

IRU discussion paper – Reforming JRG funding rates

September 2024

The Australian Universities Accord Final Report recommends "urgent remediation" of the student and government contribution rates in the Job-Ready Graduates (JRG) package. It recommends:

- 1. Reducing the student contribution rates in the highest charging fields (humanities, human movement, society and culture, and communications) (Recommendation 16a);
- 2. Progressively moving towards a student contribution system aligned with lifetime earnings (Recommendation 16a), with three bands of student contributions (Recommendation 40);
- 3. Increasing government funding to support science, technology, engineering and mathematics courses (STEM) to reduce the negative impacts of the JRG package (Recommendation 41d).

The IRU recommends urgent action to reform the JRG package, to support students and increase participation and equity. The Government's recent changes to HECS-HELP indexation to address student debt and cost of living pressures are welcome, but they are only one part of the picture. The primary driver of student debt is the cost to students of doing a degree.

The JRG changes in 2021 shifted more of the cost of higher education onto students and made student contributions more unequal, complex and socially regressive. Professor Bruce Chapman, the architect of HECS, has said recently that the JRG has the potential to "undermine the HECS system" and deter people from going to university.

The IRU strongly supports the Government's target of lifting tertiary education attainment to 80% and the Accord goal of population parity for students from under-represented backgrounds. But it will not be possible to achieve these targets without JRG reform, and the longer we leave it, the more difficult and more expensive it will be.

Taking immediate action on JRG reform will deliver both short- and long-term economic benefits for the nation. In the short term, reducing the cost of education will lower the CPI and put downward pressure on inflation. In the long-term, it will be a key plank in boosting tertiary participation – international evidence shows that increased participation and public investment in education drives productivity, reduces inequality and leads to broad economic and social benefits.

Key results: Three changes to reform the JRG

1. Restore the three band student contribution system by reclassifying fields currently in the current top-charging band (\$16,000) to the second highest band (\$13,000);

(estimated cost of \$772M p.a.; \$324M p.a. for HASS and \$448M p.a. for Law and Commerce)

 Restore the humanities and related fields to their pre-JRG rates by reclassifying these from the current second highest band (\$13,000) to the mid-charging band (\$9,000);

(estimated additional cost \$340M p.a.; cumulative total cost \$1,112M p.a.)

3. Restore STEM to pre-JRG funding rates by increasing government funding in STEM by \$5,000. (estimated cost of \$658M p.a.; cumulative total cost \$1,770M p.a.)

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To achieve full JRG reform, this would require an increase in Government investment of 25% on top of the existing \$6,950m per annum invested in Commonwealth Supported Places. But to proceed step-by-step, starting in the first instance with option one, would only be an 11% increase to the CGS.

| | 1. Restore 3 Band Student Contributions | | | 2. Restore HASS to mid-Band | | | 3. Restore STEM funding | | |
|----------------------|---|-----------|------------|-----------------------------|------------|------------|-------------------------|------------|------------|
| | CGS | Student | Total | CGS | Student | Total | CGS | Student | Total |
| JRG 2024 Reference | \$6,950 m | \$6,390 m | \$13,341 m | \$6,950 m | \$6,390 m | \$13,341 m | \$6,950 m | \$6,390 m | \$13,341 m |
| % of total by source | 52.1% | 47.9% | 100.0% | 52.1% | 47.9% | 100.0% | 52.1% | 47.9% | 100.0% |
| Proposal \$ | \$7,723 m | \$5,618 m | \$13,341 m | \$8,062 m | \$5,278 m | \$13,341 m | \$8,720 m | \$5,278 m | \$13,999 m |
| % of total by source | 57.9% | 42.1% | 100.0% | 60.4% | 39.6% | 100.0% | 62.3% | 37.7% | 100.0% |
| Change in \$ | \$772 m | -\$772 m | \$0 m | \$1,112 m | -\$1,112 m | \$0 m | \$1,770 m | -\$1,112 m | \$658 m |
| Change in % of \$ | 11.1% | -12.1% | 0.0% | 16.0% | -17.4% | 0.0% | 25.5% | -17.4% | 4.9% |

Table 1. Change in total funding (\$M) under modelled options compared to 2024 rates

Our aim is to contribute constructively to an open discussion of policy options for JRG reform, consistent with the Accord recommendations. Our approach builds upon the 2022 IRU discussion paper <u>Job-Ready Graduates: principles and options for reform</u> and updates the costs of reform estimated in the IRU Supplementary Paper <u>Job-Ready Graduates: options for reform</u>.

The three changes above progressively unwind the JRG reforms, shifting the proportion of costs borne by students from 48% under the current system, to 42% under a three band system, 40% with restoration of HASS to a mid-charging student band, and 38% with the restoration of STEM funding. Around 300,000 domestic students in Commonwealth Supported Places would benefit from lower fees and a further 185,000 students enrolled in STEM courses would benefit from better funded places under these changes. This represents around 58% of the total student cohort.

A \$50,000 debt for a three-year Arts degree is negatively impacting the public perception of the cost and value of university degrees, particularly for the debt-averse and disadvantaged cohorts required to meet the Accord targets.

The JRG package is socially regressive, disproportionately increasing the costs of education for Low SES, female and Indigenous students, due to the course choices they make. Around 38% of all Low SES, 36% of all females and 38% of all Indigenous students enrol in the top-charging courses (compared with 35% of all CSP students). Restoring the three band student contribution system would simplify the system and narrow the gap between what different students pay for their degrees, reducing the cost of the most expensive three year bachelor degree from around \$50,000 to under \$40,000. This would immediately benefit around 300,000 students, alleviate public concerns around the costs of higher education and support the Accord's and Government's vision for greater higher education participation through equity.

The Accord recommended progressively moving towards a student contribution system aligned with lifetime earnings, guided by a simple principle: "The higher the future earnings potential linked to their field of study, the greater the student contribution." Although there is a need for a thorough analysis of graduate earnings to determine the precise allocation of courses by charging bands, there is no credible evidence to suggest humanities and related fields should be in the top-charging band. **Restoring these courses to their pre-JRG rates would further benefit roughly 125,000 students, reducing the costs of these courses to under \$30,000.**



Restoring STEM funding to pre-JRG rates is necessary to ensure the supply and quality of courses required to meet the nation's future skills needs. The JRG reforms reduced base funding (student plus government contributions) for science and engineering by 16%. Universities have continued to maintain investments in STEM courses while awaiting the Government's response to the Accord's recommendation, but the sustainability of these courses is increasingly challenged by the broader financial environment. It will be far costlier to re-introduce STEM courses that were forced to close due to the delays in restoring STEM funding.

We are cognisant of the challenges facing Government and the costs of reform, which we estimate at an additional \$1,770M per annum to achieve in full. Given that the Accord does not recommend increases in student contributions in any fields, our modelling in this paper has the entirety of the costs borne by Government, with no student worse off. However in previous papers (see links above) we have modelled broader options for JRG reform, including options that are budget neutral for the Australian Government.

Methodological approach

We model the costs of reform using 2022 student load (EFTSL) in Commonwealth Supported Places (CSPs) as an estimate for 2024 load by field. This assumes that student load in 2024 is identical to 2022 in aggregate and by field of education funding cluster. We multiply the 2022 load by 2024 funding rates as a baseline, which equates to \$6,950M in Government contributions ("CGS") and \$6,390M in student contributions in 2024. We estimate this to be the cost to Government and students of the current system in 2024, with a 52.1% Government and 47.9% student contribution. We then compare these JRG 2024 Reference rates with the modelled rates that progressively restore pre-JRG funding by reducing student contributions and offsetting these with identical increases in Government contributions to ensure no university is worse off.

The JRG changes in 2021 reduced total university funding by around 10% up to 20% for most STEM fields. In 2020 the total funding for Science and Engineering was \$28,447, Agriculture was \$33,541, and IT and Mathematics were \$20,348. Post JRG in 2021, total funding declined in Science and Engineering to \$24,200 (a nominal decline of \$4,247), Agriculture to \$30,950 (a nominal decline of \$2,591) and Mathematics to \$17,200 (a nominal decline of \$3,148). By contrast, total funding increased in IT due to increases in Government contributions more than offsetting the decreases in student contributions (total funding \$21,200, a nominal increase of \$852).

We estimate the costs of restoring STEM funding by applying CPI indexation to 2020 funding rates. Had Science and Engineering, Agriculture and Mathematics retained their 2020 funding rates and increased by CPI, in 2024 they would have been funded at \$39,308 (\$4,468 more than the current 2024 rates); \$33,338 (\$6,098 more than 2024 rates) and \$23,846 (\$4,486 more than 2024 rates). For simplicity, we model a flat rate increase in Government contributions of \$5,000 per student in these fields (excluding IT) to restore STEM funding to pre-JRG levels.

The current funding system and Accord principles for JRG reform

The 2024 funding rates include four student contribution rates (\$4,000; \$9,000; \$13,000; \$16,000) and four Government contribution rates (\$1,000; \$15,000; \$18,000 and \$32,000), with student contributions ranging from 13% of total funding in Agriculture to 93% in Business, Law and most HASS fields.



The JRG changes in 2021 were criticised in the Accord Final Report as unfairly affecting students in studying human movement, humanities and related fields where student contributions increased by 113% and are now in the top-charging band. The Accord recommended that the student contribution rates in these fields need to be "corrected as soon as possible". The current funding system was also criticised as "overly complex, fragmented and difficult to comprehend. It needs to be simplified".

The Accord recommended student contributions be based on the principles of fairness, simplicity, field of study, and future earnings. A three band student contribution model is proposed. In the <u>IRU</u> <u>submission to the Accord</u>, we recommended a simpler and fairer system of student and government contributions. The Accord does not explicitly recommend reducing student contributions in Law and Commerce, but it is required under a three band student contribution system. Therefore, we focus on achieving a three band student contribution system by removing the top student charging band, rather than retaining this for Law and Commerce and merging the bottom two bands.

The Accord also recommended that Government contributions should continue to be determined by field of study and based on the "estimated cost of teaching... [recognising] the public value of higher education across the system as a whole". The Accord does not identify any fields of education that are over-funded relative to costs of teaching, only under-funded fields within STEM. Therefore, we assume that any reductions in student contributions would need to be offset by increases in Government contributions.

1. Remove the top charging student contribution band

Our first model below reduces student contributions by reclassifying fields currently in the current top-charging band (\$16,000) to the second highest band (\$13,000). This reduces the number of student contribution bands to three at a total estimated cost of \$772M per annum. \$324M of these costs are for HASS and Human Movement (42% of total) and \$448M for Law and Commerce (58%).

The above changes would shift the proportion of costs borne by students from 48% under the current system, to 42% under a three band system. These changes would reduce the range in student contributions from \$4,000 to \$16,000 currently, to \$4,000 to \$13,000. The range in the proportion of total costs borne by students would also reduce from 13% to 93% currently, to 13% to 72%.

Maintaining a four-band student contribution system with Law and Commerce in their own band (\$16,000) would reduce the costs to government by \$448M across each of the models presented, with higher student contributions offsetting this. Law and Commerce is also one of the few fields of education where JRG changes introduced in 2021 increased total funding for universities (by 17% per student). In 2024, universities receive roughly \$2,000 more in funding per student within these fields than they would have had their pre-JRG rates been indexed for inflation. A \$2,000 reduction in student contributions without an equal offset increase in Government contributions would leave universities no worse off compared with pre-JRG funding.

However, the JRG reforms partly increased total funding in Law and Commerce to better align funding with the costs of education estimated in the <u>Transparency in Higher Education Expenditure</u> project. Reducing total funding in Law and Commerce is in direct contradiction to the evidence from this project, a project specifically designed to estimate the cost of delivery. Nevertheless, the JRG reforms also led to a reduction in funding in most STEM fields to better align funding with their (lower than funded) costs, a conclusion that the Accord clearly does not consider appropriate given that it determined that STEM fields are under-funded.





RESTORE 3 BAND STUDENT CONTRIBUTIONS

Restoring a three band student contribution system could also be achieved by retaining Law and Commerce in the top-charging band and reclassifying the current national priority fields (in the \$4,445 band) to the second lowest charging band (\$8,948). Essentially the first step of reducing student contributions in HASS and Human Movement student contributions would cost Government \$324M if Law and Commerce were retained in the top band, while the reclassification of national priority fields to a higher band would more than offset this by reducing costs to Government by \$638M (and increasing student contributions by the same amount by doubling student contributions from \$4,445 band to \$8,948).

2. Restore the humanities and related fields to their pre-JRG rates

The Accord recommended "correcting" the student contribution rates in HASS and related fields for changes made under JRG. For this to be fully realised, most HASS fields would need to be restored to the mid-charging student contribution band. Reclassifying these fields from the current second highest band (\$13,000) to the mid-charging band (\$9,000) would have an estimated cost of \$340M, in addition to the \$772M to remove the top-charging band (total cost \$1,112M).

The combined changes would reduce student contributions to an average of 40% of the costs of their education. The appropriate balance between student and government contributions remains a matter of debate, but a 40% student contribution aligns with the 2011 Lomax-Smith Review recommendation for a 40:60 student to government ratio. However, the Lomax-Smith Review recommended this apply consistently across all disciplines, which is directly in conflict with the Accord's principles for students in higher earning fields contributing a higher proportion of their costs.





RESTORE RESTORE HASS TO MID-BAND

3. Restore STEM to pre-JRG funding rates by increasing government funding

The third immediate change recommended by the Accord involves "increasing government funding to support science, technology, engineering and mathematics courses to reduce the negative impacts of the JRG package" (p. 296). We estimate that in 2024, Science and Engineering, Agriculture and Mathematics units are funded between \$4,500 and \$6,100 less than their pre-JRG 2020 rates when indexed for inflation. Therefore, we model a flat-rate \$5,000 increase in Government contributions in these three fields at an estimated cost of \$658M. Combined with the changes in student contributions outlined above, the cumulative total cost would be \$1,770M per annum, and student contributions would reduce to an average 38% of the total costs of their education.

Increasing Government funding in STEM would help offset the JRG changes which reduced total funding by around 10% to 20% for most STEM fields, other than IT, but it would not necessarily better align funding with costs of education delivery. The Accord proposes a new funding model that "would appropriately price the cost of teaching in different disciplines including increasing government contributions for disciplines in science, technology, engineering and mathematics (p. 8)." However, increasing Government contributions specifically in STEM inconveniently contradicts the cost of education estimates from the <u>Transparency in Higher Education Expenditure</u> project which was used by the JRG reforms to align total funding more closely with the cost of education, which were calculated as lower in STEM.



