



Submission to the
Department of
Education

July 2024



THE UNIVERSITY OF
MELBOURNE

Managed Growth Funding Consultation Paper

Executive Summary

The University of Melbourne welcomes the opportunity to respond to the Department's consultation paper on Managed Growth Funding.

Australia faces a number of challenges over the coming decades, including an ageing population, climate change and the transition to net zero, rising demand for care and support services, and increased geopolitical fragmentation. To face these challenges, Australia will require a higher education system that is innovative, inclusive and adaptive, providing accessible and high-quality education that meets the evolving needs of students, the economy and society. An appropriate funding system that supports growth, and encourages system diversity, is key to achieving this vision.

As stated in the consultation paper, the current funding system is complex, fragmented and does not provide sufficient funding growth to boost domestic student enrolments. Attempts to influence student subject choices via price signals under Job-Ready Graduates have failed, with the Universities Accord recommending its replacement.¹ Current settings unfairly impact some students and do not cover the costs of teaching in some disciplines, particularly STEM.

A new funding system is required that places students at the centre, supports student choice and institutional diversity, and increases access for those from underrepresented backgrounds. However, the University is concerned that the proposed model will not achieve the Government's stated goals and will be challenging to implement:

- Hard caps are likely to lead to conservative behaviour, such as universities under-enrolling (noting that universities that over-enrol will not receive student contributions), undercutting ambitions to lift tertiary attainment rates and to recruit top talent.
- Government intervention in universities' allocation of student places may reduce institutional autonomy and responsiveness to demand aligned with student choice, undermining student agency.
- The continued focus on demand for undergraduate education will impose a penalty on universities seeking to provide non-bachelor offerings to meet students at their point of need, discouraging institutional diversity and curriculum innovation.
- The proposed arrangements for the allocation of managed funding for equity cohorts may diminish student choice and disincentivise study for those individuals.
- Many important details about the proposed funding model are still missing. For example, it is unclear how universities' baselines will be determined, how funding clusters will be set, and what transition arrangements will be made for schemes such as the National Priorities and Industry Linkage Fund (NPILF). This provides universities with considerable uncertainty and makes forward planning difficult.

The University recommends the following changes to ensure the funding model is practical, aligns with the Government's goals, and avoids perverse incentives:

1. Allocate Commonwealth supported places (CSPs) to universities based on actual student demand: CSP allocations based on Government priorities may undermine student choice and increase the risk that CSPs go unused. The Government should therefore allocate CSPs to universities based on actual student demand (e.g. Commonwealth Grants Scheme (CGS) utilisation).

¹ Commonwealth Government. (2024). [Australian Universities Accord Final Report](#). p. 4

2. Replace the Job-Ready Graduates program as part of the funding overhaul: The consultation papers do not address the Job-Ready Graduates funding clusters, despite the Accord calling for their “urgent remediation.” The Government should replace the Job-Ready Graduates program as part of its funding overhaul.
3. Replace the hard cap with a tolerance band, as proposed under the Accord: Hard caps will perversely incentivise universities to under-enrol due to the penalties associated with over-enrolments. A tolerance band should replace the hard cap to encourage the full utilisation of allocated places.
4. Remove the ability for the Government to directly allocate CSPs within an institution: Universities should retain control over the allocation of CSPs within their institution to support student choice and institutional diversity and mission.
5. Ensure growth of Managed Growth Targets (MGTs) responds to demand across AQF levels (not just undergraduate CSPs): Demand measures such as Year 12 applications will not reflect demand for postgraduate study – e.g. upskilling and reskilling will become a necessity to meet future workforce shifts, including for equity cohorts. The Government should consider other indicators of demand to ensure MGTs meet demand across AQF levels.
6. Adopt a separate allocation for FEE-FREE Uni Ready Courses outside of MGTs: Including preparatory courses in MGTs will limit the number of places universities can offer. The Government should provide a separate allocation to ensure universities can respond to demand, build student preparedness and expand an important pathway into university study.
7. Ensure MGTs are high enough to allow universities to respond to demand from equity cohorts: The proposed system for equity cohorts is complex and may discourage those students from pursuing university. Instead, MGTs should be high enough to allow universities to respond to demand from those students.
8. Avoid the use of local catchment areas to determine student places: Many students travel for study and not necessarily to their closest institution. Local catchment areas do not reflect the real demand for places at institutions – the JRG growth bands have demonstrated this. The use of local catchment areas to allocate equity places will only limit student agency. This should be avoided by setting sufficiently high MGTs or expanding demand-driven funding to all equity cohorts.
9. Introduce an individual assessment of circumstances for equity cohorts: Low SES and regional and remote students are currently assessed based on a proxy measure (i.e. first reported address). More nuanced, individual assessments of circumstances are needed to ensure programs are appropriately targeted.
10. Provide a separate process for students with disability, ensuring students do not need to prove their disability if they are already NDIS participants or receiving the Disability Support Pension, for example: The system should not require students with disability to provide further proof of their disability if they have already provided this for other Government programs. The system should also be consistent with the Guiding Principles outlined in *Australia’s Disability Strategy 2021 – 2031*.
11. Expand demand-driven funding for Indigenous students to postgraduate CSPs: Demand-driven funding for Indigenous students should be expanded to postgraduate courses to strengthen the pipeline into academia and university leadership and support Indigenous knowledges and research.
12. Extend the transition period for over-enrolled universities to at least five or six years: The Government should extend transitional arrangements for universities enrolled above their caps from four to five or six years, noting that many students are still enrolled after four years of study. The sector will also need time to administer the changes alongside those in the [ESOS Amendment Bill](#).

For further information or to discuss the submission, Professor Gregor Kennedy, Deputy Vice-Chancellor (Academic) can be contacted at gek@unimelb.edu.au.

System-wide Pool

The consultation paper suggests that the Government will determine a maximum system-wide pool of Commonwealth supported places (CSPs). These places will then be allocated to institutions based on student demand, institutional goals and missions, and provider performance (however, the consultation paper does not propose any specific indicators). It is expected that this pool would grow over time, although absent a firm commitment to that end this will stymie the Government's target tertiary attainment rate of 80% of working people by 2050.

The University is generally supportive of this approach to grow the system over time. However, to maximise the utility in allocating these places to institutions, the Government should take a student-centred approach. Top-down approaches that dictate what and where potential students should study undermine student choice and agency. For example, under the current system, fixed growth rates are applied to universities' funding envelopes based on campus locations. This has seen regional campuses experience the highest rate of funding growth to reflect "the Government's ambition that students in regional Australia will increasingly participate in higher education."² However, as noted in the consultation paper, these fixed rates have not reflected student demand, leading to unused places.

The University of Melbourne has found that students are more likely to engage and stick with their studies when they have had the agency to make their course and institutional selections. Hard caps imposed on one (over-subscribed) university will not necessarily lead to significantly greater demand at other universities. Potential students may be deterred from study. The University therefore recommends that the Government allocate CSPs to universities based on actual student demand (such as CGS utilisation) to maximise the allocation of resources and to minimise stranded places.

The University notes that many details about the proposed funding model are missing from the consultation paper. For example, it is unclear whether the proposed system will continue to apply Job-Ready Graduates funding cluster rates. As highlighted in the Universities Accord, the Job-Ready Graduates program unfairly impacted some students (such as those studying humanities and social sciences) while reducing the amount of funding available to universities to deliver subjects, including in the STEM fields. The Accord argued that this required "urgent remediation"³, yet the consultation papers are silent on the program. The University urges the Government to address Job-Ready Graduates as part of its funding overhaul.

Additionally, it is unclear the rate at which the system-wide pool will grow, how universities' baselines will be determined, and what transition arrangements will be in place for programs such as NPILF. Universities may also be subject to caps on international student enrolments, pending legislation, which will interact with the domestic funding model. These factors make it challenging to assess impacts and introduce considerable uncertainty for the sector.

Recommendations:

- *Allocate CSPs to universities based on actual student demand.*
- *Replace the Job-Ready Graduates program as part of the funding overhaul.*

² Commonwealth Government. (2024). [Job-ready Graduates - Frequently Asked Questions](#).

³ Commonwealth Government. (2024). [Australian Universities Accord Final Report](#). p. 12

Managed Growth Targets

Hard caps

The consultation paper states that universities will be given Managed Growth Targets (MGT) which will act as hard caps on CSPs at each institution. Universities that over-enrol will not receive student contributions for those additional enrolments.

The rationale for hard caps is unclear. Enrolment numbers are subject to changes outside of providers' direct control, including students deferring their offers, declining offers, reducing their study loads or discontinuing their studies. These factors mean that universities operating near their Maximum Basic Grant Amount (MBGA) can unintentionally exceed it. This was the case for the University of Melbourne in 2023 with an unexpected jump in returning student numbers post COVID – it has been particularly difficult to make accurate predictions about student behaviour since the pandemic.

Under the current system, universities that enrol above their MBGA receive the student contribution for those enrolments but not the government subsidy. This ability to over-enrol acts as a buffer, reducing the impact on universities' budgets. The consultation paper suggests that this ability to over-enrol "creates adverse flow-on impacts for the whole system" but these impacts are not identified or evidenced. It is not immediately apparent what problem the Government is attempting to solve.

Hard caps, however, will lead to perverse impacts. Universities that exceed their cap will essentially be required to teach those additional students for free. This will incentivise universities to make fewer offers to students than they have places to ensure that they do not exceed their cap. In this way, hard caps could dampen supply, lead to unused places and make the Government's tertiary attainment goals harder to achieve.

Hard caps could also punish universities with high retention rates. Under existing non-recurrent Commonwealth Grants Scheme (CGS) programs like the 20,000 places and AUKUS 4,000 places initiatives, universities are actively disincentivised from retaining students. The funding tapers over time, assuming a 25% attrition rate each year. This means that universities with high retention rates (such as the University of Melbourne) must fund those students in the outer years from other sources – the Government does not provide any dedicated funding for those students. This then reduces the CGS funding the University has available for commencing students.

Hard caps in the proposed MGF model could disincentivise student retention in a similar way. If a university's retention rate increases unexpectedly, this may push the university's enrolments over the cap and reduce funding per student. This is seemingly at odds with the Government's ambition to boost completion rates, including for equity students. Indeed, the Accord recommended that completion outcomes should be a key performance metric.⁴

Hard caps may be unfair for students. A student enrolled at a university that has exceeded its MGT will still pay the same contribution as students at another university, but their fees will not go toward the delivery of their education at their institution. Instead, the consultation paper implies that the student contribution would be held by Government and presumably redistributed across the sector. Students may feel (rightly) aggrieved in that circumstance.

This could also present legal issues. For example, the University's establishing legislation *University of Melbourne Act 2009 (Vic)*, requires it to apply fees "solely for the object or purposes of the University". If

⁴ Ibid. p. 121

universities are forced to surrender student contributions for over-enrolments to the Government, this may go against the spirit of the legislation. The Government will need to consider interactions with universities' establishing legislation if it proceeds with the proposed model.

From a practical standpoint, it is unclear how the Government will impose hard caps. How will the Government determine who these "additional" students are? Which student contributions will be foregone, noting that students pay vastly different amounts under the Job-Ready Graduates funding clusters? If a university over-enrols, will it still be required to teach the "additional" students despite forgoing the student contributions or could it terminate those enrolments?

Noting these challenges, the University recommends that the Government replace the hard cap with a tolerance band, as proposed under the Accord. This could be larger initially (8-10%) as institutions adjust to the new settings, before reducing to around 5%. This approach would still provide funding control for government and more certainty for universities.

CSP envelopes

The consultation paper states that universities will be able to move CSPs between courses and levels, similar to existing funding envelopes, which have been a positive innovation. The University welcomes this ongoing flexibility, which balances Government oversight and institutional autonomy to meet mission and student needs. Flexible envelopes allow universities to respond to shifts in demand and encourage innovation and sector diversity by allowing universities to specialise in course offerings. This aspect will become even more important under the Accord as the system moves to accommodate different types of institutions finely focussed on its student cohort and changes in workforce demands to deliver a tertiary attainment rate of 80% of working people by 2050.

However, the University is concerned that this flexibility will be "monitored...to manage significant shifts in courses that do not align with national priorities and university missions." This marks a significant departure from existing settings and could lead to government overreach. If the Government has the ability to direct CSPs within an institution, this increases the risk of stranded places, where a provider has places in a course that they cannot fill due to low demand, while high demand in other courses goes unmet.

This was an issue under the Government's 20,000 additional CSP initiative. Those places were allocated to specific institutions, in courses aligned with skills shortages, for students belonging to equity cohorts. Many of these CSPs are expected to go unused due to the number of criteria applied to the places and soft domestic demand. The Accord even recommended that unused funding be redirected elsewhere. The University would caution against a similarly prescriptive approach to CSP allocations under the new system.

A truly student-centred approach would allow students to choose their preferred course and provider. Students are best equipped to make this decision themselves, as they have the best information about their own needs, skills and interests. Attempts to use student place allocations to drive demand to areas of skills needs will simply replicate the mistakes of the Job-Ready Graduates program. As noted by the Productivity Commission in its *5-Year Productivity Inquiry*, "rationing places in tertiary education — through skill lists or provider funding caps — impedes efficient skill acquisition by limiting access or distorting course choice."⁵

Additionally, it is important that MGT growth reflects and responds to demand across AQF levels, not just undergraduate demand. Under the current system, growth funding is limited to undergraduate places. Enabling, sub-bachelor and postgraduate places do not attract growth funding. This imposes a penalty on universities seeking to provide non-bachelor offerings, discouraging institutional diversity, pathways, and

⁵ Productivity Commission. (2023). [5-year Productivity Inquiry: From learning to growth](#). Vol. 8. p. 51

curriculum innovation. Using Year 12 applications as a measure for student demand will perpetuate these issues. This should be avoided in the new funding model. Similarly, adjustments to MGTs based on provider performance should take into account institutional diversity. For example, the Government should avoid using performance indicators that only relate to undergraduate students.

Finally, the inclusion of the Government's FEE-FREE Uni Ready Courses within the MGT could disincentivise universities from offering those places if the MGT is set too low. For universities operating near the MGT, these places would need to come at the expense of undergraduate or postgraduate CSPs. The Government should therefore consider a separate allocation for places under the FEE-FREE Uni Ready Courses program.

Recommendations:

- *Replace the hard cap with a tolerance band, as proposed under the Accord.*
- *Remove the ability for the Government to directly allocate CSPs within an institution.*
- *Ensure growth of MGTs responds to demand across AQF levels (not just undergraduate CSPs).*
- *Consider a separate allocation for FEE-FREE Uni Ready Courses outside of MGTs.*

Managed demand-driven funding for equity students

Managed demand-driven funding

While the University welcomes the Government's renewed focus on access and equity within higher education, it is concerned that the proposed model will not improve outcomes for equity students. There is ample evidence that suggests that students who have agency over their learning experiences have greater motivation and satisfaction leading to academic success.⁶ Yet, the proposed process for finding equity students a CSP fails to centre on the needs and wants of the students themselves. Under the proposed system, some equity students will be unable to enrol in their preferred course with their preferred provider because that university will be subject to a hard cap. Offering those students a place in a course they did not apply for at a university they do not wish to attend will not resolve that issue. There is no guarantee that equity cohorts will still wish to pursue higher education if they cannot study what or where they want. It sends an unfortunate message to those students as to the value of their agency compared to that of other students.

The consultation paper states that the ATEC could increase MGTs for universities in a local catchment area if all those universities have met their cap but there is unmet demand from equity students. However, this convoluted process comes with practical issues. For example, the University of Melbourne's enrolment numbers are not finalised until August/September, after the Semester 2 census date. Enrolments at other universities may be finalised at different times, depending on their model (e.g. universities that use trimesters). It is therefore unclear how the ATEC will determine which providers have reached their cap at the time of offers. It is also unclear how the ATEC will allocate additional places quickly enough to make supplementary offers and which institutions would receive these additional places. A simpler approach would be to set MGTs at a high enough level so that institutions can respond to demand from equity students without last-minute adjustments to their caps (noting that the Accord suggested MGTs act as "stretch targets" for institutions⁷). Alternatively, the Government could establish a truly demand-driven process for these groups, as is the case for First Nations students.

⁶ Klemenčič, M. (2023). "[Chapter 3: A theory of student agency in higher education](#)". In *Research Handbook on the Student Experience in Higher Education*

⁷ Commonwealth Government. (2024). [Australian Universities Accord Final Report](#). p. 291

Local catchment areas

The use of local catchment areas for offers is problematic. It assumes that all students study in their local area and commute. While this is true for some students, it is not true for all. Many students move cities to attend university. This means that for some universities, their catchment area is arguably the whole country (e.g. ANU but also the University of Melbourne and others).

The current Job-Ready Graduates program uses campus location as a basis for growth funding. Under this system, CGS funding increases by 3.5% per year at regional campuses, 2.5% at “high-growth” metropolitan campuses and 1% for “low-growth” metropolitan campuses (such as the University of Melbourne). However, as the consultation paper notes, these fixed rates do not reflect student demand or the actual catchment areas universities draw from. This mismatch in supply and demand is partly due to a misunderstanding of university catchment areas in metropolitan areas.

For example, 29% of the offers made by the University of Melbourne in 2023 through VTAC were made to non-Victorian residents. Additionally, more than half of the Victorian residents in a low-SES SA1⁸ area and one-third of the Victorian residents living with disabilities who applied to the University of Melbourne live more than 25km from the Parkville campus. The University also attracts preferences from a significant proportion of regional and remote applicants, including 41% of remote applicants and 31% of very remote applicants through the VTAC process.

The increase in online study only exacerbates this issue, noting that equity students are more likely to study online.⁹ The use of local catchment areas as a means to offer equity students places will only constrain student choice and autonomy. The University recommends that the Government avoid this approach by setting sufficiently high MGTs or expanding demand-driven funding to all equity cohorts.

Definitions of equity cohorts

The consultation paper notes that this managed system will apply for students from a low-SES, regional or remote background, or students with disability. Low SES, regional and remote statuses are generally determined through a geographic proxy measure, i.e. first reported address. However, this is an imperfect measure. Students who are low SES but live in a high SES postcode (for example, a student living in inner-city public housing) would be classified as high SES. Students who have taken a gap year and moved from a regional area to a city in that time will not be considered regional or remote. The opposite is also true. This is further complicated by the removal of high school address data from the Tertiary Collection of Student Information (TCSI). These proxy measures work at the macro level but present issues at the individual level.

To address the issue with geographic proxy measures, the Government should introduce an individual assessment of circumstances. This is the approach taken under the Free Application for Federal Student Aid (FAFSA) in the United States. FAFSA collects comprehensive financial data from students and their families, allowing for a nuanced assessment of each applicant’s financial needs. Students are assigned a status which follows them but can be adjusted if the family’s financial situation changes. By focusing on individual circumstances, FAFSA ensures that aid is distributed based on actual need, creating a more equitable system. It also provides policymakers with more accurate information on access and equity outcomes.

For students with disability, this is a complex issue that should be addressed separately. Students that are NDIS participants or in receipt of the Disability Support Pension should automatically be included in this

⁸ Further details on Statistical Area Level 1 (SA1) can be found on the [Australian Bureau of Statistics website](#).

⁹ Stone, C. (2022). [From the margins to the mainstream: The online learning rethink and its implications for enhancing student equity](#). *Australasian Journal of Educational Technology*, 38(6), 139-149

cohort. These students should not be required to provide further proof of their disability. The Government should ensure that its approach is consistent with the Guiding Principles outlined in *Australia's Disability Strategy 2021 – 2031*.¹⁰ The system should also acknowledge that disability can be acquired over time and is not static. The Government will also need to consider and address underreporting. Some students will not flag a disability in their TAC applications unless they are seeking admission consideration.

The University supports ongoing demand-driven funding for Aboriginal and Torres Strait Islander undergraduate students and encourages the Government to expand this to postgraduate places. Aboriginal and Torres Strait Islander students are more likely to be mature age than non-Indigenous students.¹¹ It is often more efficient and appropriate for non-school leavers, particularly those with work experience, to enter university at the postgraduate level rather than the undergraduate level. Expanding CSPs at this level would reduce the financial barriers associated with this pathway. Offering more CSPs for Aboriginal and Torres Strait Islander students at the postgraduate level would also strengthen the pipeline into academia, which is essential for supporting Indigenous knowledges and research and building Indigenous academic leadership.

Recommendations:

- *Ensure MGTs are high enough to allow universities to respond to demand from equity cohorts.*
- *Avoid the use of local catchment areas to determine student places by setting sufficiently high MGTs or expanding demand-driven funding to all equity cohorts.*
- *Introduce an individual assessment of circumstances for equity cohorts.*
- *Provide a separate process for students with disability, ensuring students do not need to prove their disability if they are already NDIS participants or receive the Disability Support Pension.*
- *Expand demand-driven funding for Indigenous students to postgraduate CSPs.*

Transition and institutional sustainability

The University supports the introduction of a funding floor. As proposed in the consultation paper, this should decrease over time if institutions are unable to enrol above their funding floor. This will ensure that the system is responsive to student demand and reduce the risk of stranded places while supporting institutional sustainability.

The University also welcomes transitional arrangements for universities enrolled above their MBGAs. However, a longer transition may be required. The most recent national data from 2019 suggests that 37% of commencing domestic bachelor students at Table A and Table B providers were still enrolled after four years.¹² The sector will also need sufficient time to administer the changes, update students and prepare for reporting and grandfathering arrangements (potentially also while implementing changes under the *ESOS Amendment Bill*). The University therefore recommends a transition period of at least five or six years.

Recommendation:

- *Extend the transition period for over-enrolled universities to at least five or six years.*

¹⁰ Commonwealth Government. (2021). [Australia's Disability Strategy 2021-2031](#). p. 57-8

¹¹ Australian Institute of Health and Welfare & National Indigenous Australians Agency. (2023). [Measure 2.06 Educational participation and attainment of adults, Aboriginal and Torres Strait Islander Health Performance Framework website](#).

¹² Commonwealth Government. (2023). [Completion Rates of Higher Education Students - Cohort Analysis, 2005-2022](#).

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