



IRU response to the Universities Accord implementation consultation papers on the Managed Growth Funding model and Needs-based Funding

9 August 2024

Summary IRU position

The IRU supports:

- A new Managed Growth Funding model, comprising a System-wide Pool to meet long-term national targets and Managed Growth Targets as part of mission-based compacts.
- Transitional funding arrangements until the end of 2029 and a permanent funding floor set at 97.5% of the previous year's funding.
- The principle of demand-driven funding for equity students, with phased implementation commencing via Managed Growth Targets based on institutional-level equity data.
- The principle of Needs-based Funding for students from under-represented groups, with phased implementation based initially on institutional-level equity data.
- *A Framework of Equity Support Activities* based on the evidence from Needs-based Funding.

The IRU recommends:

- Further consultation on equity category definitions, eligibility and data.
- Dedicated funding for outreach and growing aspiration, and for mission-based compacts.
- A full Government response to all Accord recommendations, with funding for phased implementation delivered through the Budget process.

The Innovative Research Universities (IRU) welcomes the opportunity to provide feedback on the Government's proposed approach to a new Managed Growth Funding system and Needs-based Funding. Overall, the IRU endorses the policy rationale. The IRU strongly endorses Government's commitment to long-term national targets to increase higher education attainment and achieve population parity for key groups of under-represented students, and the required changes to the current funding model to meet these.

The Government's implementation consultation papers acknowledge that the current funding model fails to guarantee fully funded growth in domestic student enrolments to meet Australia's skills needs. It also does not provide sufficient support for students from under-represented groups and those in regional campuses. The IRU believes that a lack of systematic coordination has led to a concentration of students and research funding in large metropolitan campuses, to the detriment of under-represented students in outer-metropolitan and regional areas. The complexity of the current funding model has meant funding has not flowed seamlessly to support under-represented students or to the universities that teach them. Fragmentation has also hampered the development of a long-term evidence base for student support and success.

A new funding model, with stewardship by the new Australian Tertiary Education Commission (ATEC) via differentiated mission-based compacts, has the potential to better align higher education funding with the needs of students and the future needs of the nation. In its 2023 report, the Productivity Commission found that funding through existing equity programs is insufficient and fails to account

for how “each university operates in a unique context”. All universities must focus on equity, but how they do it will necessarily differ. Supporting different student cohorts in different locations requires different approaches and comes with different costs, so a one-size-fits-all approach to funding will not work. Institutions must be enabled to play to their strengths and tailor their approaches based on the needs and population demographics of their communities.

Addressing unfinished business in equity in higher education is the right thing to do. It will also help to address skills shortages, expand opportunities for lifelong learning and improve cohesion in Australian society. International evidence cited by the Productivity Commission shows that effective public investment in higher education leads to economic and social benefits including reduced inequality, improved health and wellbeing and reduced reliance on government support payments. But the lack of committed funding and imprecise equity data are key barriers to success. Additional public funding is needed to resource Needs-based Funding and demand-driven equity places, committed through the Budget process. The quantum of Needs-based Funding will necessarily influence implementation. Needs-based Funding will not seamlessly support students or help develop a better evidence base for the *Framework of Equity Support Activities* if the funding barely covers administration costs.

Success will depend on Government commitment to long-term, sustainable funding, and effective coordination from ATEC. This is not assured. Many key elements are still to be determined, including the level of funding and interaction with other Accord recommendations. But this does not mean that the urgent work on equity in higher education should be delayed. IRU member universities are enthusiastic to begin work now in partnership with government to develop and implement the new funding model that can deliver on shared long-term goals. Current institutional data on equity performance can guide initial Managed Growth Targets and the disbursement of Need-Based Funding, while work progresses to improve underpinning data. But the Government does urgently need to make a full response to the Accord recommendations and dedicate new funding for phased implementation. Without this, the new funding system will fail, irrespective its design.

IRU feedback on Managed Growth Funding and Needs-based Funding

Additional public funding is needed for the System-wide Pool and Needs-based Funding

The IRU supports the introduction of a System-wide Pool of Commonwealth Supported Places (CSPs) set by Government with advice from ATEC. This will ensure that public funding for the higher education system will grow over time to meet long-term national targets for increased participation and attainment. The current system uses a funding cap (i.e. Maximum Basic Grant Allocation) that grows based on population projections in metropolitan areas and separately for regional campuses. This approach is inadequate and insufficiently targeted to support the ambitions of the Government to grow tertiary education provision in outer metropolitan areas of our major cities where under-represented students typically reside. The lack of “core funding” for supporting under-represented students is inconsistent with the Government's ambitions for 80% tertiary education attainment by 2050 through greater equity.

The new funding system will require a substantial increase in funding for CSPs, support for under-represented students, and a well-functioning ATEC to guide the distribution of funding via university compacts. It is essential that the System-wide Pool is demonstrably sufficient to meet the interim attainment targets for each year, consistent with longer-term national goals. Managed Growth

Funding requires management and *growth*. The size of the Pool in 2026 is intended to match the long-term growth in enrolments required to reach the Government's attainment targets. According to the Universities Accord Final Report, this will likely "require more than doubling of the number of Commonwealth supported students from current, 2022 levels (860,000) through to 2035 (at least 1.2 million)" or roughly 40% more CSPs compared with 2022. The 2026 Pool will need to be at least 10% larger than 2022 levels on a CSP basis to be on track with the 2035 target. Without additional funding for places, the entire new funding model will irrevocably fail. This funding can be allocated directly to the Commonwealth Grant Scheme (CGS) through the Budget process and across the forward estimates. Likewise, new funding can be dedicated directly to Needs-based Funding (NBF), demonstrating the Government's commitment to growing the higher education opportunities for under-represented students.

Managed Growth Targets can direct growth, support sustainability and diversity

Assuming the Government funds the System-wide Pool sufficiently, the IRU supports the introduction of Managed Growth Targets (MGTs) via mission-based compacts. MGTs would operate as a "hard cap" and be responsive to current student demand dynamics and prospective student demand in geographical areas with higher education under-representation. This will offer greater predictability, transparency and coherence for meeting both the higher education attainment and the population parity targets. This is consistent with Recommendation 10b of the Accord Final Report, which outlines how all universities need to contribute to greater higher education attainment, but with targets determined by context. MGTs provide a clearer expectation to higher education providers about how they will contribute to the overall system growth. There is a risk that hard caps will financially penalise universities when student load exceeds their estimates, such as when more students choose to study full-time or if retention rates improve. This may lead universities to set internal targets below their MGT. The Government should consider some flexibility in the operation of MGTs or set a System-Wide Pool sufficiently large to meet the Government's attainment targets even if all universities do not reach their MGTs.

The IRU has consistently advocated throughout the Universities Accord process for a more systematic approach to policy and funding for domestic students. A large System-wide Pool will be a prerequisite for meeting the long-term national participation and equity targets, but it will not be sufficient. The formulaic, one-size-fits-all approach for disbursing CSPs funding is not suitable for growing higher education for under-represented students or maintaining diversity within the sector. This requires a more nuanced approach with institutional-specific contextual targets (see the IRU paper [Meeting the demand for higher education and a 20% low SES target by 2030](#)). MGTs will provide ATEC with a mechanism to support sustainability and diversity, steering the tertiary education sector towards areas of student demand, under-representation and skills needs.

Transitional funding should operate until 2029, with a permanent funding floor thereafter

The introduction of a hard cap and a new funding model will require transitional arrangements, especially for universities that are currently enrolled above their MBGAs. It is proposed that a transitional arrangement will be in place to provide financial stability during the transition to the new system from 1 January 2026 onwards on a time-limited basis (e.g. until the end of 2029), and possibly as a funding floor or "safety net" thereafter. The IRU supports the proposed transitional arrangements until the end of 2029, and a permanent funding floor thereafter based on the previous

year's CGS funding. A high funding floor based closely on the previous year's CGS (e.g. set at 2.5% reduction, or 97.5% guarantee) would increase funding certainty for universities and their staff.

The new funding model depends on ATEC capability and dedicated mission-based compact funding

The Accord Final Report states that “mission-based compacts will be the primary tool to grow university aspiration and formalise institutions’ contributions to meeting the national targets over time.” The IRU strongly supports this and has advocated for mission-based agreements to be the primary basis for allocating public funding to universities in line with agreed priorities, with universities accountable for reporting publicly on outcomes and impact (see: [Australian Universities Accord - IRU Submission - Innovative Research Universities](#)). This aligns with the intention of the Managed Growth Funding system, but it will depend on ATEC capability and new mission-based funding. ATEC will negotiate with universities MGTs for the next year and with estimates for the following two years, as part of compacts.

It is concerning that compacts are not mentioned at all in the Managed Growth Funding consultation paper, and only briefly in the NBF consultation paper exclusively in relation to NBF plans and accountability requirements. Mission-based compacts cannot be limited to setting MGTs and administering NBF. They must be central to the new funding model, providing additional base funding for university missions. This includes funding for the broader compact purposes specified in the Accord Final Report, such as growing university aspiration through outreach, encouraging community engagement and advancing the civic functions of regional institutions. Funding allocations for additional enabling places (already announced by government) should also be incorporated into compacts, to support accountability and flexibility for universities to move funding to where it most needed to support students, in line with agreed targets for increased participation.

Effective compacts will require greatly improved data and strong ATEC capability for in-depth system-wide modelling, incorporating population predictions/dynamics. The ATEC will be responsible for maintaining a system-wide view and understanding how the decisions of one institution affect others. It is unclear whether ATEC will have the capacity to perform this role effectively, or if there will be sufficient new funding attached to the System-wide Pool, the NBF or mission-based compacts. If the Government fails to adequately resource ATEC and mission-based compacts, the administrative costs of the new funding system may outweigh the benefits.

Separate funding for outreach is also needed, to boost student aspiration and capability

Managed Growth Funding will help ensure sufficient supply of student places and NBF will support students that gain access to succeed, especially those from under-represented backgrounds. However, funding and responsibility for growing aspiration and demand for higher education is explicitly outside the scope of the new funding model and NBF. It is essential that funding and responsibility for outreach is implemented alongside the supply-side and student success initiatives, as part of an integrated implementation of the Universities Accord Final Report recommendations.

The Universities Accord Final Report noted that outreach activities, historically funded through the Higher Education Participation and Partnerships Program (HEPPP), likely have a positive effect on student applications and enrolments but can encourage universities to compete, rather than collaborate. The Accord recommended investing in a nationally consistent framework for careers advice and a dedicated university outreach program, resourced separately from NBF, that is targeted, place-based and community-focused (Recommendation 11). The Accord Final Report was

unequivocal that this be part of mission-based compacts: “Mission-based compacts will be the primary tool to grow university aspiration and formalise institutions’ contributions to meeting the national targets over time.” (p. 236).

The IRU supports the establishment of a dedicated program for outreach that is implemented through mission-based compacts. This will support the strengthening of partnerships between schools and universities and should also encourage continued improvements in tertiary integration (eg. in collaboration between universities and TAFEs/the VET sector in engaging with schools). There is a significant risk that a piecemeal implementation of Accord recommendations could mean that outreach activities supported by HEPPP will be discontinued if dedicated funding through mission-based compacts is delayed.

Managed Growth Targets should initially be set by student demand and equity participation

The consultation paper lists many factors for the ATEC to consider when setting an institution’s MGT in compacts, including:

- National objectives set by the Government;
- Student demand dynamics;
- Provider performance;
- Institutional goals and missions;
- Institutional and sector sustainability;
- Other market structure issues (e.g. the need to establish sustainable scale for a new provider).

Each of the above factors are complex, contestable and may introduce new risks and compliance costs. Some factors, like student demand dynamics and institutional sustainability may be in direct conflict (e.g. if higher MGTs are set at lower demand institutions to support financial sustainability).

The IRU has been consistent in advocating for simplifying the funding system and reducing administrative overlap, reporting and duplication. The complexity and uncertainty of the MGT evaluation process risks increasing administrative burden and overlap. The IRU has recommended compacts as the primary basis for allocating public funding and reporting on outcomes. The setting of MGTs and their evaluation within the compact process needs to be consistent with other key performance indicators set in mission-based compacts. Universities meeting the goals set out in their mission-based compact should not face penalties in the MGT.

Mission-based compacts have potential to steer the higher education sector, but ATEC is unlikely to initially have access to all the requisite data and analysis when initially setting MGTs. This is especially the case for continuous improvement of evaluation, accountability and transparency. It is important that universities have initial MGTs that are consistent with their compacts and that evaluation is embedded into the process, but the lack of complete evaluation data should not delay implementation. MGTs should broadly support the agreed upon mission and strategy in compacts, with compliance and accountability forming a later part of the compact evaluation and re-negotiation process. The initial setting of MGTs should focus on supporting growth at institutions with high student demand and a track record for teaching students from under-represented backgrounds. The evaluation of institutions and their MGTs should be a later part of the compact process, following the establishment of ATEC and its resourcing.

Full implementation requires improved definitions, data and verification for student disadvantage

The current equity categories are useful guides for how the higher education sector reflects the population. A student's geographic or demographic background should not determine their future higher education attainment. The proposed changes have the potential to redress this.

Not all universities' student profiles will be perfectly representative of their locality, but collectively the higher education system should reflect State and Territory demographic profiles. Guaranteeing students from under-represented backgrounds a CSP in their course of choice, and some degree of managing this growth towards providers with a track record for teaching students from under-represented backgrounds, will help steer the sector towards population parity. A well-funded NBF system will ensure that the additional students will not just gain access to a CSP, but will have the greatest chances for success.

Although useful as system-level targets and as guides for directing NBF to institutions that typically teach student from under-represented backgrounds, the current equity categories and data sources are too imprecise to capture individual student disadvantage. Most are valid only as a broad indicator of a prospective student's geographical background, not their own personal circumstances. Persons from low SES areas are, on average, more likely to be disadvantaged and are under-represented in universities. Therefore, there is value in using this information to initially guide MGTs and direct NBF towards certain universities with a track record for teaching students from under-represented backgrounds.

But the categories are not useful to direct CSPs or NBF towards individual students. Many students from low SES areas are not typical of the areas they come from; they are not necessarily from lower educated, non-professional or low income families. Roughly one third of all students from low SES areas have at least one parent with a university degree. The proportion of low SES students from highly educated families is considerably greater at the more selective, metropolitan universities. Likewise, not all persons from medium and higher SES areas are typical of the SES profile of their area. Roughly one quarter of all students from high SES areas are first in their family to attend university and may need greater support. Such students are far less likely to be enrolled at selective, metropolitan universities.

Similar issues arise with the potential scaling of NBF for academic preparedness. Selective, metropolitan universities typically enrol equity group students that are better prepared for study. This is due to the limitations of the current equity categories which do not account for individual student circumstances. Using ATAR (or similar) to scale NBF has the potential to direct funding to students of greater need (compared with uniform rates under the current equity categories), but it does not resolve the key problem that the current equity categories are coarse and contain a wide range of individual student preparation. As mentioned in the consultation paper, ATAR correlates with student success after controlling for the geographical background of students, but it is not clear if ATAR would provide additive value if the equity categories were more precise (e.g. capturing the individual socioeconomic circumstances of students). Scaling of NBF and cumulative loadings to address intersectionality and compound disadvantage should be explored further, balanced against the additional complexity it would bring to an already complex funding system.

Overall, the disbursement of managed demand-driven funding and NBF for individual students requires further development and should not proceed in full until universities and the Government have valid, verifiable data on individual disadvantage, and on cumulative disadvantage across multiple equity categories. The costs of verifying self-reported data will need to be carefully

considered. Rushing implementation in advance of definitions, data and verification processes risks many unintended consequences and gaming. For example, the Government will need to consider how to manage possible deliberate misrepresentation of family background (for Low SES), address (for Regional) or disability in self-reported data. While the IRU supports the principle of demand-driven funding for equity students, care must be taken in implementation to avoid additional complexity which could disincentivise students (eg. through delaying their enrolment or preventing them from gaining access to their preferred course). Allocations of places to universities should be made early enough that student offers/admissions/enrolments can happen through existing processes, without requiring a separate process for equity group students.

The IRU has consistently recommended the need for greater work on equity classification, data and performance. The IRU submission to the Accord suggested that the National Centre for Student Equity in Higher Education (NCSEHE) (now the Australian Centre for Student Equity and Success; ACSES) should be empowered to make recommendations to government to inform the development of improved equity measures and targets. This should be in partnership with universities and ATEC.

Until suitable methods are developed for classifying individual students into equity groups, equity group participation will be best supported through a large System-wide Pool (which will benefit all students) and an initial setting of higher MGTs and NBF at universities currently teaching more students from under-represented backgrounds.

A Framework of Equity Support Activities must be developed based on scholarly evaluation

The IRU supports the principle that providers invest in evidence-based academic and student support activities and participate in the development of a *Framework of Equity Support Activities*. Although the *Critical Interventions Framework* offers a starting framework of evidence-based equity interventions, it is also clear that more evidence will be required to support interventions at scale to meet the ambitious government targets for higher education participation and attainment for under-represented students. The long-term evolution of the Framework should be embedded within ATEC as part of a dedicated Learning and Teaching Council and Centre of Excellence in Higher Education and Research, both as recommended by the Accord.

However, the Framework should be an evaluation of activities and their implementation, not an evaluation of an institution or their people. Providers should be required to dedicate NBF towards activities expected to support students from under-represented backgrounds. These activities should form part of university compacts and be evaluated effectively. But the outcomes of these evaluations **should not** be used to inform other elements of the new funding system, such as managed demand driven places for equity students, setting MGTs or other mission-based compact elements. If providers are required to “demonstrate their supports are working”, the Framework will become extremely susceptible to conflicts of interest and manipulation results, possibly compromising the value and truthfulness of the Framework. Understanding “what works” equally requires a need to understand what *doesn't* work, and this requires disinterested and honest evaluation.

Important elements of Accord Recommendations 40, 41 and 46 must be addressed

Although the New Managed Growth funding system and NBF are presented as the Government's response to the Universities Accord recommendations 40, 41 and 46, the implementation consultation papers miss many sub-recommendations. Relevant elements contained in recommendations 40, 41 and 46 that are absent in the consultation include:

- Sufficient funding for teaching and scholarship (Rec 40d), academic workforce support for teaching and research (Rec 40e), and research and research training (Rec 40f).
- Fully funded places for all students who want to access higher education and can meet the entry requirements, managed at the system level to ensure that genuine demand is met with supply, and managed at the university level to ensure sustainability of universities (Rec 41b).
- Increasing government funding to support science, technology, engineering and mathematics courses, and broader reforms of the JRG package (Recs 41d-f).
- Transition funding for changes in discipline-based and needs-based funding (Rec 46).

The Government urgently needs to make full response to all Accord recommendations and outline a clear timeline with dedicate new funding for staged implementation. There is a risk that a partial or piecemeal implementation of Accord recommendations (including funding for compacts, outreach and research) could undermine the Managed Growth Funding system and lead to inconsistencies, increases in compliance costs, and diminishing resources available for university core missions of teaching, research and engagement.