

IRU Supplementary Paper – September 2022

Job-Ready Graduates: options for reform

The purpose of this paper is to model alternatives to JRG contribution rates, underpinned by the principles and evidence outlined in the attached IRU Discussion Paper. Our aim is to contribute constructively to an open discussion of policy options, cognisant of the challenges facing government, students and universities. Four options are presented, along with variations.

Each option simplifies the current system and makes clear the budget implications for students, government and universities. None increase student contributions for the average student. Most of the baseline options are budget neutral for government, and therefore, budget neutral for universities. Although the average student is no worse off under any of the options, some students would be charged more under options 1(a) and 3(a). Therefore, variations (1(b) and 3(b)-(d)) are presented to illustrate options for restoring government funding and student contribution rates to pre-JRG levels, leaving no student worse off.

Options for reform

1. A simplified two-tier student contribution and three-tier government contribution rate. (Student contributions differentiated by employment and government contributions by cost.)
 - a) Two-tier student contribution (\$9,000; \$18,000) and three-tier government contribution (\$6,000; \$10,000; \$20,000)
 - b) Two-tier student contribution (\$9,000; \$18,000) and three-tier government contribution (\$7,000; \$12,000; \$22,000), broadly restoring public funding to pre-JRG rates
2. A three-tier student contribution system (\$4,000; \$8,000; \$11,000) and six-tier government contribution rate. (Student contributions differentiated by employment and government contributions by cost, but with no student worse off.)
3. A progressive winding back of the JRG rates, reducing the range in contributions. (JRG funding by course does not change, but student and government contributions are modified.)
 - a) Narrower student (\$6,500-\$13,000) and government contributions (\$2,800-\$27,200).
 - b) Maintains national priorities for students (\$4,000-\$13,000), with no student worse off.
 - c) Removes HASS from top band for students (\$6,500-\$11,000)
 - d) Restores humanities to the middle band (\$4,000; \$8,000; \$11,000).
4. All student contributions the same, pegged to lowest rate in current JRG system (\$4,000), with a four-tier government contribution rate.

(The above options are just examples of an infinite range of possible contribution permutations. The rates were chosen primarily for simplicity and comparability to JRG. All assume no Maximum Basic Grant Amount [MBGA]. Any reductions in student contributions are offset by increases in government funding, and vice versa, to ensure budget neutrality for universities. Apart from Option 1(b) which broadly restores public funding to pre-JRG rates, budget neutrality for universities means that none of the options address the core budgetary challenge of supporting the research mission through domestic student funding.)

Budget implications are summarised in Tables 1 and 2 below. Funding changes of less than 3% are considered budget neutral.

Table 1. Summary of budget implications¹

Option	Government	Students	Total funding
1(a). Two-tier student contribution	Neutral	Neutral	Neutral
1(b). + Restores pre-JRG funding	Increase of approx. 13%	Neutral	Increase of approx. 6%
2. Three-tier student contribution, no student worse off	Increase of approx. 19%	Decrease of approx. 24%	Neutral
3(a). Narrower JRG student contributions range	Neutral	Neutral	Neutral
3(b). + Keep national priorities	Increase of approx. 5%	Decrease of approx. 6%	Neutral
3(c). + Remove HASS from top band	Increase of approx. 11%	Decrease of approx. 12%	Neutral
3(d). + Return humanities to middle band	Increase of approx. 15%	Decrease of approx. 17%	Neutral
4. Fixed student rate of \$4,000	Increase of approx. 49%	Decrease of approx. 58%	Neutral

¹ Budget implications are based on 2020 EFTSL in CSP. 2020 EFTSL is multiplied by JRG 2022 rates as a baseline: \$6,693M in CGS; \$6,033M in student contributions; \$12,726M total funding. This compared to funding if the 2020 EFTSL were applied to alternative Option contribution rates. All assume no MBGA.

Table 2. Change in total funding (\$M) under modelled options compared to JRG 2022 rates

	Option 1A			Option 1B		
	CGS	Student	Total	CGS	Student	Total
JRG 2022	\$6,693	\$6,033	\$12,726	\$6,693	\$6,033	\$12,726
Option \$	\$6,606	\$5,906	\$12,512	\$7,593	\$5,906	\$13,499
Change in \$	-\$87	-\$127	-\$214	\$900	-\$127	\$773
Change in %	-1.3%	-2.1%	-1.7%	13.4%	-2.1%	6.1%

Option 2			Option 3A			Option 3B		
CGS	Student	Total	CGS	Student	Total	CGS	Student	Total
\$6,693	\$6,033	\$12,726	\$6,693	\$6,033	\$12,726	\$6,693	\$6,033	\$12,726
\$7,956	\$4,557	\$12,512	\$6,674	\$6,052	\$12,726	\$7,051	\$5,675	\$12,726
\$1,263	-\$1,476	-\$214	-\$19	\$19	\$0	\$358	-\$358	\$0
18.9%	-24.5%	-1.7%	-0.3%	0.3%	0.0%	5.3%	-5.9%	0.0%

Option 3C			Option 3D			Option 4		
CGS	Student	Total	CGS	Student	Total	CGS	Student	Total
\$6,693	\$6,033	\$12,726	\$6,693	\$6,033	\$12,726	\$6,693	\$6,033	\$12,726
\$7,402	\$5,324	\$12,726	\$7,760	\$4,966	\$12,726	\$9,962	\$2,550	\$12,512
\$709	-\$709	\$0	\$1,067	-\$1,067	\$0	\$3,269	-\$3,483	-\$214
10.6%	-11.8%	0.0%	15.9%	-17.7%	0.0%	48.8%	-57.7%	-1.7%

Principles underpinning options for higher education policy and funding reform

The attached Discussion Paper outlines long-held IRU principles for higher education policy and funding. These include the primacy of student choice based on strengths and preferences, an appropriate balance between student and government contributions, adequate funding, a focus on equity and evidence-based contribution rates. Adequacy, appropriateness and equity can be interpreted in different ways, and not all principles can be achieved exclusively through the funding rates.

The key IRU principles informing the options presented in this paper are:

1. Student contributions can be higher in fields with stronger graduate employment outcomes;
2. Commonwealth contributions should cover the gap between student contributions and total costs; and
3. An evidence-based and simpler system is preferable.

This is consistent with previous IRU submissions and publications on the JRG, which state that differences in student contribution rates should align with differences in employment outcomes. Even if students are not tightly responsive to price signals due to income-contingent loans, graduates of courses with stronger employment outcomes have greater capacity to repay higher student contributions. Likewise, courses with weaker employment outcomes should not indebt graduates for decades of repayments, taking into account possible equity and demographic implications.

The 2022 JRG system – the baseline model

The IRU estimates that the full funding of CSPs under the 2022 JRG rates would be roughly \$12.7B, with an average private-public funding ratio of around 47:53 in 2022. This is based on multiplying 2020 EFTSL for students in CSPs by the 2022 JRG clusters and rates. This results in a Commonwealth contribution of \$6,693M and student contribution of \$6,033M.

The 2022 JRG funding rates are the baseline to which each Option is compared. Budget neutrality is where the adjusted contribution rates under a given Option roughly equals the 2022 JRG funding outcome for students, government or universities (+/- 3%). For example, if a fixed or flat-rate student contribution was introduced, it would need to be \$9,500 per EFSTL to maintain budget neutrality for students (\$6,033M / 637,560 EFTSL). If students were charged a flat-rate, Government would need to cover the gap in cost of delivery at an average of \$10,500 per EFSTL to maintain budget neutrality (\$6,693M / 637,560 EFTSL). This is essentially the rationale behind Option 1, which explores a \$9,000 student contribution rate for all but medicine and dentistry students (due to high graduate earnings). The JRG baseline rates are presented below in Table 3.

Figure 1. 2022 Australian Government contributions and maximum student contributions, by JRG funding cluster

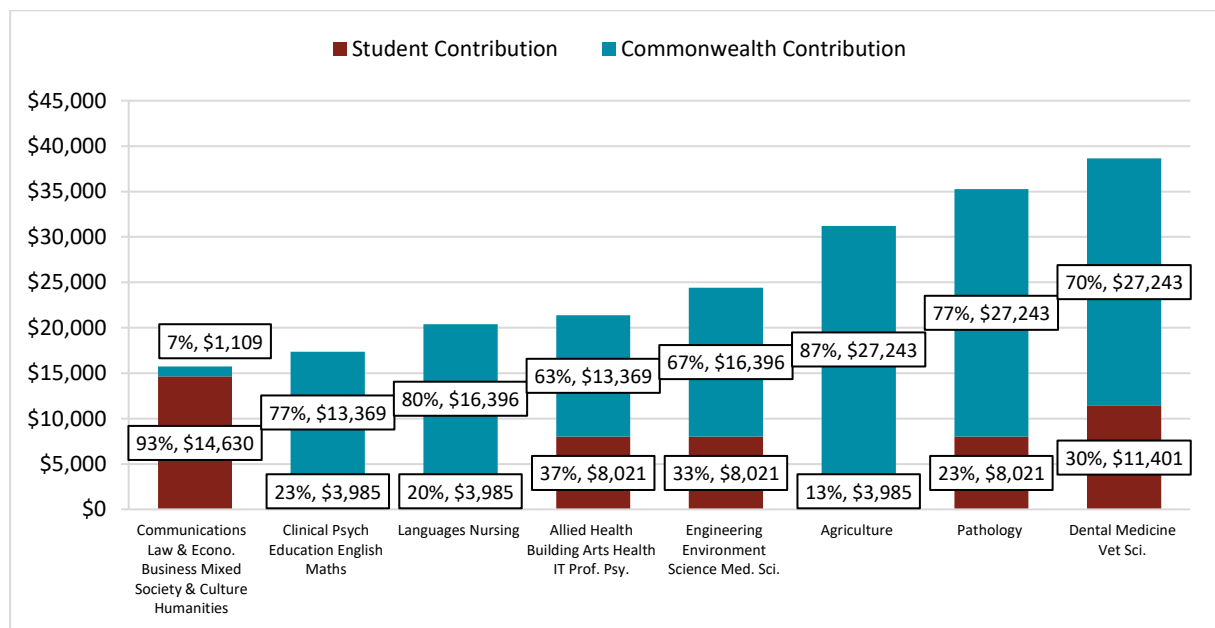
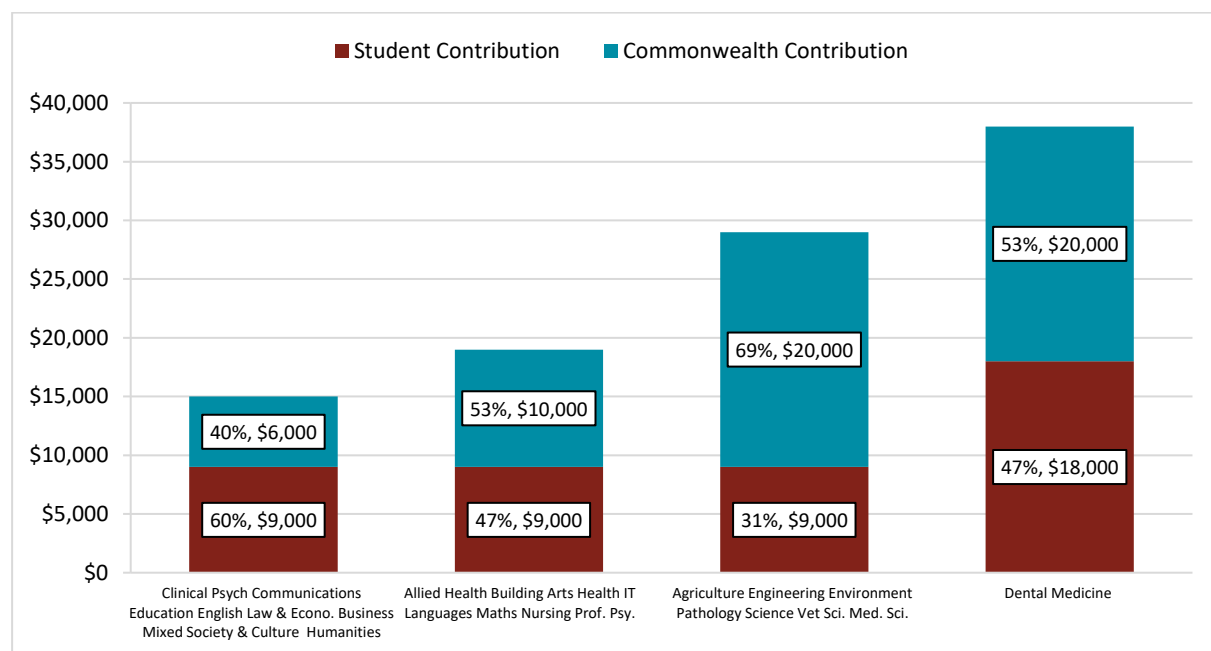


Table 3. CSP load (2020 EFTSL) by JRG funding cluster (2022) and total contributions

JRG 2022 Funding cluster	EFTSL (2022)	CGS Contribution	Student Contribution	Total	CGS %	SC %
1. (Social sciences, etc.)	219,641	\$1,109	\$14,630	\$15,739	7%	93%
2. (Edu, Engl. Math Psych)	93,007	\$13,369	\$3,985	\$17,354	77%	23%
3. (Languages, Nursing)	53,926	\$16,396	\$3,985	\$20,381	80%	20%
4. (Health, Arch, IT)	132,529	\$13,369	\$8,021	\$21,390	63%	37%
5. (Engineering, Env sci)	112,647	\$16,396	\$8,021	\$24,417	67%	33%
6. (Agriculture)	3,041	\$27,243	\$3,985	\$31,228	87%	13%
7. (Pathology)	1,231	\$27,243	\$8,021	\$35,264	77%	23%
8. (Dental, Medic, Vet)	21,537	\$27,243	\$11,401	\$38,644	70%	30%
Total	637,560	\$6,693 m	\$6,033 m	\$12,726 m	53%	47%

1. A two-tier student contribution and three-tier government contribution rate

Option 1(a). Two-tier student contribution (\$9,000; \$18,000) and three-tier government contribution system (\$6,000; \$10,000; \$20,000) aligned with cost of delivery



Option 1(a) is a simplified student contribution system differentiated by employment (but not cost of delivery) and a government contribution system differentiated by cost of delivery (but not employment). By design, Option 1(a) is budget neutral for students, government and universities.²

² Government and university funding technically declines under Option 1(a) by 1-2% due to rounding the contribution rates to the nearest \$1,000 for simplicity. Rounding to the nearest \$100 would achieve budget neutrality, but due to the wide margin for error and variety of assumptions, would be spuriously precise.

Dentistry and Medicine are the main outliers of graduate employment and earnings, which justifies placements into a higher contribution band. Other than performing arts graduates, who typically have below average graduate earnings, graduates of other fields do not differ significantly in earnings, or do so for factors other than education, such as demographics.

The choice of \$18,000 as a top band for medicine and dentistry is merely an example for what would achieve budget neutrality for students if the remaining courses were within a single band at \$9,000, roughly the mid-point of the 2022 JRG student contribution rates and the average student contribution rate under the 2022 JRG (see: Table 3). Lowering student contributions for medicine and dentistry would require increasing contributions at the bottom. In order to ensure total funding aligned with cost of delivery and broadly with the current JRG rates, Commonwealth contributions would range from \$6,000 in low cost courses to \$20,000 in high cost courses. Medicine and dentistry are also high cost courses. Their placement into a high student contribution band also reduces the range in student contributions as a proportion of the total cost of their degree (47% for medicine and dentistry under Option 1(a)).

Similar to the original HECS system, Option 1(a) would be student-driven in the sense that most students (outside dentistry and medicine) would pursue their courses of interest, rather than considering costs. However, supply constraints from capped government funding may affect the availability of courses by discipline and overall (e.g. under 2022 JRG universities receive \$14,600 or 93% of all funding for enrolling HASS students even if they have reached their MBGA). Option 1(a) would be equitable in the sense that students studying different courses of the same duration would contribute equal amounts, but unequal in terms of quantum of government subsidy and the proportion of costs paid by government. Student contributions would comprise 31% of total funding in agriculture, engineering and sciences, compared to 60% in social sciences.

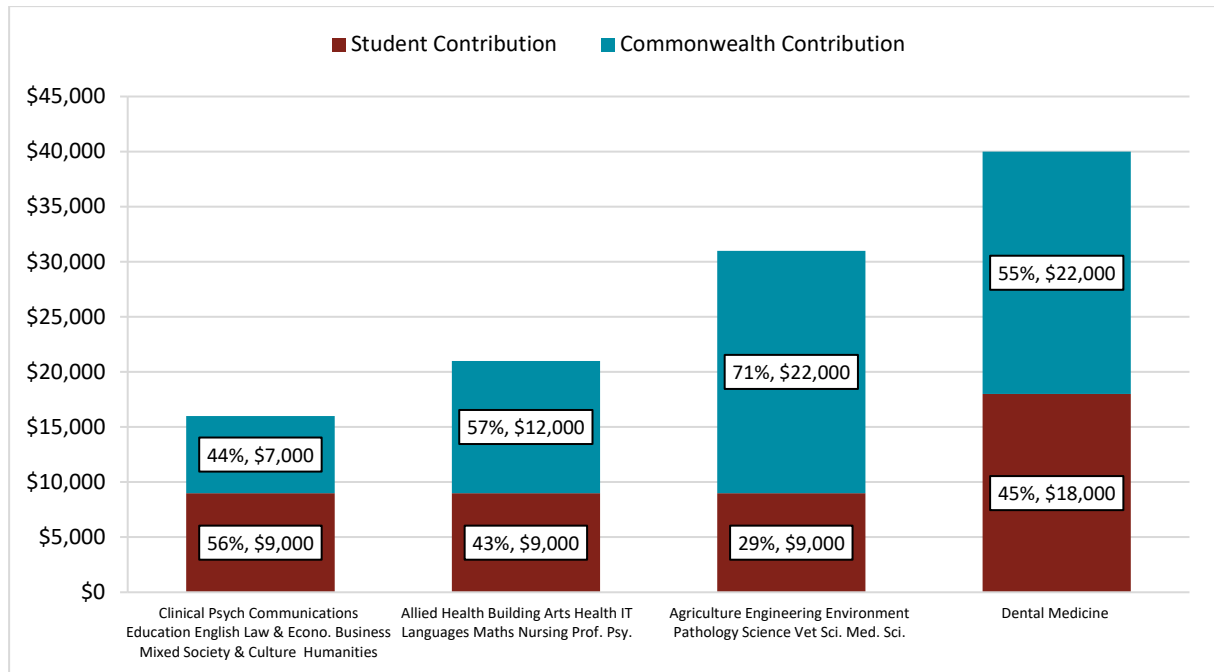
Key benefits of Option 1(a) relative to the 2022 JRG rates include:

- Significantly simpler and embeds an evidence base for setting and modifying government and student contribution rates into the future (i.e. employment outcomes and teaching costs).
- Greater equality of student contributions and their proportion of total cost across courses, encouraging students to make choices in line with their strengths and preferences.
- Broadly maintains alignment of funding with teaching cost in most fields, including increasing funding in engineering (offset by reductions in HASS).

Drawbacks of Option 1(a) include:

- Although budget neutral for the average student, some students will pay more under the changes (notably medicine and dentistry, and former national priority fields).
- Budget neutrality for government does not address long-term financial sustainability for universities.
- Reducing the number of funding clusters means more fields are funded below their cost of teaching compared to JRG.
- Supply constraints from capped government funding may affect the availability of courses by discipline and total supply, due to the lower costs borne by students in HASS.

Option 1(b). Two-tier student contribution (\$9,000; \$18,000) and three-tier government contribution system aligned with cost of delivery (\$7,000; \$12,000; \$22,000) broadly restoring public funding to pre-JRG rates



Option 1(b) extends Option 1(a) and increases government funding by 13% compared to 2022 JRG rates at a cost of around \$900M, broadly restoring public funding to pre-JRG rates for CSPs. It is budget neutral for students and a small increase in funding for universities of around 6%. Government contributions are increased by \$1,000 in the lowest cost courses (from \$6,000 to \$7,000) and by \$2,000 in others. These are not offset by reductions in student contributions, which remain the same as Option 1(a). Reducing student contributions and maintaining budget neutrality for universities is possible, including reducing the costs for medicine and dentistry.

Benefits of Option 1(b) are the same as 1(a) but also include:

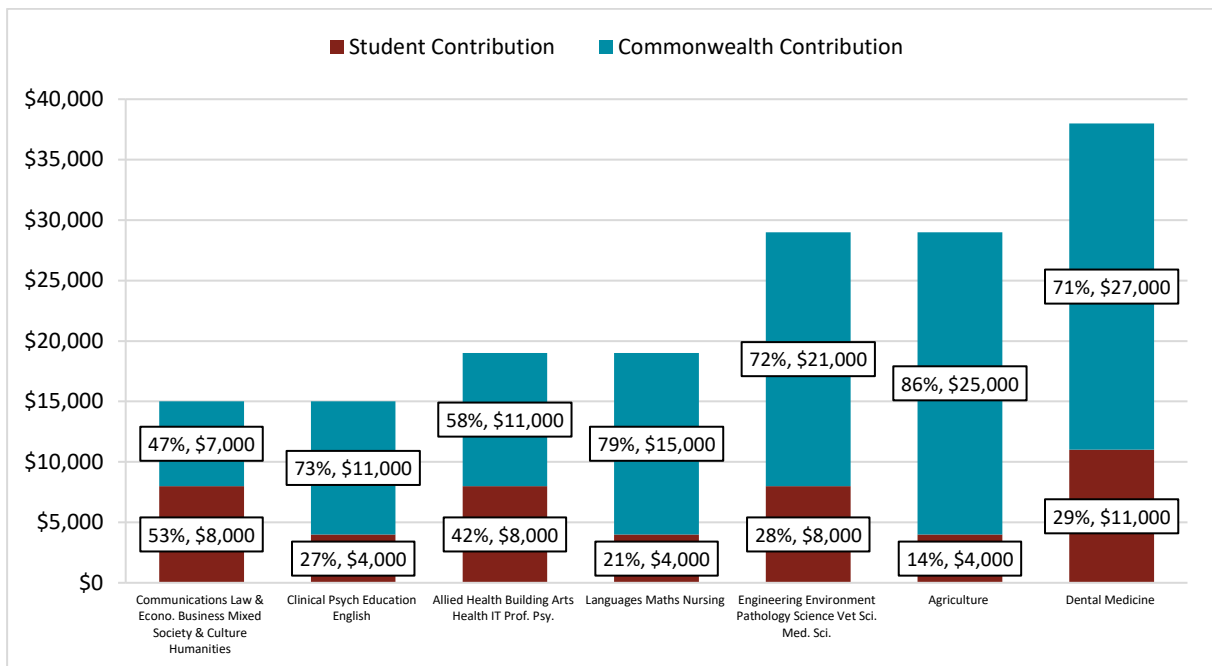
- Slightly greater equality in the proportion of costs borne by students, reducing student contributions in low cost courses from 60% under Option 1(a) to 56% in Option 1(b)
- Partially addresses the challenges of sustainable funding for teaching and a research component by broadly restoring public funding to pre-JRG rates.

Drawbacks of Option 1(a) include:

- Although budget neutral for the average student, some students still pay more under the changes (notably medicine and dentistry, and former national priority fields).

2. A three-tier student contribution system, with no student worse off

Option 2. A three-tier student contribution system (\$4,000; \$8,000; \$11,000) with contributions differentiated by employment, but maintaining national priorities and no student worse off.



Option 2 addresses the concern that, although the average student may be no worse off under the budget neutral Option 1, some students would be worse off. To ensure no student is disadvantaged by any changes, student contributions in Option 2 are aligned with employment outcomes but capped to their 2022 JRG rates. This requires three student contribution funding bands for former national priorities (\$4,000), regular courses (\$8,000), and medicine and dentistry (\$11,000). Like Option 1, student contributions are differentiated by employment, but only at the top charging band. The lowest charging bands are based on national priorities, rather than any explicit employment outcomes (consistent with JRG 2022).

Government contributions cover the gap in the cost of delivery, with total funding per course consistent with JRG 2022 and Option 1(a). This maintains budget neutrality for universities. It requires six different government contribution rates (up from 3 under Option 1) and also an additional cost of around \$1,263M compared to the 2022 JRG Commonwealth contribution rates or 19% of government funding. This is to offset the 24% reduction in student contributions.

Benefits of Option 2 include:

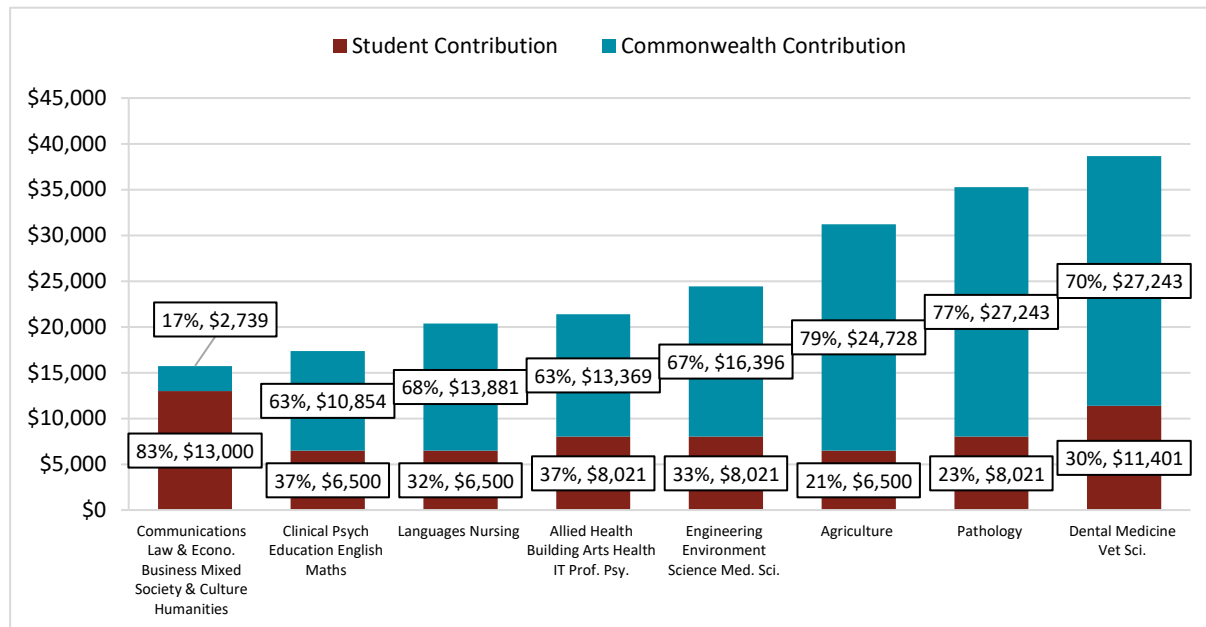
- Partially embeds an evidence base for student contribution rates into the future while maintaining government's national priority fields.
- Somewhat improves equality in the proportion of costs borne by students compared to JRG.
- Maintains alignment of funding with teaching cost in most fields, including increasing funding in engineering (offset by reductions in HASS).
- Most students are better off and no student is worse off under the changes.

Drawbacks of Option 2 include:

- Budget neutrality for universities does not address long term financial sustainability.
- Student contributions are only partially related to graduate employment outcomes.
- Remains complex.

3. Progressive reform of the JRG to compress student contribution rates

Option 3(a). Narrower student (\$6,500-\$13,000) and government contributions (\$2,700-\$27,200)



The purpose of Option 3(a) is to offer a “quick fix” to the wide range in student contribution rates under JRG, while remaining budget neutral to government, universities and students. Options 3(b) to 3(d) progressively increase government expenditure to maintain JRG elements and restore pre-JRG student contributions, leaving no student worse off.

The most common concern about the JRG changes was the much wider range in student contributions, including \$14,600 per year for humanities degrees compared to \$4,000 in national priorities. Option 3(a) narrows this range to \$6,500-\$13,000. It is only a modest change because substantially narrowing the student contribution rates while achieving budget neutrality for government is very difficult. Firstly, JRG reduced the government contributions overall, constraining what is possible on a budget neutral basis. Secondly, one third (34%) of student load is now in the top charging band, roughly 50% more than the 24% of student load in the lowest charging band (see: Table 3). Therefore, for every \$1,000 reduction in student contributions at the top, contributions must be increased by \$1,500 at the bottom in order to maintain budget neutrality.

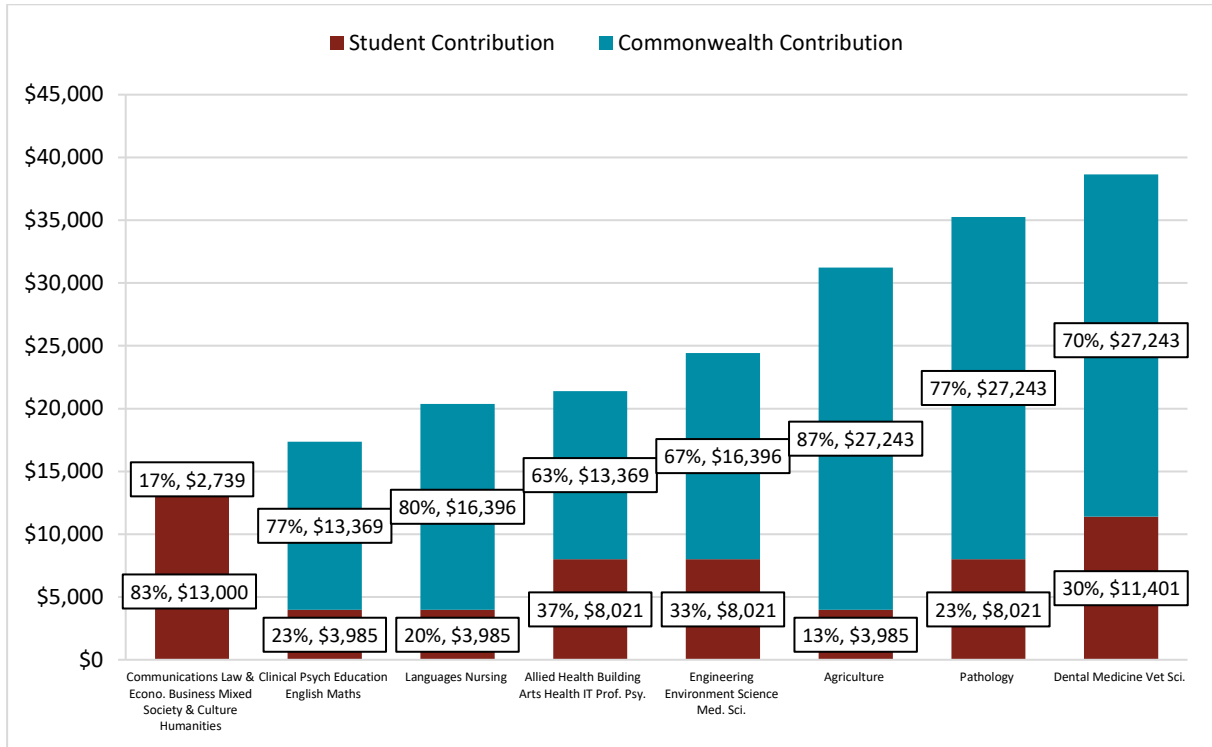
Benefits of Option 3(a) include:

- Marginally improves equality in the total costs and proportion of costs borne by students.
- Most students are unaffected, with more better off than worse off under the changes.

Drawbacks of Option 3(a) include:

- Retains many of the JRG problems (e.g. long term financial sustainability, lack of evidence base, complexity).
- National priority fields are worse off.

Option 3(b). Maintains national priorities for students (\$4,000-\$13,000) and government contributions (\$2,800-\$27,200)



Option 3(b) is identical to Option 3(a), but maintains the current student contributions in national priority fields, leaving no student worse off. The additional cost to government of maintaining these is around \$360M or 5% of CGS funding. This offsets the roughly \$360M reduction in student contributions compared to Option 3(a) or JRG 2022, with budget neutral outcomes for universities.

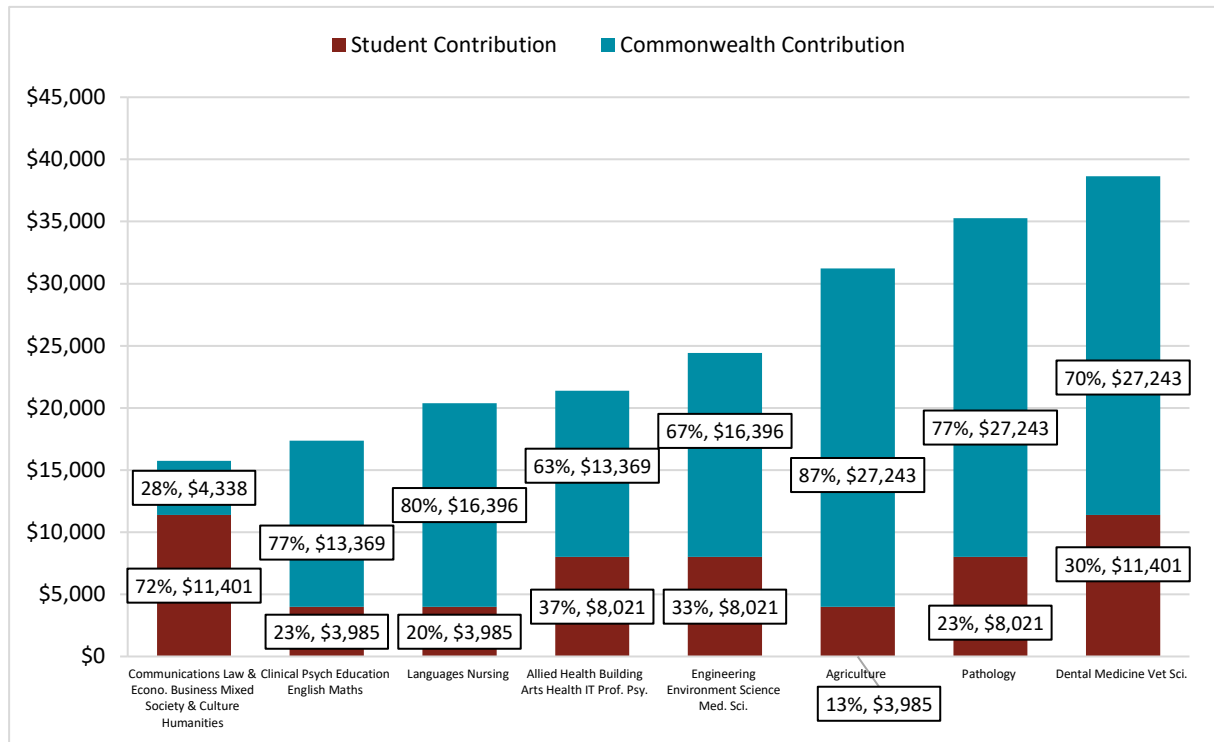
Benefits of Option 3(b) include:

- Maintains priority fields.
- No student is worse off compared to JRG 2022. Students in the highest band are better off.

Drawbacks of Option 3(b) include:

- Retains many of the JRG problems (e.g. long term financial sustainability, lack of evidence base).

Option 3(c). Removes HASS from top band for students (\$4,300-\$13,300) and government (\$4,000-\$27,200)



Option 3(c) is identical to Option 3(b), but removes HASS fields from the top charging band, restoring commerce and law to its pre-JRG band with dentistry, medicine and health sciences (\$11,400). Humanities and related courses remain in this top band, rather than their pre-JRG band with allied health, engineering and others (\$8,100). The cost to government of removing HASS from the top band is \$710M, or 11% of CGS funding, roughly double the cost of Option 3(b). This offsets the \$710M reduction in student contributions compared to Option 3(a) or JRG 2022, with budget neutral outcomes for universities.

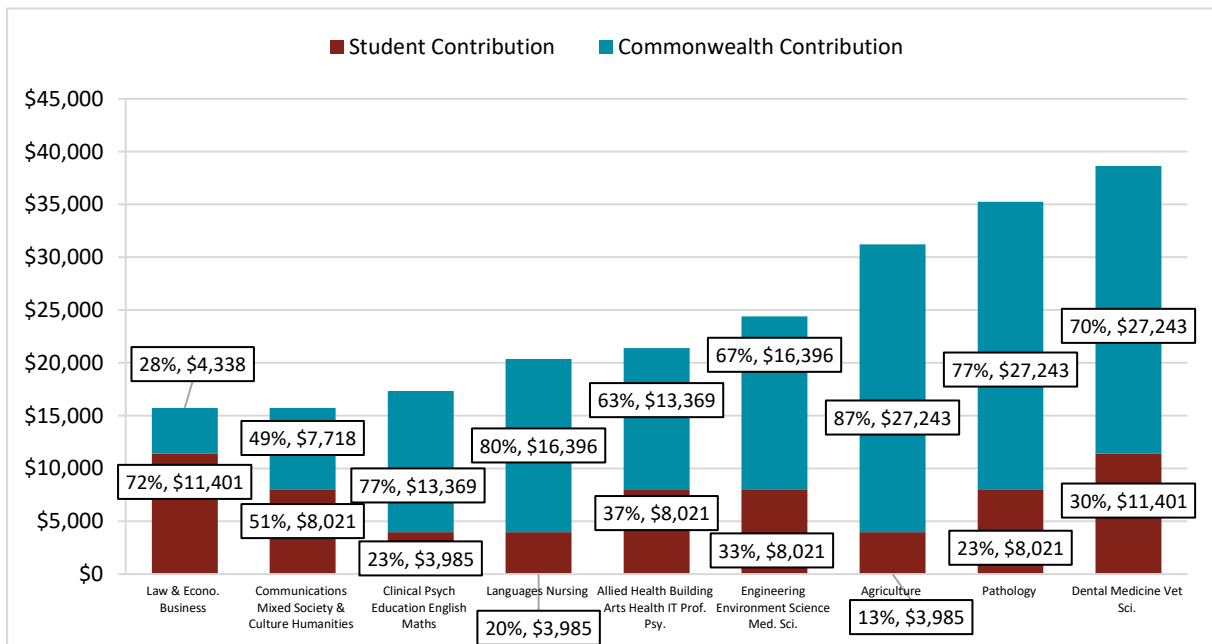
Benefits of Option 3(c) include:

- Maintains priority fields and restores law and commerce to the \$11,400 band.
- No student is worse off compared to JRG 2022, and the one third in the highest charging band are better off.

Drawbacks of Option 3(b) include:

- Retains many of the JRG problems (e.g. long term financial sustainability, lack of evidence base).

Option 3(d). Restores the pre-JRG system, while maintaining national priorities



Option 3(d) essentially restores the pre-JRG system, with humanities and related courses within with middle charging band, while retaining the national priorities fields and leaving no student worse off. The cost to government of reclassifying humanities back into the middle band is an additional \$360M, with the total cost \$1,070M (or 16% of CGS funding) compared to budget neutral Option 3(a) or JRG 2022. Option 3(d) remains budget neutral for universities with reductions in student contributions offset by increases in government contributions.

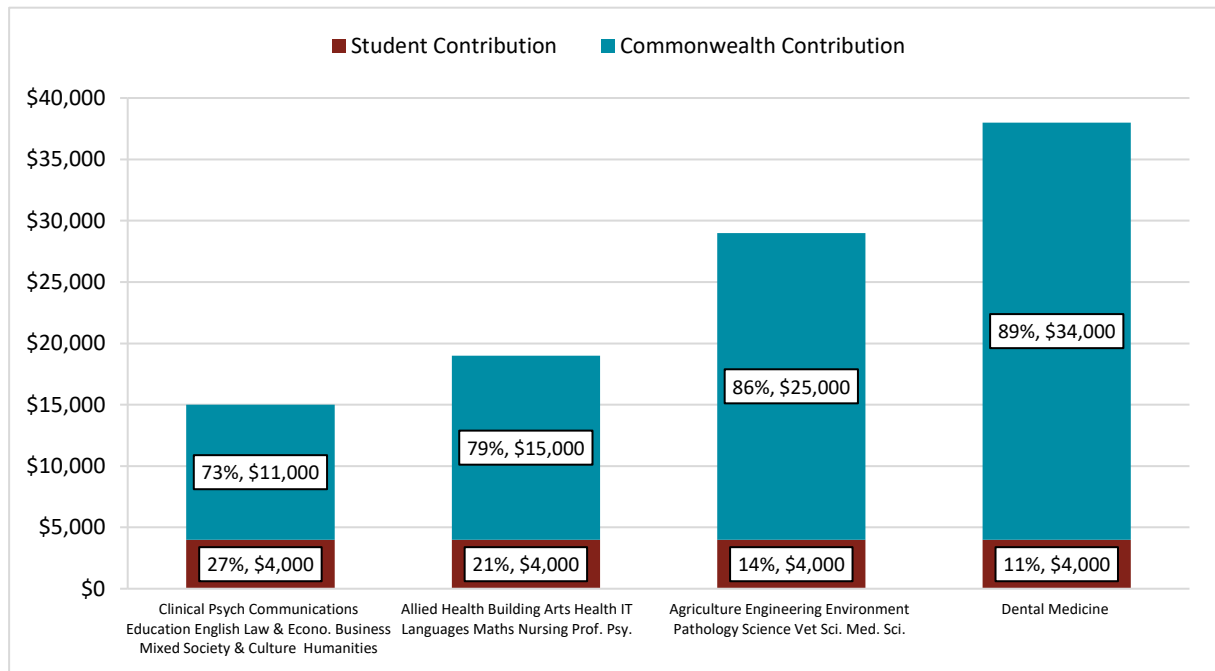
Benefits of Option 3(c) include:

- Maintains priority fields and restores HASS fields to their pre-JRG bands.
- No student is worse off compared to JRG 2022. Students in the top band and humanities students are better off.

Drawbacks of Option 3(b) include:

- Retains many of the JRG problems (e.g. long term financial sustainability, lack of evidence base).

Option 4. Fixed student rates of \$4,000



The final modelled Option sets out the parameters of a system where all student contributions are the same, and are pegged to lowest rate in current JRG system (\$4,000), while government contributions are differentiated across four tiers by cost. Under this Option, there would be equity of student rates, with no student worse off, but not equity of student contributions as a percentage of the total course cost. The cost to government would be an almost 50% increase, with the total Commonwealth contribution rising from approximately \$6,693M to \$9,962M.