

IRU Discussion Paper – September 2022

Job-Ready Graduates: principles and options for reform

Key points

- The Job-Ready Graduates (JRG) policy package has made the system for funding student places in Australian higher education more complex. While it has helped to align base funding with the cost of teaching, it has also cut overall public funding, embedded inequalities in student contributions and lacks a clear evidence base for intended outcomes.
- Reform is required to improve JRG, but there is no quick fix. Our modelling shows that in order to address issues with the current system, while ensuring that no student is worse off, additional government funding would be required.
- Achieving budget neutrality across the system will require difficult trade-offs. (For example, our modelling shows that reducing student charges at the top end of contribution rates will require even greater increases at the bottom.) But even with this significant constraint, there is still scope for improvement. We believe that with clear principles and robust evidence to inform debate, options for JRG reform can be found.
- Equity should be a key principle driving options for reform, but equity can be defined in multiple ways. For example, equity in course costs can be impossible to achieve concurrently where courses have different costs of delivery and durations. A full discussion of equity will be a critical element of any JRG reform.
- The Australian Universities Accord process, with a full review of the JRG package as part of it, is an important opportunity to openly discuss policy and funding options, and to achieve a more equitable and sustainable system for the future.

About the IRU

The IRU is a coalition of public universities across Australia committed to inclusive education and innovative research that advances our communities.

The history of our member universities goes back to the 1960s and early 1970s when, under both Liberal and Labor governments, there was an expansion of new forms of higher education and research to meet the needs of the nation.

Opening up access to higher education for Australian students, particularly those from under-served communities, is a priority for the IRU. Today, 50% of our students are the first in their families to attend university, and 21% of our students are from low socio-economic status backgrounds. Supporting these students to succeed will continue to be a focus for our universities.

Through collaboration, constructive engagement in public policy, and partnerships – both domestically and across the Indo-Pacific region – we enhance our impact for the future of Australia.

iru.edu.au

Introduction

The aim of the Australian Government's Job-Ready Graduates (JRG) package was to use variable student contribution rates to incentivise higher education enrolments in areas of labour market need. It also sought to support growth and ensure supply of courses by aligning base funding with average course costs, and widening the range of student and government contributions.

For students, this has meant greater inequality in contributions and debt, raising concerns for students from particular equity groups. For universities, the wider range has added complexity for planning due to maximum basic grant amount (MBGA). Overall, the JRG funding rates are complex and inconsistent with many of the package's stated objectives.

The purpose of this paper is to outline a principles-based approach to options for JRG reform, with student contributions aligned with graduate employability and government contributions aligned with cost of delivery. (We focus here on funding rates and government/student contributions. Other aspects of the JRG policy package, such as the 50% pass rule, which may also have disproportionate impacts on equity groups, are important but outside the scope of this paper.)

JRG reduced government funding for Commonwealth Supported Places (CSPs) by roughly 15%. This was partially offset by increases in student contributions but led to an estimated 5% cut in total "base funding" per place.¹ JRG effectively cut the nexus for supporting the university research mission – and research staff – through teaching domestic students. It also left a wide range of university infrastructure under-supported. The medium-long term capacity of Australian universities to compete internationally and provide a high quality online and on-campus experience will be diminished if there are insufficient funds to invest in physical and digital infrastructure for education.

The JRG placed one third of all CSP students (35%) into the top-charging band of \$15,000 per year and roughly one quarter (24%) into "national priority" places charging \$4,000 per year. Equalising rates across courses would create winners and losers, with the losers likely to include our future teachers and nurses. For every \$1,000 reduction in student contributions at the top, contributions must be increased by \$1,500 at the bottom. The stark reality is that, without additional government funding, there is no quick fix that does not involve some students worse off.

Any change to the current system will therefore bring challenges in terms of costs to government and/or students, and what is an equitable division of costs. Supporting student access and success is also only partially related to the levels of direct funding for CSPs. Success includes having targeted equity and regional funding support, as well as an equitable school education sector and social welfare support for students. Likewise, government funding for CSPs will not achieve increased higher education participation if the MBGA is constraining supply.

This discussion paper aims to contribute constructively to an open discussion of policy options for funding rates, informed by clearly-stated IRU principles and cognisant of these broader challenges. This is supported by a supplementary paper *Job-Ready Graduates: options for reform* that models a selection of options available to government.

¹ See page 3 of Warburton, M. (2021) [The rhetoric and the reality of Job-ready graduates](#), MCSHE, Melbourne.

JRG objectives and the need for reform

The JRG package had four main objectives:

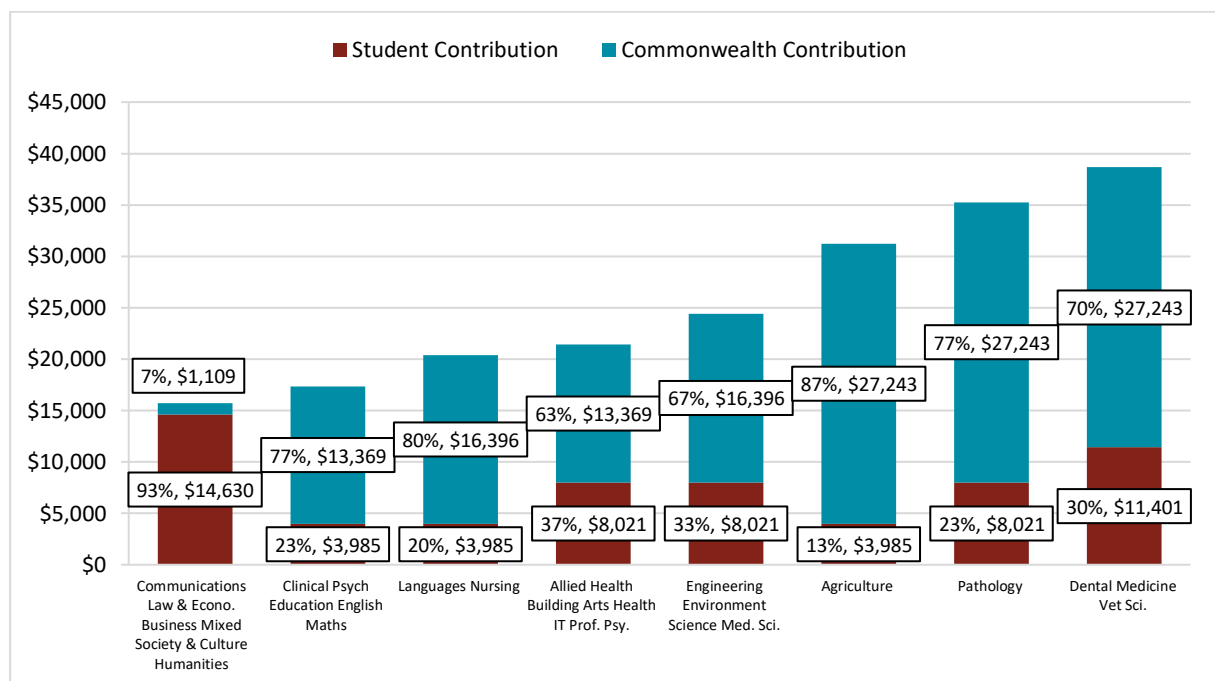
1. Rebase funding to align with cost (by ensuring base funding aligns with average cost of teaching)
2. Increase focus on national priorities (to meet labour market needs)
3. Incentivise work relevant qualifications (by reducing student contributions in areas of expected employment growth)
4. Support growth in a tertiary qualified workforce (though an additional 100,000 places by 2030).

Objectives 1 and 4 address supply constraints at a course level. At a sectoral level, they aim to ensure that total government funding is sufficient to meet demand. Objectives 2 and 3 incentivise demand towards employment-oriented degrees via variable student contribution rates, with the national interest defined by future labour market projections.

Though uncertain, the JRG may achieve its supply-based objectives. This will depend on total government funding, each university's MBGA and their course-level costs. However, the JRG is very unlikely to achieve the demand-based objectives. This is due to lack of consistency between student contribution rates and graduate labour market outcomes, the role of income-contingent loans in the Australian higher education system and the availability of professional placements in some fields.

The JRG also introduced considerable complexity into the system. This was required to align base funding with cost. The JRG has four funding clusters for government contributions (currently: \$1,009; \$13,369; \$16,396; and \$27,243), ranging from 7% to 87% of total funding. JRG has four maximum student contribution rates (currently: \$3,985; \$8,021; \$11,401; and \$14,630), ranging from 13% to 93% of total funding. The outcome is eight different total resourcing rates, set out in Figure 1 below.

Figure 1. 2022 contribution rates by JRG funding cluster



Issues with current JRG model

1. Highly unequal contribution rates, with possible equity and supply concerns

JRG base funding rates may be broadly consistent with average cost, but they are highly unequal by course. The wide range in student contributions, in aggregate and as a proportion of total funding, is intended to encourage students to pursue courses that minimise debt/maximise future earnings and address current labour market needs, rather than aligning with personal strengths or interests.

This raises equity concerns that not all students are able or confident to pursue their courses of interest, particularly disadvantaged students who may be dissuaded by greater debt, longer repayment periods and the risks of high-cost courses. The lack of alignment between JRG maximum student contributions and graduate employment outcomes (see below) exacerbates this because courses with high student contributions have the least certain graduate employment outcomes.

The wide range in Commonwealth contributions across courses – to ensure base funding broadly aligns with average cost due to the wide student contributions – is intended to ensure adequate supply of courses in areas of student demand. However, the MBGA constrains this. The supply of courses with relatively high Commonwealth contributions (e.g. in national priority areas/engineering) is uncertain because a university's MBGA is reached more quickly if such courses are supplied.

2. Inconsistent or unclear use of labour market evidence

There is no clear evidence base offered for how JRG student contribution rates align with labour market outcomes, national priorities or projected skills shortages. Where evidence is offered, it is inconsistent. The Graduate Outcomes Survey-Longitudinal (GOS-L) results indicate broadly similar medium-term full-time employment rates across courses (mostly between 85% and 95%) and median full-time earnings (mostly between \$70,000 to \$85,000). The main exceptions are medicine and dentistry, which have particularly strong employment outcomes, and creative arts, which has weaker outcomes. For others, some courses with relatively stronger employment outcomes are disincentivised through higher fees in JRG (e.g. law, commerce), while courses with relatively weaker employment outcomes are incentivised with lower fees (e.g., mathematics, English).

3. Long-term graduate employment outcomes also differ by student demographic

Long-term graduate labour market outcomes interact with other factors, such as gender and demographics. Income 10 years after graduation is more strongly associated with gender than field of study, with males earning a \$27,000 premium. Only medicine (\$102,000 premium) and creative arts (-\$30,000 lower) have a larger effect.² In its submission to the enquiry into the JRG, the Department of Education also cited data showing male median lifetime income correlates closely with field of study, but female income varies only moderately across most fields.

The net effect is that graduates of similar courses experience different employment outcomes, prospective students anticipate these differences, and this affects preferences. Even assuming students are highly responsive to price signals – which they are not due to the lack of upfront costs under the HECS-HELP system – the price signal operates differently for different student groups.

² Using commerce as the reference group. See Table 6, page 51 of Aungles, P., Hodgson G. and Parbery, S. (2021) [Graduate incomes: Insights from administrative data October 2021](#), DESE, Canberra.

4. Disproportionate impacts on equity groups

The JRG increased student contributions in the top band by \$3,000 to \$14,500 (in 2021) and reclassified more courses into the top band. Based on 2020 bachelor enrolments (EFTSL), the proportion of students in the top band increased from around one quarter under the pre-JRG classifications to one third under JRG. Because different groups of students are more likely to study certain disciplines, the impacts of the changes are unequal. In particular, this affects female students, students from regional/remote areas and Indigenous students. Such students also have greater variability or risk in graduate income 10 years after graduation. The disproportionate impact of JRG on equity groups was outlined by the IRU previously (see: [More Paying More: the rise and rise of student charges](#) and [How Job Ready Graduates student charges impact different groups of students](#)).

5. Aligning total funding with the costs of teaching means no incentives to supply particular courses

The JRG sought to align total funding with the cost of delivery in each field of education. The Department of Education's submission stated that the average cost of delivery differs considerably by field of education, and that the JRG funding rates better aligned funding with cost. The alignment between JRG funding and cost may be disputed in some fields, but the overall JRG principle was sound (albeit ignoring the need to fund university research). The problem is that the JRG principle for matching funding with cost leaves limited incentives for universities to supply courses linked to particular labour market needs or employment outcomes.

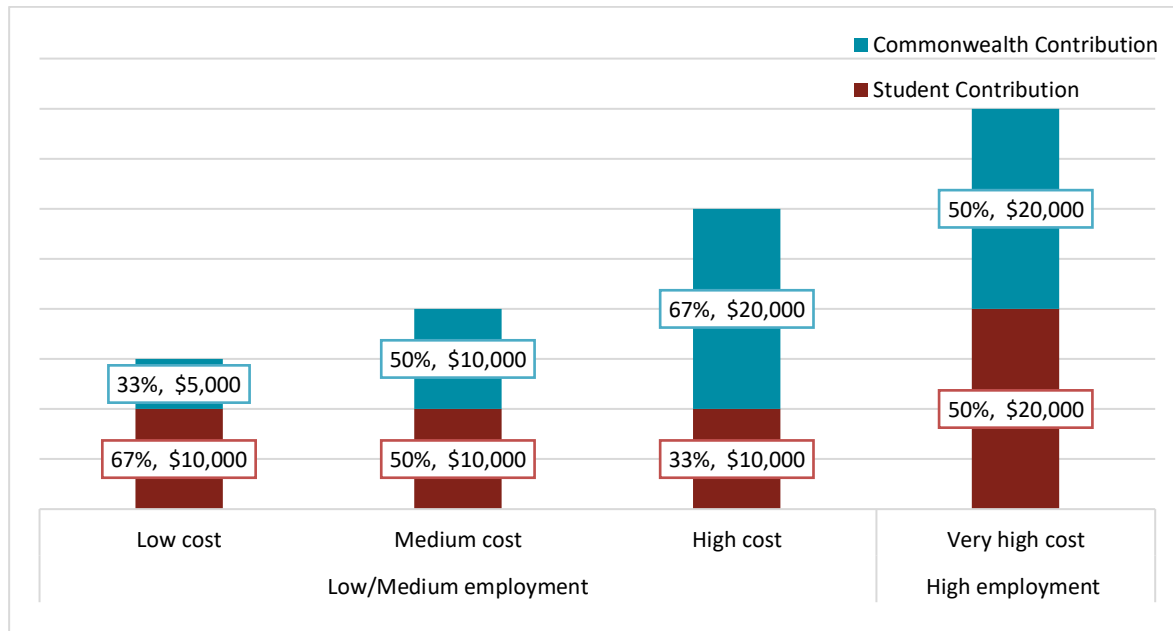
Principles for higher education policy and funding

The IRU suggests that the following principles should guide policy and funding:

1. Students should make choices in line with their strengths and preferences;
2. Course funding should include an appropriate balance between student and government contributions (recognising both private and public benefits from higher education);
3. Universities should be funded for the total cost of teaching each course, including supporting the research mission (with government covering the gap between student contributions and cost);
4. Government should ensure adequate funding to support higher education participation for all capable students (sufficient CSPs and MBGA);
5. Policy and funding should support student success with a particular focus on access and equity for under-represented students;
6. A simple system is preferable, with clear evidence to justify differences in contribution rates (i.e., employment outcomes and teaching costs).

Equal or flat-rate student and government contribution rates should be the starting point, with differentiation based on clear evidence. This would be simpler, minimise inequality, and be more justifiable to the public. For student contributions, graduate employment is the clearest and most valid evidence for differentiation, approximating private benefits from education. Students would then be cognisant of costs, but could still pursue courses aligned with their interests, confident that the higher charging courses are more likely to generate higher graduate earnings. Likewise, a government contribution system differentiated by cost of delivery (but not employment) would ensure universities supply higher cost courses of interest to students and aligned with national priorities. An example funding model differentiated by cost and employment is presented in Figure 2.

Figure 2. Example of student contributions differentiated by employment and government contributions differentiated by cost of delivery

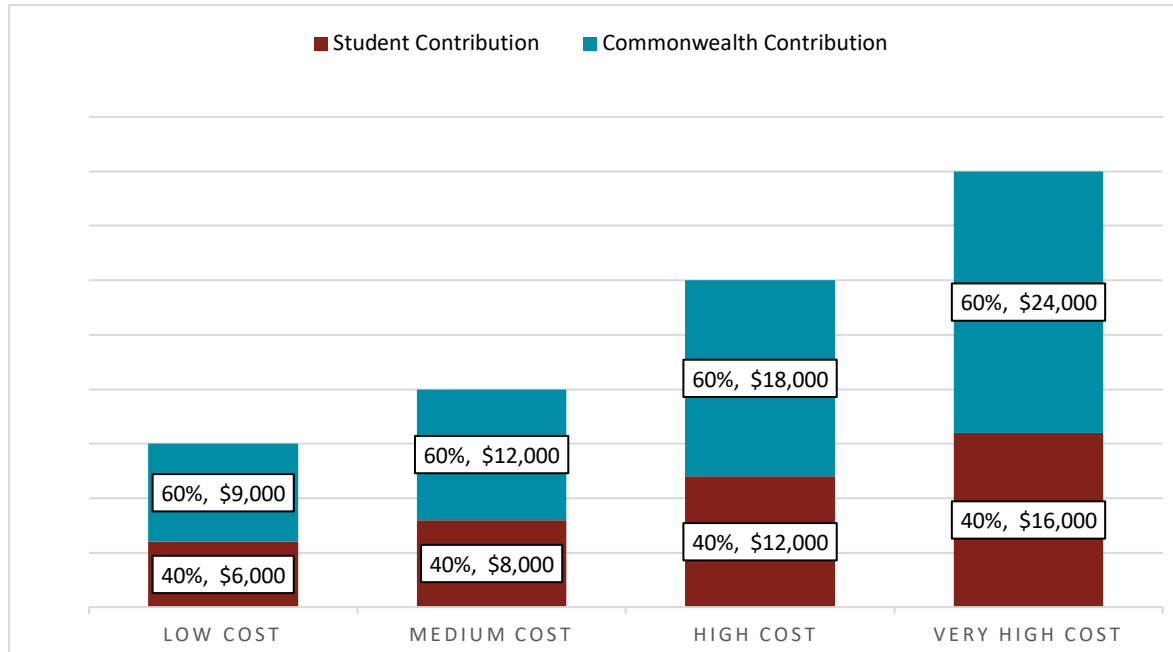


The student and government contribution rates in Figure 2 are for illustrative purposes only, but are plausible. Overall funding rates of \$15,000 to \$30,000 for most courses broadly aligns the JRG rates and cost of teaching. A student contribution rate of \$10,000 per year is roughly equivalent to the average student contribution under JRG. As noted above, the evidence for differences in graduate employment outcomes is weak outside Dentistry and Medicine, which are very high-cost courses at around \$40,000 per year. Therefore, for simplicity, only one example of a high employment course and very high-cost course is shown in Figure 2. Budget neutrality for government under such a model would depend upon how courses were classified by cluster (the attached IRU supplementary paper *Job-Ready Graduates: options for reform* explores variations of this and other options).

A fixed rate or two-tier student contribution system with government funding aligned with cost has clear benefits in terms of simplicity and predictability, but it would be contestable on equity grounds. Students would pay different contributions in total over the course of their degree and as a proportion of total funding.

What is an appropriate balance between student and government contributions is a matter of judgement. For example, the 2011 Lomax-Smith Review rejected the prospects of fixed rate contributions because of the inequity of “some students paying either very low or very high proportions of the funding for their degree”. The Review recommended a fixed 40:60 ratio apply consistently across all disciplines, accepting that the equity principle of equal proportional contribution to the costs of course delivery outweighed the inevitable equity concerns over differences in total student contributions. Figure 3 below illustrates how a 40:60 ratio would apply to the JRG base funding rates with a broad range from \$15,000 to \$40,000.

Figure 3. Example of a fixed proportion of student and government contribution



The student and government contribution rates in Figure 3 are for illustrative purposes only. Student contributions would range between \$6,000 and \$16,000 under a 40:60 ratio, comparable to the current student contribution range (\$4,000 to \$15,000) under JRG. A fixed ratio requires that student contributions are unaligned with graduate employment or government priorities, with cost of teaching the only price signal for students. Therefore, students in currently low cost but high student contribution JRG bands (e.g. humanities and social sciences) would disproportionately benefit from a fixed ratio, relative to higher cost (e.g. agriculture) or lower contribution fields (e.g. nursing and teaching). The IRU estimates that the average private-public funding ratio for CSPs is around 47:53 in 2022. Therefore, a 40:60 ratio would require an increase in government funding of around \$940M (or 14%, equivalent to the estimated 15% cut under JRG), in addition to the challenges of leaving some students worse off.

Discussion

A principles-based approach for setting funding rates by field of education, with student contributions aligned with graduate employability and government contributions aligned with cost of delivery, is consistent with the purposes of the JRG and has the potential to provide a coherent basis for funding higher education. Budget neutrality across all key stakeholders (government, universities and students) is a significant constraint, but there remains scope to improve upon the JRG.

However, a primary focus on budget neutrality may not be sufficient to gain support from any of the key stakeholder groups, even with in-principle agreement that a more equitable and evidence-based funding system is desirable. Equality and equity are contestable concepts and can be interpreted differently in different circumstances. They are impossible to achieve if courses differ in cost of delivery and universities are funded for these costs. Either students will contribute different amounts

by course, leading to inequality in total student contributions, or government will contribute different amounts, leading to inequality in student contributions as a proportion of total cost.

JRG greatly increased the number of students charged in the top band, including the proportion from key equity groups. But it also set an expectation for comparably low charge courses in stated areas of national priority. Reducing the top rates is impossible without disproportionately larger increases at the bottom. Government may also want to retain some power to steer demand and supply of courses in areas where it has responsibility of service, such as public education or public health.

The balance between public and private funding, and the allocation of scarce public funds between courses, involves inevitable trade-offs in terms of complexity, equity and alignment with government, student, university and societal goals. The JRG is the base case for all comparisons, but that should not imply that it is the best case.

The attached IRU supplementary paper *Job-Ready Graduates: options for reform* sets out a number of modelled options to support an evidence-based discussion about improving upon the current system. It is also important to reiterate that supporting student success goes well beyond agreement on the appropriate balance of government and student contributions for course fees. IRU members operate a wide range of programs to support student access and success, and broader policy settings (for example on work, social policy and social welfare) also have an impact on equity in higher education.

The Australian Universities Accord is an important opportunity for constructive engagement in an open discussion of policy principles and options for funding higher education. It should include a full review of the JRG and the relationship between JRG measures and the broader policy settings for an equitable, sustainable, competitive and high-quality higher education system.