



Australian Government

**Department of Education,
Science and Training**

Review of the impact of the
Higher Education Support Act 2003:

Funding Cluster Mechanism
(including Funding of Clinical
Disciplines)

Pipeline Arrangements for funding of
new Commonwealth supported
places

Discussion paper

December 2006

Table of Contents

Executive Summary	1
Part 1: Introduction.....	2
Part 2: Description of the initial part of Stage 1 of the review	3
Part 3: Discussion.....	4
Part 4: Next steps.....	7
ATTACHMENT A: COMMONWEALTH GRANT SCHEME FUNDING CLUSTER RATES AND MAXIMUM STUDENT CONTRIBUTION AMOUNTS.....	8
ATTACHMENT B: PIPELINE FUNDING.....	9

Executive Summary

In May 2003, the Australian Government announced its package of reforms in higher education, *Our Universities: Backing Australia's Future* (BAF). The *Higher Education Support Act 2003* (HESA) enabled the BAF reforms to be implemented progressively from 2004.

In December 2006, the Minister for Education, Science and Training, announced the commencement of the review of the impact of the reforms on the higher education sector as required under HESA.

The initial phase of Stage 1 of the review focuses on funding cluster arrangements, including issues concerning the funding of clinical disciplines, and the pipeline arrangements for funding new Commonwealth supported places. Other measures will be examined in later phases of the review.

The purpose of this discussion paper is to seek views from higher education providers, peak bodies, professional organisations and other interested parties on the impact and the effectiveness of the current discipline groupings and relativities within the cluster funding mechanism and pipeline arrangements.

The scope of the initial phase of Stage 1 of the review is in Part 2 of this discussion paper.

The paper proposes a number of key discussion questions relating to cluster funding arrangements and the pipeline arrangements for funding new Commonwealth supported places.

Responses to the discussion paper should be submitted to the Department of Education, Science and Training by close of business, **Monday, 26 February 2007**.

Part 1: Introduction

1.1 Background

In May 2003, the Australian Government announced its blueprint for reform in higher education, *Our Universities: Backing Australia's Future* (BAF). *The Higher Education Support Act 2003* (HESA) enabled the BAF reforms to be implemented progressively from 2004. HESA includes the requirement that the Minister for Education, Science and Training cause a review of the impact on the higher education sector of the higher education reforms enacted through the Act to be commenced by the end of 2006 (s. 238-7 of the Act). The Minister for Education, Science and Training announced the commencement of the review in December 2006 and the focus in the initial phase of Stage 1 of the review on the current discipline groupings and relativities within the cluster funding mechanism and the pipeline arrangements for funding new Commonwealth supported places.

As part of the BAF reforms to higher education, the Australian Government will provide an additional \$11 billion in funding over ten years. Through these reforms and other initiatives, the Australian Government will be funding around 50,000 additional Commonwealth supported places by 2011. In 2007, \$8.2 billion in funding (up from \$7.8 billion in 2006) will be provided by the Australian Government.

The Commonwealth Grant Scheme (CGS) was introduced under HESA in 2005 and replaced the previous system of block operating grants to each university. Under the CGS, the Australian Government funds each higher education provider, which has been allocated Commonwealth supported places, to deliver a specified number of places in particular funding (discipline) clusters.

To receive a grant under the CGS, a higher education provider must enter into an annual Funding Agreement with the Australian Government. The Agreement specifies the number of Commonwealth supported places the provider is funded to offer in each of twelve funding (or discipline) clusters (see Attachment A), which include the two identified national priority clusters – education and nursing. Units of study in each funding cluster attract a Commonwealth contribution rate specified in HESA. Funding Agreements are negotiated annually in the context of each provider's mission and strategic direction for course provision and pattern of student demand.

Providers that comply with the National Governance Protocols and the Higher Education Workplace Relations Requirements (workplace relations policy in 2005) receive an increase to their base funding cluster rates (2.5 per cent in 2005, 5 per cent in 2006 and 7.5 per cent in 2007 and later years).

The Australian Government generally funds new Commonwealth supported places on a four year 75 per cent pipeline based on an annual attrition rate of 25 per cent (see Attachment B).

The purpose of this discussion paper is to elicit views on the impact and effectiveness of aspects of the cluster funding arrangements, including the funding of clinical disciplines, and funding pipeline arrangements.

Responses to this discussion paper should be submitted to the Department of Education, Science and Training by close of business, **Monday, 26 February 2007**. Details on how to respond are provided under section 4.1, Public Consultation.

Part 2: Description of the initial phase of Stage 1 of the review

2.1 Scope

The initial phase of Stage 1 of the review will have the following scope. Having regard to:

- the requirement in the *Higher Education Support Act 2003* that the Minister for Education, Science and Training cause a review of the impact on the higher education sector of the higher education reforms enacted through the Act to be commenced by the end of 2006 (s. 238-7 of the Act).

The Department of Education, Science and Training will undertake a review to consider the following matters:

1. Examine the impact of the current discipline groupings and relativities within the funding cluster mechanism for allocating funding under the Commonwealth Grant Scheme and suggest options for improvement as necessary.
2. Examine the particular issues concerning the method of funding of clinical disciplines under the Commonwealth Grant Scheme.
3. Examine the impact and the appropriateness of the current pipeline arrangements for the funding of new Commonwealth supported places and suggest options for improvement as necessary.

Process:

4. Undertake consultation with higher education providers, peak bodies, professional organisations and other interested parties, including via submissions.
5. Engage an independent, external consultant to assist with consultation and examination of technical issues.
6. Report findings to the Minister for Education, Science and Training by early May 2007.

Governance:

7. Establish an Interdepartmental Steering Committee for the review, chaired by the Department of Education, Science and Training, with membership from the Department of the Prime Minister and Cabinet, the Treasury and the Department of Finance and Administration.

Part 3: Discussion

The Australian Government is committed to ensuring the efficient and transparent operation of higher education funding arrangements that provide flexibility for higher education providers to specialise in their particular strengths, and deliver internationally-competitive courses that respond to demands in the market place.

The initial phase of Stage 1 of the review initially focuses on funding cluster arrangements, including the funding of clinical disciplines, and the pipeline arrangements for funding new Commonwealth supported places.

3.1 Funding cluster arrangements

The funding cluster system introduced in the *Higher Education Support Act 2003* (HESA) provides increased transparency and fairness to the higher education sector by funding all higher education providers for student places on the same basis. The principle of the funding cluster system is consistent with other international higher education funding models, such as the UK's Teaching Funding Method operated by the Higher Education Funding Council for England (HEFCE), which also uses broad subject groupings to determine funding.

The tables at Attachment A show the Commonwealth Grant Scheme (CGS) funding cluster rates for 2007, and the maximum student contribution amounts for a place that providers may charge for units of study in 2007. Cluster rates are used in determining the overall CGS grants to higher education providers. Providers may adopt their own internal resource allocation methods to allocate CGS funds to particular faculties or courses. Accordingly, it is not intended that the cluster funding rates would match the cost structure of any particular higher education provider.

The discipline relativities on which the cluster funding system is based (the Relative Funding Model) were developed in the 1980s. They also take account of the move to 'differential HECS' in 1997 and the introduction of four bands for maximum student contribution amounts in 2005. Since the development of the Relative Funding Model, it is clear that the nature of course provision has changed in many disciplines. There have been recent suggestions by some higher education providers and groups representing specific disciplines that the current clusters and cluster rates do not reflect current discipline cost relativities.

There have been recent concerns raised by the allied health sector about the funding of clinical disciplines under the CGS. The Productivity Commission in its research report, *Australia's Health Workforce* (January 2006), raised some issues relating to funding of health-related courses that require access to clinical training. As part of its contribution to the Council of Australian Governments' Health Workforce package, the Australian Government has increased the additional funding for nursing units of study that was introduced in BAF to assist further with the costs of supporting clinical training from \$688 in 2006 to \$1,045 in 2007.

Under HESA, higher education providers offering courses in medicine are given a medical student loading to support universities' own infrastructure in teaching hospitals (replacing the former 'teaching hospital' grants). The embedding of university teaching infrastructure in hospitals does not generally operate in the same way in other health-related fields.

The review of funding cluster arrangements needs to be conducted in the context of the overall financial health of the higher education sector and the increases in funding provided under *Our Universities: Backing Australia's Future*. The purpose of this phase of the HESA review is not to revisit the overall level of funding provided under the CGS. The review will also assume the continuation of the existing arrangements for student contribution amounts.

The focus of this phase of the HESA review is to consider the impact of the move to funding cluster arrangements, including whether the allocation of individual disciplines to each cluster remains appropriate and whether the relativities between the clusters (taking account of student contribution arrangements) remains an appropriate method for allocating the overall CGS appropriation. In particular, any undesirable consequences of the current system need to be identified. For example, some providers have claimed that they need to offer more places in some popular disciplines than they would wish, in terms of their preferred strategic focus, in order to cross-subsidise other disciplines. At face value, this may imply that some disciplines are placed in a higher than necessary funding cluster (creating a surplus for cross-subsidisation) and others are placed too low (requiring cross-subsidisation). Actual costs may of course vary considerably between providers for a variety of reasons—for example, staff mix, course structures and class sizes.

Some providers have claimed that they are constrained in taking on new places, including in some health-related disciplines, because they believe the particular discipline is placed in a cluster that is too low. It is unclear whether this affects providers seeking to establish new programmes more than those seeking to expand existing programmes. At present, the funding cluster method does not distinguish between the (potentially marginal) cost of expansion versus establishment, and of course it does not reflect differential costs between establishments.

The funding cluster arrangements provide for transparency and certainty. However, a relevant question for the review is whether there are too many clusters. Students' subject choices can result in volatility across the clusters even where the pattern of enrolments in degree programmes is relatively stable. Any changes in the number of funding clusters would need to take account of the student contribution arrangements to ensure that a discipline's 'share' of total resourcing (CGS plus student contribution amount) was appropriate and would need to be broadly cost-neutral overall.

In relation to health disciplines, the main issue that has been raised relates to the resourcing of the clinical component of programmes in some disciplines that are allocated currently to a cluster whose funding relativity does not take clinical demands into account. In medicine, there is a long-standing partnership between universities and the public hospital system in the training of doctors. Similar arrangements apply in nursing, even following the transition of nurse training from hospitals to universities in the late 1980s—early 1990s. In allied health disciplines, the public hospital system also has a role to play but some disciplines rely substantially on universities' clinical training environments or access to private sector sites. Some providers and other interested groups have argued that allied health disciplines, or some of them, and clinical psychology should be in a higher funding cluster to better reflect the clinical training demands.

Discussion questions:

1. Do the current funding clusters adequately reflect broad discipline relativities?
2. Are individual disciplines placed in appropriate clusters? Are there any undesirable consequences of the placement of specific disciplines in particular clusters?
3. Should the number of clusters change? What would be the advantages or disadvantages? If the number of clusters were to change, how should disciplines be grouped within those clusters?
4. How have higher education providers used funding under specific measures, such as the additional funding for nursing units of study that was introduced in BAF to assist with the costs of supporting clinical training?

3.2 Pipeline funding arrangements

The Australian Government currently funds most new Commonwealth supported places at the relevant cluster rate using a four year 75 per cent pipeline based on an annual attrition rate of 25 per cent. An example of the pipeline funding arrangements is at Attachment B. The major benefit of applying the standard pipeline formula is that it provides simplicity and transparency across the system.

The standard pipeline for new places is used on a sector-wide basis, regardless of the actual duration of particular courses, with the following current exceptions.

- Medical places, which are funded at a 100 per cent pipeline, reflecting the duration of the course at the individual provider.
- Clinical psychology places at the postgraduate level, commencing in 2007, which are part of the Australian Government's contribution to the Council of Australian Governments' Mental Health package. These places are being funded with a two year 100 per cent pipeline.
- New places for private providers with fewer than 150 Commonwealth supported equivalent full-time student load, which are funded using a 100 per cent pipeline.

Apart from the exceptions specified above, the current arrangements do not generally differentiate between providers, disciplines, course type, length of courses, or differing attrition rates for courses. It has been suggested that the funding of future new places should take into account differential, discipline-specific pipelines, such as those applied to medicine, or even provider-specific attrition rates. It should be noted that establishing differential pipelines could involve some complexity and use of potentially volatile variables not necessarily fixed over time. There is a significant risk that in moving to a model based on differential pipelines, the simplicity and transparency of the current model may be lost.

Discussion questions:

5. Should the current standard pipelines for most new Commonwealth supported places across most disciplines be kept? Does it unduly constrain providers in the provision of new places?
6. If the current model were to be largely retained, should any further exceptions be made?

Part 4: Next steps

4.1 Public consultation

The Australian Government welcomes responses to this paper addressing the discussion questions or any other issues you would like to raise within the terms of reference.

Responses are sought by close of business Monday, 26 February 2007 and should be submitted by email to HEreview@dest.gov.au or posted to:

HESA Review Submissions Officer
Performance Assessment Unit
Loc. 721
Department of Education, Science and Training
GPO Box 9880
Canberra ACT 2601

Enquiries about the review or this discussion paper may be directed to Dr Caroline Perkins, Branch Manager, Policy and Analysis Branch, Higher Education Group, on (02) 6240 8835.

Unless you request that your submission be treated confidentially, submissions may be made publicly available on the DEST website as part of the consultation process. In addition, you may wish to note that because DEST may be required to release your submission by the operation of law, judicial or Parliamentary body or government agency, the Department can give no undertaking that your submission will never be made publicly available.

If you would like your submission to be kept confidential, please indicate this clearly at the top of your document or in a covering note. If only part of your response is confidential, please put that part on a separate page(s).

An electronic version of this discussion paper and other information about the HESA review is available at http://www.dest.gov.au/sectors/higher_education/policy_issues_reviews/reviews/HESA_review/

Commonwealth Grant Scheme (CGS) funding cluster rates

The following table shows the base level CGS funding cluster rates per equivalent full-time student load for 2007. The base funding cluster amounts will be increased by 7.5 per cent for higher education providers that meet the National Governance Protocols and Higher Education Workplace Relations Requirements in 2006 for funding in 2007.

	Funding cluster	Commonwealth grant amount	Commonwealth grant amount with 7.5% increase
1	Law	\$1,528	\$1,642
2	Accounting, Administration, Economics, Commerce	\$2,515	\$2,703
3	Humanities	\$4,239	\$4,556
4	Mathematics, Statistics	\$5,006	\$5,381
5	Behavioural Science, Social Studies	\$6,729	\$7,233
6	Computing, Built Environment, Health	\$7,495	\$8,057
7	Foreign Languages, Visual and Performing Arts	\$9,217	\$9,908
8	Engineering, Science, Surveying	\$12,476	\$13,411
9	Dentistry, Medicine, Veterinary Science	\$15,638	\$16,810
10	Agriculture	\$16,624	\$17,870
11	Education	\$7,396	\$7,950
12	Nursing	\$10,189	\$10,953

Maximum student contribution amounts

The following table shows the maximum student contribution amounts for a equivalent full-time student load place that may be charged for units of study in 2007.

	Funding cluster	Maximum student contribution amount
1	Law	\$8,333
2	Accounting, Administration, Economics, Commerce	\$7,118
3	Humanities	\$4,996
4	Mathematics, Statistics	\$7,118
5	Behavioural Science, Social Studies	\$4,996
6	Computing, Built Environment, Health	\$7,118
7	Foreign Languages, Visual and Performing Arts	\$4,996
8	Engineering, Science, Surveying	\$7,118
9	Dentistry, Medicine, Veterinary Science	\$8,333
10	Agriculture	\$7,118
11	Education	\$3,998
12	Nursing	\$3,998

Note: These rates apply to Commonwealth supported students who are not covered by the transitional arrangements in the *Higher Education Support (Transitional Provisions and Consequential Amendments) Act 2003* and the *Transitional Arrangements for Students Guidelines* issued under that Act.

Pipeline funding

Under the standard pipeline, if a provider receives, for example, 60 new commencing places in 2005, the provider will continue to receive 60 commencing places in each subsequent year.

For the cohort of students who commence in 2005, the pipeline provides for an annual attrition rate of 25 per cent for each of the subsequent years. Therefore, funding for that cohort is reduced to 45 places in 2006, 34 places in 2007 and 25 places in 2008.

In 2006, the provider receives its allocation of 60 commencing places, plus the 75 per cent pipeline for the 2005 commencing places. In 2007, the provider receives another 60 commencing places, 45 pipeline places for the 2006 cohort and 34 places for the 2005 cohort. This continues until the maximum is reached in the fourth year (2008 in this example).

	2005	2006	2007	2008	2009
Commencing Places	60	60	60	60	60
2 nd year pipeline		45	45	45	45
3 rd year pipeline			34	34	34
4 th year pipeline				25	25
Total funded places	60	105	139	164	164 ongoing

Although the methodology uses notional commencing and continuing places, the provider has flexibility to manage within the total annual allocation of load and does not have to have the pattern of commencers and continuers implied in the methodology.