THE UNIVERSITY OF MELBOURNE

Melbourne CSHE expert discussion

What will the Tehan changes mean for students and universities?

Presenters: Frank Larkins, Tamson Pietsch & Mark Warburton

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Some key measures from the Jobs-ready Graduates package

- **Change to funding clusters and HELP bands** to reflect 'cost of delivery', with around 40% of students to make increased contributions, e.g. a $7,696 increase for humanities (113% change). Rest contribute the same or less, e.g. a $3,104 reduction per year for nursing (-46% change).
- Introduction of a **'funding envelope'** for the Commonwealth Grant Scheme, with relaxed rules on distribution of sub-bachelor, bachelor and postgraduate places. **Return to indexation @ CPI**.
- **Differentiated growth in CGS allocation** per year of 3.5% for regional campuses, 2.5% for high-growth metropolitan and 1% for low-growth metropolitan areas.[1]
- **Regional support measures**, including: a Regional Education Commissioner; a new Tertiary Access Payment; expanded Regional University Centres, and; research collaboration grants for regional universities
- **Several funding schemes (including HEPP) consolidated** into two new programs from 2021:
  - **National Priorities and Industry Linkage Fund** (NPILF)
  - **Indigenous, Regional and Low SES Attainment Fund** (IRLSAF).
- **Reduce FEE-HELP loan fee** to 20% from 25%
- A **new tertiary qualifications framework** to be developed
- Establish a **Higher Education Integrity Unit** within the Tertiary Education Quality and Standards Agency (TEQSA).

[1] Increased funding for non-medical places

University income in Australia and the UK, 1922-2017

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Australian Centre for Public History
@cap_and_gown

The New Social Contract podcast:
exploring the changing relationship between universities, the state and society
https://player.whooshkaa.com/shows/the-new-social-contract

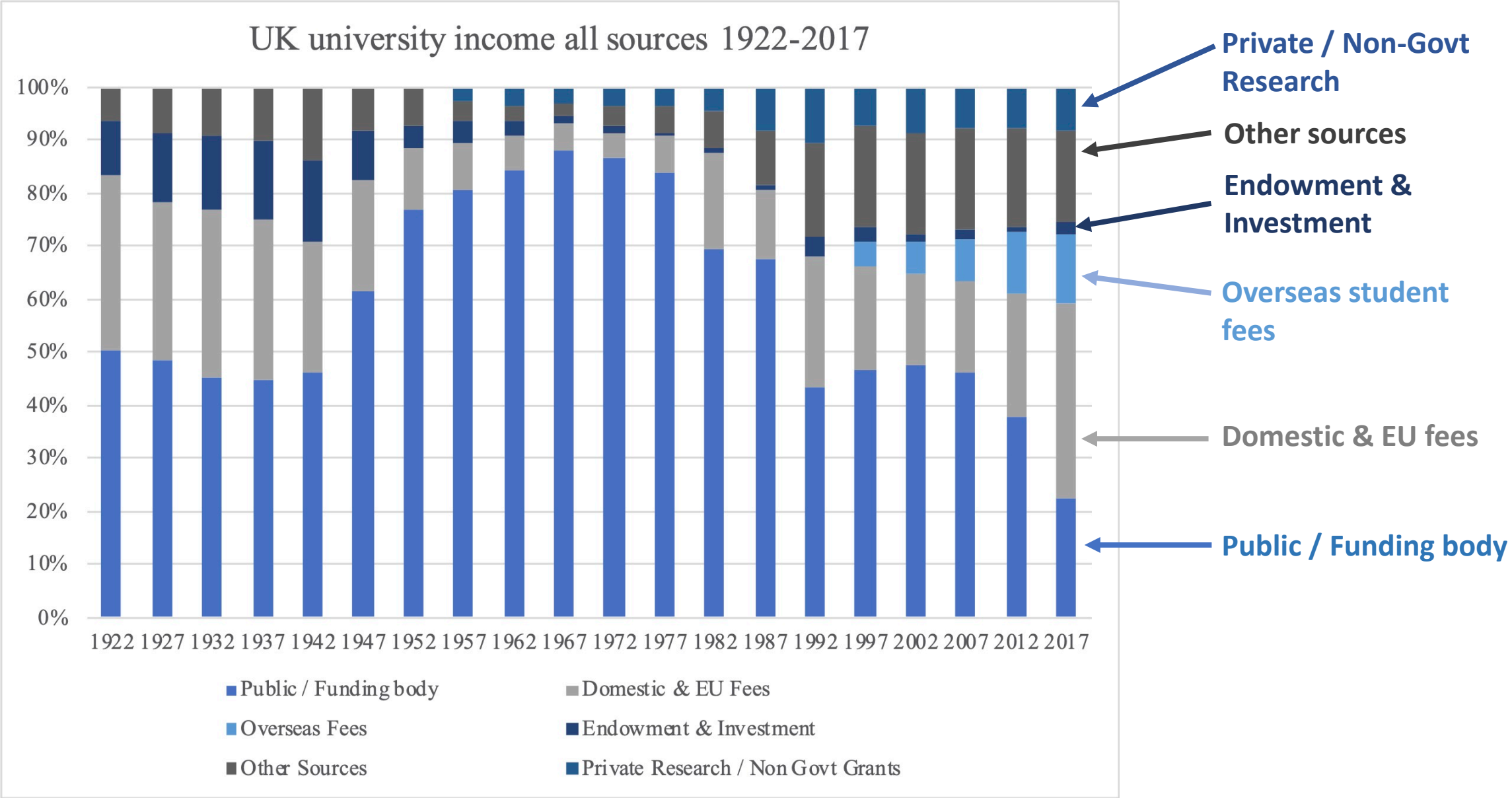
Note on sources

United Kingdom

- Vincent Carpentier's *Historical Statistics on the Funding and Development of the UK University System, 1920-2002*
- HESA data (1997-2017)

Australia

- *Commonwealth Yearbooks*
- Commonwealth Tertiary Education Commission (CTEC) *Supplementary Reports*
- *National Reports on Australia's Higher Education Sector*
- Selected Higher Education Finance Statistics
- *Financial Reports of Higher Education Providers* : Higher Education Data Cube (uCube)


UK university income all sources 1922-2017
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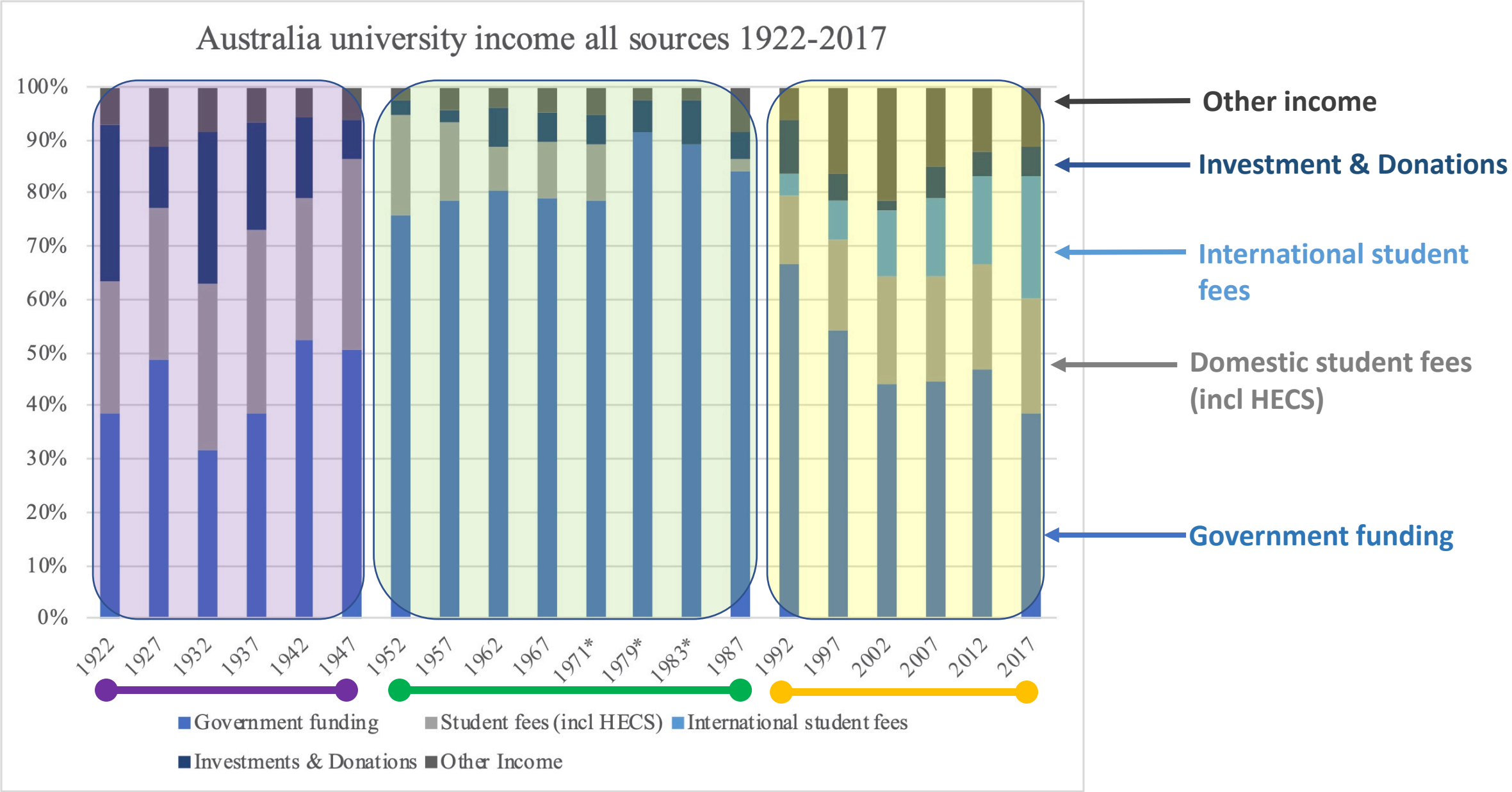
Public / Funding body
Domestic & EU Fees
Overseas Fees
Endowment & Investment
Other Sources
Private Research / Non Govt Grants
Private / Non-Govt Research
Other sources
Endowment & Investment
Overseas student fees
Domestic & EU fees
Public / Funding body


Australia university income all sources 1922-2017
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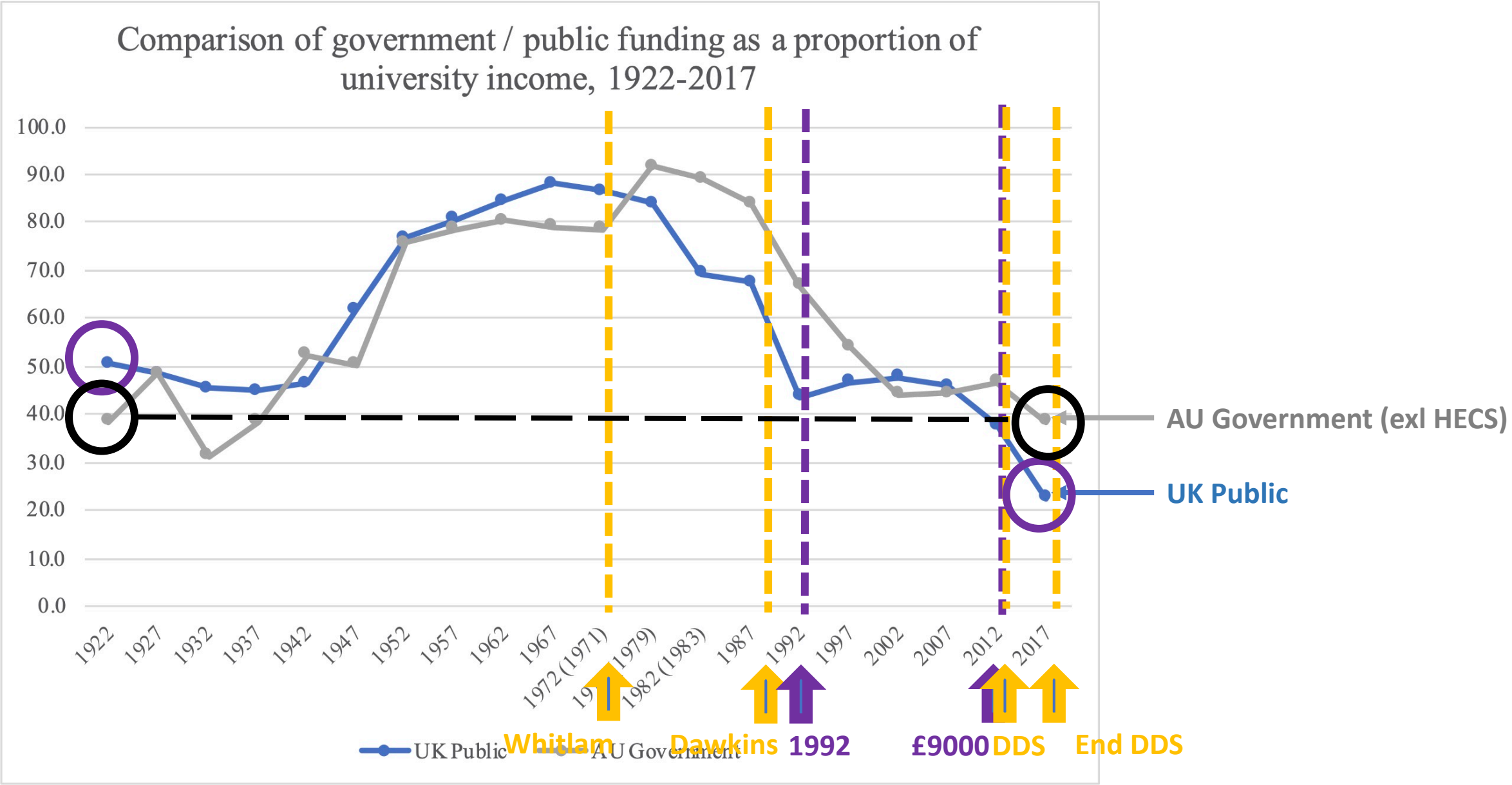
Government funding
Student fees (incl HECS)
International student fees
Investments & Donations
Other Income
Other income
Investment & Donations
International student fees
Domestic student fees (incl HECS)
Government funding


Comparison of government / public funding as a proportion of university income, 1922-2017
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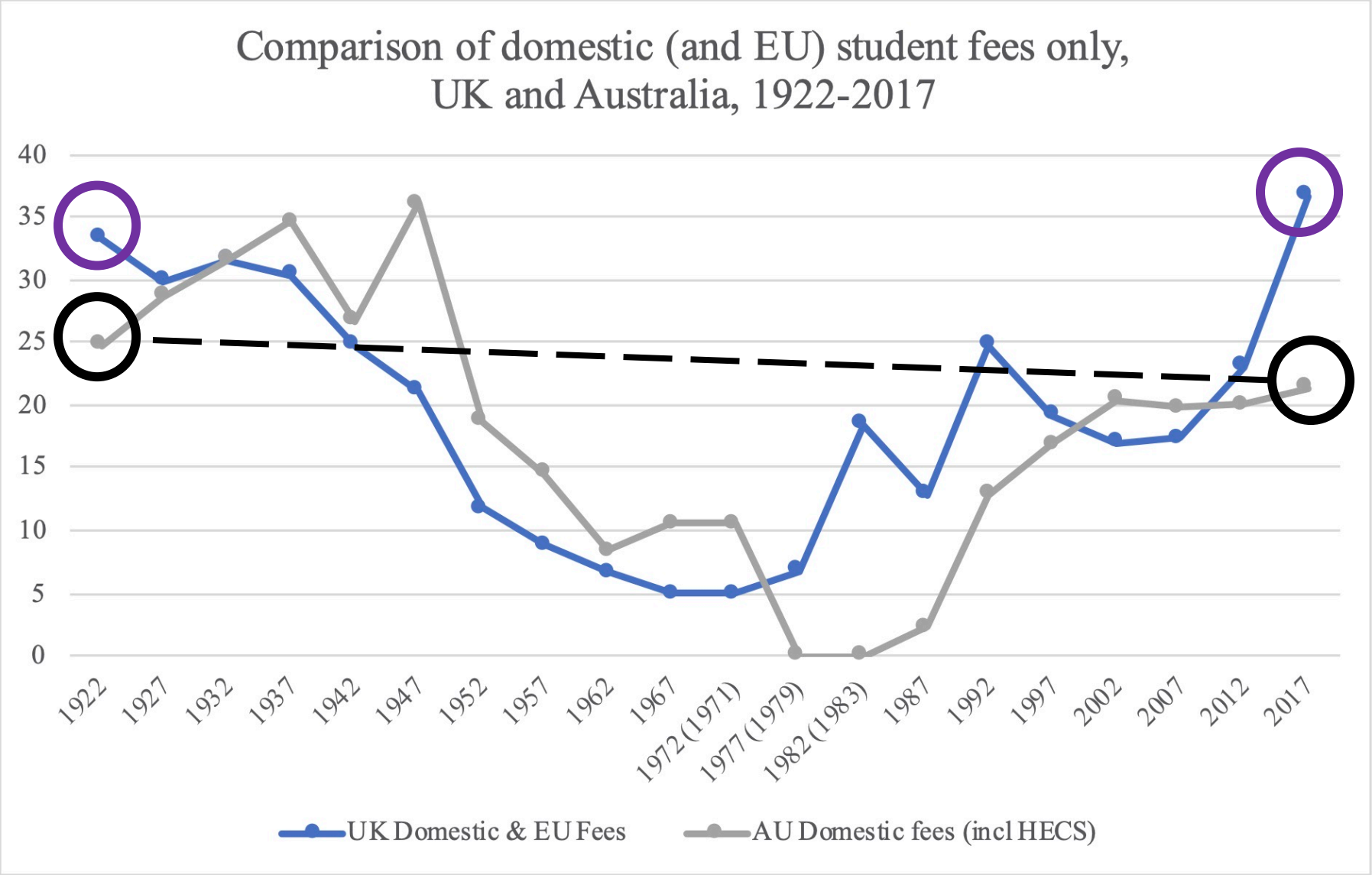


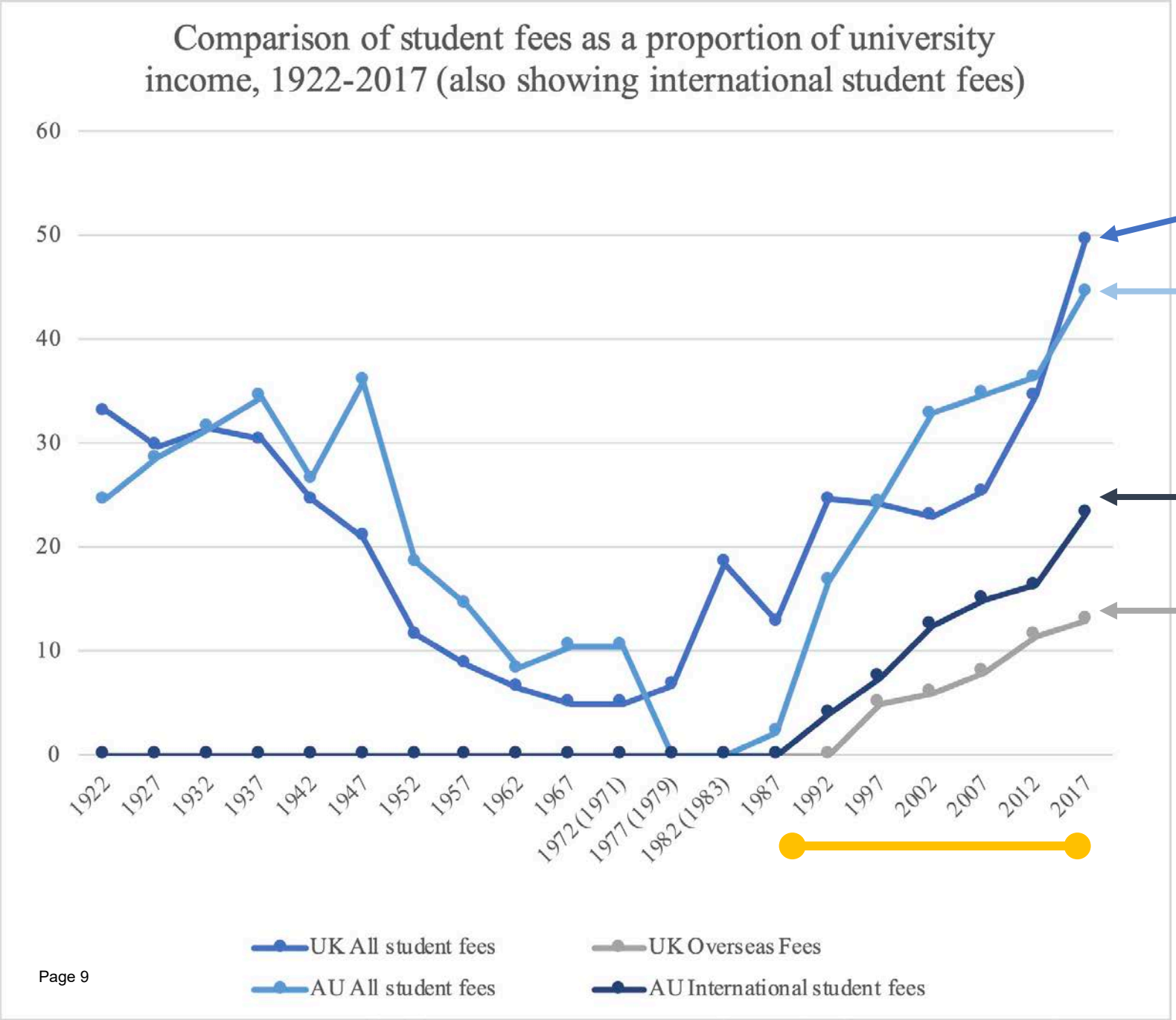
CAVEAT

UK until 1962 – 10% domestic fees are "overseas"

UK 1981 – full cost fees for "overseas" students

AU 1966 - 8.9% int. students (almost all full fee paying)

AU 1990 – Int. students admitted on full fee basis (fees from 1986)



UK All student fees

AU All student fees

AU International student fees

UK Overseas student fees

<u>CAVEAT</u>

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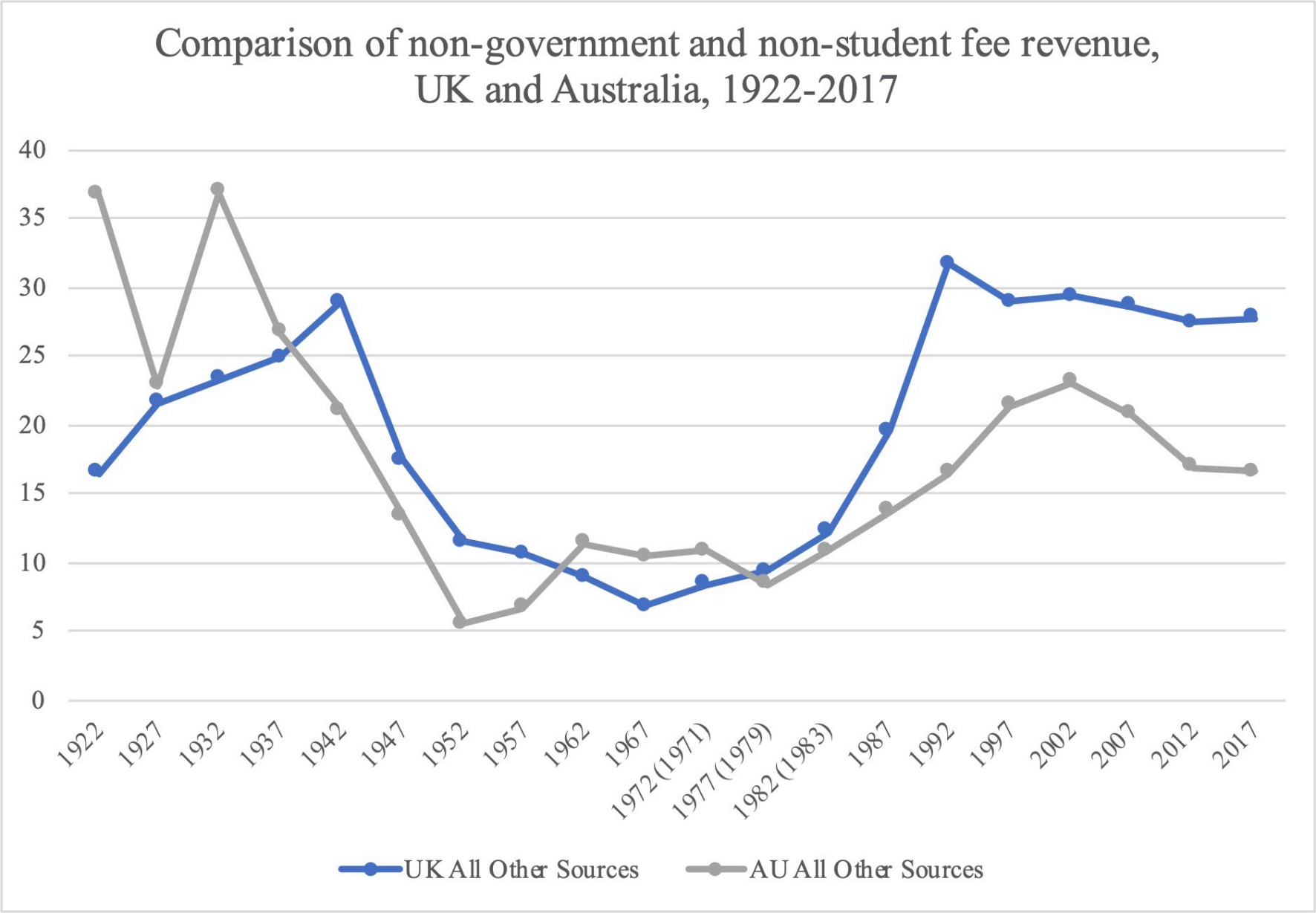


Comprising:

- Investments & endowments
- Non-govt research
- Consultancy, royalties
- “Other sources”

UTS

Contact: tamson.pietsch@uts.edu.au

This data will be published in a forthcoming article:
Tamson Pietsch, ‘Comparison of university income in the United Kingdom and Australia, 1922-2017’, *History of Education Review,* 49:2 (2020)

The Job-ready Graduates policy was released on 19 June 2020. There has been much public discussion that there is little evidence student's will alter their study preferences in response to changes in student contribution levels.

Today I want to look at the overall financial impacts of policies over the period from December 2017 when demand driven funding ended to 2024 when the new package is fully implemented.

The Government hasn't yet released any analysis of the overall impacts of its new polices or their longer term Budgetary impacts, so I have attempted to model them. I am presenting the findings of that modelling today, for discussion and potentially for refinement.

My three main findings are that:

- the growth in student places in the package is largely illusory;
- university revenue for teaching will decline substantially in real terms; and
- the Government will save around $1 billion dollars over the period which it could use to support research, if it chose to do so.

Where are we & how did we get here?

2012
Demand driven funding for Bachelor level places
40% of 25-34 year olds to have a Bachelor degree or higher by 2025

2014 Budget - unsuccessful
Cut CGS subsidies by 20%/deregulate fees – Govt share under 50%

2017 Budget - unsuccessful
Cut CGS subsides by 10-13%, bringing Govt/student shares to 54/46

2017 MEFYO - the MBGA cap
2-year CGS subsidy freeze, then ongoing reductions in real rate of subsidy

2

Most of you will be aware of the recent history. This slide is just a reminder.

The Government has been unsuccessful in legislating major expenditure savings, increasing student contributions and lowering subsidy levels, on a number of occassions.

For 2018, it used a legislative provision – an 'in case of fiscal emergency, break glass' provision - to stop the cost of student place subsidies from growing.

This wasn't really funding policy. The arrangement was unsustainable.

The differential impact of the MBGA cap on disciplines

Disciplines	Student contribution share of funding	Effective annual efficiency dividend*
Law, accounting, commerce, economics, administration	84%	0.20%
Humanities	52%	0.57%
Education	38%	0.74%
Allied health	42%	0.70%
Nursing	31%	0.83%
Engineering, science, surveying	33%	0.80%

3

It created two big problems. One was that there was no longer CPI indexation of CGS subsidies.

After a 2 year freeze in subsidy levels, there were to be small annual increases based on population growth, but these were less than CPI indexation. In contrast, student contributions continued to be subject to CPI indexation.

Due to disciplines having different government and student contribution ratios, the effect was an efficiency dividend that applied differentially to disciplines.

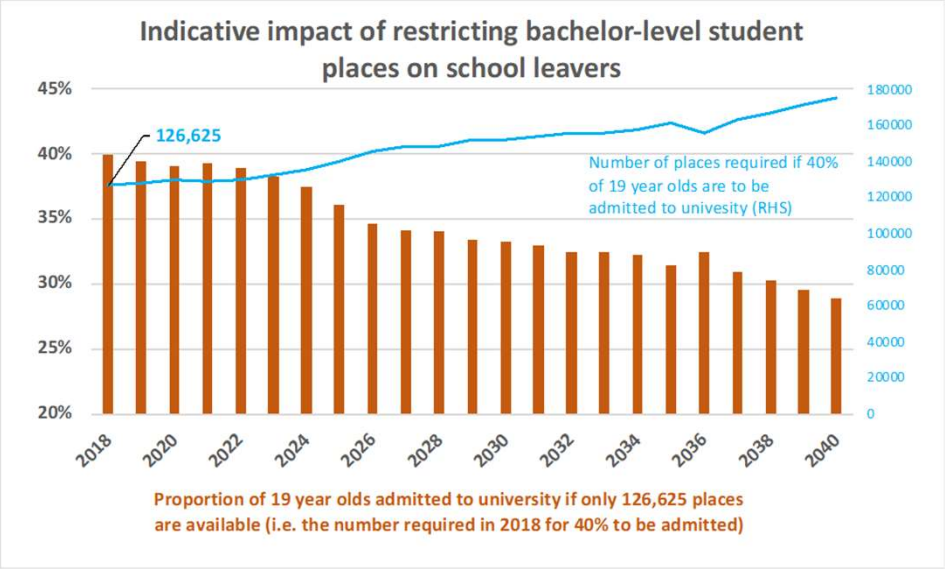
Perversely, disciplines where there was demand for skills were some of the ones subject to the largest efficiency dividends.

Nursing, engineering, surveying, dentistry and science had efficiency dividends of nearly 1 per cent per year. Disciplines like law, accounting, commerce, economics and administration had virtually no dividend applied to them.

This was the reverse of the sort of policy now being espoused by the government.

At a system wide level, the policy meant that fewer places would receive the full Government subsidy specified in the funding legislation. It meant universities could reduce the number of places they provided and still receive the same level of funding.

The ‘cap’ was a policy to reduce participation



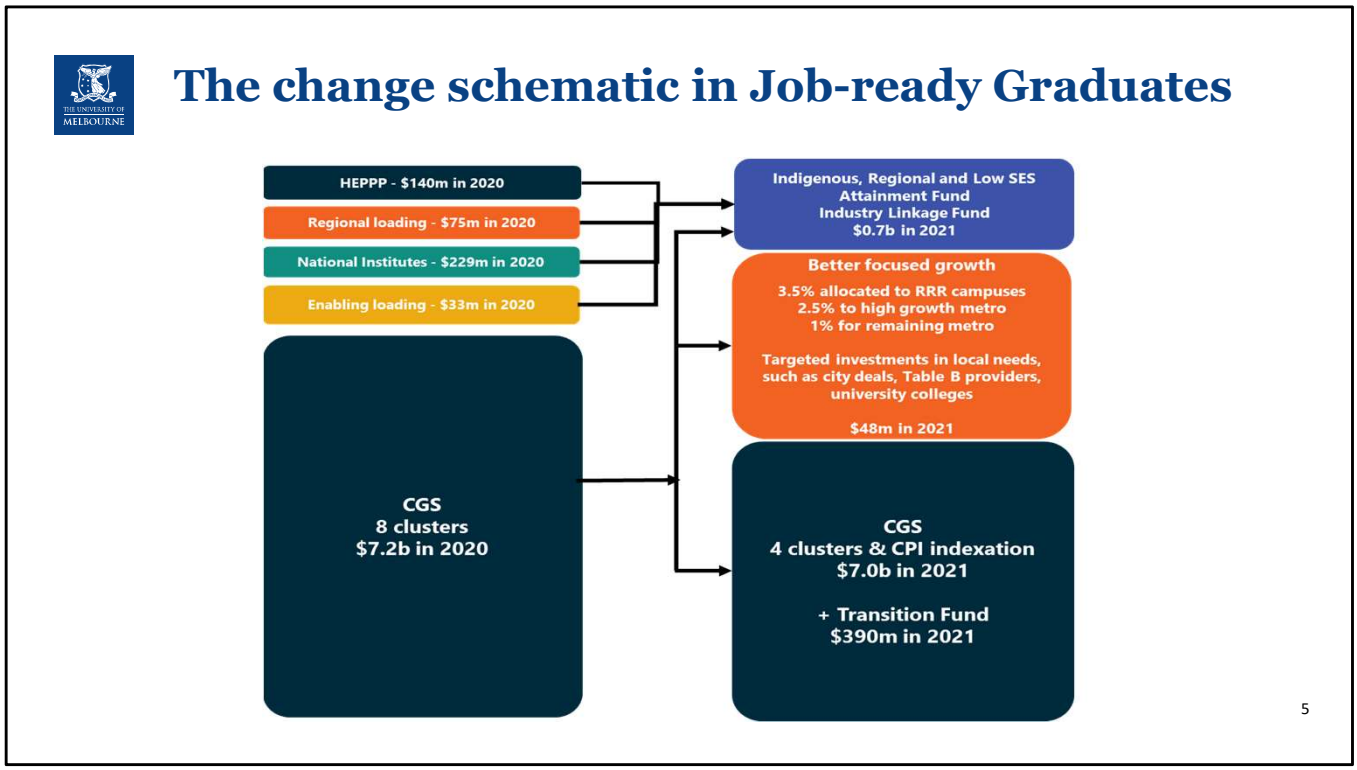
4

The other big problem with the ‘emergency break’ is that there was an absence of any coherent plan for longer term growth. The ‘emergency break’ by itself amounted to a policy to reduce higher education attainment. This chart illustrates how quickly attainment can be eroded if there is no facility to grow the system over time.

The blue line is the number of places required to provide 40 per cent of 19 year olds with a full-time student place and you can see it increasing over time. The 19 year old population is estimated to increase by 23% over the 14 years from 2018.

The orange bars show how the share of 19 year olds who get a full-time student place declines if you just hold the number of available places constant.

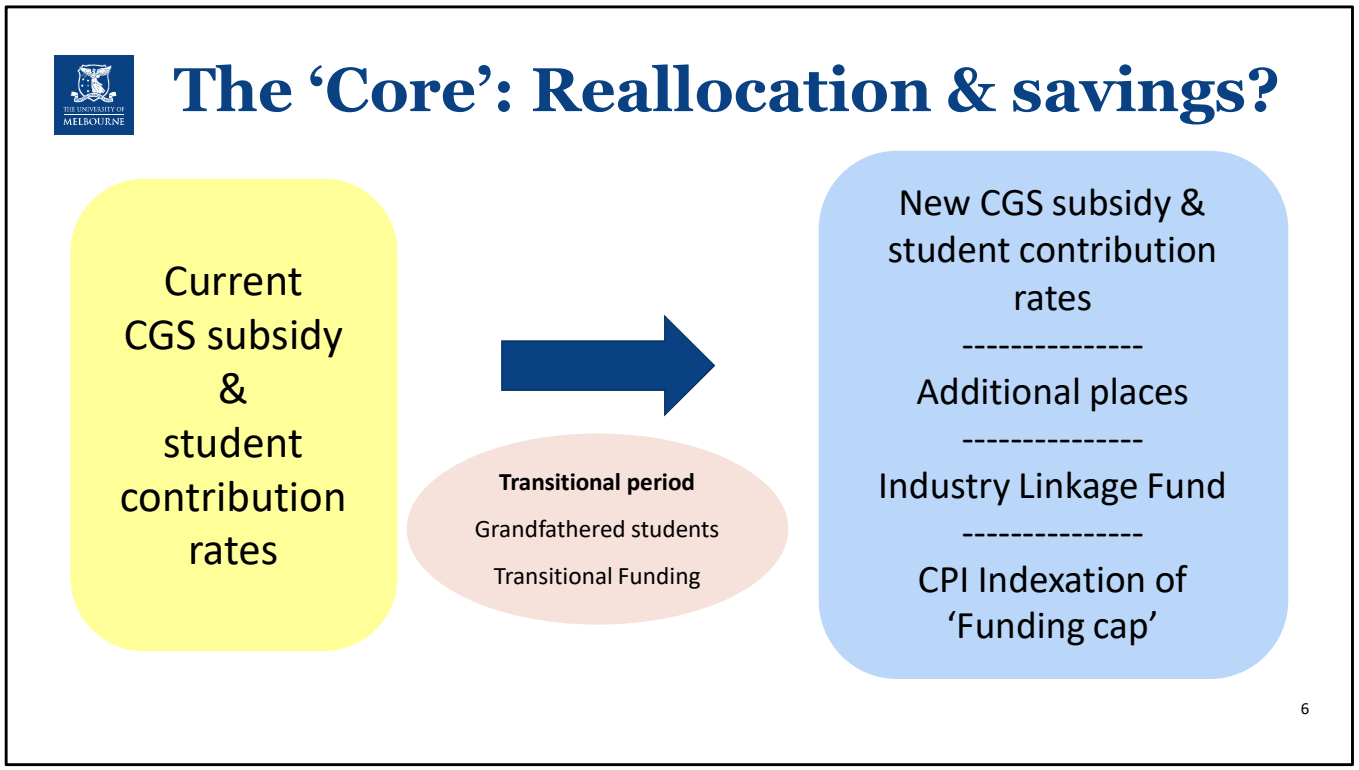
Overall, the ‘use the emergency break’ was unsustainable and the issue has always been what is the government going to do next.



This is the Government's schematic explaining what it is doing.

I found it a bit confusing and it took me some time to unpick what is going on.

It helps to think of Job-ready Graduates as two separate sets of policy changes, rather than as the one depicted here.



The first is the core of the package. It is a self contained set of changes.

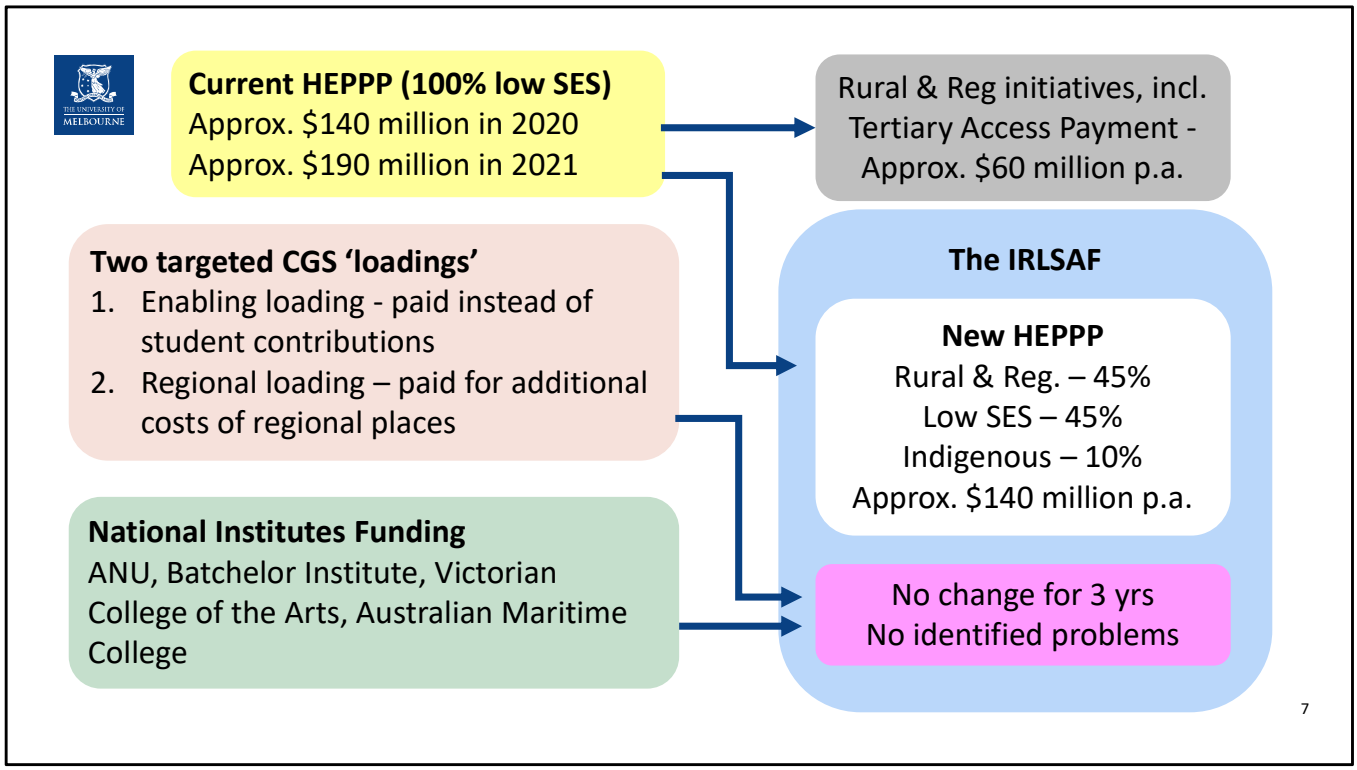
The government is moving from the current subsidy and student contribution arrangements to a new set of subsidy and student contribution arrangements.

In the process, it saves money and some of this is spent on the announced 'additional student places'. The savings pay for one of the two funds announced in the package by the Government, the National Priorities and Industry Linkage Fund (NPILF).

The savings also pay for a resumption of CPI indexation of the subsidies for student places.

There is no other Government funding entering the blue box, but there are additional student contributions going into it.

There is however a sizeable chunk of Government funding left over from the yellow box that, at this stage, appears to be going back into consolidated revenue.



This is the other largely self contained set of policy changes. The only real action is what happens to the yellow box. It involves a radical re-purposing of the largest equity program – the Higher Education Participation and Partnerships Program (HEPPP).

The rural and regional initiatives in the grey box, combined with an allotted 45 per cent of new HEPPP funds, effectively means over 60 per cent of the $190 million for HEPPP in 2021 will now support regional and rural student participation. Less than 40 per cent will be for low-SES and indigenous students.

I will leave it to you to decide if this is a proportionate response to the low tertiary education attainment of rural and regional students, given that we know that attainment by the much larger group of low-SES students also needs lifting.

The second of the funds announced in the package is the Indigenous, Rural and Low SES Attainment Fund (IRSLAF). The programs in the pale pink and green boxes are to go into it, along with the new HEPPP, but there are no concrete proposals as to how these programs are to be changed. Very little of National Institutes funding has anything to do with improving equity or student participation. Most of it is ANU research money.

What's in the core of the package?

1. Align total discipline funding with cost of delivery
2. Lower aver. Govt. subsidy / increase aver. student contribution
3. Provide more places – 39,000 over 4 years
4. Provide dedicated funding for engagement with industry
5. Allow CPI indexation of the new 'funding envelope cap'

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So lets return to the core of the package and see what might be revealed by modelling the proposals. This slide summarises the five main elements. The most significant are the first three.

The government wants to more closely align the funding of disciplines with their with their real cost.

It wants to re-balance the government and student shares of the total funding of disciplines to influence students choices about what they study and their future careers.

It claims it will be able to put more places into the system by making the first two changes.

Model assumptions

Aim is to look at the national financial impacts of package after the 3 years of implementation is over (i.e. in 2024 , when grandfathering and transition arrangements have ended).

- Compares the 'old' world with the 'new' world using 2018 student load for Table A institutions, increased by general growth funding for student places.
- A set of ratios is used to translate student load from the old funding clusters into the new funding fields. These were derived from available national aggregate data.
- All comparisons are done in 2021 dollars. The 2018 MBGA for bachelor places was grown by the relevant population-based increases to its 2021 value. All universities assumed to receive performance-based funding.
- The amount of unsubsidised bachelor student load was calculated for 2021 and held constant in the shift to the 'new' world scenario. All non-bachelor places are assumed to be funded.
- Equity funding excluded from the analysis. Both new and old world scenarios have student contributions for enabling places included.

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This slide details assumptions made in the model. I won't go through them, but they are available here for those who are interested.

The aim of the modelling is essentially to look at the national financial impacts of the package after the 3 implementation years, when grandfathering and transition arrangements have ended, and to see what it means for the number of funded places.

All of this analysis is done in 2021 dollars and using 2018 student load data as the base.

Four sources for the new student places

1. General growth funding for student places
   - 3.5% for regional campus student load; 2.5% for high growth metro; 1.0% for low growth metro
2. National priority places to be allocated by the Minister
   - 300 commencing places in 2021, increasing to 900 in 2024
3. 485 places for University of Notre Dame Australia
4. 5 medical places for Charles Sturt University

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There are four mechanisms for putting new student places into the system.

The first one identified on this page – the general growth funding for student places - is by far the largest and I've included it in the model.

The exclusion of the other sources has little material impact on the overall findings.

Assumption for calculating general growth funding

National student load distribution is:

Low growth metro campuses – 38%

High growth metro campuses – 42%

Regional campuses – 20%

Hence, sector wide growth factor = 2.11%

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Definitive data isn't readily available on the distribution of bachelor level student places across the three campus types.

I have assumed that student load was distributed as outlined in this slide. It produces sector wide growth of just over 2 per cent.

It isn't going to be very different from 2 per cent, regardless of the precise distribution of student places across campus types.

What does the model show about the impact of the ‘ MBGA cap’?

Value of 2018 student load in
‘***old uncapped***’ world
= $12.8 billion

Value of 2018 student load in
‘***old capped***’ world
= $12.6 billion

Result
University revenue reduced by $266 million

Govt. subsidy removed for approx. 23,000 places
@ average bachelor rate

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Before we turn to the impact of the Job-ready Graduates package, let's spend a moment to look at the impact that the current funding cap is having on financing of the higher education sector.

Using the model, the 2018 student load in the ‘old capped’ world is estimated at around $12.6 billion. If the cap wasn't in place, the revenue to universities to fund that student load would be around $12.8 billion.

So from 2018 to 2021, CGS subsidies are being reduced by around $266 million - the equivalent of not subsidising around 23,000 student places at the average bachelor subsidy rate.

An important point to note here is that the capped arrangements do not require universities to provide those 23,000 places. Universities can choose not to provide them and they would still ‘earn’ the same level of subsidy.

How does the proposed new world compare to the old world?

Value of 2018 student load in '***old capped***' world
= $12.6 billion

→

Value of 'grown' student load in '***new capped***' world
= $12.1 billion

Result
University revenue further reduced by $493 million
(after adding NPILF, it is reduced by $271 million)

But only if universities deliver
approx. 11,700 new places @ average bachelor rate

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Let's now look at the impact of moving from the 'old capped' world into the new Job-ready Graduates world in which we have the full quantum of general growth funding for new student places.

Once again, we have 2018 student load valued in the 'old capped' world at around $12.6 billion.

When we grow that student load as proposed in the package and then convert it to the new Job-ready Graduate funding rates, the revenue going to universities would be around $12.1 billion.

So revenue to universities will around $0.5 billion less than under the old arrangements.

To earn all of that revenue, universities will have to provide around 11,700 more student places than in 2018.

Do the new arrangements align with national cost of delivery data?

Universities spend approx. 89% of discipline funding for bachelor students on teaching those students

(from Deloitte Access Economics, Transparency in Higher Education Expenditure)

Value of 2018 student load in old 'uncapped' world	Reducing teaching to 89% of its current value
$12,824 million	$11,414 million
So if fully implemented, this reduction would save $1,411 million	

Compared to revenue for 2018 student load in old uncapped' world Job-ready Graduates reduces university revenue by $763 million (i.e. down to 94% of discipline funding)

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How closely has the Government aligned revenue for student places with the national data it has collected on the costs of delivering student places?

The data indicated that on average for a bachelor level student, universities only spend approximately 89% of discipline funding on teaching. The rest is spent on other things, primarily research.

If the government reduced student place revenue by 11 per cent, it would reduce university revenue by around $1.4 billion for 2018 student load.

The model indicates that the Government has not gone that far. It has only reduced university revenue by around $763 million for that student load. It is proposing to reduce revenue for teaching to around 94 per cent of its former value.

Est. additional places in Job-ready Graduates

	2021	2022	2023	2024
General growth places	4,272	7,476	9,879	11,681
National priority places (commencing places of 300 in 2021, increasing to 900 in 2024	300	525	694	820
		350	613	809
			400	700
				900
University of Notre Dame Aust.	485	485	485	485
5 medical places for CSU	5	10	15	20
Total extra places each year	5,062	8,846	12,085	15,416
			Total places over 4 years	**41,409**

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The top line in this table is the estimate of the extra places due to general growth funding coming out of the model –11,681 when fully implemented.

I have made a few minor assumptions about the other sources of student places from the package to enable them all to be combined in this table.

The model appears to have produced an over-estimate of the number of additional places from the general growth funding increase. Total places comes out at over 41,000 places, a bit more than the package total of 39,000 places.

Adding up student places across years is a rather spurious way to look at system growth. The better approach is to look at the number of places in a year. In its final year, the Job-ready Graduates policy will only put around 15,000 subsidised places back into a system in which 23,000 places will no longer be subsidised due to the cap on places from 2018 to 2021.

So there really isn't any growth in student places happening.

What happens to Government/student shares?

Pyne proposals: Government share below 50%.

Birmingham proposals: Govt 54% / student 46%

Job-ready Graduates

Disregarding unfunded student load
Govt 52% / student 48%

Taking into account unfunded student load & NPILF, model produces
Govt 51% / student 49%

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The Christopher Pyne package in 2014 aimed to cut government subsidises by 20 per cent and deregulate student contributions. Students likely would have contributed more than 50 per cent of total discipline funding.

The Simon Birmingham package in 2017 was more modest and sought only to increase student shares from 42 per cent to around 46 per cent.

The Job-ready Graduates package is proposing student shares being increased from the current 42 per cent to 48 per cent. It is potentially higher if unsubsidised student load remains the same and industry linkage funding is treated as part of the government share. Overall, student contributions will rise by around $564 million a year.

How does the Government's financial position change?

The MBGA cap already produces a
net save = $266 million

Job-ready Graduates
Further gross save = $1,057 million

Less NPILF = $222

Less cost of extra student contributions:
20% of $564 million = $113 million

Further net save = $722 million

TOTAL ANNUAL NET SAVE = $988 million

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The model implies the government is saving around $266 million from 'capping' the system over the four years 2018 to 2021.

Job-ready Graduates appears to be producing a gross saving for the government of around $1.1 billion. Some is being returned to the sector and some funds additional student loans, as outlined in the slide. It leaves a further net saving to the government of around $722 million.

Over the period, from December 2017 to when the Job-ready Graduates package is fully implemented, the Government will have delivered itself an annual saving of around $988 million.

What does that mean for policy?

The Job-ready Graduates package

1. Restores indexation – good policy.
2. Growth in the number of subsidized student places is illusory – bad policy.
3. The reduction in university revenue for teaching by around 6% ($763 million) requires concomitant change to research funding, but this has not happened yet.
4. Consolidates savings of around $988 million from policy over the period from December 2017 to December 2023. The proposed student contribution levels are based in bad policy but the saving, of itself, is not bad policy. It depends on what is done with it.

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Where does that leave us?

Restoring indexation is good policy. The lack of any real system growth and the proposal to set student contributions levels to influence student behaviour are both bad policy.

Not allowing any system growth over the next half decade is a policy to reduce higher education attainment levels. It will be interesting to see if the Government is prepared to explicitly defend that policy. It means there is little scope to meet

- future growth in the prime university age cohorts; and
- any additional demand arising from the covid-induced economic slowdown.

Linkages with industry are important. A separate fund is not necessary for the Government to demand more of universities in this area. It appears the fund may become a discretionary grant and it could easily go the next time the government seeks savings. It wouldn't require legislative change or agreement of the Parliament. A Minister just wouldn't make the grant.

Finally, it is poor policy to reduce university revenue for teaching without dealing with the research funding issues that arise as a direct consequence of that proposal. That is particularly the case in the current circumstances. We are waiting with baited breath for the Government to decide what it may do with research funding.

Thank you

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What will the Tehan changes mean for students and universities?

Professor Emeritus Frank Larkins

Honorary Professorial Fellow

Melbourne Centre for the Study of Higher Education

Webinar 7 July 2020

Acknowledgement: Ian Marshman as collaborator

Reform Package – Some Observations

- **Policy Objective** -'Incentivise domestic students to choose teaching, nursing and STEM fields of education that lead to jobs of national importance by reducing the student fee contribution' -Vocationalisation
- **BUT:** Historically there is no compelling evidence that HECS fee changes linked to income-contingent loans change student subject selection behaviour.
  - HECS Discipline fee changes in 1997, 2005, 2008, 2009, 2010, 2013 (Gavin Moodie THE 29 June 2020)
  - 'HECS is not a price signal' (Stephen Taylor AFR 29 June 2020)
- **BUT:** Universities will receive less funding per STEM place under the proposed new funding model compared with current arrangements
  - There is a financial disincentive for universities to enrol more domestic students in STEM subjects

A New Model Is Proposed for the Cost of Course Delivery and Shared Funding Contributions between Government and Student

- **BUT:** The average cost for a course of study will reduce from $20,597 (current model) to $19,389 (new model)
  - **Overall universities will receive less money for the existing cohort of students.**
  - **Deloitte Access cost of delivery analysis is pre-COVID and contestable.**
- By modelled the 2018 domestic undergraduate EFTSL by Field of Education with 2021 new funding levels one can estimate that for this cohort:
  - **Government would save $770 million,**
  - **Students would pay $476 million more and**
  - **Universities would receive around $290 million less**
- More precise estimates require access the data not publicly available.
- Government will use the additional funds saved to support 39,000 additional places by 2023 +
- They will also invest more in rural, regional and indigenous education. +

Funding Arrangements of Domestic Undergraduate Students

- **Commonwealth Supported Places (CSP) has two components**
  - **Commonwealth Grants Scheme (CGS) Contribution, and**
  - **Domestic Student HECS Contribution**

i.e $ CSP = $ CGS + $ HECS

Fixed Annual Sum to a University

Variable Sum Depends on Student Subject Selection

Universities have the flexibility to offer places in any discipline within their CGS funding envelope

Examples of Funding Changes - Universities receive lower funding per place for fields on National Importance and increased levels of funding for HASS – 'A Perverse Signal '

- Fields declared to be of National Importance

2021 Changed Funding	% Change CGS	% Change HECS	% Change CSP
Per Place	Government	Student	University
Teaching	18%	-46%	-6%
Nursing	9%	-46%	-8%
Agriculture	10%	-62%	-10%
Engineering	-14%	-21%	-16%
Science	-14%	-21%	-16%
Mathematics	23%	-62%	-17%

Engineering

Humanities and Social Sciences Fields

2021 Changed Funding	Government	Student	Total
per Place	% Change CGS	% Change HECS	% Change CSP
Languages & English	165%	-46%	55%
Humanities, Society & Culture	-82%	113%	20%
Law & Economics	-51%	28%	15%
Management& Commerce	-51%	28%	15%

Humanities

Article here
https://theconversation.com/the-government-is-making-job-ready-degrees-cheaper-for-students-but-cutting-funding-to-the-same-courses-141280

Explicit Example: Engineering versus Humanities

Field of Education		Government CGS Funding per Place	Student HECS-HELP Contribution Per Place	Total CSP Funding per Place
	Current	$19,260	$9,698	$28,958
Engineering	New	$16,500	$7,700	$24,200
	Difference	-$2,760	-$1,998	-$4,758
	Current	$6,226	$6,804	$13,030
Humanities	New	$1,100	$14,500	$15,600
	Difference	-$5,126	+$7,696	+$2,570

University can increase net funding by replacing an Engineering Student with Several Humanities Students within the fixed CGS Envelope

Scenario 1. Revenue Raising Strategy

Engineering places replaced by Humanities places within fixed CGS funding envelope

- CGS funding for 1 engineering student ($16,500) is equivalent to CGS funding for 15 academically suitable TEQSA compliant humanities students ($1,100 x 15 = $16,500)
- University total CSP funding for 15 humanities EFTSL would be $234,000 per annum (15x$15,600)
- CSP revenue foregone from 1 less engineering EFTSL would be $24,200 pa
- ***Net gain in CSP funding is $209,800pa by foregoing 1 engineering EFTSL and enrolling 15 humanities EFTSL***
- If a university was to enrol 10 less engineering EFTSL per year (a modest change) and increase humanities EFTSL enrolments by 150 then over a triennium domestic fee revenue with pipeline would increase by $12.6 million unindexed.
- There are several other possible revenue enhancing combinations.

https://campusmorningmail.com.au/news/job-ready-graduates-bring-in-the-academic-planners/

Scenario 2. Revenue Losing Strategy

Humanities places replaced by Engineering places within fixed CGS funding envelope

- Surrender 15 humanities places – total CGS funding $16,500
- Increase Engineering places by one – total CGS funding $16,500
- Total CSP funding lost with 15 less humanities places is $234,000
- Total CSP funding gained by 1 more engineering place is $24,200
- ***Net loss in CSP funding is $209,800pa by foregoing 15 humanities EFTSL and enrolling 1 engineering EFTSL***
- ***Job-ready policy provides no incentives to universities to substitute HASS places for STEM places!***
- ***What is required is a government incentive that funds new CGS targeted places in STEM etc to achieve the stated objective.***

Conclude from Analysis: New Policy has the potential to significantly disrupt the current domestic student market

- The number of places in nationally important STEM disciplines could actually decline in this deregulated student profile environment.
- Nimble universities with a strong brand, a sound knowledge of course delivery costs and flexible workplace relations practices are likely to profit most at a cost to other universities.
- Further casualization of the academic workforce seems inevitable as universities seek flexibility to modify course delivery.
- A policy revision is required to achieve the stated objective

Final Observations on Job-ready Graduates Reform Package Policies

The aspiration to achieve ***'Vocationalisation'*** of University Education is uncertain

A lower guaranteed base funding for nationally important undergraduate domestic degrees is an incentive to pursue perverse outcomes.

Humanities and Social Sciences disciplines are devalued by the Job-ready signals.

Cash-strapped universities can legitimately seek to maximise domestic fee revenue through load shift to more profitable disciplines to the detriment of national workforce disciplines.

Further potential erosion of university R&RT capability is possible through a teaching financial impost following losses of billions of dollars in overseas fee revenue

Job-ready does not mitigate or offset current and future international student fee losses.

The package is cleverly constructed to supports regional and outer metropolitan institutions. But will the demand be there?

Symptoms rather than underlying causes for course demand levels and regional under-representation are treated. Additional targeted funding is required.

Thank You

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Higher Education Policy articles at:

- *https://melbourne-cshe.unimelb.edu.au/lh-martin-institute*
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Thank you

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