SPP

Insight
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Higher Education Funding Reforms

An overview of the implications of, and responses to, the MYEFO 2017-18 Higher Funding Reforms

Prepared by SPP, June 2018

The latest funding reforms are a new challenge to university business models

Commonwealth Grant Scheme (CGS) funding freeze

a freeze on total Commonwealth Grant Scheme (CGS) funding from 1 January 2018, set at 2017 funding levels, for bachelor degree courses in 2018 and 2019

New performance targets

performance targets for universities to determine the growth in CGS funding for bachelor degrees from 2020, which would be capped at the growth rate in the 18-64 year old population

Revised HELP repayment thresholds

Combined lifetime limit for all tuition fee assistance

New allocation mechanism for sub-bachelor and postgraduate CSPs

Less scope for universities to respond to these elements of the reform package

Source: Mid-Year Economic and Fiscal Outlook 2017-18 (Commonwealth of Australia, 2017).

Universities must address a couple of pressing questions in response to these changes

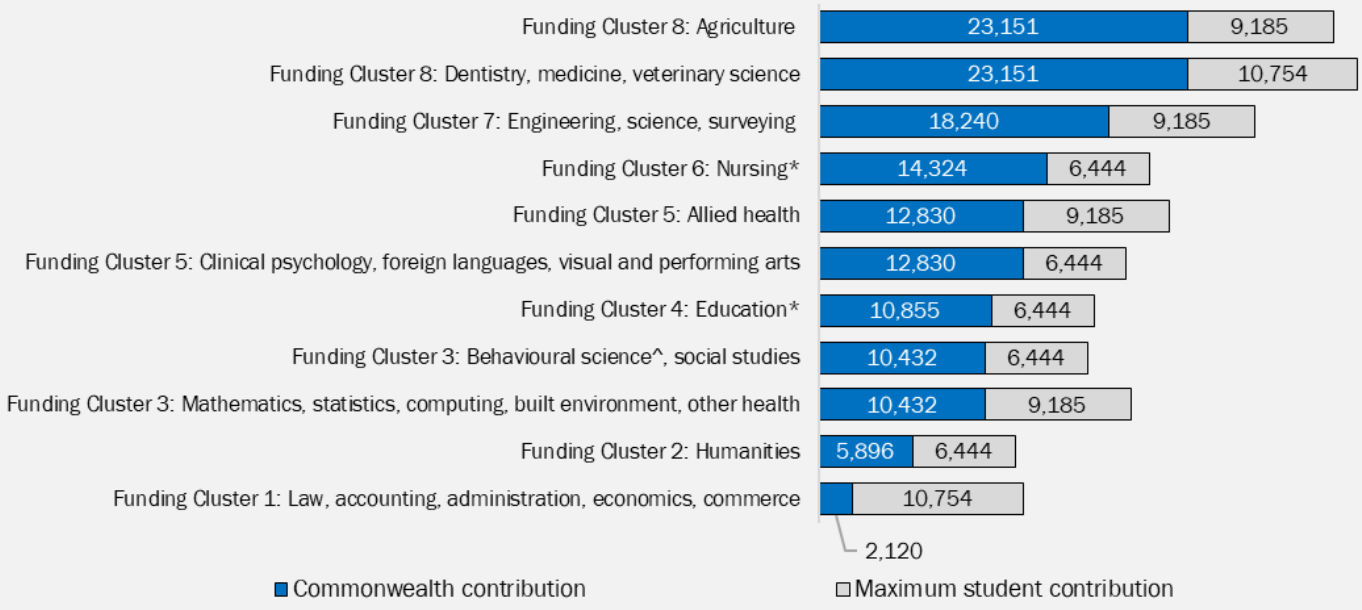
REFORM ELEMENT:	QUESTIONS TO ADDRESS:	WHAT IS REQUIRED TO ADDRESS THEM:
1 Commonwealth Grant Scheme (CGS) funding freeze	How do we optimise our course portfolio in order to maximise profitability in the short to medium term?	• An understanding of which courses attract the most 'CGS + student contribution' revenues • A clear view of course margins/profitability, driven by a robust costing approach
2 New performance targets	Where do we invest now in order to maximise our CGS funding once the performance measures are introduced?	• A reliable view of the likely performance metrics that will be tied to CGS funding • Line of sight to the highest and lowest performing courses against these measures

SPP has developed an approach to considering these two questions in tandem, and using the arising insights to make decisions about the course portfolio

Source: SPP analysis and project experience.

1 Universities may be tempted to rebalance their cluster profile to maximise revenue

Commonwealth and maximum student contributions for bachelor degrees by funding cluster
(AUD, Department of Education and Training, 2018)



Commonwealth contribution	Maximum student contribution	Majority contributor
72%	28%	Commonwealth
68%	32%	Commonwealth
67%	33%	Commonwealth
69%	31%	Commonwealth
58%	42%	Commonwealth
67%	33%	Commonwealth
63%	37%	Commonwealth
62%	38%	Commonwealth
53%	47%	Commonwealth
48%	52%	Student
16%	84%	Student

On a purely financial basis, the funding reforms might encourage universities to increase enrolments in disciplines that attract higher total levels of Commonwealth and student contributions

Source: 2018 Allocation of units of study to funding clusters (Department of Education and Training, 2017); SPP Analysis (2018).
^ Excluding clinical psychology, which is included in Funding Cluster 5.
* For students who commenced their course of study before 1 January 2010,
the maximum annual student contribution amount that may be charged for Education and Nursing units is $5,157.

1 Hypothetical example | two different options for spending a fixed CGS funding amount

Situation	University Y receives a fixed CGS funding allocation of **$23,151**

Option A:
High Subsidy Discipline

University Y dedicates its CGS funding envelope to enrolling one **Agriculture** student

1x CGS contribution of **$23,151**

+

1x maximum student contribution of **$9,185**

=

Total Revenue:
$32,336

Option B:
Low Subsidy Discipline

University Y splits the funding envelope between ten **Commerce** student enrolments

10x CGS contributions of **$2,120** (i.e. $21,200)

+

10x maximum student contributions of **$10,754**

=

Total Revenue:
$128,740

These two scenarios show the revenue implications of this decision only – universities must also consider course costs and profitability

Source: SPP analysis.

1 Margin analysis reveals the financially preferred clusters

Ranking clusters by their total revenue is useful, but when the delivery costs are considered, a different ranking of the clusters is revealed.

Contribution (Revenue) and Margin per EFTSL by funding cluster

(Percentage and AUD, SPP past project work, 2018)

Funding Cluster	Total Contribution per EFTSL	Ranking based on Total Contribution	Average Margin per EFTSL	Implied Margin per EFTSL	Implied Margin per $100,000 C'th Contribution	Ranking based on Implied Margin
Funding Cluster 8: Agriculture	$32,336	2	~35 - 50%	$16,200	$70,000	4
Funding Cluster 8: Dentistry, medicine, veterinary science	$33,905	1	~ 35% - 50%	$16,100	$69,500	5
Funding Cluster 7: Engineering, science, surveying	$27,425	3	~ 40% - 55%	$14,400	$78,900	2
Funding Cluster 6: Nursing	$20,768	5	~ 25% - 40%	$7,800	$54,500	7
Funding Cluster 5: Allied health	$22,015	4	~ 15% - 30%	$6,100	$47,500	9
Funding Cluster 5: Clinical psychology, foreign languages, visual and performing arts	$19,274	7	~ 5% - 20%	$3,900	$30,400	11
Funding Cluster 4: Education	$17,299	8	~ 20% - 35%	$5,600	$51,600	8
Funding Cluster 3: Behavioural science, social studies	$16,876	9	~ 25% - 40%	$6,300	$60,400	6
Funding Cluster 3: Mathematics, statistics, computing, built environment, other health	$19,617	6	~ 25% - 40%	$7,800	$74,800	3
Funding Cluster 2: Humanities	$12,340	11	~ 5% - 20%	$2,200	$37,300	10
Funding Cluster 1: Law, accounting, administration, economics, commerce	$12,874	10	~ 15%-30%	$3,500	$165,100	1

Note: Margin per EFTSL is the estimated sector average based on prior SPP detailed course costing projects.

Source: https://www.education.gov.au/funding-clusters-and-indexed-rates; SPP Analysis, based on past project work (2018; Workbook Reference 101).

1 SPP has identified some success factors for successful costing and profitability studies

To support decision making profit estimates should be accurate, easily comparable, transparent, understandable and comprehensive.

Aim for a robust workforce model	• As salaries are the primary cost for any universities, an accurate workforce model that clearly delineates between activity types is crucial • Without including research and commercial activities in the model, the transparency on cross subsidisation is not known
Use consumption-based cost allocation drivers	• The drivers used to allocate central costs out to divisions should be closely matched to the way central services are consumed • SPP has conducted a multi-sector benchmarking study to understand from CFOs of major organisations what constitutes 'best practice' in determining cost drivers to drive behaviour
Agree which margin faculties should be accountable for	• Many universities are unsure whether to set margin targets for faculties at the gross or net margin • To drive the right behaviours, universities should aim to include as many costs as possible in the margin for which faculties are held to account
Code in the GL at the lowest level	• GL coding can be as low as subject-level, which simplifies revenue and cost allocations and increases accuracy
Don't let poor data quality get in the way	• Most universities start their journey towards transparent costing with fairly poor data • SPP recommends starting the process regardless – get the model right and that will shine a light on where data quality needs to be improved

Source: SPP approach

2 Future commonwealth funding will be tied to student outcomes

From 2020, access to growth in CGS funding for bachelor degrees will be performance-based. It is most likely that performance will be measured in terms of retention, employment outcomes, and student satisfaction.

SPP has pooled data on each of the below metrics, for each university, for each study area, in order to create an indicative "Outcomes Rank".

	Likely Metric	Source
INDICATIVE "OUTCOMES" RANK	**Retention** • Proportion of domestic undergraduate students who commenced a course in a particular year who do not complete it or return the next year	Department of Education and Training (Attrition, success and retention, 2015-16)
	Graduate Employment • Proportion of graduates who were employed full-time four months after completing their course, as a percentage of those who were available for full-time employment	QILT (Graduate Outcomes Survey, 2016-17)
	Student Satisfaction • Percentage of graduates who express overall satisfaction with their course	QILT (Course Experience Questionnaire, 2016-17)

When combined with our analysis on each discipline's implied margin, this can lead to deeper insights and decision opportunities across the course portfolio

Source: uCube data; QILT data; SPP Approach. Note, due to different "study area" classifications (i.e., Fields of Education, QILT Study Areas, and Funding Clusters) adopted by the abovementioned sources, assumptions have been applied to map between these classifications.

2 Available data gives us good insights into performance of each course, in terms of student outcomes and financials

Example output for University Y

	Comparison to National Average				Evaluation	
Study Area	Retention Rate	Graduate Employment Rate	Student Satisfaction	Equally Weighted Average	Indicative "Outcomes" Rank	Implied Margin Category
Agriculture, Environmental & Related Studies	14.9%	4.4%	8.2%	9.2%	1	Medium
Architecture & Building	9.2%	4.1%	10.5%	7.9%	2	High
Business & Management	1.3%	3.5%	7.5%	4.1%	3	High
Communications	-4.2%	0.3%	1.4%	-0.8%	16	Low
Computing & Information Systems	-1.2%	2.5%	2.3%	1.2%	8	High
Creative Arts	-4.2%	1.2%	2.9%	0.0%	14	Low
Engineering	-0.3%	5.0%	-4.8%	0.0%	15	High
Health Services & Support	2.2%	0.4%	3.9%	2.2%	6	Low
Humanities, Culture & Social Sciences	-0.8%	-0.5%	3.7%	0.8%	10	Low
Law & Paralegal Studies	-0.8%	2.8%	-1.4%	0.2%	13	High
Medicine	2.2%	2.8%	4.9%	3.3%	5	Medium
Nursing	2.2%	3.0%	6.3%	3.8%	4	Medium
Psychology	-0.8%	0.8%	3.1%	1.0%	9	Low
Science & Mathematics	-1.8%	-0.6%	3.9%	0.5%	11	High
Social Work	-0.8%	1.4%	0.7%	0.4%	12	Medium
Teacher Education	2.0%	0.6%	1.3%	1.3%	7	Medium

Above average performance
Below average performance

High rank
Medium rank
Low rank

High margin
Medium margin
Low margin

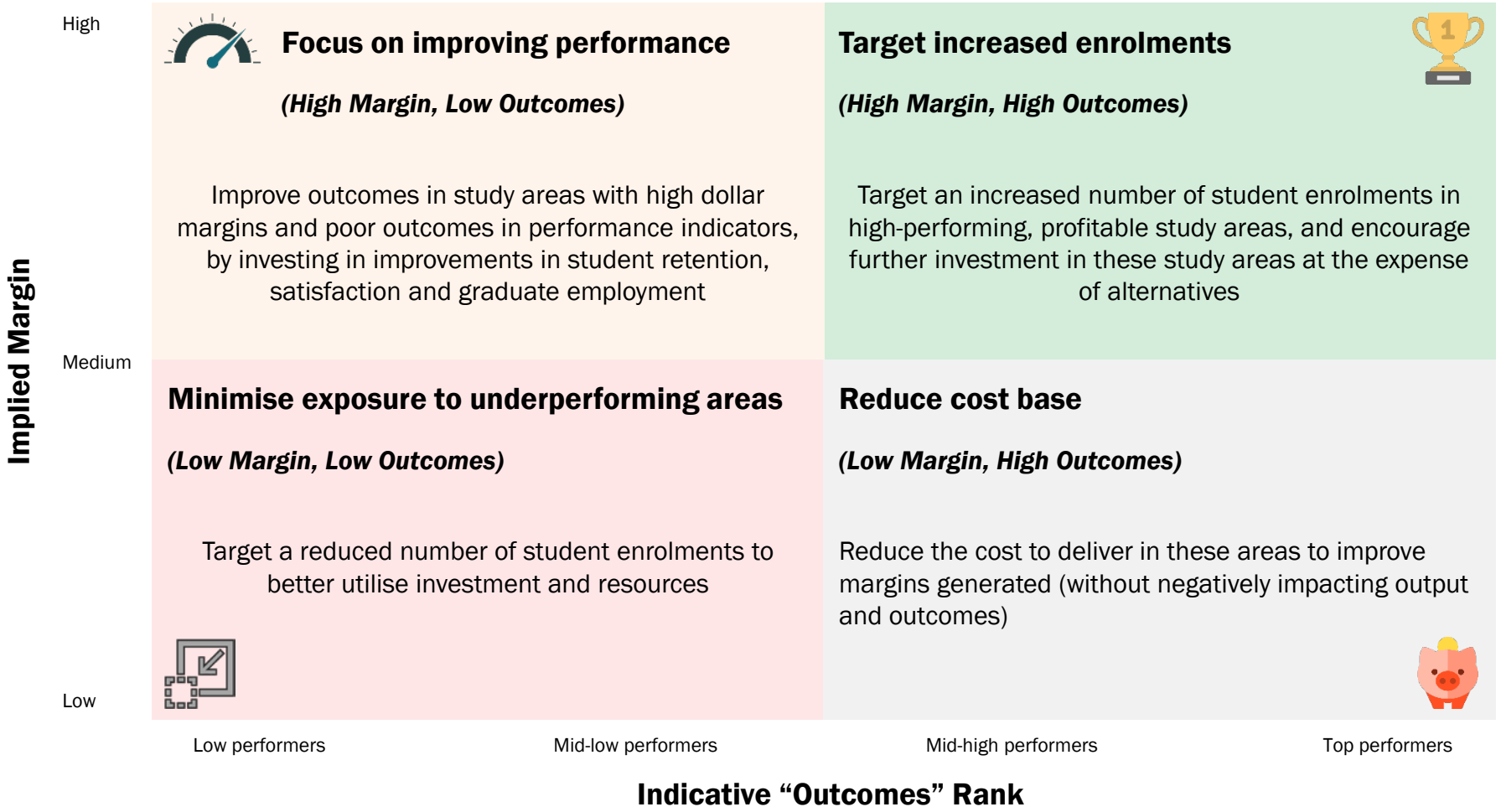
Each discipline taught at University Y is ranked for student outcomes based on QILT data

Each discipline taught at University Y is assessed and categorised according to its implied financial margins

Source: uCube data; QILT data; SPP Analysis (2018; Workbook Reference: 701).

Four key action areas have been identified for each university

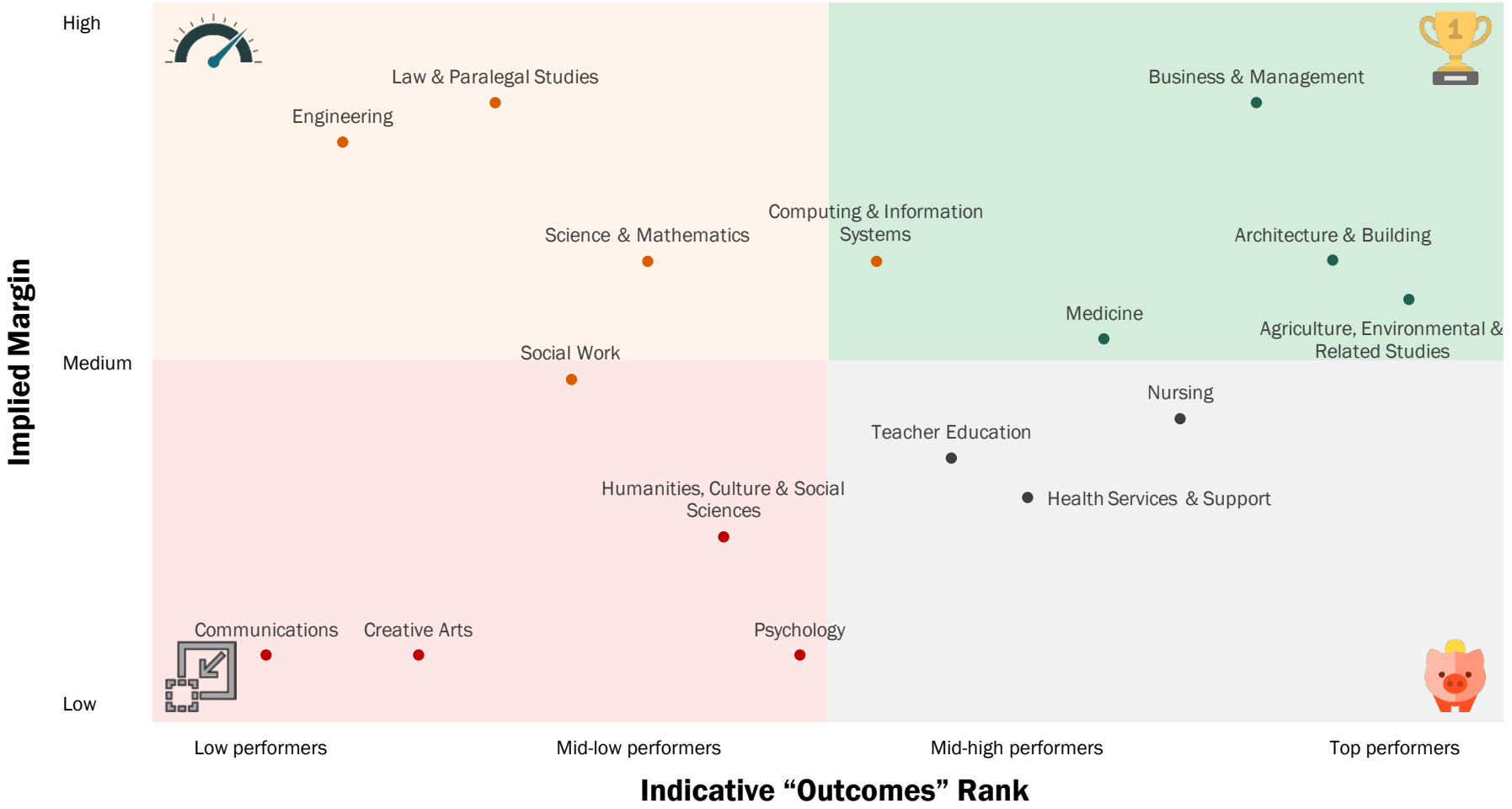
SPP COURSE PORTFOLIO MATRIX: INDICATIVE "OUTCOMES" VS IMPLIED MARGIN



Source: uCube data; QILT data; SPP Analysis (2018; Workbook Reference: 701). Note, the indicative outcomes rank is based on the relative performance of each study area, compared to the University's performance in other study areas. It is not based on the absolute performance of each study area, compared to sector-wide performance.

Mapping study area outcomes against implied margins illustrates pockets of opportunity for each University

UNIVERSITY Y: STUDY AREA INDICATIVE "OUTCOMES" VS IMPLIED MARGIN



Source: uCube data; QILT data; SPP Analysis (2018; Workbook Reference: 701). Note, the indicative outcomes rank is based on the relative performance of each study area, compared to the University's performance in other study areas. It is not based on the absolute performance of each study area, compared to sector-wide performance.

Universities must take a holistic view of their funding profile

University business models are complex. Decisions around enrolment profiles need to be based on a range of factors, not just the immediately identified revenues and costs.

QUESTIONS TO RESOLVE WHEN DETERMINING AN OPTIMAL CGS FUNDING PROFILE:

What course mix will maximise total CGS + student revenues?

What course mix best supports our research strengths and priorities?

Which courses offer the highest margins?

What course mix will best leverage our past investment in infrastructure and capability?

How should domestic places be balanced with international students to maximise financial and student experience / outcomes?

How do we tailor our course mix to best funnel undergraduate students into revenue generating postgraduate courses?

Agreeing the right profile requires a) strong understanding of the relationship between these dimensions, and b) generating agreement amongst all required stakeholders

Source: SPP Analysis (2018).

Contact details

SPP is a high impact management consulting firm, with deep experience in the higher education sector.

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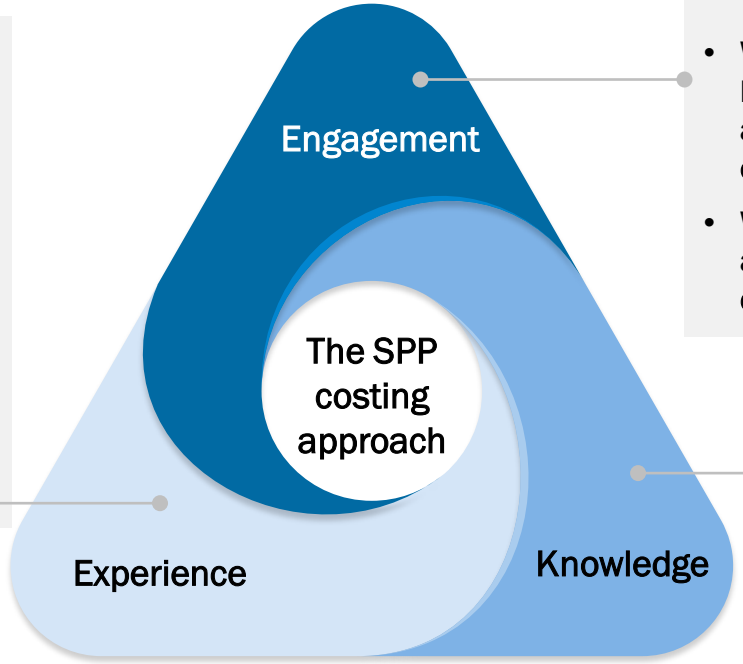
A detailed understanding of the true cost of delivery is critical

Determining the true cost of education delivery is a common challenge in the higher education sector. SPP has supported a number of universities embark on their journey to understand the cost of their core activities.

We have worked across the higher education sector

- We have supported two Go8 universities and one Innovative Research University in the development of ***detailed course costing methodologies and tools***
- We have conducted a series of ***university course costing and profitability studies***, which have involved the participation of 14 Australian universities



We work closely with our partners to develop bespoke, flexible solutions

- We take a **end-to-end approach**, starting with helping our partners **define the strategic questions** and ensuring the approach is **integrated into ongoing processes and systems**
- We help universities understand costs, revenues and margins at **university, faculty, school, department, course and subject / unit level**

We understand the financial dynamics of the sector

- Through our work, we have developed a deep understanding of the dynamics associated with **costs, revenues and margins** of universities activities
- This includes dynamics relating to **research, teaching and learning, and engagement and other activities**

SPP has a strong understanding of university financials and economics

Source: SPP Previous Project Experience (2018).