



Higher Education Budget Statement  
9 August 1996

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Technical note: cost levels

All amounts in the Statement are expressed in 1996 Budget prices unless specified as being in current prices (also known as estimated outturn prices). Current prices are obtained by multiplying 1996 Budget prices by estimated cost adjustment factors, which are based on the indexation arrangements in the 1995 Budget. Details of indexation arrangements can be found in *Higher Education Funding Report for the 1996-98 Triennium* Appendix 2.

## **In brief**

The package of measures announced in this Statement contributes to the Government's savings task in the fairest way possible while advancing key objectives for the higher education sector and setting the framework on which the sector can build for the future. There are six major elements of policy which in combination form a coherent and integrated strategy for higher education and which balance the imperatives of educational and fiscal policy.

### **1. Responsible Levels of Funding for Teaching and Research**

Commonwealth funding for higher education (both operating grants and research) will increase by \$51.1 million in 1997.

Operating grants in 1997 will be \$28.7 million higher than in 1996. This represents a 1 per cent reduction on previously announced levels. The Government has recognised that any efficiency dividends sought from universities should be phased in order to allow for planning lead-times. A further reduction of 3 per cent (a cumulative total of 4.0 per cent) on funding previously announced for 1998 will be the major efficiency dividend sought from the sector. This will be followed by a 1 per cent reduction (cumulative 4.9 per cent) to the projected operating funding in 1999.

The efficiency dividends sought will be combined within an integrated package that relaxes the administrative constraints imposed by government on universities and which will assist universities to increase efficiency and respond more flexibly to demand.

The efficiency dividends sought from operating grants are partially offset by major increases for research in line with election commitments.

These measures mean that:

- The funds provided for the Capital Development Pool (CDP) for new campus developments will flow as previously announced in 1997 and 1998 - and allocations for 1999 will be discussed in the 1996 profiles negotiations.
- Over 1996 levels, funds for targeted research programs will rise by \$22.4 million, \$50 million and \$40 million, representing increases of 5.8 per cent, 13.0 per cent and 10.4 per cent in 1997, 1998 and 1999 respectively. In total:
  - ◊ \$90 million will be provided for research infrastructure; and
  - ◊ Collaborative Research Grants and Australian Postgraduate Awards will receive an additional \$39.3 million over this three year period.
- The *Higher Education Funding Act* 1988 will be amended to provide a limited capacity for advances of operating grants to assist institutions with the cash-flow implications of restructuring.
- In exceptional cases, the Government will consider specific proposals where it can be demonstrated that adjustments leading to permanent benefits are beyond the funding capacities of the institutions involved. The needs of regional universities will be given particular consideration.

- Operating funds will increase in 1997 by \$28.7 million or 0.6 per cent. They will then fall by \$86.8 million to be \$58.1 million or 1.2 per cent below the 1996 level in 1988 and, for 1999, by a further \$4.4 million to be \$62.5 million or 1.3 per cent below the 1996 level.
- The savings will be realised by applying a fixed proportional reduction to the forward estimates of the operating grant of each institution.

## **2. A Fair Balance Between Public and Private Funding**

In line with election commitments, there will be no increase in either the HECS charge or debt levels of existing debtors and HECS liable students in their current courses. The deferred payment, income contingent, interest free features of HECS will be retained; no qualified student will be prevented from entering higher education because of their inability to pay at the time of enrolment.

- However, current funding arrangements do not provide a fair balance between the public and private benefits derived from higher education. To achieve a fairer balance the Government believes that the charges under the Higher Education Contribution Scheme should be increased for students commencing in courses in 1997.
- New HECS charges will be introduced having regard to the anticipated salary levels of graduates and the wide range of course costs.
- The new charges will apply in 3 bands: \$3,300, \$4,700 and \$5,500 per annum.
- Income thresholds at which HECS repayments commence will be lowered. Individuals will, therefore, be able to repay their debt more quickly.

## **3. Additional Opportunities and Choice for Australian Students**

For too long Australian students have been denied the same opportunity as overseas students to purchase a place at a Commonwealth funded Australian university.

- From 1998 Australian undergraduate students will be given the opportunity to purchase a place at an Australian university. Universities will be able to charge fees for Australian undergraduate students only after the target number of places for HECS-only students are filled. The overwhelming majority of students will continue to contribute to their education through HECS alone.

The Government will also create an incentive for universities to offer additional HECS-liable places.

- From January 1998 universities will be paid the equivalent of the minimum up-front HECS payment for each HECS-only undergraduate student enrolled above target level. This will provide some recognition of the costs incurred by institutions which over-enrol. It will also present an opportunity for institutions with very low marginal costs to offer additional places to students without charging fees.

## **4. Quality Assurance and Improvement**

A higher education sector of the highest quality is central to the Government's overall policy objectives.

- A new approach to quality will integrate quality improvement processes with institutions' own particular missions and strategic planning.
- The new Committee for University Teaching and Staff Development will provide policy input on teaching enhancement and staff development and will advise on the allocation of grants. A total of \$20 million will be provided over the next three years for the new program.
- The work of the Australian International Education Foundation (AIEF) is supported. \$4.5 million will be provided over 1996-97 - 1998-99 to promote international collaboration and research links with countries of strategic importance.

## **5. Commitment to Equity**

The Government believes that if a person achieves the required entry standard for higher education, a disadvantaged background should not hinder their access to and successful graduation from university.

- A pool of 4 000 merit based scholarships will be built over four years for target equity groups including students from low socio-economic, rural and isolated backgrounds and indigenous Australians. At a cost of \$36.38 million over the next four years, and an annual commitment of \$16.13 million from 1999, 1 000 students each year will be fully exempted from the HECS charge.
- Other equity measures include:
  - ◊ the Higher Education Equity Program (HEEP) with an annual budget of \$5.28 million will be maintained; and
  - ◊ the Regional Disability Liaison Officer (RDLO) initiative will be extended for another year at a cost of \$750,000.

The Government will improve indigenous Australians' capacity to gain access to and successfully participate in higher education.

- \$72 million will be provided over the next three years for a program of initiatives including:
  - ◊ maintaining the Aboriginal Support Funding program with annual funding of up to \$21 million;
  - ◊ \$6.5 million for the establishment of specialist Indigenous Higher Education Centres;
  - ◊ \$750,000 to enhance indigenous communities' access to higher education through the Open Learning Agency of Australia; and
  - ◊ \$750,000 to trial open learning style education and training for indigenous Australians in correctional centres.

## **6. A More Strategic Relationship Between the Commonwealth and Institutions**

The Commonwealth will adopt a more strategic, less interventionist role in relation to its advisory structures, industrial relations issues, and accountability requirements.

- The Higher Education Council and the Australian Research Council will be established as independent bodies with an increased range of responsibilities.
- An immediate review will be undertaken of all reporting requirements to ensure that necessary accountability requirements are met without unwarranted complexity, frequency or duplication.
- While the current higher education salary claim merits consideration, sustainable salary increases can only be achieved through genuine productivity improvements at the enterprise level. The Government will therefore not be providing across-the-board supplementation. It will, however, be prepared to examine proposals for one-off reform packages for individual institutions to secure major workplace practice breakthroughs.
- The sector will be consulted on the best way to integrate the four related activities of:
  - ◇ the planning and funding elements of the current ‘profiles’ process;
  - ◇ the Government’s new approach to quality enhancement and assurance;
  - ◇ the formal accountability requirements attaching to the provision of public funding; and
  - ◇ institutions’ own strategic planning processes.
- There will be a major independent review of higher education policy with a focus on the future of higher education over the next ten to twenty years. Announcements on the terms of reference and membership of the Review committee will be made after the Budget.



## Higher Education Budget Statement 1996

Australian higher education has reached an important crossroad. Internationally, higher education has been under severe pressure in all OECD countries as the steady expansion of public sector expenditures has been restrained. In Australia, where higher education has undergone rapid expansion of funding and student numbers, there is pressure both to restrain expenditure and to address the issues of quality arising from the rapid expansion of the sector.

It is vital for the well being of the nation that the high quality of the Australian higher education sector, which has been built up over many decades, is consolidated and further developed. This Statement takes forward the general directions indicated clearly in the Government's election policy: enhanced quality in education and scholarship; increased independence for institutions; and a more diverse higher education sector with wider choices for students.

Key strategic decisions need to be made in relation to the short, medium and longer term development of the sector.

In the short term there is a need to address some urgent policy shortcomings and to tackle the deficit reduction task. In doing so, however, the Government has not been driven solely by fiscal concerns. For example, the timing of savings measures has been set with regard to the planning timetable of higher education institutions and Government commitments not to increase the HECS levels for existing students.

For the medium term, the Statement addresses a range of systemic rigidities and inefficiencies which are restricting institutions' capacity to respond flexibly to their dynamic environment. Particular areas of concern with current policy and administrative arrangements are:

- the overly complex regulatory machinery of State and Commonwealth governments which has led to duplication, inefficiencies and inappropriate bureaucratic constraints;
- the inadequate integration of planning, accountability and quality assurance processes; and
- workplace practice and organisation which restrict the ability of individual institutions to respond optimally to their environment and specific circumstances.

For the longer term, the Government has identified a range of fundamental issues which are looming on the horizon and which have the potential to re-shape the higher education system. These issues require careful and comprehensive consideration if we are to be confident of addressing the challenges and opportunities, not just for the period of the Budget forward estimates, but for the next two decades. Accordingly, this Statement establishes a process of policy review with a focus set on the future of higher education over the next ten to twenty years.

The short and medium term imperatives of educational policy must, of course, be pursued in the context of equally vital imperatives of fiscal policy. The Government faces a huge challenge in repairing the Budget deficit. It is a task which no responsible Government can postpone and has required a close examination of all areas of Commonwealth expenditure. The higher education sector costs Australian taxpayers more than \$5 billion each year. This is an enormous call on the public purse and clearly cannot be quarantined from the national savings task. Undoubtedly the Government faces a huge challenge in achieving its goals while simultaneously tackling the job of reducing the overall call on the Budget. However, the Government will not be diverted from fulfilling its objectives for higher education, just as it will not walk away from its fiscal responsibilities.

The Government is also very conscious of the long lead times involved in planning for higher education institutions where students' courses can take six years or more to complete and major research projects even longer. This recognition has informed both the nature of the Government's Budget decisions, which are designed to minimise the impact on universities in the first year, and the timing of the announcement of those decisions.

The Government has not been in a position before now to finalise decisions about funding for higher education, which could only be settled in the context of the Budget. These decisions have now been made and, in special recognition of the planning needs of institutions, the Government, in this Statement, has moved to announce the full details of Budget outcomes for the higher education sector at the earliest opportunity in advance of Budget night.

### **An integrated package**

Four key themes bind together the elements of the integrated policy strategy set out in this Statement:

- quality in teaching and research;
- diversity of choice;
- access and equity; and
- a more strategic approach to the relationship between the Commonwealth Government and institutions.

These themes run through the six elements of the Government's policy strategy for higher education set out in this Statement:

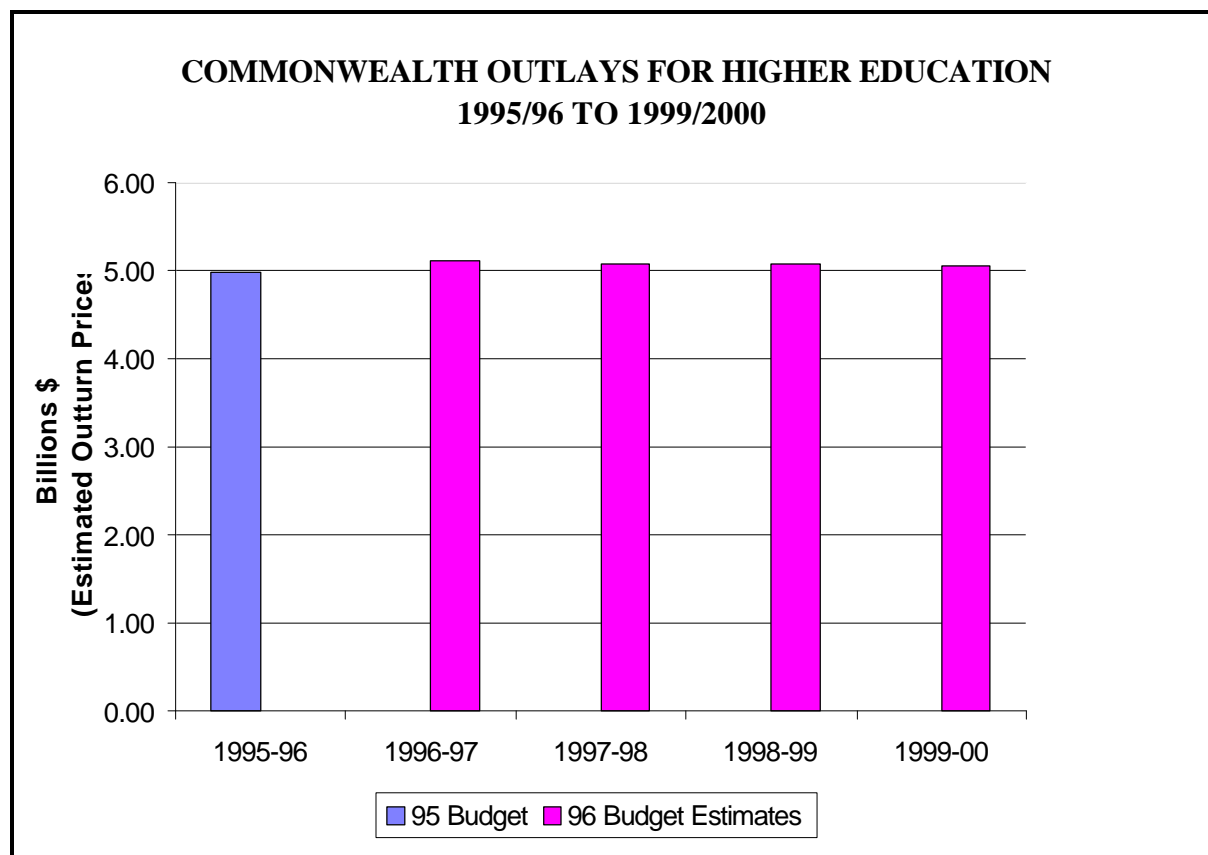
1. Responsible funding levels for teaching and research.
2. A fair balance between public and private funding.
3. Additional opportunities and choice for Australian students.
4. A new approach to quality assurance and improvement.
5. A commitment to equity.

6. A more strategic relationship between the Commonwealth and institutions.

This package meets the Government's savings task in the fairest way possible, while advancing key objectives for the higher education sector. It also sets the framework on which the sector can build for the future.

## 1. RESPONSIBLE LEVELS OF FUNDING FOR TEACHING AND RESEARCH

The Government's funding package for higher education for the years 1997 to 1999 is both fiscally responsible and sensitive to the educational objectives and planning horizons of the higher education sector. The chart below shows the 1995-96 expenditure and the spending for higher education that this Government has decided upon for the 1996 Budget estimate period. The Government has deliberately given the sector a period of adjustment in 1997 with funding only 1 per cent below the level of funds previously announced. A further reduction of 3 per cent (a cumulative total of 4.0 per cent) on funding previously announced for 1998 represents the bulk of the sector's contribution to the savings task. This will be followed by a further 1 per cent reduction (cumulative 4.9 per cent) to projected operating funding in 1999.



When compared with funding provided for the 1996 calendar year, total Commonwealth funding for higher education (both operating grants and research) will increase by \$51.1 million in 1997. It will be \$8.1 million below the 1996 level in 1998 and \$22.5 million below that level in 1999.

<sup>1</sup> The graph *Commonwealth outlays for higher education, 1995/96 and 1999/00* Budgets is based on outturn (that is, current) prices. The amounts in the remainder of the Statement, unless specified otherwise are expressed in 1996 Budget prices. The technical note at the end of the *Contents* explains the relationship between the two sets of prices.

Specifically:

- for 1997, there will be an increase in operating funds of \$28.7 million or 0.6 per cent over 1996 levels.<sup>2</sup> Funds for targeted research programs will rise by \$22.4 million, an increase of 5.8 per cent over the 1996 level.
- for 1998, operating funds will be \$58.1 million or 1.2 per cent below 1996 levels. Funds for targeted research programs will be \$50.0 million or 13.0 per cent higher than the 1996 level;
- for 1999, total operating funds will be \$62.5 million or 1.3 per cent below 1996 levels. Funds for targeted research programs will be \$40.0 million or 10.4 per cent higher than the 1996 level;
  - ◊ the 1999 forward estimates for operating grant include \$6.6 million which has not yet been allocated to institutions; and
- the funds provided for the Capital Development Pool (CDP) (for new campus development) will flow as previously announced in 1997 and 1998 - and allocations for 1999 will be discussed in the 1996 profiles round (the principal mechanism for negotiating funding allocations with institutions and assuring accountability).

In total for research, over the three years 1997-1999, there will be:

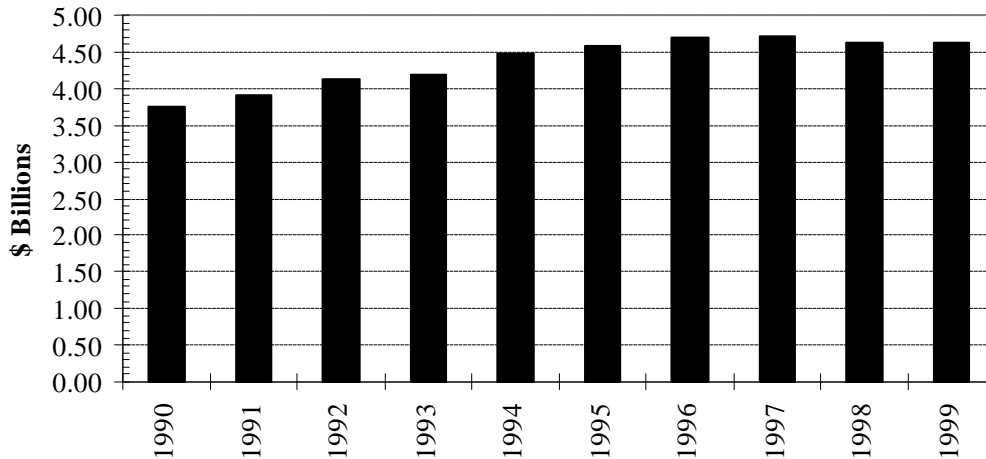
- additional funding for research infrastructure of \$90 million; and
- an additional \$39.3 million for additional Australian Postgraduate Awards and Collaborative Research Grants.

The phased efficiency dividends required of operating grants and the increase in funding for research, in a period of great budgetary pressure, are an unequivocal demonstration of this Government's commitment to an internationally competitive higher education sector. It should also be noted that these efficiency dividends in operating grants are made in a period when demand for higher education has fallen for the last three consecutive years and when the relevant population group is declining. The 17-24 year old population, from which 70 per cent of undergraduate students are drawn, will decline by 3 per cent over the period 1996 to 1999.

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<sup>2</sup> Calculation of variation based on operating grants net of advances, repayments of advances or one-off reductions in grants.

## **OPERATING GRANT FUNDS 1990 to 1999 (Including Research Quantum & Capital Roll-in)**



### **Operating grants**

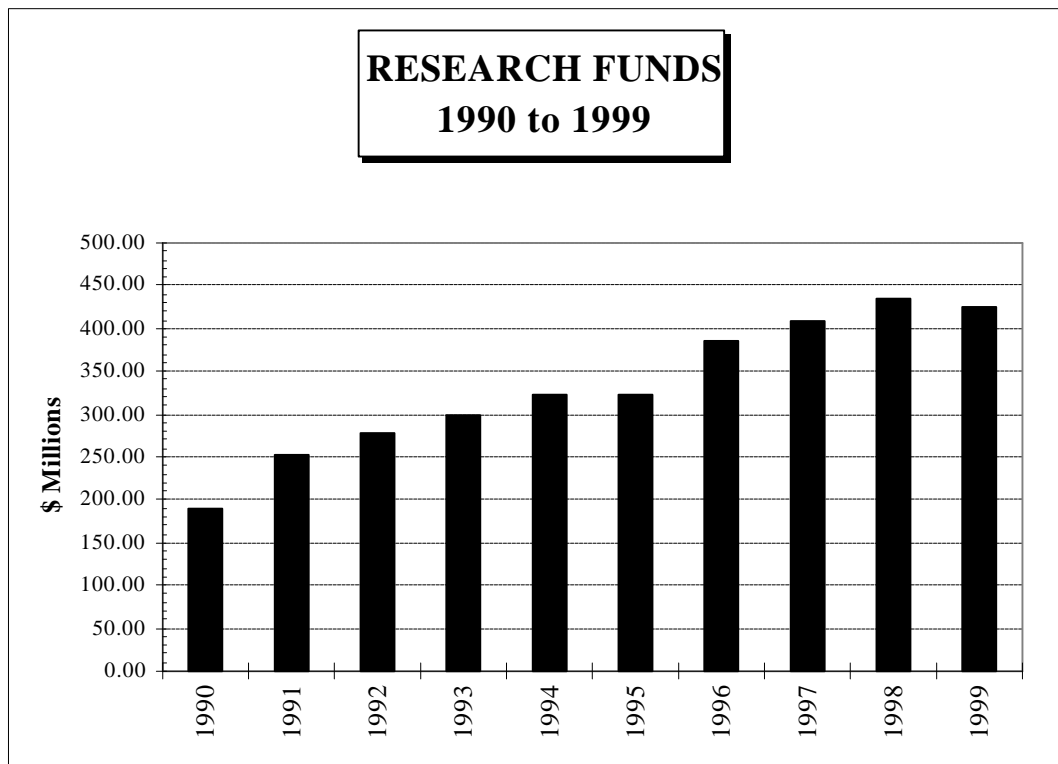
The reductions to previously announced increases in operating grants will be realised by applying a fixed proportional reduction to the forward estimates of the operating grant of each institution. All components of the operating grant will be affected, including the Research Quantum (RQ) and the capital 'roll-in' components. Under this approach:

- the savings in the first year (1997) have been deliberately kept small in order to provide institutions with time to plan and adapt - there is still a net increase in funds for next year;
- no institution will be disadvantaged by having to bear a larger funding reduction against its forward estimates because it received growth funding in recent Budgets;
- the significant undergraduate growth which was provided in the 1995-96 Budget over the period 1996 to 1998 will be preserved wherever feasible. This will help offset the imbalances in opportunities for access to undergraduate study between States and Territories; and
- institutions will have an opportunity to renegotiate their student load targets in the 1996 profiles round in the light of changed funding levels and the Government's priorities.

In applying the reductions to operating grants, the Government's overriding consideration will be to safeguard two imperatives - undergraduate teaching and research. Institutions will therefore be expected, wherever feasible, to maintain undergraduate load at levels already agreed, and to make any necessary adjustments at the non-research postgraduate level. Institutions already have complete freedom to charge fees for non-research postgraduate students, and fee-paying and HECS-liable enrolments at this level have outstripped growth in undergraduate numbers in recent years.

Before applying the reductions to operating grants, the Government will restore the ‘pipeline’ funding associated with growth places which was unilaterally removed from Victorian institutions by the previous Government in the 1995 Budget. (‘Pipeline’ funding provides for the enrolment flow-on effects of increases in student intakes). As announced by the Treasurer *Meeting our Commitments*, savings totalling \$168 million will be made from the higher education ‘discretionary’ programs between 1996 and 1999.

The funding outlook for each publicly funded higher education institution for 1997 to 1999 is shown in [Appendix A](#)



## Research

The initiatives announced in this Statement will strengthen Australia’s research and research training capacity. The Government has fulfilled its pre-election commitment to provide \$129.3 million over three years for research infrastructure, postgraduate research training and for collaborative research.

As the graph above shows, in 1996 the total Government support for targeted higher education research programs is \$386 million. This will rise by \$22.4 million in 1997 and by a further \$27.6 million in 1998 largely as a result of decisions announced in this Statement. The previous Government’s forward estimates for 1999 incorporated a fall of \$29.1 million for research funding. This will be more than offset by an increase of \$69.1 million for research being funded by the Government in that year, a net increase of \$40 million over 1996 levels, but a reduction of \$10 million on the newly increased level of resources available in 1998.

Specifically:

- the Government is determined to see Australia's research infrastructure restored to an internationally competitive level. There are occasions when deficiencies in research infrastructure limit research possibilities. A total of \$90 million will be provided over three years to help redress the situation;
- the Government recognises the critical role of universities in strengthening the national research and innovation system by training high quality researchers. It will, therefore, meet its commitment to increase funding for postgraduate awards by \$9.3 million over three years to support additional Australian Postgraduate Awards (APAs) with stipend and APAs (Industry); and
- the Government will encourage closer links between industry and universities in order to increase diversity and to assist universities broaden their financial base. A further \$30 million is provided for Collaborative Research Grants and their promotion to foster greater university and industry collaboration.

### **Adjusting to change**

The Government expects that, in the light of these announcements and an increasingly competitive national and international environment, higher education institutions, individually and collectively, will examine critically all of their activities.

It is, of course, the responsibility of universities to manage their resources strategically and to initiate change where appropriate. For its part, the Government will establish a more flexible policy environment to assist institutions in this process.

Specifically, the Government will take four steps:

- it will open up new avenues for universities to gain revenue from other sources (Section 3 below);
- it will welcome and encourage moves within and between institutions to rationalise staffing, courses and infrastructure where that is educationally sensible and leads to long term efficiencies. In exceptional circumstances, the Government will be prepared to consider specific proposals for financial assistance from institutions where it can be demonstrated that such changes will lead to permanent benefits and are unquestionably beyond the funding capacities of the institution/s involved. The needs of regional institutions will be given particular consideration;
- it will amend the Higher Education Funding Act 1988 to provide a limited capacity for advances of operating grants to assist institutions with the cash-flow implications of restructuring; and
- it will adopt a more flexible approach to the management of university operating grants (Section 4 below).

## 2. FAIR BALANCE BETWEEN PUBLIC AND PRIVATE FUNDING

### Higher Education Contribution Scheme (HECS)

Under current arrangements, all Australian undergraduates contribute an equal amount per year towards the costs of their courses, regardless of the actual costs of the course or its likely benefits in terms of the future earnings of the individual.

#### *Current operation of HECS*

- Students pay \$2,442 for a full year or \$1,221 per semester, which is on average approximately 23 per cent of the cost of their higher education. The Commonwealth pays the rest.
- Payment Options - Either up front at enrolment (attracting a 25% discount) or deferred until taxable income reaches the minimum HEC repayment threshold (\$28,495 for 1996-97).
- Thresholds for HECS repayment income in 1996-97 - Voluntary - between \$20,594-28,494 repayable at the rate of 2% with a one off 10% discount. Compulsory - Repayable when income reaches \$28,495 at the rate of 3%. As income increases, the rate of repayment increases up to a maximum of 6% at \$52,293 and above.
- Voluntary payments of \$500 or more attract a 15% bonus.

On average, the HECS charge represents about 23 per cent of the cost of a higher education course, although the proportion of the actual course cost varies between 36 per cent for Arts down to 13 per cent for Medicine. The average proportion of 23 per cent is also substantially lower than the rate of private contribution to higher education in a number of comparable countries. For example, recent OECD statistics show that on average students in the United States contribute around half of the cost of their course, while Japanese students contribute around 60 per cent and students in Denmark contribute 40 per cent.

While the ideal balance between public and private contributions to the cost of higher education cannot be precisely established, it is clear that the private benefits of university graduation are substantially greater than the notional level implied by the current HECS charge.

The Government therefore believes that a higher level of HECS charge is justified. The Government also believes that, in setting the level of the HECS charge, consideration should be given to both the actual cost of the course undertaken and the likely future benefits to the individual in terms of increased life-time earnings.

In making these changes, however, the Government will retain the essential features of the HECS arrangements to ensure that no qualified student is prevented from entering higher education because of his or her inability to pay at the time of enrolment. Furthermore, the changes will be introduced in such a way that no existing student will have an unanticipated increase in the cost of their current course. Consistent with its election commitments, the Government will not be increasing the HECS charge or debt levels for existing debtors or for HECS-liable students in their current courses. The new charges will only apply to students commencing a new course after 1 January 1997.

<i>New HECS changes</i>		
<i>Band</i>	<i>Discipline group</i>	<i>HECS contribution</i>
1	Arts, Humanities; Social studies/Behavioural science; Visual/Performing Arts; Education; and Nursing.	\$3,300
2	Mathematics, Computing; Other Health Sciences; Agriculture, Renewable Resources; Built Environment/Architecture; Sciences; Engineering, Processing; and Administration, Business, Economics.	\$4,700
3	Law, Justice, Legal studies; Medicine, Medical Science; Dentistry, Dental Services; and Veterinary Science.	\$5,500

The new, differential HECS charges will be applied on a 'unit of enrolment' basis. While a number of students may be enrolled in a similar course, their HECS charge will vary depending on the discipline of the units they are enrolled in. On the other hand, all students undertaking a specific unit will be charged the same amount regardless of the course they are enrolled in.

#### Example

Peter commences a Bachelor of Economics in 1997. In first year, eight units comprise a standard full-time load. Peter enrolls in five Economics units and three arts units.

His HECS liability for 1997 would be calculated as follows:

$$(5/8 \times \$4,700 \text{ (the economics rate)}) + (3/8 \times \$3,300 \text{ (the arts rate)}) = \$2,937.5 + \$1,237.5 = \$4,175$$

In consultations in the lead up to the Budget, several groups and individuals, including the Australian Vice-Chancellors' Committee, suggested that the Government should examine options to accelerate the recovery of HECS debt.

A range of discounts is currently available to encourage early repayment of HECS. It is not clear that further discounts could substantially increase the rate of repayment unless the discounts were set at such a high level as to represent an unacceptable cost to the Commonwealth. Furthermore, substantial discounts would introduce an element of inequity since those with the means to pay early would pay less in total debt than those who are not able to do so.

The alternative approach, which the Government will adopt, is to lower the income thresholds at which repayments commence and at which higher rates of repayment are required. This change means that individuals will repay their debt more quickly, but there will be no increase in the level of their debt.

The repayment thresholds will be reduced as shown below from 1997-98 with the initial threshold aligned to the second tax threshold in that year.

<i>For HEC repayment incomes in the range (1997-98 income year):</i>	<i>% rate to be applied to total HEC repayment income</i>
Below \$20,701	nil
\$20,701-\$21,830	3
\$21,831-\$23,524	3.5
\$23,525-\$27,288	4
\$27,289-\$32,934	4.5
\$32,935-\$34,665	5
\$34,666-\$37,262	5.5
\$37,263 and above	6

Repayment periods for graduates with typical earning patterns under the new HECS arrangements will range from about 6 to 9 years.

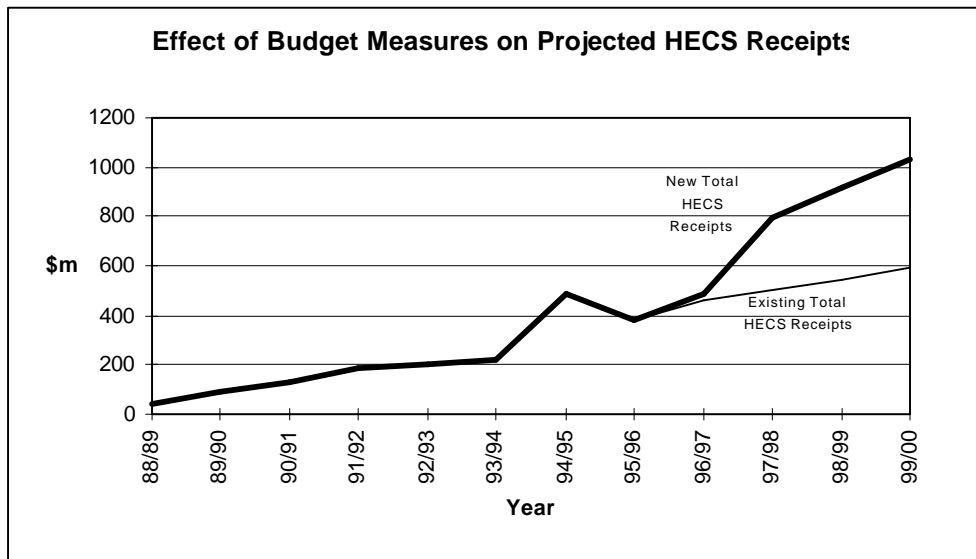
**Examples**

Kieran completes a degree in nursing studying full time over three years (all the units of his degree fall into Band 1). He can expect to defer \$3,300 each year, graduating with a HECS debt of \$10,216 (including indexation). If Kieran enters the workforce and repays in accordance with likely salary movements (based on 1991 Census data) he will repay his debt in six years.

Cathy completes a degree in engineering studying full time over four years (all the units of her degree fall into Band 2). She can expect to defer \$4,700 each year, graduating with a HECS debt of \$19,250 (including indexation). If Cathy enters the workforce and repays in accordance with likely salary movements (based on 1991 Census data) she will repay her debt in eight years.

Megan completes a degree in law studying full time over four years (all the units of her degree fall into Band 3). She can expect to defer \$5,500 each year, graduating with a HECS debt of \$22,527 (including indexation). If Megan enters the workforce and repays in accordance with likely salary movements (based on 1991 Census data) she will repay her debt in eight years.

The Commonwealth expects to receive around \$400 million this year in HECS repayments, rising to around \$600 million a year by the end of the decade. Accelerated recovery will result in annual HECS receipts increasing to above \$1 billion by the end of the decade.



The lowering of the compulsory threshold to \$20,701 means that the current discount for voluntary payment at this income level will be discontinued. The repayment required at this income level will be less than \$12 per week. The other existing discounts for up-front payments (25 per cent) and voluntary payments of \$500 or more at any time (15 per cent) will remain.

<i>HECS discounts</i>		
Description	Discount	
Paying HECS contribution up front at enrolment		25%
Voluntary payments of \$500 or more		15%
Electing the Voluntary repayment threshold (\$20,594-\$28,494)		10% *
*this option will not be available from 1997.		

Although these changes to HECS can be implemented simply using the existing systems in universities and the Australian Taxation Office, there will be some minor additional costs involved for institutions. In recognition of this, the Government will provide extra funding of \$5.3 million in 1996-97 and \$2.5 million in subsequent years for administrative support to universities.

### **3. ADDITIONAL OPPORTUNITIES AND CHOICE FOR AUSTRALIAN STUDENTS**

Institutions currently may charge fees for postgraduate students and overseas students, but not for Australian undergraduates. This means that overseas undergraduates wishing to purchase a place at an Australian university may do so, while Australian undergraduates are denied the same opportunity. This is fundamentally unfair to young Australians as well as denying universities access to the additional revenues which will help maintain and enhance their standing as high quality institutions.

The Government recognises the need to overcome the rigidities, anomalies and inequities inherent in these arrangements.

It will remove the prohibition on offering fee-paying places to Australian undergraduates above the 'target' number of Commonwealth-funded places. This will remove the anomaly in the treatment of Australian and overseas students, will provide additional choice and opportunities for students, their families and employers, will generate additional income for the universities and will provide an extra incentive for diversity among institutions.

The overwhelming majority of students will continue to contribute to the costs of their education through HECS alone. Institutions will not be able to substitute fee-paying places for HECS-only places, nor will they be able to move whole undergraduate courses on to a fee-paying basis. Specific measures to ensure this are stipulated in the box below.

These arrangements will be introduced in 1998, allowing time for institutions and students to plan for the new opportunities.

*Operation of fees for students beyond 'target'*

- institutions may offer places to Australian undergraduate students from 1 January 1998 for a fee payable directly to the institution, provided that the institution has filled its target number of places for HECS-only undergraduates;
- the number of fee paying Australian undergraduate students will be limited to 25 per cent of the total enrolment of Australian undergraduates in any course, and a minimum fee for these additional places will be set at the equivalent to the relevant HECS charge for the particular course;
- financial penalties will apply where an institution offers fee-paying places while at the same time failing to fill its undergraduate target with HECS-liable students. The rate of the penalty will be the average undergraduate teaching grant of \$9,000 per equivalent full time student unit; and
- HECS-liable students will be able to complete the requirements of all undergraduate awards offered by a public university entirely on a HECS-liable basis.

Under current funding arrangements, universities are provided with funding to enrol a certain 'target' number of Australian students. If they enrol more than this number, they receive no additional funding, even though the Commonwealth receives HECS payments from the students. The Government will remove this anomaly.

From 1998, universities will be paid the equivalent of the minimum up-front HECS payment for each HECS-only undergraduate student enrolled above the target level. This will provide some recognition of the costs incurred by institutions which over-enrol. It will also present an opportunity for institutions with very low marginal costs to offer additional places to undergraduate students without charging fees.

Correspondingly, the Commonwealth will reduce institutions' funding by the equivalent of the minimum up-front HECS charge for any shortfall of HECS liable places against the target levels.

The only exception to these new measures will be Medicine where, for health policy reasons, the Government wishes to limit the number of medical graduates.

As part of the overall package of policy improvement in this area, the Government will also provide greater flexibility to institutions to offer ancillary services to students on a fee-for-service basis. There will be no departure from the existing principle that all undergraduate students (other than fee-payers) should be able to complete the compulsory requirements of their courses without facing fees. However, the Government will issue guidelines to clarify the circumstances in which institutions may charge for incidental or additional services.

## **4. QUALITY ASSURANCE AND IMPROVEMENT**

### **A new approach to quality**

A higher education sector of the highest quality is central to the Government's overall policy objectives.

Achieving quality outcomes within a complex and rapidly changing environment will require a commitment from institutions and all who work within them to continuous quality improvement. The Government believes that this can only be accomplished if the quality improvement process is fully integrated with institutions' strategic plans. This principle underpins the Government's new approach to quality improvement in higher education.

The former Government's approach to quality enhancement and assurance, while it achieved some significant advances, was fundamentally flawed and unsustainable over the longer term. It relied on a substantial, separate pool of funds to ensure institutional involvement in a process which was externally imposed and which, at least implicitly, assumed that all institutions could be ranked against a common set of criteria.

The defining features of this Government's approach will include:

- the development by institutions of quality improvement plans that are integrated into their overall strategic planning processes, and therefore have a real role in the day-to-day running of universities, rather than being something off to the side;
- the encouragement of institutional diversity by enabling institutions to develop approaches to quality improvement consistent with their particular missions and varied goals;
- a quality assessment process that, as far as practicable, is hard-edged through the application of quantitative performance indicators and benchmarks which are carefully selected, genuinely meaningful, and recognise institutional diversity; and
- the development of quality improvement plans by institutions that concentrate on addressing institutions' weaknesses as well as building on their strengths.

While the key feature of this approach is the focus on quality improvement processes developed and operated at the institutional level, it is essential that both the Australian and the international student community are confident in and fully informed about the quality of our universities. For this reason, the Government intends to establish an independent agency to guide the development of this new approach, ensure appropriate levels of rigour and comparability in its application, and report publicly on institutional quality assurance outcomes. The nature of the new body will be determined in consultation with the higher education sector.

### **Teaching enhancement and staff development**

Greater diversity and real choice in higher education will be generated by the creative responses of university staff to their students' requirements and to changing circumstances. This conviction underpins the Government's objective of promoting quality and excellence in university teaching. To give effect to this commitment, the Government will establish the Committee for University Teaching and Staff Development to provide policy input in these areas, to advise on the allocation of grants for innovative university teaching and staff development initiatives, and to disseminate information on effective practice.

The aims of the new program will be to identify and promote good teaching, learning and staff development practices and to encourage and foster innovation in these areas. A total of \$20 million will be provided over the next three years for the new program.

Awards will be competitive and are intended to lead to practical improvements in teaching and staff development by supporting outstanding innovation in teaching, learning and assessment. They will be awarded to individuals as well as to groups of academic and administrative staff in universities.

### **International education**

The Government recognises the importance of the international activities of Australian higher education. Exposure of universities to international competition is a key way of ensuring that the Australian higher education system is of the highest quality. Innovations in technology and greatly increased mobility have made international activities an even more pronounced feature of Australian higher education. Through this increased role in the global community, the quality of the system is enhanced, with benefits for all.

While the Government believes that institutions themselves are best placed to make judgements about how the challenges and opportunities of internationalisation should be met, it is important that the framework in which individual institutions seek to engage in international activities is favourable to the higher education system as a whole.

The Government will continue to support international activities through successful programs such as the student exchange program, University Mobility in Asia and the Pacific (UMAP), and the Targeted Institutional Links Program, which have served well to increase higher education cooperation in the region.

The Government has set aside \$4.5 million over the period 1996-97 to 1998-99 to promote international collaboration and research links with countries of strategic importance to Australia's interests. These arrangements provide a valuable framework for the international activities of higher education institutions themselves.

In addition, the Government will continue to support the successful partnership between government and the education industry in the promotion and marketing of Australian education services. The operation of this partnership through the Australian International Education Foundation (AIEF) and the Australian Education Centres in a number of overseas locations will boost the flow of overseas students to Australia and the further development of an off-shore education and training industry.

## 5. COMMITMENT TO EQUITY

The unique deferred payment, income contingent, interest-free characteristics of the Higher Education Contribution Scheme (HECS) are internationally recognised as a most effective means of achieving equity of access to higher education while ensuring that students contribute fairly to the cost of their higher education. The Government affirms its commitment to preserving HECS as the principal means for ensuring access to publicly funded higher education places.

However, other specific measures must complement HECS to facilitate access by the widest range of students. As the Australian economy becomes increasingly dominated by knowledge-based industries, employers will increasingly seek a labour force with higher order skills. Where significant groups within society are either prevented or discouraged from going to university, the pool of talent from which participants are drawn is diminished, as are the life chances of those from the excluded groups.

With some important exceptions, there have been significant improvements in ~~the~~ aggregate participation in higher education of all equity groups over the past decade. Similarly, once in higher education, most students from these groups perform well. However, there are still some significant shortcomings in terms of ~~the~~ relative participation of students from low socio-economic, rural and isolated backgrounds and the rates at which some groups, including indigenous Australians and students from isolated backgrounds, achieve successful educational outcomes.

Equity priorities in higher education need to be focussed on achieving both better access and better outcomes for these groups while maintaining the impetus for improved outcomes for other equity groups. The aim must be to achieve high graduation rates ~~for~~ students participating in higher education.

To give effect to its commitment to equity in higher education, the Government will build on the best elements of the former Government's approach but will also introduce some important new initiatives.

In particular, from 1997, a new system of merit scholarships to further encourage the participation of equity groups will be introduced. At a cost of \$36.38 million over the next four years, and an annual commitment of \$16.13 million from 1999, 1 000 new students each year will be fully exempted from the HECS charge. The average duration of the scholarship will be four years, so the total pool of scholarship holders will build to 4 000 by the year 2000.

These scholarships will be awarded by universities to commencing students within their equity target groups, allocated on the basis of merit as determined by the university.

In addition, the existing Higher Education Equity Program (HEEP) will be maintained at an annual cost of \$5.28 million to provide incentive funding to institutions to achieve improved outcomes for students from equity target groups.

The Regional Disability Liaison Officer (RDLO) initiative, which co-ordinates the provision of services for students with disabilities across higher education and TAFE institutions, will also be extended by another year (1997) at a cost of \$750,000.

*Specific equity measures*

These measures:

- provide 1,000 merit based scholarships building to 4,000 by the year 2000 for target equity groups, including indigenous Australian students. The average duration for each scholarship will be four years. These will be allocated by institutions and will operate as HECS exemptions for scholarship recipients;
- maintain the Higher Education Equity Program (HEEP) with an annual budget of \$5.28 million; and
- extend the Regional Disability Liaison Officer (RDLO) initiative for another year (1997) at a cost of \$750,000.

### **Indigenous higher education**

The Government is committed to enhancing indigenous Australians' access to higher education and to improving their educational outcomes. It is also committed to ensuring that Aboriginal and Torres Strait Islander people have greater involvement in education decision making, and that universities are properly focussed on the value of higher education for indigenous Australians.

For these reasons, the Government will proceed with a set of substantial measures for indigenous higher education. The Government will consult with the indigenous higher education community on these measures.

*Proposed strategies for indigenous higher education*

A total of \$72 million will be provided over the next three years to:

- maintain the Aboriginal Support Funding Program with an annual budget of up to \$21 million;
- develop culturally appropriate educational content through the Open Learning Agency of Australia for delivery in an on-line environment, as a means of enhancing indigenous communities' access to higher education (\$0.75 million);
- link the allocation of Aboriginal Support Funding to institutions' capacity to achieve good educational outcomes for indigenous students;

- establish specialist Indigenous Higher Education Centres. These may be in the areas (or combinations) of: indigenous Australians and the law; health; education and employment; housing and community design; language, culture and society; and environmental management. \$6.5 million has been set aside, including up to three indigenous teaching and research fellowships per Centre;
- foster communications among indigenous intellectuals across Australia, provide a forum for the publication of indigenous academic research, and deliver university courses to indigenous communities through the innovative use of new technologies. \$1 million will be set aside for this purpose. The funds will be made available through Open Net, the second element of the Open Learning Initiative;
- undertake a controlled trial in one State to investigate the merits of providing specifically targeted open learning style education and training to incarcerated indigenous people (\$0.75million).

## **6. A MORE STRATEGIC RELATIONSHIP BETWEEN THE COMMONWEALTH AND INSTITUTIONS**

Given the magnitude of the public investment in higher education, the Government clearly has an important responsibility to set the broad policy goals it wishes to pursue through this investment. It will, however, do so in a manner that recognises the autonomy and individual circumstances of Australia's universities. This will be effected through the development of a more strategic relationship between the Commonwealth and the universities, characterised by a better integration of accountability requirements with institutions' own internal planning processes. The Commonwealth's objective is to secure high quality outcomes for the public investment in higher education while limiting its own direct role in the management and delivery of specific purpose programs and streamlining reporting and accountability requirements for institutions.

This objective will be reflected in new approaches to the Government's advisory structures, its role in relation to industrial relations issues, and its direct interactions with universities through the profiles and accountability processes. It is also the basis for a wide ranging and high level review which focuses on the long term future of the sector.

### **Enhanced and revised advisory structures**

The Government has foreshadowed that it will adopt a more arms-length stance in a range of areas and that it will be advised on higher education matters by enhanced, independent advisory structures. Specifically, the Higher Education Council (HEC) and the Australian Research Council (ARC) will be established as independent bodies with an increased range of responsibilities.

The Government has already taken steps to give effect to this commitment. Amendments to the *Employment, Education and Training Act 1988* have been introduced into Parliament to wind-up the National Board of Employment, Education and Training. This will increase the autonomy of the HEC and the ARC, allowing them to provide advice directly to Government.

Consistent with its stated intention to consult with the sector on major issues, the Government has released a discussion paper on the HEC and the ARC which examines how their functions and responsibilities could be enhanced. The results of this consultative process and the Government's final decisions on the new roles and functions of the HEC and the ARC will be announced after the the Budget.

## **Industrial relations**

Industrial relations is an area in which the respective roles of the institutions and the Commonwealth needs to be moved to a more sustainable basis. Each institution needs to take unambiguous responsibility for its own management and workplace practices and to have the capacity to make the best possible arrangements for its own individual circumstances. Institutions will be assisted in achieving this by the passage of the Government *Workplace Relations Bill* which is currently before the Parliament.

Correspondingly, it needs to be clearly understood that the Government is not, nor does it seek to be, a direct party in industrial matters in the sector. The Government is not the employer, nor is it the sole source of funding.

The Government acknowledges that the current higher education salary claim merits consideration but, as in all sectors of the economy, sustainable salary increases can only be achieved through genuine productivity improvements at the enterprise level.

For this reason, the Government does not intend to provide any across-the-board supplementation for salary increases in the higher education sector. The Government does note, however, that there are some significant barriers to effective and genuine enterprise bargaining in the higher education sector relating to existing national agreements and the history of centralised wage determination. Therefore, the Government will be prepared to examine proposals for one-off reform packages for individual institutions where major workplace practice breakthroughs at the enterprise level can be secured.

## **Profiles and accountability processes**

The institutional profiles process introduced by the former Government as the principal accountability and planning mechanism between the Commonwealth and the universities, has continued without fundamental review since 1988. It is inadequately integrated with institutions' own strategic planning and has operated completely separately from the previous quality assurance program, unnecessarily increasing the administrative burden on institutions.

That burden is compounded by the additional reporting necessary to satisfy various Commonwealth accountability requirements, some of which are duplicated by State and Territory Governments.

The former Government also used the profiles mechanism to introduce a series of ad hoc targets to control the admission of certain categories of student without due regard to the central importance of institutions' own judgements in admissions matters.

This Government's objective is to simplify the procedures, reduce needless reporting and data collection and move to a process whereby institutions are accountable for the goals articulated in their own strategic plans. Within the broad parameters set by the Government's policy goals, institutions will be provided with as much flexibility to pursue their own goals as is possible while maintaining accountability for the use of public funds.

To this end, the Government will be consulting with the sector on the best way to integrate the four related activities of:

- the planning and funding elements of the current profiles process;
- the Government's new approach to quality enhancement and assurance;
- the formal accountability requirements attaching to the provision of public funding; and
- institutions' own strategic planning processes.

The Government will also take some immediate steps towards its objectives in this area.

From 1997, the 'new to higher education target' will be abolished. This target was introduced by the former Government to quarantine a minimum number of places each year for students with no prior experience of higher education. In practice, it is an unnecessary duplication of the undergraduate target (which will be maintained) and simply imposes an administrative burden.

In 1997 and 1998, the Government will also be prepared to allow institutions a measure of flexibility in meeting student load targets where it can be demonstrated that any shortfall arises from genuine declines in student demand.

The Government will also initiate an immediate review of all reporting requirements to ensure that necessary accountability requirements are met without unwarranted complexity, frequency or duplication. This review will include consideration of the reporting requirements placed on institutions by other levels of Government as well as the Commonwealth. The cooperation of State government authorities will be sought in this process. This review will also encompass the inputs to the composite index used for the distribution of the research quantum of operating grants. The Government believes that the current data collection is substantially more detailed and probably more frequently conducted than is required for the purpose.

## **Review of higher education financing and policy**

The set of measures in this Statement represents a major step towards the Government's broad policy objectives for higher education. These measures begin the process of rectifying the deficiencies of previous policies and constructing a firm platform on which the higher education sector can build to meet the challenges that it will confront in the medium to long term.

There are, however, new forces shaping the future environment for higher education on a global scale. There are new, fundamental issues which need to be examined in a considered and comprehensive way if we are to be confident of addressing the challenges and opportunities not just of the next three years, but for the next two decades. These fundamental issues include:

- the impact of advanced information and communications technology;
- the globalisation of higher education;
- the future shape and size of the sector, taking account of the likely changes in Australian society and the economy;
- funding strategies for the twenty-first century;

- the interfaces between higher education, vocational education and training, schools and industry; and
- the role of higher education research in the broader national research and innovation system and the approach to research funding.

The Government, therefore, proposes to establish a major independent review of higher education policy with a focus set on the future of higher education over the next ten to twenty years.

A review of this nature is timely. The last major overall review of the higher education sector was undertaken in 1987 and culminated in the release of the previous Government's White Paper on higher education.

Much policy work since 1987 has been concerned with issues arising from implementation of the White Paper - issues such as quality assurance, the balance between the public subsidy for higher education and private contributions, and the targeting of research funding to areas of demonstrated excellence in the sector. The Government believes that it is appropriate now to take stock of these changes, and to identify where policy parameters need to be re-set in the light of the increasingly complex and competitive environment that confronts Australia as we move into the next century.

Announcements on the terms of reference for the review will be made after the Budget.

## APPENDIX A

**PROJECTED OPERATING GRANT VARIATIONS  
OVER 1996 LEVELS, BY INSTITUTION<sup>(1) (2)</sup>**

<b>Institution</b>	<b>Variation 1996 to 1997</b>	<b>Variation 1996 to 1998</b>
Charles Sturt University	1.1%	-0.8%
Macquarie University	-0.2%	-2.4%
Southern Cross University	3.0%	3.0%
University of New England <sup>(3)</sup>	-0.2%	-2.9%
University of New South Wales	-0.8%	-3.7%
University of Newcastle	1.0%	-0.9%
University of Sydney <sup>(3)</sup>	-1.0%	-4.0%
University of Technology, Sydney	-0.2%	-2.8%
University of Western Sydney	1.8%	0.6%
University of Wollongong	1.0%	-0.5%
Deakin University <sup>(3)</sup>	-0.6%	-3.6%
La Trobe University	-0.5%	-3.4%
Monash University	-0.5%	-3.3%
Royal Melbourne Institute of Technology	-0.5%	-3.4%
Swinburne University of Technology	0.3%	-2.1%
University of Ballarat	-0.1%	-2.6%
University of Melbourne	-0.9%	-3.9%
Victoria University of Technology	-0.2%	-2.9%
Central Queensland University	6.3%	9.8%
Griffith University	5.2%	7.9%
James Cook University	4.4%	5.5%
Queensland University of Technology	3.8%	4.9%
University of Queensland	2.2%	2.0%
University of Southern Queensland	1.5%	0.4%
Curtin University of Technology	0.4%	-1.4%
Edith Cowan University	0.9%	-0.6%
Murdoch University	3.7%	5.4%
University of Western Australia	0.1%	-1.7%
Flinders University of South Australia <sup>(3)</sup>	-0.3%	-3.0%
University of Adelaide <sup>(3)</sup>	-0.8%	-3.7%
University of South Australia	-0.5%	-3.3%
University of Tasmania	-0.2%	-2.9%
Northern Territory University	-0.1%	-2.8%
Australian National University	1.0%	-1.8%
University of Canberra	0.0%	-2.6%
Australian Catholic University	2.2%	1.3%
Avondale College	-1.1%	-4.1%
Marcus Oldham	-1.1%	-4.1%
Australian Maritime College	-1.1%	-4.1%
Batchelor College	2.9%	1.7%
<b>AUSTRALIA</b>	<b>0.6%</b>	<b>-1.2%</b>

Note:

(1) Includes capital 'roll-in' and Research Quantum

(2) The differences in funding outcomes reflect previous decisions on the distribution of growth, principally to institutions in Queensland and Western Australia.

(3) Calculation of variation based on operating grants net of advances, repayments of advances or one-off reductions in grants.

## SUMMARY BUDGET MEASURES

*Note: dollars are quoted in headline estimated outturn prices (and 1996 Budget constant (unadjusted) prices, where appropriate).*

### Reduction to university operating grants

In order to balance the Government's fiscal and educational objectives, university operating grants (including capital roll-in and research quantum components) will be reduced over the forward estimates period compared with previously announced levels. Institutions may renegotiate their student load targets with the Commonwealth in the light of changed funding levels and the Government's priorities.

Measure	1996-97 \$m	1997-98 \$m	1998-99 \$m	1999-2000 \$m
<b>Operating grants</b>				
Outturn	-23.4	-118.5	-215.5	-266.2

### Savings in discretionary funding

As announced in the pre-election statement *Meeting our Commitments* the Government will discontinue 'discretionary' funding through the former Quality Assurance program and the National Priority (Reserve) Fund. New approaches to promote quality assurance, teaching enhancement and staff development and international education are announced in this Statement.

Measure	1996-97 \$m	1997-98 \$m	1998-99 \$m	1999-2000 \$m
<b>Discretionary funding</b>				
Outturn	-84.555	-43.310	-43.435	-43.435

### Differential HECS (course costs and future income)

HECS will be varied for students commencing new courses from 1997 to take account of actual course costs and likely benefits to the individual in terms of future earnings. The HECS charge for students commencing studies in arts, education and nursing will be \$3,300; \$4,700 for those enrolled in science, engineering, architecture, agricultural science, other health and business; and \$5,500 for law, medicine, dentistry and veterinary science.

Measure	1996-97 \$m	1997-98 \$m	1998-99 \$m	1999-2000 \$m
<b>Differential HECS</b>				
Outturn	-22.5	-66.0	-101.0	-123.5

### Lower HECS Repayment Threshold

In order to increase the rate at which the HECS debt is recovered, the Government will lower the income threshold at which repayments commence. From 1 July 1997, individuals will commence repaying the HECS once their incomes reach \$20,701. The current discount for voluntary repayment at this income level will be discontinued.

Measure	1996-97 \$m	1997-98 \$m	1998-99 \$m	1999-2000 \$m
<b>Lower HECS threshold</b>				
Outturn	0	-229.9	-269.7	-317.8

### Undergraduate HECS exemptions

Building on the income-contingent HECS scheme, a new system of merit scholarships will be introduced in 1997 to encourage participation by members of target equity groups, including indigenous students. 1,000 new students each year will be fully exempted from the HECS charge. The average duration of each scholarship will be four years so the total pool of scholarships will build up to 4,000 by the year 2000.

Measure	1996-97 \$m	1997-98 \$m	1998-99 \$m	1999-2000 \$m
<b>HECS exemption scholarships</b>				
Outturn	0	0	0	0

### Administrative support for universities

Funding will be provided for administrative support to assist universities with the implementation of the HECS changes referred to above.

Measure	1996-97 \$m	1997-98 \$m	1998-99 \$m	1999-2000 \$m
<b>Admin support for universities</b>				
Outturn	5.3	2.5	2.5	2.5

### Higher education review

A major independent review of higher education policy will be undertaken to address the challenges and opportunities facing Australia's higher education system.

Measure	1996-97 \$m	1997-98 \$m	1998-99 \$m	1999-2000 \$m
<b>Review of higher education</b>				
Outturn	1.0	1.0	0.0	0.0

### Increased funding for research

In keeping with its pre-election commitment to strengthen Australia's research and research training capacity, the Government will provide additional funding for research infrastructure, collaborative research grants and postgraduate awards.

<b>Measure</b>	<b>1996-97</b> <b>\$m</b>	<b>1997-98</b> <b>\$m</b>	<b>1998-99</b> <b>\$m</b>	<b>1999-2000</b> <b>\$m</b>
<b>Increased funding for research</b>				
Outturn	8.436	30.778	58.958	36.544
Unadjusted	8.300	29.900	56.350	34.750