14,500 may exceed the marginal cost of an additional student (the average cost includes fixed or semi-fixed university costs, such as buildings, IT, libraries, administration, etc). But in the other fields, including many 'national priority'

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<sup>24</sup> DESE, *Higher Education Students Time Series Tables, 2000: Selected Higher Education Statistics* (Department of Education, Skills and Employment, 2000). In the early 1990s recession there were also increasing numbers of completions, which also produces more persons qualified for an honours program. In more recent years, the classification of Bachelor of Engineering courses as Bachelor of Engineering (Honours), rather than Honours denoting an additional year or academic distinction, has distorted the statistics.

<sup>25</sup> J Rowbotham, "Newcastle Offers Atar Pandemic Bonus Points," *The Australian*, 8 September, 2020.

<sup>26</sup> Own analysis of target places as published in Departmental *Higher Education Reports* and predecessor publications compared to actual enrolments.

fields, student contribution only enrolments become less attractive. Yet again the design of the package contradicts the stated policy intention.

*Table 7: Financial attractiveness to universities of student contribution only places*

More attractive to offer on the student contribution only			Less attractive to offer on the student contribution only		
Field	Student contribution as % of all funding, status quo policy	Student contribution as a % of all funding, Job-ready Graduates	Field	Student contribution as % of all funding, status quo policy	Student contribution as a % of all funding, Job-ready Graduates
Management & commerce	83.5%	92.9%	English	52.2%	23%
Law	83.5%	92.9%	Maths	46.8%	23%
Humanities (other than languages)	52.2%	92.9%	IT	46.8%	37.5%
Psychology (other than clinical)	38.2%	92.9%	Architecture	46.8%	37.5%
Social science	38.2%	92.9%	Public health	46.8%	37.5%
Communications	33.4%	92.9%	Education	37.2%	23%
			Foreign languages	33.4%	19.6%
			Nursing	31%	19.6%

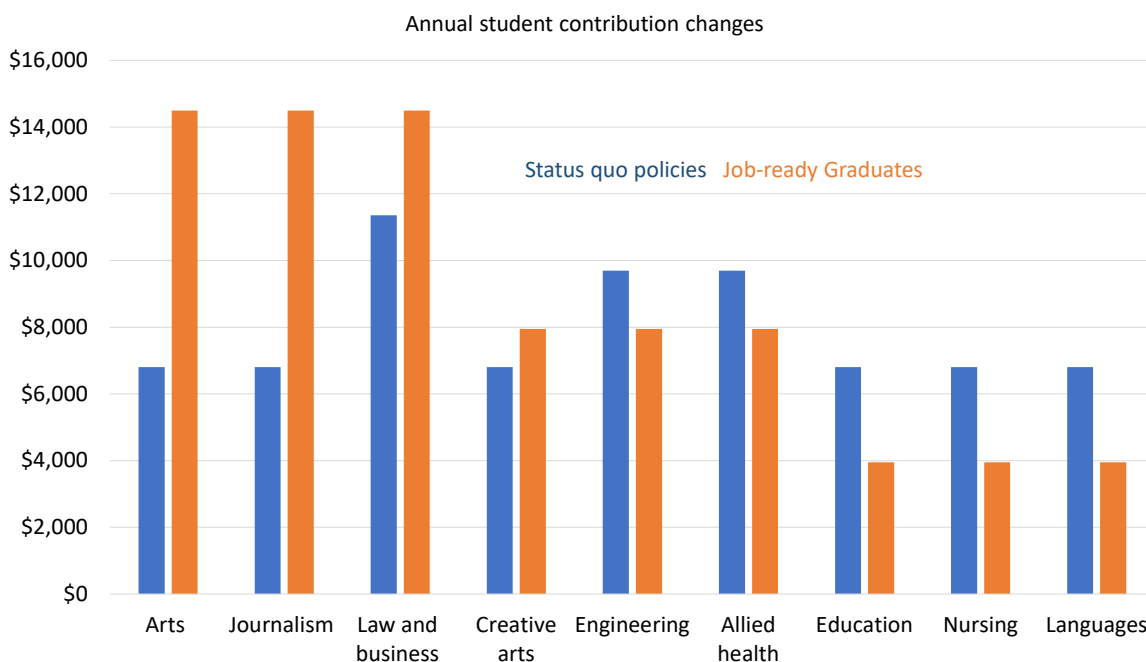
## 4. Disproportionate impacts on some students

Policies to reduce the public costs of increasing the number of student places should be among the policy options for dealing with increasing demand.<sup>27</sup> The problem with Job-ready Graduates is not that it proposes increases in student contributions. The problem is that it does this in ways that impose disproportionate costs on some students. Much of the additional revenue is spent reducing student contributions for other students, rather than increasing the number of student places.

### *Changes to student contributions*

The aspect of Job-ready Graduates that has caused most controversy is the new \$14,500 student contribution band, which will affect humanities students other than those studying languages, and social science, journalism, law and business students (Figure 5). Other fields, however, would have much lower student contributions, especially including education, nursing and languages.

*Figure 5: Major changes to student contributions*



<sup>27</sup> See my blog post: <https://andrewnorton.net.au/2019/05/21/current-higher-education-policies-are-the-unsatisfactory-result-of-political-misjudgments-in-2017-there-are-better-ways-of-balancing-the-interests-of-students-universities-and-taxpayers/>

Originally undergraduate social work and psychology would have been fully within the \$14,500 category. Subsequently, the government created two new categories of 'professional pathway social work' and 'professional pathway psychology' at a student contribution of \$7,950 (compared to \$6,804 under the current system).

These categories complicate analysis and implementation, shifting from the usual system of funding based on the discipline of the subject to funding based on the discipline and the professional destination of the course. It is not clear how this will work in practice. Students in accredited social work courses may still have to pay \$14,500 student contributions for subjects in their course not coded as 'social work'. Similarly, students in courses that are registered pathways to clinical psychological practice may still have to pay \$14,500 for subjects in their course not coded as 'psychology'. Students taking subjects coded as social work or psychology without being enrolled in a course accredited as a professional pathway will have to pay the \$14,500 student contribution.

After making some assumptions about the division of subjects between categories, I estimate using 2018 enrolment data that 35 per cent of units of study will be charged at the \$14,500 rate.<sup>28</sup>

Because subjects will still in general be coded according to their discipline, more than 35 per cent of students will take some units priced in the \$14,500 category, while less than 35 per cent will pay \$14,500 student contributions for all the subjects they take.

#### *Private benefit based student contributions are fair*

Current student contributions are, roughly, linked to expected future private benefits of each course. Some disciplines, such as science and agriculture, are in higher student contribution bands than expected income would suggest, due to the cost of delivering these courses.

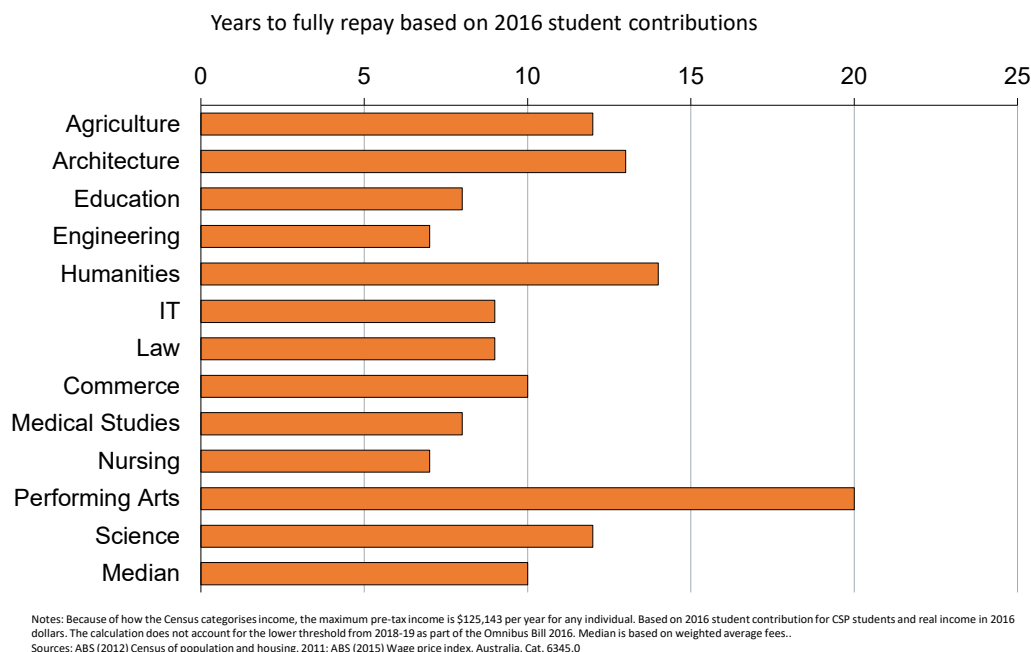
Grattan Institute analysis indicates that private benefit linked student contribution bands tend to produce similar repayment times between disciplines. Figure 6 shows that, despite being in different student contribution bands and having differing course lengths, education, engineering and medicine have similar repayment times for male graduates on median earnings.<sup>29</sup>

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<sup>28</sup> Assuming that 40 per cent of behavioural science unit of study were taken by students in professional pathway courses, and 80 per cent of social work subjects were taken by students in professional pathway courses.

<sup>29</sup> Figure 7 illustrates this point, although its results should not be cited as guidance to current students. The analysis is based on adjusted 2011 Census data and 2016 HELP repayment thresholds. The HELP thresholds have changed since, in ways that typically see graduates pay lower annual amounts over a larger number of years. Declining real early career income for male graduates would also lengthen repayment times.

*Figure 6: Estimated repayment times for male bachelor-degree graduates on median earnings for their field (old data, for example only)*



Private benefit based student contribution bands mean that although some students incur more debt than others, they subsequently also earn more which speeds up their repayment. The system creates equity of effort between students in clearing their HELP debt.

As Figure 6 shows, despite being in the currently cheapest student contribution band humanities graduates already have above-median HELP repayment times. More than doubling their student contributions to \$14,500 will lead to much longer repayment times. By contrast, students in other fields, especially teaching and nursing, will take much less time.

Given the lack of empirical evidence or theoretical grounds for believing that the new student contributions will change student behaviour in desirable ways (chapter 2), the system loses fairness without improving other outcomes.

## *Failing students*

The *Higher Education Support Amendment (Job-Ready Graduates and Supporting Regional and Remote Students Bill 2020)* has also been controversial for its proposal to deny continued CGS and HELP funding to students who fail more than half their subjects.<sup>30</sup>

Students cannot currently just continue with their studies as before after failing half or more of their subjects. Exclusion from their course is already a real possibility. Universities should not re-admit students unless they have a reasonable prospect of course completion.

The difference between the status quo and the bill is what factor universities can take into account when deciding a student's case.

Under the bill's provisions, which draw on existing rules for remitting HELP debt, the relevant circumstances have to be beyond the student's control and not occur, or have their full impact, until after the subject's census date. The examples given in the guidelines include: medical conditions that prevent the student completing the subject, the medical condition or death of a family member, an uncontrollable change in employment arrangements, or where the provider has changed the subject in ways that make completion difficult.<sup>31</sup>

These rules do not cover more general issues, such as trouble adapting to university life, financial problems, or lower-level medical issues that make study more difficult but not impossible. To responsibly readmit the student, the university needs to be satisfied that the problem that caused failure was temporary or can be solved, but not that it was completely outside the student's control.

The government's policy would deny some students a deserved second chance.

This part of the bill was not announced prior to its exposure draft being released and the government has provided no evidence that it addresses significant problems.

If the government can provide statistical evidence that universities are re-admitting significant numbers of students who have failed half or more of their subjects, and those students are continuing to fail or have high rates of attrition, then additional policy interventions should be considered.

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<sup>30</sup> Having taken at least eight subjects in a bachelor degree or four in a sub-bachelor course.

<sup>31</sup> See the *Administration Guidelines 2012*.



## 5. Disproportionate impact of funding rate changes on regional universities

There are some special initiatives for regional universities in Job-ready Graduates.

Regional universities will get higher 'growth funding' than metropolitan campuses. As noted in chapter 3 this is growth from a new lower base, and so is more a lower rate of cuts than an increase in funding. Other changes for regional universities include a change to equity funding to put more weight on regional enrolments, nearly \$50 million over four years for research, and an expansion of the regional university centres program, which puts physical study facilities within easier reach of their students. There are also several initiatives aimed at regional students, including demand driven funding for regional Indigenous students, improved fares allowance, and a tertiary access payment for outer regional and remote students.

However, the benefits of these changes for regional universities do not clearly offset the overall disadvantages of the core Job-ready Graduates funding model.

*Average cost funding rates are particularly a problem for regional universities*

The average cost funding rate policy is going to cause problems across the university sector (chapter 2). But regional universities are likely to be particularly disadvantaged.

The Deloitte Access Economics analysis found that regional universities had higher average teaching and scholarship costs than metropolitan universities. For bachelor degrees, Deloitte found that on average regional university costs were 13.6 per cent higher.<sup>32</sup> Possible reasons include limited opportunities for economies of scale in small local markets, and the higher average support needs of their students.

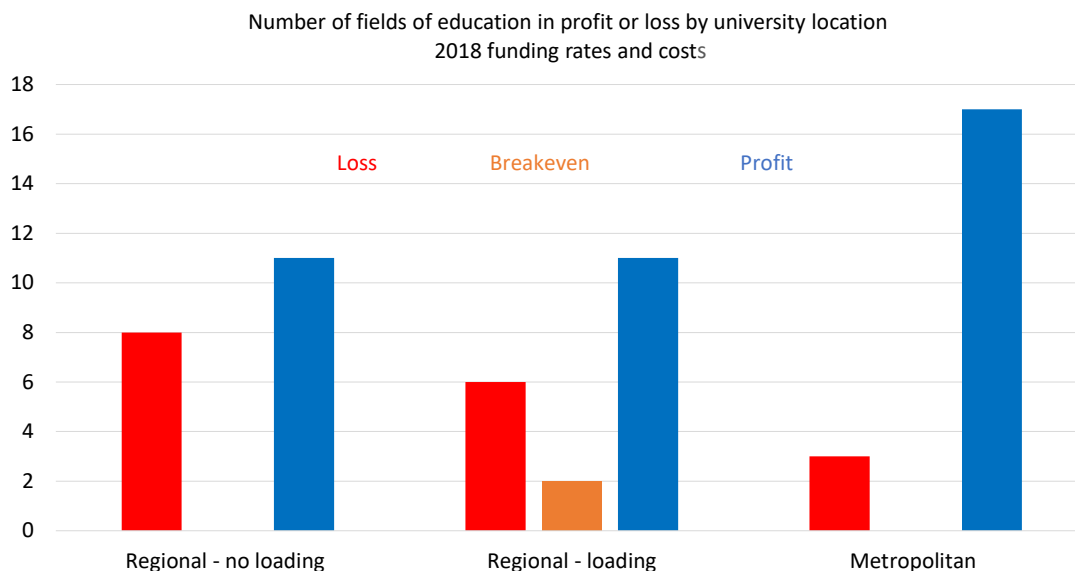
Figure 7 shows that regional universities are more likely to be loss-making by field of education than metropolitan universities, although their situation is helped by a regional loading currently paid through the Commonwealth Grant Scheme. Under Job-ready Graduates, the regional loading would be abolished and incorporated into the new Indigenous, Regional and Low SES Attainment Fund (IRLSAF). It is not clear that IRLSAF funding can be used to meet core teaching commitments. The information provided by the Department says that 'universities must apply their IRLSAF allocation for the benefit of Indigenous, regional and low

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<sup>32</sup> Deloitte Access Economics, *Transparency in Higher Education Expenditure: November 2019.*, p. 54

SES students'.<sup>33</sup> Not all students at regional universities are from regional areas or members of other equity groups. Equity funding is typically only for equity students.

*Figure 7: Profit and loss on Commonwealth supported places, regional compared to metropolitan universities, 2018*

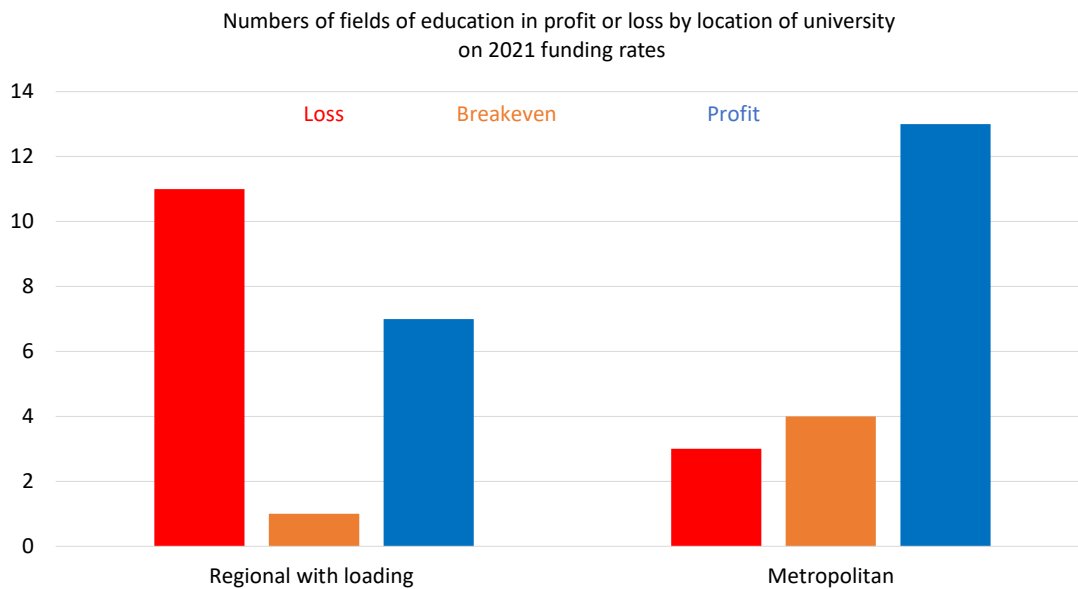


Source: Deloitte Access Economics/QILT website. Breakeven is defined as costs within \$400, up or down, of the funding rate.

Average cost based funding rates obviously disadvantage institutions with above-average costs. As the chart below shows, on cost-inflation adjusted Deloitte figures regional universities will find themselves in a more serious financial situation than metropolitan universities if Job-ready Graduates is implemented. Even assuming that regional universities will be able to draw on amounts equivalent to the regional loading out of IRLSAF, more than half of fields of education would be loss-making (Figure 8). Some loss-making fields are only taught by a small number of regional institutions. But the larger loss-making fields of management and commerce, society and culture and creative arts would create more significant difficulties.

<sup>33</sup> DESE, *Better University Funding Arrangements: More Transparent and Accountable Funding*.

*Figure 8: Job-ready Graduates funding rates will affect regional universities more than metropolitan universities*



Notes: Deloitte Access Economics 2018 costs inflated by 6%. Breakeven defined as costs within \$400, up or down, of the funding rate.

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