

UA response to the Managed Growth Funding System and Needs-Based Funding implementation consultation papers

August 2024



Universities Australia (UA) welcomes the opportunity to provide our views on the Department of Education's Managed Growth Funding System (MGFS) and Needs-Based Funding (NBF) implementation consultation papers.

These are significant reforms that go hand in one, hence our decision to respond to both papers at once. We have several suggestions for how the proposed elements of a future funding system to underpin the higher education system can be improved and we are ready and willing to work closely with the department on their further development and implementation.

UA is strongly supportive of the Government setting an overall tertiary education attainment target of 80 per cent of working age people by 2050, as outlined in the 2024-25 Federal Budget. Universities and the Government will need to work together to achieve this significant uplift in tertiary participation for the benefit of individuals with university aspirations and the nation.

In support of this goal, UA recommends:

Recommendation 1

The Government work with the sector to develop a *Plan for Sector Growth* and refine the proposed funding arrangements to manage that growth.

Recommendation 2

The Government put student choice be at the centre of the new funding arrangements.

Recommendation 3

The new funding arrangements set a funding margin to ensure student contributions flow to universities to support core institutional activities.

Recommendation 4

The Government reconsider the idea of a university's 'catchment area' to make it consistent with the delivery of modern higher education.

Recommendation 5

The Government implement needs-based funding in stages and refines it over time. Departmental officials working with sector experts should develop a proposal for initial needs-based funding allocations and a plan for further improvement of arrangements.

Recommendation 6

The Government review the Job-ready Graduates (JRG) Package.

Recommendation 7

The Government develop appropriate transition arrangements for the new funding arrangements to shield universities from adverse financial impacts.

If Australia is to succeed both economically and socially, it is crucial that we have a strong, growing and robust university system as part of a dynamic tertiary education system. If our universities are to deliver on the Government's ambitious growth and equity targets, we need to ensure they are financially viable. A pre-condition for this is a reasonable level of funding certainty and operational viability to meet student needs and growth.

In our feedback on the Australian Tertiary Education Commission (ATEC), UA recommended that the ATEC should initially concentrate on an examination of the current funding issues in higher education and provide expert advice on how to address funding viability and equity as a priority. We also recommended the ATEC be tasked with convening sector experts to assist in the design of the future funding system to underpin growth, student choice, equity and institutional need. Both should be first-tier priorities for the ATEC.

UA believes the proposals in the two funding discussion papers are not sufficiently consistent with the overall direction of the Accord's recommendations, particularly those concerning sector growth. They require further work.

UA extends an invitation to work with the department and the Government — drawing on our depth of expertise and sector knowledge — on the further design and development of the funding proposals and appropriate transitional arrangements. This work should continue while the ATEC is being established. Delaying the work would have significant risks, especially given the current state of the sector's finances.



Observations and recommendations on improving the funding proposals

Recommendation 1

The Government work with the sector to develop a Plan for Sector Growth and refine the proposed funding arrangements to manage that growth.

The MGFS implementation consultation paper does not sufficiently articulate how the sector should grow to meet Australia's future skills needs. Significant elements of the proposals are about reducing university funding allocations with little discussion on what this might mean for ensuring that all students are able to access a quality university education. Proposals to fully defund overenrolments and to phase-down the funding of universities currently underenrolled are presented with little analysis of the reasons for these patterns or the implications for future students.

The consultation paper has not outlined a medium-term growth plan that is consistent with the Government's objective to grow the tertiary education attainment of working age Australians from 60 to 80 per cent by 2050. It does not contain proposals for how new growth places and redistributed places will be allocated to institutions in future years to improve access for under-represented cohorts and to meet skills needs.

Departmental officials and sector representatives/experts should work together to develop an achievable and realistic growth trajectory for the sector over the coming decade. This should consider the need for any short-term changes to the distribution of funded places across institutions and the implications of this for estimated funding losses in 2026 when the Continuity Guarantee ceases.

Recommendation 2

The Government put student choice should be at the centre of the new funding arrangements.

The MGFS implementation consultation paper implies a significant degree of central control will be exercised over the sector and assumes an ability to influence student choices and predict student behaviour in ways that are unlikely to be borne out in practice.

To meet the growth targets outlined in the Australian Universities Accord final report, the principle that funding arrangements need to be responsive to student choice should be accepted. Proposals seeking to direct students to particular courses or providers are unlikely to work. Students are more likely to study and train when they are pursuing their aspirations and passions. Any funding model must be capable of responding to changes in student behaviours and profiles.

Recommendation 3

The new funding arrangements set a funding margin to ensure student contributions flow to universities to support core institutional activities.

An effective future funding system must allow for variability in final student load arising from uncertainty in offer/acceptance processes and the impact of economic circumstances on student study loads. UA proposes a margin of 2-3 per cent where providers can retain student contributions in order to meet student demand, which could differ from expectations semester to semester. This margin also reflects the uncontrollability of macro-economic factors such as changes to the unemployment rate and inflation factors, which influence student decision-making.

In the past, this has been managed by institutions continuing to receive student contributions for excess student places, despite not receiving Commonwealth subsidies. This provides an appropriate balance of the competing considerations. It partially meets institutional costs, supports maintenance of quality and the meeting of student demand, while not undermining the objective to manage the distribution of student load.

The excessively high student contributions of some disciplines (resulting from the JRG changes to student contributions for arts, law, etcetera) might be viewed as inhibiting the management of student load. As the level of these contributions virtually fully funds these student places, there is little penalty associated with overenrolment in those disciplines.

This issue is separate to the importance of a variable funding system that responds to changes in student behaviour and sudden economic and labour market shifts. Disproportionally high student contributions in some disciplines should be dealt with directly through a redesign of the student contribution levels as recommended by the Accord.

Recommendation 4

The Government reconsider the idea of a university's 'catchment area' to make it consistent with the delivery of modern higher education.

The consultation paper seeks feedback on what considerations need to be included when defining and determining local catchment areas as part of arrangements to ensure that students from under-represented cohorts are guaranteed a fully funded Commonwealth supported place.

UA does not believe it will be possible to develop a definition of a provider's catchment that can be integrated into the funding arrangements for student places. Students, both school-leaver but particularly non-school-leaver students, follow a range of behaviours that make it difficult to define geographically bound areas for engagement and growth. It would be difficult for the definition to capture the realities of current higher education delivery (especially online delivery), the impact of transportation systems on the accessibility of different universities and the vast distances students have cover in travelling to university.



UA believes student choice should be at the heart of the funding model. Existing mechanisms for student choice, including use of Tertiary Admissions Centres, could assist in supporting the Government's intention to meet local demand.

This adaptation from the proposed catchment-based model should be considered by a working group of sector experts and departmental officials to ensure demand is sustainable for both individual providers and the sector.

Recommendation 5

The Government implement needs-based funding in stages and refines it over time. Departmental officials working with sector experts should develop a proposal for initial needs-based funding allocations and a plan for further improvement of arrangements.

Both the MGFS and NBF implementation consultation papers seek input on definitions for under-represented groups. UA cautions against readily conflating the issues of a student's access to a funded place and their need for additional support to ensure they can succeed.

The Government's *Support for Students* policy recognises that all institutions have a general obligation to support students to succeed. The NBF implementation consultation paper recognises that an institution may need additional funding to provide the required level of support to all its students. This may be necessitated by the characteristics of its students, the sheer number of students requiring extra support or factors such as higher regional costs which was articulated in the Accord Final Report based on research undertaken by the Mitchell Institute.¹

Needs-based funding needs to move beyond the approach of the current Higher Education Participation and Partnerships Program (HEPPP) which funds identifiable programs for disadvantaged groups. If universities are to successfully attract more equity students and have them succeed, then core teaching and other services may need to change. Universities are best equipped to identify these changes within a framework that monitors their performance.

The higher education system's future funding arrangements should ensure that all students have access to the teaching and support services they need to succeed and that all institutions are able to provide this without jeopardising their financial viability.

This access should, as recommended in the Accord final report, include a provision of funding to support provider teaching and learning outreach initiatives to build capability and aspiration for equity students to access, participate and succeed at university at levels commensurate to the Government's growth targets.

It should not be assumed that student load (EFTSL) is the most appropriate way of distributing funds to achieve this. While some support services may relate to the amount of study students are undertaking, others do not. This issue requires further examination.

UA recommends departmental officials and sector experts work together to:

- define the proposed categories of students and collect available evidence concerning the cost of meeting their needs (for the purposes of an initial distribution of needs-based funding).
- identify the current programs to be rolled-in to the new arrangements (for example, HEPPP, regional loading, etcetera) and make recommendations concerning the adequacy of the resulting pool of funds to ensure student needs are met.
- undertake a comparison of potential initial allocations of needs-based funding with existing institutional allocations from the relevant programs and consider the need for any transitional arrangements.
- identify any implications for current data collections and regulatory policies, such as the *Support for Students* policy.
- consider and recommend to government how needs-based funding should be refined and evaluated over time.

¹ Needs-based funding: Lessons from the school sector, Victoria University (vu.edu.au)



Other funding policies that need consideration

Recommendation 6

The Government review the Job-ready Graduates (JRG) Package.

The sector's concerns about the use of the "Transparency in Higher Education Expenditure" Deloitte studies to set JRG funding rates have not abated, nor have concerns about the JRG approach to setting student contributions.

Currently, the proposals for changes to funding arrangements retain the JRG settings. There is a risk this will compromise the future funding model.

It is time for a new approach to accurately measure university costs and to map the path to more appropriate funding settings, including an affordable contribution system for students. The work should begin now and should be transitioned to the ATEC once it is established and has the capability to continue progressing it.

Considerations for the development of transition arrangements.

Recommendation 7

The Government develop appropriate transition arrangements for the new funding arrangements to shield universities from adverse financial impacts.

For several years, universities have been operating in a volatile financial environment. They will continue to face financial pressures due to both economic circumstances and major changes to government policy.

Real total funding for Commonwealth supported student places has substantially declined over the last seven years and will further decline under current funding arrangements, particularly if there is a rebound from current soft student demand. Future opportunities for revenue supplementation by meeting international student demand appear likely to be constrained.

Prior to COVID-19 and the introduction of JRG, less than 20 per cent of universities were in financial deficit in any year. In 2020, this rose to 40 per cent of universities (around 15) and by 2022 and 2023 was close to 70 per cent (around 26). Fewer institutions were in deficit in 2021 due to a series of largely one-off specific circumstances.

The Government has extended the Higher Education Continuity Guarantee to 1 January 2026. The major changes being proposed to funding arrangements warrant transitional arrangements being closely examined as the proposals for managed growth and needs-based funding are further developed.



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