



Australian Government  
Department of Education



James Martin  
Institute for  
Public Policy

# Higher Education Teaching and Scholarship

## Proposed New Funding Model



## About JMI

The James Martin Institute for Public Policy (JMI) is an independent, non-partisan policy institute. Our mission is to bring government together with a range of experts to develop practical solutions that address societal challenges and improve lives across Australia. JMI was launched in 2021 as a joint-venture between the NSW Government and a group of universities. Our growing list of university partners now includes the University of Sydney, Western Sydney University, the University of Technology Sydney, the University of New South Wales and Charles Sturt University.

## Acknowledgement of Country

JMI acknowledges that its offices are located on the lands of the Gadigal people of the Eora Nation. We pay our respects to Elders past and present, and celebrate the diversity of First Nations Australians and their ongoing cultures and connections to the lands and waters of Australia.

## JMI Collaborative Projects

JMI Collaborative Projects are unique. They are delivered by joint project teams, comprising of Institute staff, policymakers, and academic experts. JMI Collaborative Projects:

- tackle the big, multidimensional policy challenges facing governments;
- leverage expertise from academics, policymakers, practitioners and the wider community to deliver innovative and pragmatic solutions;
- forge dynamic collaborations between research experts and government policymakers that enable ongoing relationships.

## Our Work in Support of the Australian Universities Accord Panel

The findings and opportunities identified in this report reflect the calibrated outcomes of discussions with the Department of Education and the Australian Universities Accord Panel. Our work was informed by experts and developed through a highly collaborative and iterative model of working.

A range of options were developed for the AUA Panel's consideration through the process of engagement. These options were formed on the basis of an evaluation of relevant research and evidence, including submissions to the Australian University Accord's Interim Report, and engagement with a range of experts (see Appendix 1). The New Teaching Funding Model and System Architecture proposed in this report reflect the preferred options of the Panel in general terms.

Due to the collaborative method of working, the report does not necessarily reflect the views of any individuals or organisations involved, including Australian University Accord Panel members, Department of Education colleagues, the experts consulted, or of JMI, its Board, funders, or other partners.

## Copyright and attributions

With the exception of the Commonwealth Coat of Arms, the Department's logo, any material protected by a trade mark and where otherwise noted all material presented in this document is provided under a [Creative Commons Attribution 4.0 International licence](#).

The document must be attributed as the "Higher Education Teaching and Scholarship: Proposed New Funding Model".

**Photo attributions.** Cover overlay: Yan Krukau/Pexels; page 4: Priscilla du Preez/Unsplash; page 9: Kasto/Canva; page 11: Felicia Buitenwerf/Unsplash; page 15 overlay: Armin Rimoldi/Pexels; page 23 overlay: Mikael Kristenson/Unsplash; page 27: CX Insights/Unsplash and; back cover overlay: ThisIsEngineering/Pexels.

# Table of Contents

<b>Executive Summary</b> .....	4
<b>A New Teaching Funding Model</b>	
Snapshot: A New Teaching Funding Model .....	6
Domestic Student Journey .....	7
Building the Higher Education Provider Landscape .....	8
Delivering the New Funding Model .....	10
<b>Deep Dive: Understanding the New System Architecture</b>	
Context for Reform: Understanding the Higher Education System .....	12
Fixing the Anomalies in the JRG Package .....	14
System Architecture: The Detail .....	16
<b>Glossary of Terms</b> .....	29
<b>Appendices</b>	
Appendix 1: Collaborative Method and List of Contributing Experts.....	30
Appendix 2: Evidence Supporting the New Teaching Funding Model .....	32





# Executive Summary

## A collaborative approach to reform

This report outlines the system architecture for a proposed new funding model for teaching and scholarship in higher education, to inform the work of the Australian Universities Accord (AUA) Panel. These proposals have been developed through a unique collaborative model of engagement (see inside front cover) and reflect the calibrated outcomes of the process. Independent advice and options were presented to the AUA Panel, informed by experts (see Appendix 1). This report captures the preferred options of the Panel in general terms but does not necessarily reflect the views of any individuals or organisations involved.

## A funding model to support Vision 2050

In July 2023, the AUA Panel's Interim Report set out a strong vision for the future of Australia's higher education system based on *growth for skills through greater equity*.

This means developing a higher education system that enables more students to attend university and to gain the skills they need to thrive in the Australian economy of the future. This requires 900,000 extra students to attend university with support from the Commonwealth Government by 2050, and for this growth to be driven by underrepresented groups, including First Nations Australians, people from low socio-economic status (SES) backgrounds, people with disability, and people from regional, remote and outer suburban communities. To deliver this outcome, Australia needs to reform its funding model for teaching and scholarship.

Following in-depth engagement with the AUA Panel and a range of other experts, the goal of this paper is to set out the system architecture of a proposed new funding model that will support the delivery of this vision. Further research and modeling work is required to elaborate the model in more detail.

## Pathway to 2050

This report suggests a new system architecture for implementation in line with the new Tertiary Education Commission (TEC). The primary objectives are: (1) to remedy perverse outcomes from the Job-ready Graduates Package (JRG) and (2) establish a funding architecture that supports growth, equity and enables change over time, overseen by the Tertiary Education Commission (TEC). By pursuing these objectives, the model aims to put the funding system on the right track to work towards the Panel's vision for 2050 and allow the system to evolve over time.

## Freedom within a Framework

The new Teaching Funding Model has been designed based on the following principles:

**Growth:** The funding model must enable the higher education sector to grow in size. Growth in provision must be flexible and high-quality, and responsive to student choices and industry needs.

**Equity and access:** The funding system should support all people who wish to study in higher education, with no up-front cost and additional support tailored to student need. To drive future participation, collaborative initiatives should be funded outside of the funding model to raise aspirations.

**Fairness:** There should be a balance of student and Commonwealth Government contributions across the system as a whole, recognising both the private and public benefits of higher education in broad terms.

**Coherence:** There should be one higher education funding model for Australia. It should be simple to navigate and understand, accountable and transparent. It should follow an evidence-based logic, where cost, need and policy priorities drive change and 'price' is not used to influence student choices. The balance of public and private investment should be intentional, and public investment across the system as a whole, should be broadly in line with public value and Government priorities, such as equity and growth.

**Responsible stewardship:** An independent organisation (such as the idea of a 'Tertiary Education Commission') should be established to steward the system towards the Accord's objectives through a clear set of funding incentives and controls. This would ensure a stable and transparent funding environment with clear accountabilities. The system stewardship role would include monitoring system dynamics such as competition and collaboration, the balance of public and private contributions, as well as driving efficiency, public value and quality.

**Mission:** The funding model should support a diverse range of providers to respond to national skills needs and student demand in different ways, whilst driving equity, access, quality and efficiency.

**Quality:** A funding system that seeks to appropriately fund high-quality provision of teaching and scholarship, supporting autonomous higher education providers to flourish and deliver strong outcomes for students.



## Progress towards a Tertiary Sector

As outlined in the Accord's Interim Report, a significant proportion of the future skills needs and growth is projected to happen at the higher education and vocational education and training (VET) interface. This is an area of significant innovation and increasing diversity of provider models, with growth in the provision of higher education from both VET providers and new providers. Potential students and industry partners are agnostic about the differences in the underlying systems – they just want to be able to access the right learning and skills. The role of microcredentials is part of this.

The new Teaching Funding Model needs to account for this diversity of provision and be flexible enough to take account of ongoing reform in the Australian Qualifications Framework (AQF) and VET funding environments.

More work needs to be done to align these systems, particularly at the interface and overlap between VET and higher education.

The Tertiary Education Commission will be well placed to take a system-level approach to the tertiary sector, with the aim of better aligning and integrating these systems over time, and to ensure that more flexible forms of provision are supported.

## Approach to funding teaching and scholarship

There are two core components of the higher education funding system for teaching and scholarship in Australia: (a) pricing and (b) volume and distribution. This is in line with the vast majority of public funding models across other countries and in other areas of public policy. The new Teaching Funding Model will maintain this underpinning logic in its design.

## Tertiary Education Commission to provide responsible system stewardship

One of the major reform proposals in the Accord's Interim Report is the recognition of the need for an independent, system steward in the form of a Tertiary Education Commission (TEC). In designing a new Teaching Funding Model, this report outlines the role for TEC in setting the framework and boundaries for actors in the system – it sets the 'rules of the game'. TEC would be responsible for determining and varying the level and type of system incentives and controls for different parts of the higher education system, as appropriate, and manage any "market failure". As responsible system stewards, it would seek to drive system objectives such as increased equity, growth, quality, responsiveness, efficiency and access to provision in areas of growing population, in order to steer the system towards the Panel's vision for 2050.

This is not about introducing a bureaucratic, centrally-controlled or planned approach to higher education in Australia, but neither is a free market approach appropriate – or possible – in a system where there is considerable public investment and public interest.

The new Teaching Funding Model recognises the independence and autonomy of higher education providers in Australia. Indeed, part of the role of TEC would be to ensure these providers are given as much freedom as possible within a clear framework for higher education funding, supporting them to flourish and deliver against their own missions and public good objectives.

## The symbiotic relationship between research and teaching

Universities are not schools. Alongside teaching and scholarly activity, they undertake world-leading research and actively engage with industry, community and Government partners to deliver economic growth, social impact and environmental goals, both in Australia and internationally. Indeed, research and discovery across our universities makes a major contribution to Australian Research & Development, driving economic growth and productivity – contributing to the wealth, prosperity, and public good of our nation.

We must also consider how research informs teaching, beyond scholarly activity. Academics undertake a range of interdependent activities across research, teaching and business/community engagement – all of which inform their teaching.

The teaching funding model has historically carried a contribution towards research costs, and this will continue in the new Teaching Funding Model. Given the strategic importance of research in Australia – and in achieving the Accord's vision for 2050 – we recommend that, over time, the TEC develop a method of core funding for research run in parallel with core funding for teaching. To be clear, this would go beyond the existing block grant funding for research in Australia. This would remove the need for the contribution to research in the teaching funding model.

The wider funding system needs to recognise the cost of research in addition to the cost of teaching, based on different measures such as quality, impact and volume. As the Interim Report highlights, delivery of high-quality, impactful research – in contribution to the broader research and development (R&D) and innovation agenda – is essential to economic growth and productivity, alongside the equity and skills goals supported through the teaching funding model. One half of the system cannot deliver on the vision for 2050 without the other half of the system also being funded and supported to do so.

# Snapshot: A New Teaching Funding Model

A single, coherent system architecture that will drive equity, meet future skills needs, and increase diversity and quality in the sector

This Teaching Funding Model considers funding arrangements for undergraduate and taught postgraduate courses. Higher degrees by research (HDR, PhD and Masters by Research) are funded separately. The level of Student Contribution and Government funding varies in line with the five major categories of provision, from non-accredited fee-free Access Courses through to postgraduate taught courses, for domestic and international students.

			Commonwealth Supported Places (CSP)					
			Access Courses	Undergraduate CSP	Postgraduate CSP	Non-CSP (UG and PG)	International market	
			25,000 students	800,000 students	100,000 students	200,000 students	450,000 students	
Core Funding	Subject Funding	Student Contribution	None	3 Bands	3 Bands	Full fee (Equity Levy)	Full fee	
		Government Contribution	Fixed contribution	Public Benefit Contribution	Public Benefit Contribution	None	None	
	Needs-based Funding		Student-based Delivery-based	Student-based Delivery-based	N/A	N/A	N/A	
Supporting ICs	Loan Access		N/A	HECS-HELP		FEE-HELP	None	
	Loan Subsidies		N/A	<ul style="list-style-type: none"> <li>Interest-rate subsidies</li> <li>Non-repayment subsidies</li> </ul>		Reduced	N/A	
Volume and Distribution	Tolerance Band		Moderated Growth Target (MGT)			N/A	N/A	
			Funding Floor			N/A	N/A	
	Courses Eligible for Government Funding		Determined by TEC			N/A	N/A	
System stewardship	Tertiary Education Commission		<ul style="list-style-type: none"> <li>Advises Government on evidence base for Core Funding levels at undergraduate and postgraduate level.</li> <li>Manages Tolerance Band: determines Moderated Growth Target and Funding Floor for sector (incl. any tailored arrangements).</li> <li>Determines eligibility of postgraduate CSP, whilst ensuring maximum flexibility for providers to manage demand.</li> <li>Monitors and oversees Access Courses.</li> <li>Determines designated places for medicine.</li> </ul>			<ul style="list-style-type: none"> <li>System oversight role.</li> <li>No price or volume controls.</li> <li>Determine and manage Equity Levy.</li> <li>Advise on loan subsidy contribution level.</li> </ul>		N/A
	Tertiary Education Quality and Standards Agency (TEQSA)		<ul style="list-style-type: none"> <li>System regulation and quality assurance.</li> </ul>					TEQSA & ESOS



# Domestic Student Journey

A funding model tailored to student need



## Access Course students

As people aspire to enter university from different backgrounds, it is simple and cost-free for them to develop key skills and get on track for an undergraduate degree.

There is no cost or Student Contribution for non-accredited fee-free Access Courses.

There is Government funding available for Access Courses.

Needs-based Funding is available for the provider to support underrepresented students, and to meet the additional costs of delivering these courses in regional areas.



## Undergraduate students

Subject to receiving an offer of a place, students can select the course and university of their choice, sharing the cost of study with Government.

Undergraduate course costs are shared between Government and student.

Students contribute in line with one of three 'Bands', based on their future earnings potential. HECS-HELP loans are available to ensure there is no upfront cost.

Government makes a contribution to ensure teaching costs are fully funded.

Needs-based Funding is available for the provider to support underrepresented students to succeed.

Extra funding available to providers to cover the cost of supporting those studying in regional areas and on high-skill, high-priority courses.



## National priority and professional postgraduate students

When postgraduate training is needed for entry into a profession or to build a national priority workforce, Government shares the cost of further education with the student.

1-2 year postgraduate course costs are shared between government and student.

Students contribute in line with one of three 'Bands', based on their future earnings potential. HECS-HELP loans are available to ensure there is no upfront cost.

Government makes a contribution to ensure that the estimated cost of teaching is fully met.



## Specialised postgraduate students

When graduates and professionals would like to continue developing other specialised skills, they can choose from a wide range of programs. They pay the course fee and are supported with a Government loan or equity scholarship.

1-2 year postgraduate course costs are paid by the student.

FEE-HELP loans are available to help cover the cost of the course, up to a maximum HELP loan amount.

Bursaries and scholarships are available for the small number of high fee courses that exist – directly from the higher education provider – to ensure underrepresented students can access and benefit from these courses.

Income Contingent Loans available to all students at all levels of study, up to the HELP maximum loan amount.



# Building the Higher Education Provider Landscape

## Flexible funding system to support a diverse range of providers

### Banksia Regional University

Four campuses across regional towns, serving 40,000 domestic students (20,000 on-campus and 20,000 online), including 10,000 postgraduates.

*Banksia Regional University's four campuses are in a region experiencing population growth and a large-scale transition to renewable energy, driving strong demand for higher education, including for electrical and mechanical engineers. The university has designed a new multidisciplinary undergraduate bachelor's degree - including fee-free Access Courses - with industry in Renewable Energy Engineering to train a new generation of engineers.*

The new Teaching Funding Model would enable the University to deliver this by:

- Ensuring the full cost of teaching is met for non-award fee-free Access Course and undergraduate courses, through an annual Student Contribution based on future earning potential and through a Government contribution to ensure teaching costs are fully funded.
- Providing additional funding to meet the costs of delivering high-quality courses in a regional area, with campuses dispersed across large distances.
- Providing additional funding to meet the cost of supporting underrepresented students to succeed.
- Ensuring the university can grow through the Tolerance Band, whilst providing stability through the Funding Floor. The Floor is designed to support providers who manage more volatile patterns of demand.

### Waratah TAFE

A TAFE that has been operating for a few years, serving diverse students including domestic undergraduates.

*Waratah TAFE is seeking to provide a range of high-quality undergraduate courses accessible to students with diverse professional and personal backgrounds, across a range of disciplines aligned to future skills needs. The TAFE is currently serving 500 higher education students and plans to scale up significantly in the coming three years to become a University College with a hub and spoke model, operating large campuses in outer suburban areas with growing populations.*

The new Teaching Funding Model would enable the TAFE to deliver this by:

- Providing full funding for the cost of teaching and scholarship for undergraduate courses through a Public Benefit Contribution, paid by Government, with additional Needs-based Funding available to support students from low SES backgrounds, First Nations Australians, and people with disability.
- Ensuring the full cost of undergraduate study is met, through Student Contributions in line with one of three 'Bands' based on their future earnings potential, and through a Government contribution to ensure teaching costs are fully funded.
- Making additional Needs-based Funding available for the Institute to support underrepresented students to succeed and cover the cost of those studying in regional areas and on high skill, high priority courses.
- Enabling rapid growth through a flexible approach to Moderated Growth Targets. TEC would provide a target based on total EFTSL allocation to support rapid growth from a small base.

### Boronia Institute of Higher Education

A private higher education provider with one campus in a metropolitan centre, serving 500 domestic undergraduates, 500 postgraduates and 3,000 international undergraduates.

*Boronia Institute of Higher Education serves a small student body with high-quality courses taught in small groups with many courses tailored to industry needs. It is seeing steady demand for its specialist postgraduate taught courses, and would like to increase demand and scale up its most popular MBA-related postgraduate programs in the coming years.*

The new Teaching Funding Model would enable the Institute to deliver this by:

- Providing freedom to deliver 'full fee' courses, with no volume or price controls in this part of the system.
- Ensuring all eligible domestic students have access to FEE-HELP Government-supported loans, to help cover their course fees.
- Ensuring all domestic non-CSP students at all universities - public and private - pay a Loan Subsidy Contribution at undergraduate and postgraduate levels, creating a level playing field in the 'full fee' system.



## Wattle Innovation University

Four campuses across metropolitan and suburban areas, with 45,000 undergraduates and 15,000 postgraduates (25% international students).

*Wattle Innovation University's campuses are predominantly in emerging technology precincts. In response to demand and working with industry, it has designed a new suite of applied innovation and technology-focused undergraduate courses, needed to build the future workforce in cybersecurity, robotics, artificial intelligence, and blockchain. It has the goal of becoming a national leader in applied research and problem-based teaching in these areas.*

The new Teaching Funding Model would enable the University to deliver this by:

- Covering the estimated cost of teaching and scholarship for the new courses, through a balance of student and Government contributions.
- Providing additional funding to the University to cover the additional costs of delivering high-cost high priority technology-focused courses.
- Providing additional funding to the University to ensure students from underrepresented backgrounds are supported to succeed (Low SES, First Nations Australians and people with disability).
- Providing a stable funding environment for the University through the Tolerance Band whilst supporting growth and responsiveness to industry through a Moderated Growth Target.
- Ensuring that the University can grow above the Target if needed by negotiating a Mission-Based Compact Agreement the Tertiary Education Commission.

## Grevillea Research University

One city-centre campus teaching over 40,000 undergraduates and 40,000 postgraduates each year (40% international students).

*Grevillea Research University undertakes a wide range of world-leading research, including specialised research capability in engineering and nuclear energy - capability that is in demand to support the AUKUS nuclear submarine program. The University would like to set up a 2-year postgraduate course with 1 year of Work Integrated Learning for students from a wide range of engineering disciplines to become part of the professional nuclear workforce.*

The new Teaching Funding Model would enable the University to deliver this by:

- Providing the option to offer Commonwealth Supported Places on the course within a Moderated Growth Target. If the University chooses to offer nuclear engineering as a Postgraduate CSP course, then:
  - It receives Core Funding to cover the full cost of delivery at postgraduate level. Core Funding comes from a balance of a Student Contribution and the Government Contribution.
  - It can scale up the program through the Tolerance Band, including the opportunity to negotiate an increased Growth Target through their Compact with the TEC.



# Delivering the New Funding Model

Implementation of the proposed reforms to the funding system for teaching and scholarship are dependent on the establishment, and ongoing stewardship, of the Tertiary Education Commission (TEC). This is for three key reasons: (1) many of the reforms must be evidenced, researched and designed in detail before implementation (2) the success of the model depends on other elements outside of the funding system and (3) TEC needs the necessary time to introduce appropriate governance and accountability mechanisms, to ensure that the new funding model is evidence based, implements changes effectively, and ensures the new model does not drive perverse incentives in the system.

## Building the evidence base for the funding model

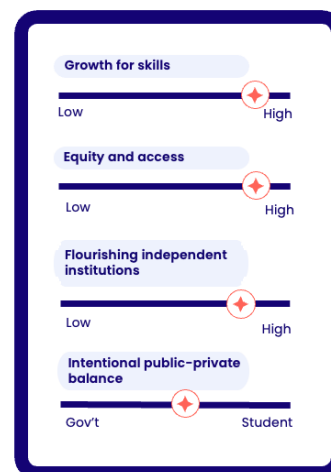
A preliminary step in delivering this reform includes developing the evidence base for the key components of the funding system. This includes:

- **Cost of teaching:** The current model of self-reporting based on the activity-based costing method has improved the evidence base for the cost of teaching, but this should be further tested. Other methodologies should be considered.
- **Needs-based Loadings:** Across each of the Needs-based Loadings further research is required to better inform the allocation of additional funding to cover the cost of supporting a diverse range of needs, and how different Needs-based Funding interact with one another on a per student basis.
- **Designated postgraduate list:** A transparent list of postgraduate programmes for Commonwealth Supported Places should be determined based on public value.
- **Full fee postgraduate system:** this part of the higher education landscape is highly complex, and cannot be understood through the lens of a classic 'market' due to Income Contingent Loans. TEC should undertake further research and engage with highly expert contributors to understand whether this part of the system requires further reform, beyond the proposals in this report.
- **Accountability Index:** To monitor equity and access, TEC should explore whether a range of benchmarked indicators around access, completion, student success and quality should form part of the annual reporting requirements of CSP course providers.
- **Microcredentials:** The current system supports any 'unit of study' that makes up a full qualification (AQF). Further work is needed to explore how flexible learning can be supported alongside appropriate quality controls.

## Measuring system success

We developed four criteria for assessing progress towards the 2050 vision. These criteria acted as our 'north star' for assessing the impact of any proposed funding model:

- Growth for skills
- Equity and access
- Flourishing independent Institutions
- Intentional public-private balance



## Governance and accountability

The new Teaching Funding Model proposed in this report is intended to support growth, equity and increased diversity as a pathway to the vision for 2050. It includes both universal and tailored elements, for Government, higher education providers and students. Strong governance and accountability mechanisms, through TEC, will ensure that the system develops in line with both the Accord's vision and student interests. Annual reporting requirements would include:

- **Student outcomes:** Including access, attrition, retention, completion, success (benchmarked by ATAR) and employment outcomes.
- **Needs-based Funding spend:** Reporting (in broad terms) of expenditure of Needs-based Funding in line with approved areas of spend (e.g. learning support, student support, scholarships and bursaries).
- **Mission-Based Compact Agreements:** The variation in the universal system agreed through Mission-Based Compacts with individual higher education providers.

All Core Funding (Subject Funding and Needs-based Funding) would increase in line with inflation. TEC should determine the appropriate measure and application of indexation.



## Co-dependencies

The proposed new Teaching Funding Model is at the heart of developing a higher education teaching and scholarship funding system that can deliver *growth for skills through greater equity*. It is not however the only piece in the puzzle; its success also relies on other elements of reform including:



**The concurrent implementation of demand-side programmes** to increase demand for higher education. A funding system for teaching and scholarship is a supply side mechanism and its design cannot be used to stimulate demand for higher education. If the funding system is to deliver fully on the Panel's vision, it requires a strong pipeline of students who would like to study in higher education. Therefore, a separate fund should be created to support high-quality, collaborative, aspiration raising activity in communities traditionally underrepresented in the higher education system, managed by the TEC. This should include addressing concerns around the perception of debt (see box on Stimulating Demand).



**Affordability:** Upfront cost is a barrier to entry into higher education. Income Contingent Loans have removed this barrier for the student contribution, but the cost of living remains a barrier for some people. The work being undertaken in this area will play a crucial part in widening participation in higher education.



**Industry engagement:** *Growth for skills through greater equity* will only succeed through partnership with business industry and community leaders to shape programmes and better informed student choices. The work in this area is essential to success.



**The development of a separate model to fund higher education research over time**, ensuring that the contributions made by students and by Government (in the form of a Public Benefit Contribution) solely cover the cost of teaching and scholarship. This will ensure that the funding for teaching and scholarship becomes more accurate over time.



**Delivery models:** The cost of teaching and scholarship is underpinned by the teaching and scholarship workforce, whose contracts influence cost. These could be considered, whilst recognising institutional autonomy and the role of enterprise agreements.

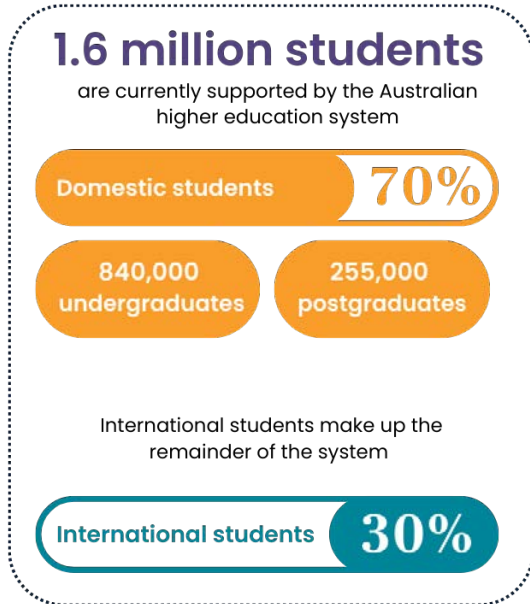


**The successful design and implementation of TEC** to monitor and oversee the teaching and scholarship funding model, including its successful integration with other system elements.

# Understanding the Higher Education System

## A wide range of students and providers

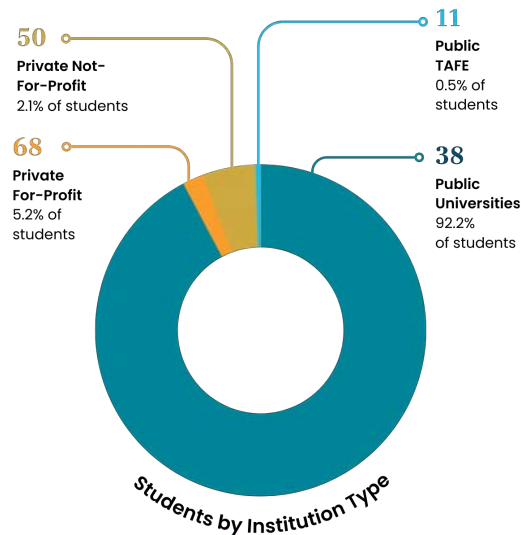
The current Australian higher education system supports around 1.6 million students. 70% are domestic students. Of these, 840,000 are undergraduates and about 255,000 postgraduates. The remaining 30% of the system is made up of international students (as of latest available data at 2021).



We have a mixed higher education system in Australia with a diverse range of public and private higher education providers. Even our 'public' universities deliver a mix of publicly and privately funded courses, ranging from domestic undergraduate Commonwealth Supported Places, to full fee postgraduate provision and deregulated international student provision. Across the sector, there are over 170 higher education providers, including 38 public universities who teach over 90% of students.

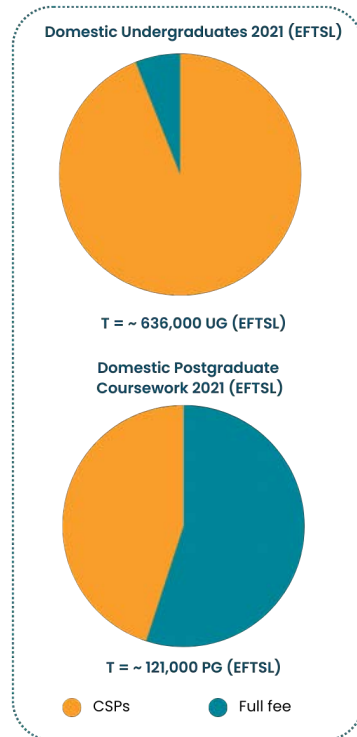
The 38 public universities in our system operate over 300 physical campuses across every state and territory. The majority of these campuses deliver in a metropolitan area. However, only a minority of universities *exclusively* deliver in a metropolitan area, with over 70% having a least one campus in a regional area. These operate alongside a group of regional universities that *exclusively* deliver in the regions – in most cases, across multiple campuses. There are a small number of very large universities with more than 70,000 students, receiving more than \$2 billion in revenue but the majority operate with equivalent student loads of less than 30,000 and revenues closer to \$500 million.

The higher education system operates differently depending on the levels of Government investment, incentives and controls in the system, how much students contribute, the types of loans they can access, and the overall number of places that higher education providers can offer. In general, the system has more incentives and controls for courses where there is a higher level of Government investment in the system – mainly for Access, undergraduate and postgraduate courses through Commonwealth Supported Places.



## Commonwealth Supported Places

Commonwealth Supported Places (CSP) are described as such because the Government makes a significant contribution to the cost of teaching and scholarship for these programs. Each student in a CSP place also contributes to the cost of their course, with eligible students able to access HECS-HELP Income Contingent Loans (ICLs) to ensure there is no up-front cost. Public



universities are prohibited from offering domestic full-fee paying undergraduate places. The majority of domestic students (81%) in the Australian higher education system study in CSP places: 792,000 undergraduates, 98,000 postgraduates and 25,000 students on Access Courses. However, the proportion of students varies significantly by level of study, with 94% of domestic undergraduates in CSP courses compared to just 45% of domestic postgraduates (EFTSL).

The CSP system has unique supply and demand dynamics with very low levels of price-

responsiveness – particularly at the undergraduate level. For undergraduate CSP courses, this is due to the existence of price controls alongside Income Contingent Loans (which remove any up-front cost), and the nature of demand for undergraduate places (recognised as having low levels of price-elasticity). To be clear, student demand does not generally respond to price in this part of the system.



## Non-Commonwealth Supported Places International students

There are 217,000 non-CSP domestic students (headcount). The majority of these students are postgraduates (158,000). In this system, Government does not contribute to the cost of teaching and scholarship. This full fee system is much smaller than the CSP system (around 20% of the size based on headcount), but it plays a crucial role in the overall system, with the majority of postgraduate students (55% of EFTSL) studying in these 'full fee' programs.

Eligible students on these programs can access a FEE-HELP loan to help meet the cost of fees. This is a universal entitlement for eligible domestic students across the higher education system to ensure they have access to learning. In many of our international competitors, government-supported loans would not be available

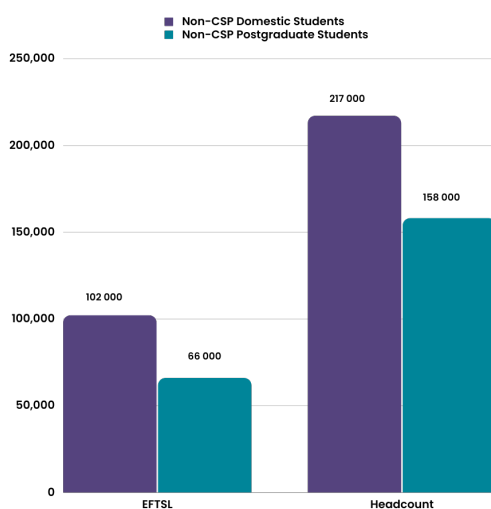
for the majority of postgraduate students, particularly those studying in private institutions. The Australian Government makes a contribution to this part of the system through the provision of these loans for students.

### 217,000 Non-CSP Domestic Students

80% CSP 20% Non-CSP

Postgraduate students studying in full fee programs 55%

Course fees are generally higher at the postgraduate level, and we know that student demand is more responsive to course price at postgraduate level, but this is still tempered by the availability of FEE-HELP Income Contingent Loans. In some exceptional cases, high prices for postgraduate study can be considered as a proxy for quality and can increase demand (Veblen good), reflecting high value commensurate with projected private rates of return in the form of higher lifetime earnings. These high price courses with high private rates of return are still very much the exception, not the rule, in the Australian postgraduate system at present. Nevertheless, they do raise questions around equity and access to these exclusive programs.

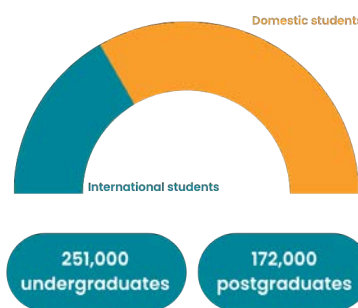


Distribution of non-CSP students

About one-third of all students studying in Australian higher education are international students: 251,000 at the undergraduate level and 172,000 at the postgraduate level. Whilst the vast majority of international students study at a public university, some private providers have a much higher proportion of international students (ranging from 0 to 100%). Higher education fees in this part of the system are fully deregulated and are set in an internationally competitive higher education market. Government plays no role in funding their learning. International students self-fund these costs without the support of an Income Contingent Loan (ICL).

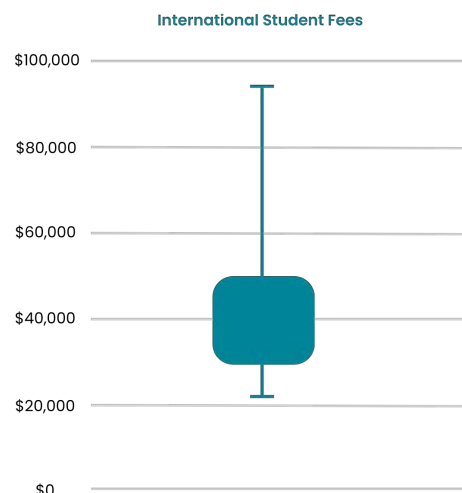
### 1 in 3

students studying in Australian higher education are international students



As a result, this part of the system is more responsive to price, as well as reputation and brand at the country and even city level, alongside the institution and course level. It is also responsive to migration pathways. Australia is the second largest market for international education in the world and has a strong reputation for excellence and student experience, to the credit of our higher education providers. The highest charging courses are, in general, the most popular courses with the highest number of applications.

In practice, this means that the fees international students pay in Australia vary significantly by higher education provider and course. They usually pay significantly more than domestic students (CSP and non-CSP) in the same course.



Data based on course fees from 10 separate courses at undergraduate and postgraduate level from 10 different universities with varying characteristics. Total Number of observations equal to 83.

# Fixing the Anomalies in the JRG Package

Challenges in the Job-ready Graduates (JRG) funding system are well documented in the Panel's Interim Report. As the report articulated, JRG "changes to funding and finance arrangements risk damaging the sector if left unaddressed" and it "needs to be redesigned before it causes long-term damage to Australian higher education".

The three most significant anomalies created through JRG that need correcting are as follows:

## ***Anomalies in student contribution levels***

The JRG system sought to influence students to study in national priority areas by changing the 'price' of CSP courses. This introduced challenges to 'fairness' in the funding system, with some students experiencing major increases in their student contribution that did not reflect future earning potential for the first time. There is widespread consensus that this attempt to shift student demand through price has not been effective, with students continuing to study their preferred course regardless of 'price'. As discussed in the previous section, we know that undergraduate demand has very low levels of price-responsiveness. In part, this is due to Government-provided Income Contingent Loans (ICLs), which are specifically designed to reduce price-responsiveness for equity reasons - to ensure there is no upfront cost for students. Attempts to shift undergraduate demand by price was unlikely to be successful for Commonwealth Supported Places.

## ***A Funding Guarantee regardless of student numbers***

JRG sought to stabilise funding for higher education providers by introducing the Higher Education Continuity Guarantee, in anticipation of lower demand for higher education during COVID-19, creating major inefficiencies in the system. This was initially intended as a short-term design feature.

## ***Equity and Access Funding remained outside of Core Funding***

Through JRG, equity and access funding is provided through grants administered to providers from outside of the funding system through the Indigenous, Regional, and Low SES Attainment Fund (IRLSAF). Placing equity and access funding outside of core funding suggests it is funding an auxiliary function, as opposed to funding essential learning and student support to ensure historically underrepresented student success.

This fund also mixes supply-side funding (to fund the cost of supporting historically underrepresented groups to succeed) with demand-side funding (funding outreach and activity to increase demand and access to higher education).

## Fixing these anomalies in the new Teaching Funding Model

The new Teaching Funding Model will address each of these to ensure a fairer, more coherent and more efficient funding system that supports equity and growth through Core Funding.

## **STIMULATING DEMAND: A SEPARATE FUND FOR OUTREACH AND RAISING ASPIRATION**

The funding system for teaching and scholarship is a 'supply-side' funding mechanism. It supports higher education providers and seeks to drive particular public good outcomes (such as equity and growth) through supply-side incentives and controls.

However, the funding system is not well placed to stimulate demand from students – especially at a time when there is little or no un-met demand for higher education. 96% of students that apply to university currently receive an offer to study. This means that if we want to grow the system, we have to stimulate new and additional demand, as outlined in the Accord's Interim Report.

To achieve the Panel's vision of growth for skills through equity, there must be separate fund dedicated to boosting demand for higher education through outreach activity and raising aspiration. This needs to sit outside of the teaching funding system because it is a demand-side fund, focused on increasing the number of qualified students to enter higher education.

Priority should be given to increasing the percentage of school leavers with Higher School Certificate (HSC) as well as broadening the range of pathways for entry. International comparisons would suggest this activity is best delivered through collaborative (non-competitive), regional outreach efforts to raise aspiration in younger age school students, involving both universities as well as school and community networks.

Key examples of initiatives to boost aspiration and increase demand for higher education in traditionally underrepresented groups have been explored in another 'work package' of the Accord Taskforce, focused on equity and access.

## **SUPPORTING NEW FORMS OF COLLABORATIVE PROVISION**

Further work is required to explore funding mechanisms to support collaboration between higher education providers. Collaboration is vital to ensure new areas of study can be delivered in new locations, drawing on the strengths of established providers. It is also vital to ensure that viable courses in the national interest, which might otherwise not be able to be provided, can continue through a collaborative model of provision.

# System Architecture: The Detail

## Access Courses

<b>Core funding is made up of</b>	<b>Subject Funding</b> <b>Student Contribution</b> No student contribution for non-accredited fee-free Access Courses because they do not result in any formal qualification. <b>Government Contribution</b> Government makes a standard Public Benefit Contribution (PBC) towards the cost of teaching for all Access Courses. TEC will have a role in ensuring that the evidence regarding the estimated cost of teaching will improve over time.
<b>Now, core funding also includes</b>	<b>Needs-based Funding</b> Fee-free Access Courses would be eligible for Needs-based Funding – both student-based and delivery-based – to ensure providers are fully funded to support these students in support of growth and equity targets. See CSP Undergraduate section for more information about Needs-based Core Funding.
<b>Student contributions are supported by</b>	<b>Access to Income Contingent Loans</b> N/A because there are no Student Contributions for non-accredited Access Courses.
<b>Volume and distribution is managed through</b>	<b>Tolerance Band</b> Access Courses would be included within a provider’s Moderated Growth Target. See CSP Undergraduate Section for more information. <b>Eligibility</b> TEC would monitor and oversee self-accrediting courses, allowing providers to design Access Courses for specific student needs to help them transition to higher education. TEC would monitor outcomes to ensure Access Courses are a necessary and distinct offering, as well as supporting positive outcomes.
<b>The role of TEC is</b>	To monitor provision and outcomes. If required, the TEC would have the ability to determine which courses are eligible, or allocate a maximum number of places for Access Courses at a particular provider.



**This is different from the current system because it**

- Removes anomalies from Job-Ready Graduate reforms for Access Courses (currently funded for Commonwealth Grant Scheme only, with some courses then receiving a fixed 'loading' through IRLSAF but this is not based on cost of delivery and allocation is inconsistent).

**We should do this because**

- Based on the 2050 Vision of *growth for skills through greater equity*, many more students will need to come into the higher education system from traditionally underrepresented backgrounds and entry pathways. In this context, Access Courses could provide a crucial mechanism for achieving growth and equity targets across the system.
- Removes anomalies created under JRG reforms and creates a logic for an ongoing, scalable funding system for students, Government and providers of Access Courses.
- Supports growth and equity targets to 2050 by fully funding the provision of these courses, including support of historically underrepresented groups and regional delivery.
- TEC's role in monitoring and overseeing Access Courses is required because these are non-accredited programs that carry full Government funding. TEC's role is to guard against any perverse incentives in the system and to protect the students' interest.

**Success depends on**

- TEC monitoring and improving evidence regarding subject and Needs-based Funding. See CSP undergraduate section for more information.
- TEC effectively and efficiently monitoring and overseeing the delivery of Access Courses, with flexible control to limit EFTSL if TEC decides intervention is required.



# Undergraduate Commonwealth Supported Places

Core funding is made up of

## Subject Funding

### Student Contribution

There are three bands of student contribution towards the cost of teaching: Bands 1, 2 and 3.

The amount students contribute towards their learning (which band) depends on their subject of study. The higher the future earnings potential linked to their field of study, the greater the student contribution. Exceptions include teaching and nursing, to ensure the contribution level for these students is in the lowest band recognising lower lifetime earnings, compared to other professions.

To be clear, there is no upfront cost for any student who is eligible for an Income-Contingent Loan (ICL). See section below.

### Government Contribution

Government makes a Public Benefit Contribution (PBC) based on the estimated cost of teaching, recognising the public value of higher education across the system as a whole. The PBC ensures that Subject Funding (student contribution + Government contribution) meets the estimated cost of teaching for that Field of Education. TEC will have a role in ensuring that the evidence regarding the estimated cost of teaching will improve over time.

Now, core funding also includes

## Needs-based Funding

For the first time, this new Teaching Funding Model will introduce Needs-based Core Funding to support equity, access and high-cost delivery models that generate high public value.

### Student-based Loadings

Government funds the additional cost of supporting equity and access students to succeed, including:

- Low SES
- First Nations
- Disability

The additional cost of supporting historically underrepresented groups to succeed is well-established. These costs include a wide range of both learning support and much broader student support needs.

The approach and distribution of Student-based Loadings would be determined by TEC, based on best evidence available of additional cost, taking account of available funding. TEC would be responsible for determining whether these loadings should be delivered by Equivalent Full-Time Student Load (EFTSL) or headcount, whether they should be scaled by Australian Tertiary Admission Rank (ATAR), and whether there is a compounding effect across the different Student-based Loadings that needs accounting for – along with any other relevant factors. See box below for further exploration of what a Low SES Loading might look like.

### Delivery-based Loadings

Government funds the additional cost of delivering courses in areas of strategic significance across Australia, and in high-cost, high public value programs including:

- Regional delivery
- High-cost, high-priority programs

The additional cost of delivering high-quality programs and supporting students effectively in the regions, often involving duplication of services and multi-campus delivery across large distances, is well documented. This is a loading based on the point of delivery, not the student. See box below for further exploration of what a Regional Delivery Loading might look like.

High-cost, high-priority programs are those that sit well above the estimated cost of teaching but have a clear public value and should be fully funded: work-based learning models, AUKUS – nuclear engineering; training regional doctors. High-cost, high-priority subjects can include areas of specialist provision of teaching and scholarship through small institutes. The loading should be designed to ensure that nationally significant, small-scale specialist courses or institutes receive adequate funding.

The approach and distribution of Delivery-based Loadings would be determined by TEC, based on best evidence available of additional cost, taking account of available funding.

### Student contributions are supported by

#### Access to Income Contingent Loans

Access to HECS-HELP for all eligible students to cover the full cost of their student contribution.

Income Contingent Loans are available for all eligible CSP undergraduate students to ensure there is no upfront cost, but rather the contribution is made after graduation, and only in relation to earnings (income-contingent), with protections in place for low earners.

#### Loan Subsidy

Government continues to fund the cost of both interest-rate subsidies and non-repayment subsidies to HECS-HELP Loans for Commonwealth Supported Places.

### Volume and Distribution is managed through

#### Tolerance Band

All providers should operate within a fully funded Tolerance Band, normally based on EFTSL from the previous year. Providers can respond to demand within this Tolerance Band and be assured of full funding. The Tolerance Band is the space between the Moderated Growth Target at the top and a Funding Floor to provide stability at the top.

#### Moderated Growth Target

Every higher education provider would have a Moderated Growth Target (MGT), based on EFTSL from the previous year.

TEC would determine the approach to MGTs and how these are distributed, noting these should be 'stretch targets' to support overall system growth. For some providers (for example, new providers, those working closely with industry, those in areas of rapid population growth, their MGT would be much higher to allow for rapid growth.) their MGT would be much higher to allow for rapid growth.

Should a provider go above their MGT without agreement from TEC, they can enrol the student but would receive no additional funding – this is a hard ceiling in line with TEC’s role as the responsible system steward. MGTs are intended to be genuine growth targets that support the growth of the system to 2050. If the current system were to grow by 2.8% each year, this would be sufficient to reach the growth target for 2050.

TEC also monitors the quality and direction of provider growth in broad terms, to ensure that growth is aligned with any Mission-Based Compact Agreements. This is in relation to the Tolerance Band and Moderated Growth Target in particular.

### Funding Floor

Every higher education provider would have a Funding Floor – the bottom end of their Tolerance Band (e.g., 5%) – based on EFTSL from the previous year. This is to support those providers who manage higher levels of fluctuation in demand (for example, regional and new providers), and to ensure a stable planning environment for providers to make progress against their mission and public good objectives.

Stability needs to be balanced with the need for funding to follow demand, which a Funding Floor would achieve over time. Determining the Funding Floor for the sector, and any exceptions, would be the responsibility of TEC.

### Eligibility

The eligibility criteria for a provider to be able to offer undergraduate Commonwealth Supported Places are well established. The Minister determines eligibility to offer CSPs and HELP loans. To offer CSPs, a provider must be added to the CGS guidelines by the Minister and then enter into a funding agreement. TEQSA manages registration of providers and regulates against threshold standards and assigns categories. For public universities (Table A under HESA definitions), it is illegal to offer full-fee courses to undergraduates. Undergraduate medical places would continue to be designated.

## The role of TEC is

- Monitor and improve evidence base for Student Contribution Bands, based on future earnings – make recommendations to Government.
- Monitor and improve accuracy of Government’s Public Benefit Contribution (PBC) by improving the quality of evidence regarding the cost of teaching. TEC may wish to consider the feasibility of other methods or approaches to identifying the cost of teaching beyond self-reporting of activity-based costings. TEC may also wish to consider more radical system reform beyond cost-based funding over time (see final section).
- Monitors and improves evidence base for Needs-based Funding to ensure those supporting historically underrepresented groups to succeed are fully funded and access to high-quality regional provision, as well as to high-cost, high-priority programs is fully supported.
- TEC is responsible for allocating the amount the Government sets aside for higher education provision. It determines and manages the Tolerance Band for the sector, to ensure the MGT does not constrain genuine system growth and that the Funding Floor provides the right level of stability, whilst ensuring funding follows demand over time.
- Supports new and a more diverse range of providers outside of the standard Tolerance Band, through Mission-Based Compact Agreements.
- Monitor progress of sector against equity and growth targets to 2050.



This is different from the current system because it

- Remove anomalies from 4 bands of student contributions designed under JRG.
- Restore connection between student contribution and future earnings, to ensure levels of contribution are fairer.
- Remove attempts to influence student demand by price (not effective because ICLs, by design, reduce price responsiveness to almost zero).
- Remove inaccuracies in Subject Funding due to 4 clusters of Commonwealth Grant Scheme (CGS) funding.
- Bring Needs-based Funding inside core funding for the first time (remove IRLSAF and NPILF funding).
- Remove temporary Funding Guarantee introduced in response to COVID-19 (replace with Tolerance Band, including Funding Floor)
- Remove Maximum Basic Grant Amount (\$) and replace with Moderated Growth Target (MGT).
- New role for TEC as system steward.

We should do this because

### **Subject Funding**

It will remove anomalies created under JRG reforms and a logic for an ongoing, scalable funding system for students, Government and providers. Students will experience greater simplicity, transparency, and fairness by contributing towards the cost of their course on the basis of projected future earnings (with protections in place for low earners).

### **Needs-based Funding**

Meeting the additional costs of supporting historically underrepresented groups and delivering in areas of strategic significance will ensure growth and equity targets are supported through one, universal funding system.

### **Tolerance Band**

Introducing a Tolerance Band for providers' Moderated Growth Target alongside a Funding Floor will give providers the freedom to grow and to plan in a stable funding environment, whilst still ensuring that funding follows demand over time.

### **Role of TEC**

Having a responsible system steward in TEC will ensure support for our independent, autonomous providers to flourish, and to ensure progress at the system level towards equity and growth targets for Vision 2050.

Success depends on

- TEC has the resourcing, expertise, evidence and authority required to undertake its functions.
- TEC is able to work effectively with both Government and independent providers, with broad support, respect and engagement.

# Approach to Low SES and Regional Delivery Loading

The Low SES Loading is one of three suggested student-focused Needs-based Loadings, alongside First Nations and disability. The Regional Delivery Loading is one of two suggested delivery-based loadings, alongside high-cost, high-priority subjects.

## APPROACH TO LOW SES LOADING

The Low SES Loading is a Needs-based Funding payment made to higher education providers as part of their core funding, to cover the additional cost of supporting these students to succeed. Before the new Teaching Funding Model is implemented, further design work should be undertaken to ensure this additional funding is distributed to providers in a way that genuinely supports students with additional learning and support needs. A key starting point is to consider scaling the Low SES Loading based on the prior attainment of students (preparedness to study), and to consider whether this loading should be on the basis of headcount rather than EFTSL to reflect the nature of how broader student support is utilised by these students.

### We should do this because:

- Initial analysis shows that low SES students are more likely to attrite or discontinue their studies compared to their medium and high SES peers, even when you control for Australian Tertiary Admission Rank (ATAR) or qualifications on entry. Low SES students may attrite for many reasons, and existing literature and analysis of the data suggests that higher education preparedness is a key factor influencing their success.
- Our analysis of the impact of Australian Tertiary Admission Rank (ATAR) on low SES attrition shows a strong correlation between ATAR and attrition (as with all students), but the attrition gap between low and higher SES students persists. This confirms the need for a loading but suggests that the loading should be scaled by ATAR level (or other measures of preparedness to study) to direct funding towards the students with the greatest need and to any avoid perverse incentives in the system.

### Success depends on:

- **Identifying a method to scale the loading for students entering higher education without an ATAR:** Low SES students are much less likely to be admitted on the basis of ATAR or through secondary school compared to higher SES students, often entering as mature students through VET, other prior qualifications or through work experience. Further research is required to identify a suitable measure of higher education preparedness for a wider range of admission pathways.
- **Deepening understanding of the drivers of attrition:** More work is needed to deepen our understanding of the drivers of attrition of the students historically underrepresented in higher education (including from NCSEHE). We know that these drivers can vary considerably depending on regional and socio-economic circumstances. The system should recognise that local providers are best placed to tailor their use of Needs-based Funding and for TEC to adjust support measures over time.
- **Determining practical implementation of the loading:** including whether it is calculated based on student headcount or EFSTL, whether it is calculated as a % of base funding or a dollar amount, and how a Low SES Loading interacts with other Needs-based Loadings. All decisions will need to consider the diversity of institutions and the treatment of part-time students in potentially compounding existing disadvantage.

## APPROACH TO REGIONAL DELIVERY LOADING

The Regional Delivery Loading is a Needs-based Funding payment made to higher education providers as part of their core funding, to support the higher cost of delivering in the regions. This loading would be based on the point of delivery. This funding is vital to ensure that all students across Australia have access to high-quality provision, no matter where they choose to study.

### We should do this because:

Our initial analysis of regional providers shows that regional campuses operate with significantly lower student numbers compared to metro campuses, with providers often delivering teaching, scholarship and student support across a number of campuses that are spread over large geographical distances. Literature and expert consultations have demonstrated that this results in higher costs of delivery per student. A regional loading should consider campus location, student composition, and scale in distributing funding. This should ensure additional funding is distributed based on need and would avoid perverse incentives in the system.

### Success depends on:

- **Developing evidence to understand and assess the additional cost of regional delivery** more precisely by location, student composition and scale. This deserves much closer investigation, working with our regional providers to learn about their cost drivers, as well as the evidence they have for where specific interventions have had the greatest impact on student retention and success in the regions.
- **Deepening understanding of economies of scale in regional delivery.** This would help inform any scaling of the loading to take account of economies of scale.
- **Determining practical implementation of the loading:** Whether the loading should be percentage-based compared with dollar amount allocations, as well as EFSTL or headcount allocation.

# Postgraduate Commonwealth Supported Places

**Core funding is made up of**

## **Subject Funding**

### **Student Contribution**

Like undergraduates, there are three student contribution bands. Like the undergraduate CSP approach, the amount postgraduate CSP students contribute relates to likely future earnings. Over time, the postgraduate student contribution should increase to be higher than the undergraduate contribution, until it more accurately reflects the higher private rates of return at postgraduate level for these courses.

Any potential increases would not apply to CSP postgraduate teaching and nursing programs, which would remain at undergraduate Band 1 levels of student contribution.

### **Government Contribution**

As in the undergraduate CSP system, the Government makes a Public Benefit Contribution (PBC) based on the estimated cost of teaching, which is generally higher at the postgraduate level, with significant variation by Field of Education.

A higher PBC contribution at the postgraduate level will ensure that the cost of teaching and scholarship is fully funded by Field of Education, to support this critical part of the nation's skills needs to 2050.

TEC will have a role in ensuring that the evidence regarding the estimated cost of teaching will improve over time.

**Now, core funding also includes**

## **Needs-based Funding**

CSP postgraduate study is not eligible for Needs-based Funding. Core funding is set to increase through subject-based funding at this level.

TEC will play a role in monitoring postgraduate CSP to consider if Needs-based Loadings should apply at the postgraduate level in the future, based on evidence of cost and student success rates.

**Student contributions are supported by**

## **Access to Income Contingent Loans**

Access to HECS-HELP for all eligible students to cover the full cost of their student contribution.

### **Loan subsidies**

Government continues to fund the cost of both interest-rate subsidies and non-repayment subsidies to HECS-HELP Loans for postgraduate CSP.

**Volume and distribution is managed through**

## **Tolerance Band**

Postgraduate CSP numbers would be included as part of a provider's Moderated Growth Target within the Tolerance Band for funding. Please see undergraduate CSP section for more information of how the Tolerance Band operates.

Providers have flexibility to move courses between CSP and non-CSP funding, based on TEC's eligible courses (see next section on 'Eligibility' for proposed criteria).



### Eligibility

TEC would determine the eligibility of CSP at the postgraduate level. Potentially, this could be done on the basis of Australian Standard Classification of Education (ASCED) 'Broad and Narrow' Fields of Education that are in national priority skills areas and required for professional pathways. Providers would have full flexibility to offer postgraduate CSP courses within these fields.

For non-eligible courses, providers would need approval from TEC to offer these courses as CSP, through their Mission-Based Compact Agreement. Exceptional arrangements, such as those in place for the University of Melbourne and University of Western Australia, would be supported through TEC.

### The role of TEC is

- To determine and apply eligibility criteria for CSP funding, in a fair and transparent way across the system.

### This is different from the current system because it

- Introduce a high-level control on the eligibility of postgraduate courses to be determined as CSP courses. This will maintain a degree of flexibility for providers, whilst allowing Government to direct public funding towards national priority skill areas and professional pathways.
- TEC would determine the appropriate method of determining eligibility. An initial modelling by ASCED 'Broad and Narrow' Fields of Education would suggest that the vast majority of existing postgraduate CSP courses would remain eligible with only 10% of existing CSP places being affected, half of those being in law and business.

### We should do this because

- There is a strong case for Government supported postgraduate places in areas of high public value (incl. teaching and nursing), national priority skills areas and for equity reasons. Postgraduate skills play a critical role in meeting the future skills needs of the Australian economy.
- Postgraduate students on Commonwealth Supported Places should contribute a fair amount to the cost of teaching, just as undergraduate students do, based on future earnings. QILT data demonstrates an average earnings premium of 35% for postgraduates compared to undergraduates but this includes very high-earning courses outside CSP (e.g. JDs and MBAs).
- More detailed analysis of earnings data suggest that, for the relevant cohort of postgraduates, earning premiums are in the region of 15% above that of undergraduates 5 years after graduation, but with considerable variation by subject. The TEC should consider whether, over time, this earning premium should be reflected in the 3 Bands of student contribution and whether any postgraduate contribution premium should vary by Band to reflect variations by subject.
- This proposal provides full flexibility for providers to offer CSP postgraduate courses within the set of eligible Fields of Education. This approach seeks to balance the need to give maximum flexibility to providers to manage fluctuations in demand and local market conditions, alongside TEC's responsibility to ensure that public investment is directed to areas of highest public value across the system as a whole.
- The method of determining eligibility would be the responsibility of TEC. We note that doing so by ASCED 'Broad and Narrow' Fields of Education is both deliverable (providers use these categories) and would ensure a level playing field for competition between providers.

### Success depends on

- TEC successfully identifying, maintaining, reviewing and updating national priority fields of education that can receive CSP postgraduate funding.

# Non-Commonwealth Supported Places (Undergraduate and Postgraduate)

## Core funding is made up of

### Subject Funding

#### Student Contribution

Students cover the full cost of their course in this 'full fee' part of the system. The price is set by the provider. Price controls do not operate in this part of the system but student demand and the HELP Loan maximum both play a part in ensuring the vast majority of programs are accessible for anyone with access to FEE-HELP.

#### Equity Levy

For the small number of high fee courses (e.g., above \$40,000 per year), TEC will apply an Equity Levy. Providers will be obliged to re-invest a proportion (e.g., 20%) of fee income above this level back into scholarships and bursaries for historically underrepresented students on these programs, to ensure they have access to, and can benefit from, these high-fee courses.

#### Government Contribution

There is no Government contribution for non-CSP courses. A healthy, 'full fee' course offering is an essential part of a diverse, robust, and responsive higher education system and is in line with comparable international systems.

## Student contributions are supported by

### Access to Income Contingent Loans

Access to FEE-HELP for all eligible students to cover the cost of their student contribution up to the HELP Loan maximum which is currently about \$113,000 for most students (2023). (The limit for students studying medicine, dentistry and veterinary science courses leading to initial registration or eligible aviation courses will be about \$162,000 in 2023).

Income Contingent Loans (ICLs) are available for all eligible students to either cover or go towards the cost of their course. ICLs seek to ensure that the student contribution is made after graduation, and only in relation to earnings (income-contingent), with protections in place for low earners.

### Loan Subsidy

All non-CSP students accessing FEE-HELP make a Loan Subsidy Contribution. This contribution gets added to their HELP Loan and is repaid after graduation, on the same income-contingent basis. This ensures there are no invisible public subsidies on loans (interest rate subsidy and non-repayment subsidy).

For undergraduates, this would replace the 20% Loan Fee and stay at this level. For postgraduates, TEC would need to undertake further research to determine the appropriate level. TEC would be responsible for monitoring the appropriate level of Loan Subsidy Contribution based on analysis of repayment data over time.

## Volume and distribution is managed through

There are no volume or distribution controls in this part of the system. This provides maximum opportunity for growth, responsiveness and diversity of providers.

### The role of TEC is

- There are no volume or distribution controls in this part of the system.
- This provides maximum opportunity for growth, responsiveness and diversity of providers.
- Advise government on loan subsidy contribution level.

### This is different from the current system because it

- Reduces invisible Government subsidy on loans in some parts of this system (interest rate subsidy and non-repayment subsidy).
- Ensures consistency of approach across non-CSP system, undergraduate and postgraduate.
- Creates a mechanism to support historically underrepresented groups to access high-fee programs.

### We should do this because

- A healthy level of non-CSP postgraduate study is an essential part of a flourishing postgraduate system.
- Large parts of the postgraduate system equip graduates with a specific advantage in a specific labour market, as demonstrated by high private rate of return in some areas. These higher private returns benefit a small proportion of the population at postgraduate level, around 10% of the young population (OECD).
- Whilst it is an important responsibility of Government to ensure loans are in place to support all qualified students to access postgraduate courses, it is generally accepted – and in line with international comparison – that these courses do not receive public subsidy.
- Supports growth and equity targets to 2050 by enabling highly responsive growth and new forms of provision, including with industry, alongside new levels of support for historically underrepresented groups.

This part of the system is highly complex and potential options for reform divide opinion. This area should be subject to further consideration and development by TEC, working with people with deep system expertise alongside providers.

### Success depends on

- The continued provision of Government ICLs for non-CSP students.
- TEC having the authority to determine and monitor the Equity Levy.



# Deregulated international student market

<b>Core funding is made up of</b>	<b>Subject Funding</b> <b>Student Contribution</b> International students pay full fee for all courses at postgraduate and undergraduate level. Price is set by providers, which operate in a 'full fee' internationally competitive market. <b>Government Contribution</b> There is no Government contribution for courses in the deregulated, international market.
<b>Student contributions are supported by</b>	<b>Access to Income Contingent Loans</b> International students are not eligible for Income Contingent Loans. Students must cover the full fee through other means. This is standard across international comparisons of competitors.
<b>Volume and distribution is managed through</b>	There are no volume or distribution controls in this part of the system. This provides maximum opportunity for growth, responsiveness to demand and diversity of providers in this market.
<b>System stewardship</b>	The international student market continues to be regulated by Tertiary Education Quality and Standards Agency (TEQSA) and Education Services for Overseas Students (ESOS) Framework.
<b>This is different from the current system because it</b>	This is a continuation of the current system.
<b>We should do this because</b>	A deregulated system for international students allows the sector and broader Australian community to benefit from a more diverse student body, provides a highly valued source of income for the sector and delivers benefits to the broader economy. This both benefits higher education providers and brings inward investment to Australia.  Education is now the 4th largest export, and largest service export, in Australia. It was worth \$37.5 billion to the Australian economy in 2019-20.
<b>Success depends on</b>	Higher education providers continuing to deliver high-quality, internationally competitive courses which meet the demand of international students.



# Glossary of Terms

**Access Course.** Non-accredited fee-free access courses that support traditionally underrepresented students to enter higher education.

**ATAR: Australian Tertiary Admission Rank.** A number between 0.00 and 99.95 that indicates a student's position relative to all the students in their age group. Universities use the ATAR to help them select students for their courses.

**CSP: Commonwealth Supported Place.** A place at a university or higher education provider where the government pays part of a student's fees. This part, paid by government, is a subsidy and is not repayable by the student. This also means that the student is subject to regulated student contributions/fees.

**EFTSL: Equivalent full-time student load.** A measure of a full-time student's annual study load.

**ESOS: Education Services for Overseas Students Framework.** ESOS legislation makes sure training providers meet nationally consistent standards in education delivery, facilities and services, and provides tuition fee protection for international students.

**FEE-HELP.** Government Loan scheme that helps eligible students to pay their tuition fees based on earnings. Students at all levels can borrow up to their total HELP Loan limit (HECS-HELP + FEE-HELP).

**Funding Floor.** A proposed mechanism to ensure funding stability for providers. It represents the bottom end of the proposed Tolerance Band for a provider, based on EFTSL from the previous year. This is to support those providers who manage higher levels of fluctuation in demand.

**HECS-HELP.** An Income-Contingent Loan that assists eligible Commonwealth supported students to pay their student contribution amount. There is a HELP Loan limit that applies to both HECS and FEE-HELP.

**ICL: Income-Contingent Loan.** A loan collected through the income taxation system, repaid in relation to earnings, and only when future incomes exceed a specified level.

**JRG: Job-ready Graduates package.** A Commonwealth package introduced from January 2021 that increased the cost of some subjects and decreased the cost of others in an effort to shift demand toward high-priority skills subjects. It also introduced new completion rate requirements, and demand-driven funding for regional and remote Indigenous students and growth in places based on campus location.

**MGT: Moderated Growth Target.** Every higher education provider would have a Moderated Growth Target (MGT) under the new Teaching Funding Model – the top end of their Tolerance Band – based on EFTSL from the previous year.

**Non-CSP: Non-Commonwealth Supported Place.** In some courses, there are limited or no Commonwealth Supported Places available. In these cases, students pay the full fee and do not receive a subsidy from the Commonwealth.

**OECD: Organisation for Economic Co-operation and Development.**

**PG: Postgraduate.** Advanced level courses generally open to students with a bachelor's degree or equivalent.

**QILT: Quality Indicators for Learning and Teaching.** A suite of government endorsed surveys for higher education, across the student life cycle from commencement to employment.

**SES: Socio-economic status.** Socio-economic status (SES) in Australian higher education is determined using a student's residential address. It is based on ABS census data on household educational and occupational status.

**TEC: Tertiary Education Commission.** A proposed independent system steward that would aim to steer the higher education system towards the Panel's vision for 2050.

**TEQSA: Tertiary Education Quality and Standards Agency.** Australia's independent national quality assurance and regulatory agency for higher education.

**Tolerance Band.** A proposed mechanism for controlling volume and distribution of Commonwealth Supported Places, which includes both a Funding Floor on the lower end and a Moderated Growth Target on the upper end.

**UG: Undergraduate.** Accredited courses leading to an undergraduate level qualification.

## A Collaborative Approach to Reform

The ideas and options have been developed through a collaborative partnership between the Australian Department of Education and the James Martin Institute for Public Policy (JMI), working closely with the AUA Panel and sector experts. The ideas and proposals in this report have emerged through a collaborative model of working and do not necessarily reflect the views of any individuals or organisations listed.

## Engagement with the AUA Panel

The AUA Panel was engaged on several occasions across September and October. We thank them for their expert guidance and feedback on their preferred options for the new Teaching Funding Model.

## Project Team

The JMI Project Team was led by Libby Hackett (CEO) with special thanks to UTS and Chris Carter as Research Associate. JMI worked collaboratively with colleagues from the Australian Universities Accord Taskforce, led by Andrew Herd (Director).

## Experts Consulted

Name	Position	Affiliation	Consultation type	Date of consultation
<b>Universities</b>				
Gemma Cadby	Researcher	NESCHE, Curtin University	Workshop	10-Oct
Professor Bruce Chapman	Emeritus Professor	Australian National University	1-1	7-Sep, 22-Sep
Nina Clemson	Director, Planning & Analytics	Charles Sturt University	2-1	8-Sep, 15-Sep, 12-Oct
Dr Clare Hourigan	Director, Planning & Business Intel	University of Queensland	1-1	15-Sep, 12-Oct
Paul Koshy	Research Fellow	NESCHE, Curtin University	Workshop	10-Oct
Iain Lockie	Associate Director Lifelong Learning	RMIT	Workshop	10-Oct
Professor Andrew Parfitt	Vice-Chancellor	University of Technology Sydney	1-1	19-Sep
Tim Payne	Director, Higher Education Policy and Projects	University of Sydney	1-2	13-Sep, 13-Oct
Dr Marco Schultheis	Chief Strategy Officer	Curtin University	1-1	16 Oct
Mark Scott	Vice Chancellor and President	University of Sydney	1-1	16 Oct
Penny Szybiak	Director Planning and Performance,	Charles Darwin University	1-1	18 Oct
Carmen Vogel	Director, Business Services	Charles Sturt University	1-2	8-Sep, 15-Sep, 12-Oct
<b>Other experts</b>				
Ant Bagshaw	Senior Adviser, Public Higher Education & Principal Consultant	LEK Consulting	1-2	11-Sep, 13-Sep, 13-Oct
Mattan Leyzerman	Senior Consultant	Nous Group	Workshop	10-Oct

## Appendix 2: Evidence Supporting the New Teaching Funding Model

- Abbott, M. Doucouliagos, C. (2003). The efficiency of Australian universities: a data envelopment analysis. *Economics of Education Review* 22: 89–97
- Adams, R. (2014). 'University tuition fee rise has not deterred poorer students from applying', *The Guardian*, 13 August 2014.
- Aston, L. Bekhradnia, B. (2003). Higher education supply and demand to 2010. Higher Education Policy Institute (HEPI) Report, UK
- Aston, L. (2003) *Widening Participation and Fair Access: an overview of the evidence*. Higher Education Policy Institute (HEPI) Report, UK
- Aston, L. (2010). *Impact of Fees: a review of the evidence*'. University Alliance Report, UK
- Australian Universities Accord. (2023). Australian Universities Accord Interim Report. Australian Universities Accord, Department of Education
- Bradley, D. Noonan, P. Nugent, H. Scales, B. (2008). *Review of Australian Higher Education: final report*. Department of Education, Employment, and Workplace Relations
- Chapman, B. Lounkaew, K. (2015). Measuring the value of externalities from higher education. *Higher Education* 70: 767 – 785
- Charles Sturt University. (2021). *National Market Analysis – Supply Side Dynamics – 2021 Data*. Charles Sturt University
- Commonwealth of Australia. (2022). *Higher Education Support (Other Grants) Guidelines 2022. Authorised Version F2022L00347*
- Commonwealth of Australia. (2023). *Higher Education Support Act 2003. Compilation No. 88*
- Croucher, G. Patterson, R. Locke, W. Marshman, I. Barone, A. Brooke, M. Gallard, A. (2021). *What does it cost to educate a university student in Australia?* Centre for the Study of Higher Education, University of Melbourne, Pilbara Group
- Deloitte Access Economics. (2022). *Transparency in Higher Education Expenditure. Report Prepared for the Australian Government Department of Education, Skills and Employment*
- Department of Education (2022). *Finance 2021. Higher Education Publications – Finance Publications*
- Department of Education. (2022). *2021 Section 13 – Private Universities (Table C) and Non-University Higher Education Institutions. Selected Higher Education Statistics – 2021 Student data*
- Department of Education. (2022). *2021 Section 2 – All students. Selected Higher Education Statistics – 2021 Student data*
- Department of Education. (2022). *2021 Section 4 – All student load. Selected Higher Education Statistics – 2021 Student data*
- Department of Education. (2022). *2021 Section 5 – Liability status categories. Selected Higher Education Statistics – 2021 Student data*
- Department of Education. (2022). *Funding for Teaching and Learning in Australian Higher Education. Department of Education, Background Paper, September 2022*
- Devlin, M. Zhang, L. Edwards, D. Withers, G. McMillan, J. Vernon, L. Trinidad, S. (2023). The costs of and economies of scale in supporting students from low socioeconomic status backgrounds in Australian higher education. *Higher Education Research & Development*. 42(2): 290-305
- Ferguson, H. (2021). *A guide to Australian Government funding for higher education learning and teaching*. Parliamentary Library, Research Paper
- Hackett, L. (2014). *A comparison of higher education funding in England and Australia: what can we learn?* Higher Education Policy Institute (HEPI) Report, UK
- Hackett, L. (2020). *What has a global crisis taught us about the future of higher education*. Crawford School of Public Policy, Australian National University



- Hackett, L. (2021). Universities need an ambitious and optimistic roadmap. Australian Financial Review
- Hackett, L (2022). We need a “buffer body” between government and universities. The Australian
- Hackett, L. (2022). “Freedom within a framework” – how Australia’s universities can make a full economic contribution. The Policymaker, The James Martin Institute for Public Policy
- Harvey, A. Brett, M. Cardak, B. Sheridan, A. Stratford, J. Tootell, N. McAllister, R. & Spicer, R. (2016). The Adaptation of Tertiary Admissions Practices to Growth and Diversity. Report for the Australian Government Department of Education and Training, Melbourne, Access and Achievement Research Unit, La Trobe University
- Heagney, M. Benson, R. (2017). How mature-age students succeed in higher education: implications for institutional support, *Journal of Higher Education Policy and Management* 39(3): 216-234
- Ivison, D. (2022). Australia’s research funding system is broken—here’s how to fix it. The Policymaker, The James Martin Institute for Public Policy
- JM Consulting. (2004). The costs of widening participation in higher education – A report to HEFCE, UUK and SCOP by JM Consulting Ltd. JM Consulting Ltd, UK
- Li, I. Carrol, D. Jackson, D. (2022). Equity Implications of non-ATAR pathways: participation, academic outcomes, and student experience. National Centre for Student Equity in Higher Education (NCSEHE), Curtin University
- Lindsay, C. (2020). Central Scholarships Report. Division of Students, Charles Sturt University, 2019-2020 Overview
- McMahon, W. (2009) Higher learning, greater good: the private and social benefits of higher education. Baltimore: Johns Hopkins University Press
- Norton A. Kemp, D. (2020). Report of the Review of the Demand Driven Funding System
- Norton, A. (2022). From Private to Public Benefit: The Shifting Rationales for Setting Student Contributions. Melbourne Centre for the Study of Higher Education, Occasional Paper
- Norton, A. (2023). Submission in response to the Universities Accord interim report. Personal Submission, September 2023
- Norton, A. Cherastidtham, I. (2015). University fees: what students pay in deregulated markets, Grattan Institute
- Norton, A. Cherastidtham, I. (2018). Mapping Australian higher education 2018. Grattan Institute
- Norton, A. Cherastidtham, I. (2018). University attrition: what helps and what hinders university completion? Grattan Institute
- Pitman, T. Ellis, K. Brett, M. Knight, E. and McLennan, D. (2022). Calculating the costs of supporting people with disability in Australian higher education. National Centre for Student Equity in Higher Education, Curtin University
- Productivity Commission. (2019). The Demand Driven University System: A Mixed Report Card. Research Paper
- Quality Indicators for Learning and Teaching (QILT). (2022). 2022 Graduate Outcomes Survey National Report Tables
- Rounds, J., Su, R. (2014). The Nature and Power of Interests. *Current Directions in Psychological Science* 23(2) 98 – 103
- Shutt, L. Bell, L. Robinson, M. (2014). H.E.L.P. UK Background evidence report. University Alliance
- Social Research Centre. (2020). 2020 Graduate Outcomes Survey. Social Research Centre
- Summary of Submissions to the Accord Discussion Paper – Funding Issues. Department of Education, Internal Document
- Yorke, M. Thomas, L. (2003). Improving the Retention of Students from Lower Socio-economic Groups. *Journal of Higher Education Policy and Management* 25(1): 63-74
- Young, R. (2020). Australian Universities: Thriving in a Changing World? Australian National University, National Security College, Occasional Paper



**Australian Government**  
**Department of Education**

**Australian Universities Accord Taskforce**  
**Department of Education**  
GPO Box 9880  
Canberra ACT 2601  
[education.gov.au](http://education.gov.au)



**James Martin**  
**Institute for**  
**Public Policy**

**James Martin Institute**  
**for Public Policy**  
60 Martin Place, Level 1  
Sydney, NSW 2000  
[jmi.org.au](http://jmi.org.au)