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ATTACHMENT 1

INDEPENDENT STUDY OF THE HIGHER EDUCATION REVIEW: STAGE 2 REPORT

**Volume 1 – The Current
Situation in Australian Higher
Education**

June 2003

EXECUTIVE SUMMARY

The Ministerial Statement, *Our Universities Backing Australia's Future*, was released with the Federal Budget on 13 May, 2003. This independent study has been commissioned to analyse the Commonwealth's decisions with emphasis on issues in areas of particular concern to State and Territory Governments. The Report is provided in two volumes. This Volume (Volume 1) analyses the current situation in Australian Higher Education. Volume 2 then analyses the decisions announced in *Backing Australia's Future*.

Participation in higher education

National higher education participation rates rose significantly between 1989 and 1993 as Commonwealth funded places grew relatively faster than the population. Since 1993, however, the participation rate of the population aged 15 and over has stabilized nationally, though it has declined in some States and Territories (the ACT, Victoria, Western Australia, South Australia and the Northern Territory).

The general pattern of leveling or decline in participation rates does not reflect reduced demand from students, but rather constraints on the number of places available. Despite substantial over-enrolment by universities between 1996 and 2000, the number of fully subsidised Commonwealth places actually declined over this time period (-0.6%).

Over the longer time frame of 1995 and 2001, the number of domestic students commencing higher education courses rose by 8.6% for Australia as a whole, but declined in the ACT and South Australia and increased significantly more in Queensland (27%). The differential in the trend bears some broad relationship to the patterns of demographic change in Australia, with participation rates across the larger States being reasonably consistent. Outside of the larger States, age participation rates are generally lower in Tasmania and lower still in the Northern Territory, but are much higher in the ACT.

A relatively high proportion of Australians has tertiary level qualifications compared with the average for OECD countries. This is true for both type A (higher education) qualifications and type B (VET equivalent) qualifications. While Australia ranks in the top 10 OECD countries for participation in higher education, it went backwards relative to other OECD countries over the period 1995 to 2000, reflecting the contraction in new domestic enrolments in Australian higher education.

Unmet demand for university places has continued to grow into 2003, with the realistic estimate of the number of unsuccessful eligible applicants falling between 18,700 and 25,700. Queensland, NSW/ACT and Victoria have the highest number of unsuccessful applicants. Undergraduate over-enrolment peaked at 10.2% in 2002, representing 37,998 EFTSU. Over-enrolment was above the national average in New South Wales and Queensland.

The Australian Bureau of Statistics projects that, over the next 20 years, the number of 15-19 year olds will fall nationally and in New South Wales, Victoria, South Australia, Tasmania and the ACT, but will rise significantly in Queensland and Western Australia

and to a lesser extent in the Northern Territory. Most of the reduction, however, will occur after 2011. An additional 820 growth places a year would be required over the next decade to maintain current age participation rates to 2011, after which student numbers could fall without reducing age participation rates.

The difference between States and Territories in participation and demographic outlook focus attention on the issue of the geographic distribution of higher education opportunities. This is a contentious issue with differing views about the most appropriate approach to determining the distribution of Commonwealth subsidised places. The most robust single measure of participation that has been used to inform Commonwealth decisions is the age participation rate, which measures the proportion of the population at each age that is enrolled in higher education.

An alternative measure, used by the OECD and the UK government, is the “net entry rate”. It estimates the probability of a person entering a subsidised place in an undergraduate award at some point in their lifetime. It takes into account the rate at which people of all ages enter higher education for the first time. In 2001, the net entry rate measure indicates that people in Victoria, South Australia and the ACT were substantially more likely to enter higher education over their lifetimes than the national average. People in New South Wales, Western Australia and the Northern Territory were substantially less likely to enter higher education than the national average. If New South Wales and the ACT are considered together the net entry rate is closer to the average.

A key issue raised in submissions to the *Crossroads* review concerned the perceived need for a national target for higher education and/or tertiary education participation. The Commonwealth has not identified such a target. In its submission to the *Crossroads* review, New South Wales proposed that 60% of Australians should have a tertiary education qualification by 2010. Our analysis indicates that it is unlikely that this target could be achieved by 2010 unless there is restoration of growth in higher education and a sharp increase in the completion of VET sector qualifications.

Resources for Higher Education

Between 1995 and 2001, student contributions to higher education funding increased significantly while Commonwealth funding fell by almost 10% in real terms. The share of total university revenue contributed by students through HECS and fees rose from 23.6% in 1995 to 37.2% in 2001. The share of total university revenue contributed by the Commonwealth fell from 57.2% in 1995 to 43.8% in 2001.

Share of total revenue derived from fees and charges (excluding HECS) varies considerably across States and Territories, ranging from less than 10% in the ACT to more than 20% in New South Wales and Victoria.

While Commonwealth funding per actual EFTSU (including over-enrolment) rose slightly between 1996 and 2001, total university revenue per total EFTSU declined by 6.5% in real terms between 1995 and 2001. Student load grew faster than income over this time period.

The decline in funds per student has also been exacerbated by the current indexation system for university operating grants introduced in 1995 which produced cost adjustments similar to, but slightly lower than, changes in the CPI between 1995 and

2000. The system replaced the previous arrangements under which university grants were adjusted for actual movements in salary and non-salary costs.

The new index moved by 10.9% between 1995 and 2001 compared with movement of 25.9% in average weekly earnings, thus providing a source of continuing and compounding financial pressure on the higher education sector.

The funding picture in higher education contrasts starkly with the pattern in the schools sector, especially non-Government schools. While Commonwealth funding per student fell in universities and the VET sector (in nominal terms) between 1996 and 2000, it rose significantly in non-government schools.

Along with the majority of OECD countries, Australia increased both its total expenditure and private expenditure on tertiary education between 1995 and 1999. However, only two countries (Australia and New Zealand) reduced direct public expenditure over this period. The OECD noted that this is an anomalous result, as “increasing private spending on tertiary education tends to complement, rather than replace, public investment”.

Australia’s share of tertiary education expenditure from private sources rose sharply from 27.7% to 46.5%, ranking it the fourth highest OECD country after Korea, Japan and the United States.

The resource profiles of Australian universities vary widely, with some universities depending on the Commonwealth for up to 57% of their income and HECS for up to 30% of their income. Reliance on overseas students fees ranges from 3% of total revenue to 35% of total revenue. As a group, regional universities are relatively more exposed to Commonwealth policy decisions because of their greater reliance on Commonwealth funding and HECS.

Nursing and Teaching

The nursing and teaching professions have historically experienced periodic highs and lows in workforce demand. During the 1990s there were periods of over-supply of both teachers and nurses, leading to reductions in student demand and subsequently the number of places offered by universities.

The over-supply situation has now been reversed with shortages of nurses and teachers creating real difficulties within the State health and schools systems. For nurses, shortages are particularly acute in rural and regional areas, aged care and mental health. For teachers, the areas of focused concern include rural and regional schools, secondary Mathematics, Science and Information Technology. The improvement in job prospects has led to increased student demand, but universities have not responded fully to this demand for a range of reasons. One key factor quoted by the peak bodies representing Deans of Nursing and Education is the perceived inadequate \$ per EFTSU funding rate for nurse and teacher education. They argue that the high costs associated with clinical practice and school practicums are not sufficiently recognised in the funding model.

In recognition of the current and projected imbalances in demand and supply, the Commonwealth Government has recently completed a National Review of Nurse Education and is currently conducting a Review of Teaching and Teacher Education. Both Reviews have highlighted the complexity of the supply and demand dynamic for

these professions and the evidence suggests that the drivers of both supply and demand differ considerably across States and Territories.

While the provision of additional higher education places is a key driver of supply, it only provides part of the answer. Other key issues include: the high attrition in the nursing workforce, particularly for new graduates; the structure of the nursing workforce in terms of different skill levels (which differs significantly across States and Territories) and the articulation between skill levels; and remuneration levels and working conditions for both nurses and teachers. While acknowledging the complexity of the issue, the National Review of Nurse Education also recommended, as an initial step, an additional minimum of 400 EFTSU for undergraduate nursing commencements for each of 2003 and 2004.

Research evidence suggests that Education and Health students are more financially vulnerable than students in many other fields of study such as Business, Engineering/Surveying and Law: they are more likely to defer HECS, take out loans (on top of HECS debts) and have dependent children.

A key conclusion that can be drawn from the analysis of issues and research evidence is that it is in the national interest for Commonwealth and State Governments and other key stakeholders to work collaboratively in workforce planning, regulatory frameworks and policy development. Without agreed national frameworks and long-term strategies for managing the supply of nurses and teachers, there is a growing risk of inappropriate cost-shifting across levels of government and inefficiencies in resource deployment within both Commonwealth and State jurisdictions.

Access and Equity

The key factors determining the capacity of Australians to access higher education are the overall size of the higher education sector relative to the Australian population, and the distribution of places across States and Territories (as discussed in Section 3.4).

A secondary, though significant, issue relates to the impact of Government policy on access and outcomes for disadvantaged Australians. While there has been a move from an elite to a mass system of higher education, the current evidence suggests that the share of university enrolments for disadvantaged Australians has not improved greatly over the last decade.

Despite Australian HECS fees being relatively high by international standards, Australian students in general have not been deterred from entering higher education, nor have disadvantaged groups shown a substantial decline in participation since the introduction of HECS, at least as far as we can tell given deficiencies in measurement methodologies.

Research evidence suggests, however, that financial pressures are having an increasing impact on student behaviours and study experiences. The rate of HECS deferral, for example, has climbed steadily since the introduction of increased differential HECS rates in 1997, reaching an all time high of 79% in 2001. This reversed the trend that was evident prior to 1997 and suggests that fee levels may have reached a point of considerable sensitivity in terms of students' capacity to pay up front.

More students are now working part-time to cover expenses, and the average hours worked has increased. Longer working hours are strongly linked to increased drop out rates.

Not surprisingly, disadvantaged students are more sensitive to financial pressures. They are more likely to: defer their HECS fees; resort to personal loans (on top of HECS debts); study part-time when they would prefer to study full-time if finances permitted; and have a restricted choice of course and university due to financial considerations. There is also international evidence suggesting that disadvantaged groups are more debt averse, even when loan repayments are income contingent.

There is now also some evidence in Australia to suggest that HECS debts may be influencing the willingness of graduates to take on home mortgages.

The Government did not address the issue of student income support in its Review, however, recent research has identified a number of perceived deficiencies in current schemes including the size of payments. In particular, the Government's changes to Abstudy in 2000 and the abolition of the Merit-based Equity Scholarships Scheme have been criticised by stakeholders for hindering higher education participation by Indigenous Australians.
