

## **Higher Education Finance and Cost-Sharing in Australia**

### **I. A Brief Description of the Higher Education System in Australia**

In the last twenty years, the higher education sector in Australia has undergone tremendous changes in terms of organization, supervision, participation, and financing. From the early 1970s through 1988, tertiary education in Australia was made up of three separate sectors: universities, colleges of advanced education (CAEs) and technical and further education schools and was overseen by the Commonwealth Tertiary Education Commission. In 1988, new policy directions were announced in a government White Paper and the binary line between universities and CAEs was abolished. The two sectors were replaced with a new single, combined sector, the unified national system of higher education. It is this higher education system together with vocational education and training that makes up what is considered the “tertiary education sector” in Australia.

New advisory mechanisms were also set up including the National Board of Employment, Education and Training and four subsidiary councils whose role was to provide coordinated, independent advice to the Australian Minister for Employment, Education and Training. These mechanisms had a more limited role than the Commonwealth Tertiary Education Commission given that the Department of Employment, Education and Training (renamed the Department of Education, Training and Youth Affairs in 1998) held primary responsibility for policy making, program delivery and grant administration. Finally, in March 2000, legislation to abolish the Board and three of its four councils came into effect. Only the Australian Research Council was allowed to continue.

With the abolition of the binary system and the increased ability of federal authorities to relate directly to the individual higher education institutions, the role of the States and Territories in higher education was lessened despite the fact that universities operate under State or Territory legislation (with two exceptions). The States have generally either scaled down operations of their statutory or advisory bodies or have replaced them with small advisory bodies within the minister’s office. Joint Commonwealth-State Planning Committees have been established to provide a vehicle for negotiation between federal and state authorities. There is also a Joint Committee on Higher Education that serves as a forum for multilateral consultation between the Commonwealth and the states and territories and reports to the Ministerial Council on Education, Employment, Training and Youth Affairs.

The States have, however, retained their management role in the vocational education and training sector (including publicly owned Technical and Further Education institutions, private provider colleges, community facilities, schools and workplaces), which will only be touched on in this profile. Vocational education and training (VET) is predominately provided through government-administered providers. The State and Territory governments provide the majority (59 percent) of the VET sector’s operating revenue. It also receives funds from the Commonwealth government (through the Australian National Training Authority) and revenue from fee-for-services activities, ancillary trading and student fees or charges. The Commonwealth and the States and Territories share policy-making, while the States and Territories have all the regulatory responsibility.

Presently (August 2006), there is discussion about rationalizing the respective responsibilities of the state and federal governments for higher education in Australia to reduce duplication and promote consistency and transparency. Research suggests that it could be beneficial for the Australian Government to have a greater role in three regulatory functions that are currently the responsibility of the state and territory governments including the recognition of universities and the accreditation of courses and providers (Australian Government, 2005:2). Discussion papers

(Australian Government, Department of Education, Science and Training, 2004 and 2005) have been prepared to encourage stakeholder feedback.

In the past 20 years, the Australian higher education sector has been transformed from an elite to a mass higher education system. The gross enrollment ratio for the entire tertiary education sector grew from 24 percent in 1975 to 72 percent in 1995. In 1997, 50 percent of 20 to 24 year-olds participated in some form of higher education. Between 1996 and 2004, there was an increase in student enrollments of almost 50 percent. In 2004, Table A higher education providers (those that are eligible to access all grants available to higher education providers under the new Higher Education Support Act of 2003) delivered places for 944,977 students including 716,422 domestic and 228,555 overseas students (Commonwealth of Australia, 2005: 18).

Admission to undergraduate study is made on the basis of academic merit as demonstrated by the higher or senior secondary school examinations run by the state governments and performance on Special Tertiary Admissions Test (STAT). In recent years written reports from schools and interviews with prospective students are also increasingly important criteria that influence the universities' admissions decisions.

Universities offer three-year pass degrees in arts, science, and economics with a fourth year being necessary to qualify for an honors degree. Undergrad engineering, law and architecture courses take four years, vet science and dentistry five and medicine five or six.

Australia's higher education sector is composed of 37 public and 3 private universities, 3 self-accrediting higher education institutions and 86 private higher education providers including theological colleges. Under the reforms contained in the Higher Education Support Act (HESA) of 2003, the Commonwealth Grant Scheme (CGS) has replaced the block operating grant system. Under the CGS each of the 37 universities will enter into an annual Funding Agreement with the government that sets out the number of places being funded and the discipline mix. Under this system the Commonwealth contribution per student place increased by 2.5 per cent starting in 2005 (building to a 7.5 percent increase by 2007), the number of new supported places will increase by 34,000 by 2008 and \$50 million will be invested in a range of equity initiatives over the next four to five years. The CGS has also reserved 1,400 Commonwealth supported places for private higher education institutions that will be allocated according to the Australian Government's assessment of needs and priorities.

The higher education financial system, and the government's role in it, has also changed dramatically since the early 1970s. Prior to 1974 students were expected to pay partial fees. These were removed in 1974 and for more than 10 years, Australian higher education was free of tuition fees except for some contributions demanded from students to fund student facilities. Fees began to appear again in 1985. First, the government established a "Higher Education Administration Charge" (A\$250 per student) followed by the introduction of fees for certain Australian post grad students in 1986.

Since 1989, most Australian students contribute to the cost of their higher education through the Higher Education Contribution Scheme (HECS), which was introduced in the Higher Education Funding Act of 1988. The scheme is administered by the Department of Education, Science and Training (DEST), the Australian Tax Office and higher education institutions. In its first years of operation, all undergrads paid HECS at the rate of about 23 percent of the average costs of study. In 1997, the uniform tuition fee aspect was removed from the scheme. HECS was increased and differentiated into 3 cost bands based on a combination of the relative cost of course delivery and the relative profitability (the rate of return) of certain programs. The package of reforms introduced in 2003 includes a partial fee deregulation that starting in January 2005 has allowed institutions to set student contribution levels within a range from \$0 to a maximum set by the

Australian government (Commonwealth of Australia, 2005: 87). See table 1 for student contribution ranges in 2006 and 2007.

**Table 1**  
**Student 2006 and 2007 Contribution Ranges (in Australian dollars)**

	2006	2007
Band 1 (social studies, humanities, etc.)	A\$0-3,920	A\$0-4,996
Band 2 (accounting, economics, etc.)	0-5,583	0-7,118
Band 3 (law, medicine)	0-6,535	0-8,333

*Source: Department of Education, Science and Training website (see references).*

The Higher Education Contribution Scheme was designed to ensure university access to all students regardless of socio-economic background. Students who are eligible for Commonwealth funded places can either pay their tuition fees upfront directly to their universities and receive a 20 percent (reduced from 25 percent by the recent reforms) discount or they can chose to defer payment and take out loans at a zero real interest rate with the Commonwealth Government. The Commonwealth then pays an amount equivalent to the discount for up-front payments and the loans directly to the institution. Since 1998, students can also choose a combination of both payment options, paying part of the fees upfront (at least A\$500) with a 10 percent discount and deferring the rest.

Students are responsible for repaying their HECS debt through an income contingent liability scheme. They must start payment via the taxation system once their annual salary reaches the minimum threshold for compulsory repayment (A\$38,148 for the 2006-07 income year)<sup>1</sup>. Each income range has a repayment rate, which increases with the former student's income. The repayment rates range from 4 percent at the lowest income level to 8 percent at the highest (Commonwealth of Australia, 2005: 90).

HECS covers higher education award courses that are funded by the Commonwealth government, which lead to degrees, diplomas, associate diplomas, graduate diplomas, graduate certificates, Master's qualifying courses, Master's courses or PhDs. Students taking courses not funded by the Commonwealth (i.e. undergraduate or graduate courses for which fees are being charged) are not required to pay HECS. Students are also not required to pay HECS if they are taking adult and continuing education courses which do not lead to an award, courses at higher education institutions are that funded as TAFE courses, courses at TAFE institutions (part of the vocational education and training system), enabling courses, courses fully-funded by employers, courses or units of study which are approved work experience in industry, Commonwealth funded Merit-Based Equity Scholarships awarded prior to 2000, if they have a place under the Research Training Scheme and if they have a place for which an Overseas Postgraduate Research Scholarship has been awarded.

The 2003 reforms introduced an income contingent loan scheme for fee-paying students, FEE-HELP, as part of the new broader Higher Education Loan Programme (HELP). FEE-HELP offers fee-paying students an income contingent loan facility to pay their full tuition fees (up to a total of \$50,950<sup>2</sup>) in public or eligible private higher education institutions. Similar to HECS-HELP, debts accrued under FEE-HELP are indexed to the consumer price index, but charge no real interest. A 20 percent loan fee applies to all undergraduate FEE-HELP loans. A third loan scheme for Australian students studying overseas was also established under the new program. The 2003 reforms also introduced the Student Learning Entitlement, which limits each student's access to a

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<sup>1</sup> The repayment thresholds are adjusted each year to reflect changes in average weekly earnings (Going to Uni government website 2007).

Commonwealth supported place to seven years of equivalent full time study, aimed at providing greater opportunities for more students to gain access to government supported places.

Similar to HECS is the Open Learning Deferred Payment (OLDPS) Scheme that enables certain students registered with Open Learning Australia (OLA) to defer the payment of part of the fee charged by OLA by taking out a loan from the Commonwealth. The repayment system is the same as that used in HECS.

In Australia, there are a variety of public and university financial grants, scholarships, bursaries and loan support schemes available to tertiary students in both the higher education and vocational education and training sectors to cover living expenses.

A Youth Allowance is available to:

- eligible full-time students aged 16 to 25;
- full-time students over the age of 25 if they were getting Youth Allowance before they turned 25 and they are still pursuing the same course of study; and
- young people up to the age of 21, who are combining part-time job and part-time study.

Austudy is available to eligible full-time students ages 25 and older who are enrolled in an approved course of study. Both payments are subject to income and assets tests and to a parental means test if the student does not qualify as independent. There is also the Abstudy, which provides financial assistance for Aboriginal and Torres Strait Islander Australians who undertake full and part-time study. The living allowance is a fortnightly means-tested payment.

Additional benefits are also available to students receiving these kinds of allowances including fare allowances for transportation between home and the educational institutions, a Health Care Card to help with medical costs, a pharmaceutical allowance to help cover the cost of certain prescriptions, a remote area allowance for students living in remote parts of Australia, an interest free Advance Payment of up to \$500. Students aged 16 to 24 may also be eligible for Rent Assistance if they live away from home to study.

In 2004, the government introduced the Commonwealth Learning Scholarships Programme to assist students from low socio economic backgrounds with the costs of higher education. Two types of merit-based scholarships are available to full-time undergraduate students; the first – the Commonwealth Education Costs Scholarship (CECS) - (allocated by the institutions), for educational costs of up to \$2,000 per year and the second, the Commonwealth Accommodation Scholarships (CAS) for accommodation costs (paid directly to the student) of up to \$4,000 per year. In 2004, 2,500 new CECS and 3,000 CAS were provided. By 2008, over 8,600 new CECS and CAS will be awarded each year (Commonwealth of Australia, 2005: 5). Starting in 2005, the government also allows individual higher education institutions to award Exemption Scholarships at their own expense that make selected students exempt from payment of tuition fees

Since 1989, universities have been able to offer fee-paying places to Australian undergraduates. These places can only be offered on conditions that universities have met their enrolment targets for Commonwealth funded students and that the total number of domestic fee-paying students will be limited to 35 percent of the total number of places. In 2004, there were 13,959 Australian undergraduates in full fee paying places (Commonwealth of Australia, 2005:87).

The introduction of tuition, not surprisingly, paralleled a significant decrease in government support to higher education. Between 1989 and 2002, government support of higher education fell from 77.2 to 53.8 percent of costs. In 2005/06, the Australian government contributed \$7.8 billion to the higher education sector, about 41 percent of the total revenue received. It is budgeted to provide \$11 billion in new support for higher education over ten years to 2014 (Commonwealth of Australia, 2005).

Economic pressure coupled with a huge expansion in demand for higher education has led Australian higher education institutions to seek alternative sources of revenue. They actively compete for fee-paying students and have been zealously recruiting international students for the added tuition revenues. In 2003, income received from fees and charges contributed about 22 percent of the sector's total income. Overseas students comprised 24 percent of the total number of students attending Australian universities in 2004 (Commonwealth of Australia, 2005: 18). Universities are also seeking extra funding through research earnings, summer programs and overseas campuses.

## II. Estimated Expenses of Higher Education

### Australia Higher Education Expenses Borne by Parents and Students First Degree, Academic Year 2006-07 (9 months<sup>3</sup>)

[National currency (Australian dollar) converted to \$US by 2005 purchasing power parity estimate \$1 = A\$1.38]

		Public			Private <sup>4</sup>
		Low Public*	High Public***	Fee Paying****	*****
<b>Instructional Expenses</b>	Special "one-time" or "up-front" fees	N/A	N/A	N/A	N/A
	Tuition	A\$4,204 <sup>◇</sup> US\$3,550	\$7,035 <sup>◇</sup> US\$5,940	\$18,000 US\$13,000	\$34,000 US\$24,640
	Other Fees	A\$600 US\$435	A\$600 US\$435	A\$600 US\$435	A\$88 US\$65
	Books & Other Expenses	A\$220 US\$160	\$660 US\$480	A\$500 US\$362	A\$900 US\$652
	<b>Subtotal Expenses of Instruction</b>	<b>A\$5,720 US\$4,145</b>	<b>A\$9,460 US\$6,855</b>	<b>A\$19,100 US\$13,840</b>	<b>A\$34,990 US\$25,355</b>
<b>Student Living Expenses</b>	Lodging	A\$0	A\$5,000 US\$3,623	A\$8,600 US\$6,230	A\$6,000 US\$4,350
	Food	A\$1,800 US\$1,300	A\$4,000 US\$2,900	A\$4,000 US\$2,900	A\$8,500 US\$6,160
	Transportation	A\$900 US\$650	A\$1,500 US\$1,090	A\$1,500 US\$1,090	A\$1,500 US\$1,090
	Other Personal Expenses	A\$1,200 US\$870	A\$3,000 US\$2,175	A\$3,000 US\$2,175	A\$2,700 US\$1,960
	<b>Subtotal Expenses of Student Living</b>	<b>A\$3900 US\$2,825</b>	<b>A\$13,500 US\$9,780</b>	<b>A\$17,100 US\$12,390</b>	<b>A\$18,700 US\$13,551</b>
<b>Total Cost to Parent &amp; Student</b>		<b>A\$9,620 US\$6970</b>	<b>A\$22,960 US\$16,638</b>	<b>A\$36,200 US\$26,230</b>	<b>A\$53,690 US\$38,900</b>

Sources: HECS 2006 levels, Bond University; University of Central Queensland; University of Sydney; University of Canberra.

<sup>3</sup> With exception of the private university (Bond University) where table data is based on three 14 week semesters for a total of 10 months.

<sup>4</sup> Data for Bond University based on three 14 week semesters.

\* **Low Public:** Band 1 tuition (A\$4,900). Living at home with parents

\*\*\* **High Public:** Band 3 tuition (A\$8,200). Living in a university residence

\*\*\*\* **Fee Paying Public:** Living "independent adult"

\*\*\*\*\* **Private:** Living on campus

◇ Present value of future repayments.

◇ Present value of future repayments

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Avondale College	<a href="http://www.avondale.edu.au">www.avondale.edu.au</a>
Bond University	<a href="http://www.bond.edu.au">www.bond.edu.au</a>
Notre Dame University	<a href="http://www.nd.edu.au">www.nd.edu.au</a>
University of Adelaide	<a href="http://www.adelaide.edu.au">www.adelaide.edu.au</a>
University of Canberra	<a href="http://www.canberra.edu.au">www.canberra.edu.au</a>
University of Central Queensland	<a href="http://www.cqu.edu.au">www.cqu.edu.au</a>
University of Southern Queensland	<a href="http://www.usq.edu.au">www.usq.edu.au</a>
University of Sydney	<a href="http://www.usyd.edu.au">www.usyd.edu.au</a>
University of Western Australia	<a href="http://www.uwa.edu.au">www.uwa.edu.au</a>

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