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INDEPENDENT STUDY OF THE HIGHER EDUCATION REVIEW: STAGE 2 REPORT

Volume 2 – Potential Impact of the Higher Education Review

June 2003

EXECUTIVE SUMMARY

Volume 1 of this Report provides analysis of the current situation in Australian Higher Education. This Volume analyses the outcomes of the Higher Education Review, as announced in the Ministerial Statement, *Our Universities Backing Australia's Future*.

In overview, the *Backing Australia's Future* package provides new opportunities for universities to raise revenue from fees and charges, increases the number of 'fully funded' places but phases out over-enrolment, and provides some additional targeted funding for learning and teaching and equity initiatives. It contains no new measures in relation to student assistance and has only indirect impacts for the vocational education and training sector.

Impact on Participation

The following elements of the package will have an impact on Commonwealth-subsidised student numbers, as opposed to fee-paying places:

- The provision of additional funded places to private institutions
- Cessation of funding to Marcus Oldham College of Farm Management
- Provision of nursing places to regional campuses
- Phasing out of marginal funding for over-enrolment
- Phasing in of new fully subsidised places
- New medical places
- Growth from 2007 and 2008.

There will be a significant increase in the number of 'fully funded' places as a result of *Backing Australia's Future* but over-enrolment will be phased out. The net change resulting solely from *Backing Australia's Future* is a reduction in HECS-liable places of 1175 EFTSU in 2008 compared with 2002.

However there is some growth in the system from existing policy. When existing policy and the new changes are taken together, 'fully funded places' will grow from 393,255 in 2002 to 429,447 in 2008, an increase of 36,192 EFTSU or 9.2%. Total Commonwealth subsidised places (and therefore places for which HECS applies rather than fees) are likely to decline initially as over-enrolment falls, before growing slightly to 429,447 in 2008 (assuming 0 over-enrolment), a net increase of only 3,460 EFTSU or 0.8% over 2002.

This will not keep pace with projected population growth. Without further growth the number of Commonwealth subsidised places per 1,000 people aged 15 and over will fall from 27.2 in 2002 to 24.8 in 2011 and 22.6 in 2021. The provision of 'fully-funded' places runs ahead of population growth in 2006, but also falls short by 2011.

We believe that there could be an increase in the ratio of undergraduate fee-paying to 'fully-funded' students to 5 or 10 per cent by 2008, representing growth of between 15,000 and 30,000 fee-paying places. This would add between one and two extra higher education places per 1,000 of the 15+ population.

When undergraduate and postgraduate fee-paying and HECS places are considered together, there will be no significant decline in the ratio of higher education places to the 15+ population until after 2011.

There will be an increase in 'fully funded' places of between 8.3 and 12 per cent in each State and Territory between 2002 and 2008. When the phase out of over-enrolment is taken into account, the change in total Commonwealth subsidised places varies from a reduction of 2.4% in New South Wales between 2002 and 2008, to an increase of 8% in Tasmania. The ratio of subsidised places (including over-enrolment) to the 15+ population falls in all States and Territories other than Tasmania and the ACT.

By far the largest numbers of undergraduate fee-paying places are projected for New South Wales and Victoria, although the percentage growth is higher in the smaller States. When both fee-paying and subsidised places are considered together, the ratio of higher education places to the population aged 15 and over will increase between 2002 and 2011 in Victoria, South Australia, Tasmania and the ACT and fall in the other States.

The key point is that the main factor acting to sustain the level of opportunities is the projected growth in fee-paying places. If there were to be no growth in fee-paying places, the ratio of higher education places to the population would fall between 2002 and 2011 in all States except Tasmania.

Impact on Resources

The impact of *Backing Australia's Future* on resources will be complex, determined by the interaction of a large number of new funding measures and institutional and student behaviour. Estimation of the funding impact of the new Commonwealth Grants Scheme requires complex analysis and data which is not published, pointing to problems of complexity and lack of transparency.

The total revenue implications for the sector are significantly positive, especially when estimates of potential additional contributions from students are included. We estimate that total additional annual revenue for the sector could be between \$0.9 and \$1.4 billion in 2008. This compares with total sector revenue in 2001 of \$10.2 billion, an increase in dollar terms of between 9 and 14 per cent. Overall, between 29% and 53% of the additional revenue in 2008 will come from students through extra HECS and fees. This will continue the trend toward an increasing proportion of university funding coming from students and a diminishing share from the Commonwealth.

The rate of base funding per subsidised student place will rise roughly in line with the anticipated inflation rate if institutions charge standard HECS.

In individual States and Territories the estimated increases vary from a range of \$5 million to \$7 million for the Northern Territory to a range of between \$270 million and \$436 million for Victoria in 2008. Victoria and New South Wales are projected to attract between 56% and 60% of the additional revenue.

Impact on Nursing and Teaching

The probable impacts of the *Backing Australia's Future* initiatives for nursing and teaching include:

- Enhanced opportunities for States and Territories to provide advice to the Commonwealth on their workforce needs, but no explicit opportunities to establish

ongoing national frameworks and strategies for workforce planning and the supply of nurses and teachers

- A marginal increase in the number of nursing graduates up to 2010, but continuing high levels of unmet demand and only a partial reversal of a long term decline in nursing graduates
- A marginal increase in the number of teacher education places, but continuing high levels of unmet demand and no focused strategies for addressing shortfalls in particular specialisations (though these may emerge from the impending report of the Review of Teaching and Teacher Education)
- Reduced financial strain on institutions associated with the costs of clinical practice in nursing courses and the practicum component in teacher education courses, but limited incentive for institutions to increase places in these fields as the supplementary funding is fixed regardless of the number of places offered
- Containment of student HECS debt compared with other fields of education that have not been exempted from the partial de-regulation of fees
- Some financial support for a very small percentage of disadvantaged nursing and teacher education students via the Commonwealth Scholarships Scheme
- The possible need for some students, particularly those undertaking teacher training after a four year degree, to complete courses on a fee-paying basis after consuming their Learning Entitlement
- Possible increased debt pressures on teacher education students undertaking postgraduate pre-service training and nurses undertaking specialist postgraduate courses.

Impact on Access and Equity

The *Backing Australia's Future* package could have a range of impacts on access and equity for Australians in general, and particularly for disadvantaged Australians.

With respect to the general population, the package offers little increase in access or participation. It may also:

- Serve to restrict some students' effective access to the institution and course of their choice, due to differential fee levels operating across universities and courses
- Lead to an increase in the HECS deferral rate due to the potential 30% increase in fees
- Constrain access for some students due to the time limit within the Learning Entitlement
- Have some regressive impacts as a consequence of certain aspects of the new undergraduate fees policy.

Policy alternatives worth considering including setting a cap on the level of fees as well as the level of HECS, removing the cap on the debt under the FEES-HELP program, and replacing the real interest rate with a surcharge on the debt.

With respect to disadvantaged students, the package introduces substantial enhancements to targeted equity programs, new scholarship provisions, and increases access to fee-paying places by removing the up front payment requirement. Counterbalancing those measures, a number of the reforms within the Backing Australia's Future package have the potential to reduce or inhibit student access and participation, including:

- Fewer HECS-liable places per head of population
- Increased levels of debt aversion among disadvantaged groups due to increased fees

- Potential reduction in access due to the limits imposed on Learning Entitlements
 - Highly competitive access to Commonwealth Scholarships, and adverse interaction with income support schemes
 - No changes to student income support schemes despite evidence of their deficiencies.
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