

Realising Our Potential

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Australia has a world class education and skills system ...

Australia has a quality higher education system with a number of world class institutions. Our vocational education and training sector provides valuable skills training for a productive workforce. Australia's public and private schools are also delivering good outcomes for most of the 3.4 million students enrolled across the country.

In 2006 there were:

- 3.4 million students enrolled in Australia's schools
- more than 950,000 students enrolled in the higher education sector
- around 1.6 million publicly funded students undertaking vocational education and training
- around 405,000 people undertaking an Australian Apprenticeship.

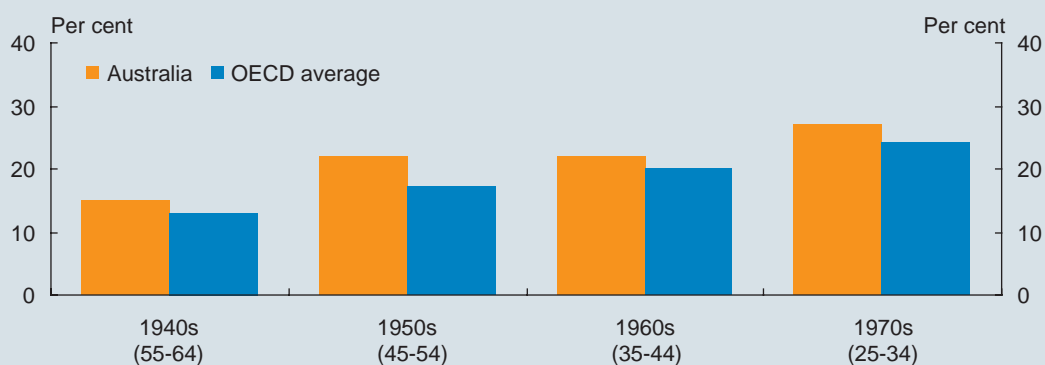
We have a quality higher education system that is internationally competitive. Our leading universities perform well in international rankings.

Education services are our fourth largest export worth approximately \$10 billion each year. In 2005, a record 239,000 international students (25 per cent of all enrolments) studied at Australian universities, an increase of 52 per cent over 2001.

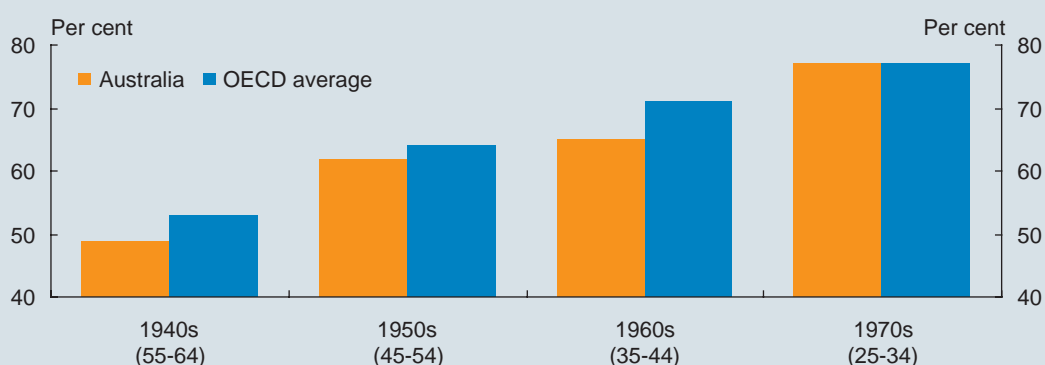
Australian school students perform well in standardised OECD testing, ranking 4th in science and reading proficiency and 8th in maths in 2003.

More generally, improvements in educational attainment at both the secondary and tertiary level have helped to underpin Australia's improved productivity and participation performance since the early 1990s.

Tertiary



Upper secondary



Educational attainment by decade of birth (age group), 2004

... but challenges remain and improvements must be made

Every parent is entitled to expect their child will receive a high quality education. As a small, open economy, a well-educated, skilled and flexible workforce is vital to ensure that Australia is well placed to meet the challenges that a globally competitive environment and an ageing population pose for our future living standards.

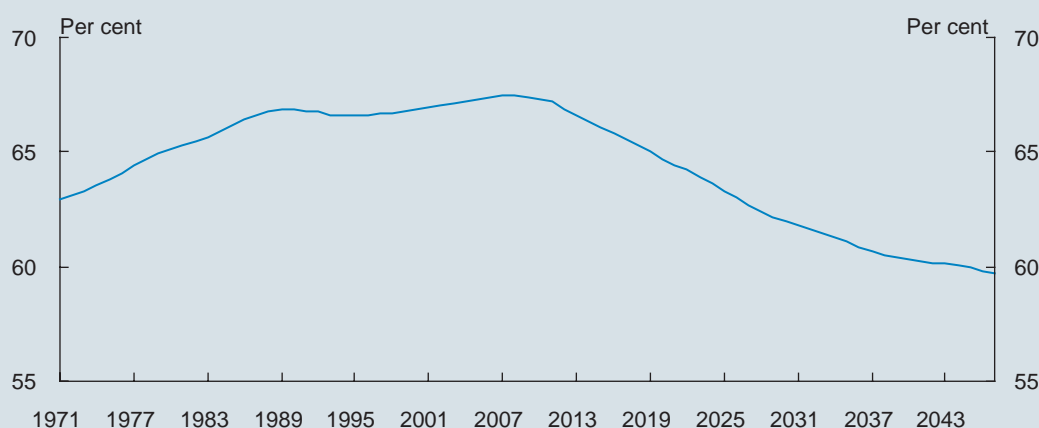
Australia's Intergenerational Reports of 2002 and 2007 show that Australia's workforce will shrink relative to the overall size of the total population.

Continuing to improve education and skills outcomes so we can work smarter will be critical to enhancing productivity and optimising workforce participation to secure Australia's future prosperity.

The productive capacity of the Asian region is expanding rapidly. Many countries in the region are improving their ability to innovate and are investing heavily in their education systems.

The Australian education system must give all individuals the skills they will need to succeed in this rapidly changing environment. This requires an integrated approach involving our schools, the vocational education and training sector and our universities.

This budget invests \$3.5 billion over four years in the education sector and an unprecedented \$5 billion to create a Higher Education Endowment Fund. This builds on previous funding of \$19 billion over ten-year periods through *Backing Australia's Ability* and *Backing Australia's Future* to secure educational and skills outcomes that improve the learning and productive capacity of Australia's students and workers.



Proportion of the total population who are of traditional working age (15 to 64 years)

A vision for our future

The benefits of education, both to the individual and to society more broadly, are well documented. Education builds capacity, encourages social participation and can help people overcome disadvantage. It is also critical to improving labour productivity and labour force participation, which are the key components of the economy's supply capacity. Education is a key plank of our economy and our society.

Tertiary education

Australia has a strong tertiary education system – both at the university and vocational education level – but more needs to be done to help us meet future challenges.

We need more universities that rank among the world's best.

We need greater flexibility in funding arrangements for our universities and less red tape so that they can respond more quickly to student demand and the changing needs of a growing economy.

We need to ensure that students with the capacity to benefit from a university place can obtain one.

We need a high-quality system that is responsive to the needs of students and employers, with strong links between schools, the vocational education and training sector and universities.

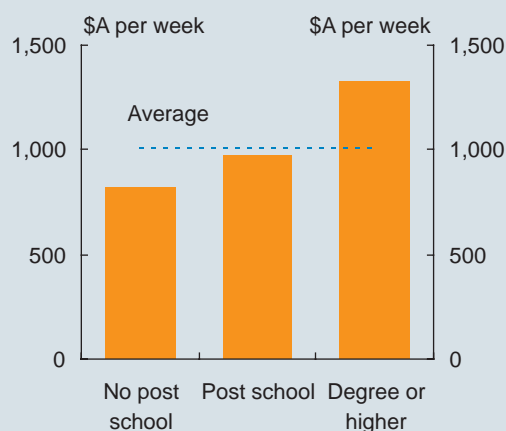
Schools

While OECD testing highlights that Australian 15 year olds perform well, it also indicates that more can be done with respect to children from disadvantaged backgrounds.

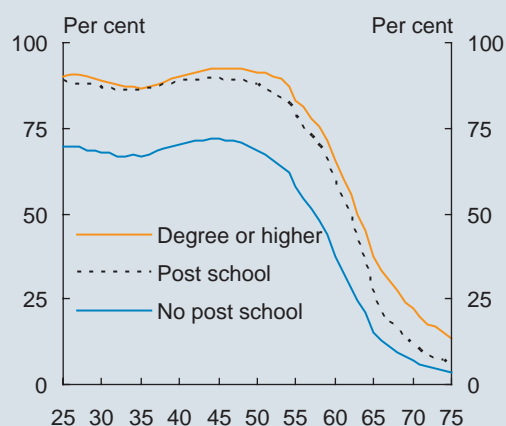
All Australian children deserve a high quality education that enables them to develop the core skills necessary to be able to realise their potential.

Australia's upper secondary achievement has improved over time, but again, more can be done to lift this and improve Australia's performance relative to other OECD countries.

Upper secondary attainment is important – Australians who have not reached this level of attainment are significantly more likely to be unemployed than those who have.



Average full-time earnings by qualification, 2005



Labour force participation rate by age, 2001 (census data)

Realising Our Potential

Realising Our Potential invests an extra \$3.5 billion in education and training over four years. It provides additional funding of \$1.7 billion for universities, \$222 million to improve access to tertiary education, \$638 million for vocational education and \$843 million for schools. The Government is also financing an unprecedented new investment in universities through a Higher Education Endowment Fund with initial capital of \$5 billion sourced from the 2006-07 surplus.

Realising Our Potential is a comprehensive package that invests an additional \$3.5 billion over four years in higher education, vocational education and schools, on top of an unprecedented initial investment of \$5 billion in a new Higher Education Endowment Fund.

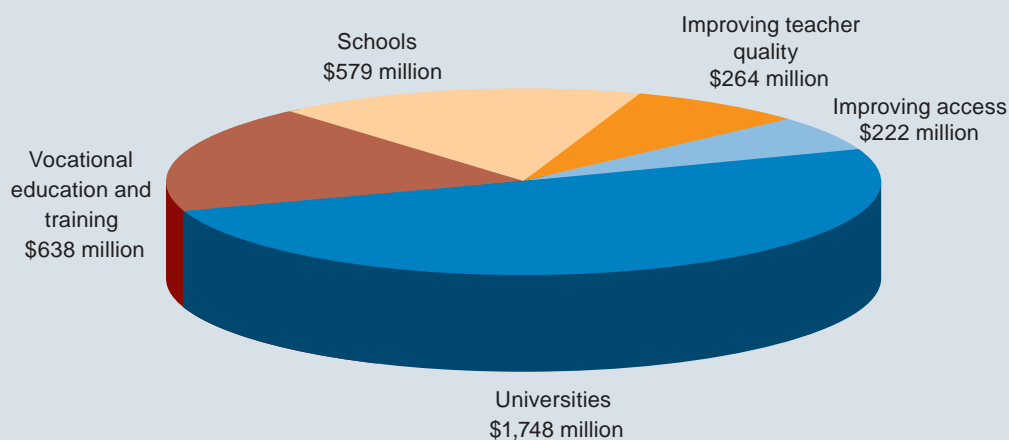
Realising Our Potential will fundamentally change the higher education landscape. It is centred on meeting the needs of students and employers and recognises that ultimately it is students themselves who are in the best position to judge what education opportunities they wish to pursue.

Reforms to how university places are managed and funded will allow universities greater flexibility to change their course mixes and student numbers.

These reforms will support the emergence of more world class institutions and encourage greater specialisation and diversity in the sector.

The university and vocational education and training sectors are becoming increasingly interlinked. *Realising Our Potential* recognises this and encourages the removal of arbitrary distinctions between different levels of tertiary education. It will result in greater choice for students and better quality courses.

In schooling, *Realising Our Potential* will improve the quality of our school systems through raising the quality of teaching – one of the most essential elements of a high quality education. It will also enhance literacy and numeracy attainment, especially for those children falling behind.



Realising Our Potential

A Higher Education Endowment Fund

Realising Our Potential provides an unprecedented boost to the university sector by establishing a perpetual Higher Education Endowment Fund with an initial investment of \$5 billion from the 2006-07 surplus.

To underpin the reforms to higher education in *Realising Our Potential* the Government will boost funding to the university sector by establishing a new perpetual Higher Education Endowment Fund (HEEF) with an initial investment of \$5 billion from the 2006-07 surplus.

This will provide an additional guaranteed source of funding for Australia's universities forever. The Government intends to make further capital contributions from future budget surpluses so that, over time, the HEEF will continue to grow and finance the building of first class teaching and research institutions in the Australian higher education sector.

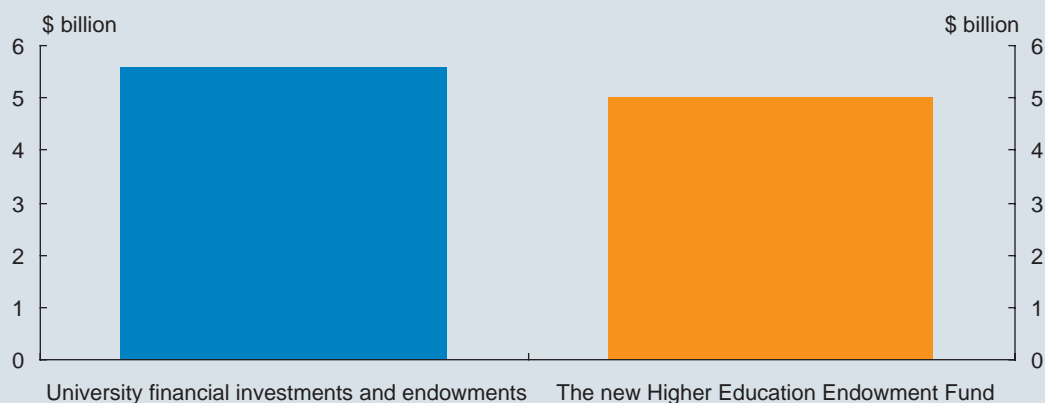
The initial \$5 billion investment in the HEEF will earn income which will be distributed annually to individual universities for capital works and research facilities. This will supplement funds that universities have in their own endowment funds.

The HEEF's investments will be managed by the Future Fund Board of Guardians as a separate fund.

Distributions from the HEEF's earnings will be made on a competitive basis to universities annually by the Minister for Education, Science and Training on advice from an expert advisory board.

The HEEF will be structured so that it can receive philanthropic donations from the private sector and, on request, manage individual institutions' endowments. The HEEF will be structured to encourage philanthropic support for universities from individuals and the corporate sector.

The Government's initial investment in the HEEF broadly doubles the financial assets and endowments accumulated by universities (that is, financial assets such as shares and bonds which universities use to supplement their funding).



The HEEF will broadly double the financial investments and endowments available to universities

Improving access to tertiary education

Realising Our Potential also contains measures to increase student access to tertiary education at a total cost of \$222 million over four years.

Realising Our Potential includes a number of changes to current income support arrangements to provide greater support to students, including:

- \$87 million over four years to extend eligibility for Rent Assistance to Austudy recipients, benefiting around 11,000 students aged 25 and over
- \$43 million over four years to extend eligibility for Youth Allowance and Austudy to students undertaking Masters by Coursework qualifications that are a minimum entry requirement to a profession or are part of a restructure of existing course requirements.

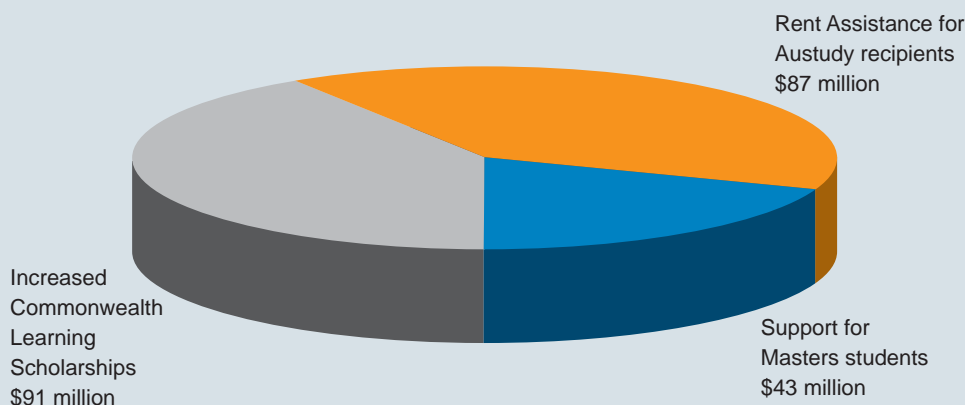
The Government will also increase the number of Commonwealth Learning Scholarships from around 8,500 to 12,000 each year, commencing in 2008, costing \$91 million over four years.

These scholarships assist talented students from low-income backgrounds to attend university through help with living and accommodation costs.

Around 2,000 of these new scholarships will be extended to students studying Associate Degrees.

In future, Commonwealth Learning Scholarships will be offered to students at the same time as they are offered a university place so they can make better informed decisions.

The package *A Better Future for Indigenous Australians*, also contained in the 2007-08 Budget provides additional support and improved access to school and tertiary education for indigenous students. The Government will provide around \$239 million over five years for financial assistance, scholarships, training and employment opportunities for indigenous young people from rural and remote areas, as well as education and job placements in urban and regional centres.



\$222 million in funding to increase access to tertiary education

More flexible and diverse universities

Universities have a key role to play in boosting Australia's productive capacity. They need the flexibility to be able to do this well, while ensuring that they remain accountable for quality and responsive to students and employers. *Realising Our Potential* will promote a diverse and internationally competitive sector, containing both specialised and broader institutions, some focused on particular fields of excellence, others meeting local needs.

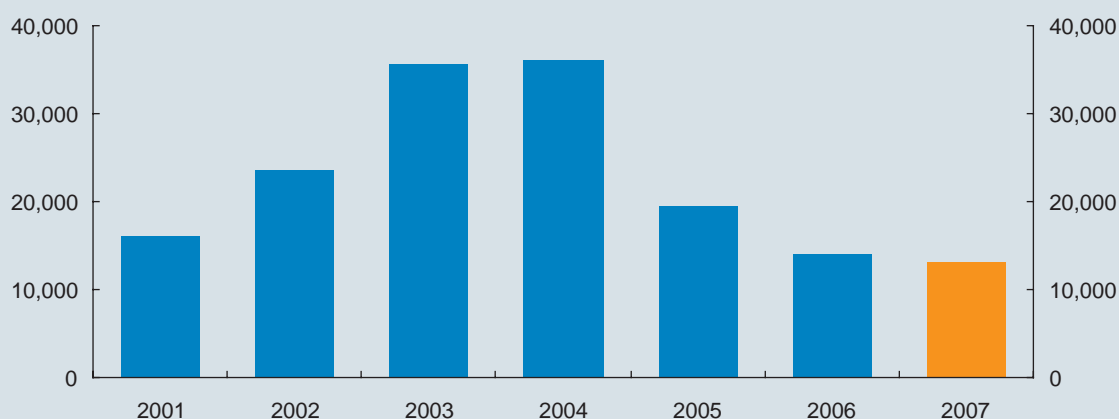
Realising Our Potential builds on reforms to encourage greater diversity amongst universities in the Government's *Backing Australia's Future* package in 2003.

Currently, the Government provides an annual subsidy of between \$1,642 and \$17,870 (depending on the course) for every student that occupies a Commonwealth supported place at a university. This funding, however, is highly controlled. Under *Realising Our Potential* these controls will be relaxed, giving universities much greater capacity to respond quickly to student and employer demand. The system will become more demand-driven and responsive, promoting more competition between universities for students and ensuring a higher quality university system.

It will mean that students who want a place will be able to get one, where universities consider that they are capable of completing the course. This reform is achievable and affordable as unmet demand is at historically low levels.

The major change will be to relax the cap on university places at a cost of \$211 million over four years by:

- allowing funding to follow actual enrolments within 5 per cent of a university's funding allocation (the current limit on over-enrolments is 1 per cent)
- removing funding reductions for universities that enrol beyond 5 per cent of their allocation
- increasing funding flexibility for certain Masters by Coursework subjects
- removing all caps on the proportion of domestic full-fee paying places in courses
- providing funding over three years at a time, rather than the current annual funding system.



Unmet demand for university places is falling (AVCC 2007)

Increasing and simplifying funding

Funding arrangements for Commonwealth supported places will be simplified to make it easier for universities to alter their course mix in response to student demand and the number of places they offer. To achieve this and to deliver increased funding for targeted disciplines, the Government is spending \$557 million over four years.

The current annual funding arrangements for universities are complex, with twelve different funding clusters according to the course being funded. This reduces the capacity of universities to alter their course mix and the number of places they offer.

From 1 January 2008, the number of funding clusters will be reduced to seven, as shown below.

The Government will increase funding for Maths and Statistics, Behavioural Science and Social Studies, Education, Allied Health, Clinical Psychology, Engineering, Science and Surveying, Medicine, Dentistry and Veterinary Science and Nursing.

The cap on the HECS-HELP fee and the public subsidy for Accounting, Administration, Economics and Commerce will be aligned with Law to reflect the high salaries that graduates in these disciplines receive. This change will mean that a typical student in these disciplines will only take one year longer to repay their HECS-HELP loan.

The university and vocational education sectors are becoming increasingly interlinked with the emergence of dual-sector institutions and many universities offering diplomas and advanced diplomas.

Realising Our Potential promotes stronger linkages between vocational education and the university sector by:

- providing \$209 million over four years to assist structural adjustment in the sector and promote greater diversity and specialisation, with priority given to regional and smaller metropolitan universities
- extending FEE-HELP to full-fee paying students in Diploma and Advanced Diploma vocational education and training qualifications, where significant credit transfer with universities is guaranteed.

Disciplines in new clusters	Funding in 2007	Funding in 2008*
Law	\$1,642	\$1,674
Accounting, Administration, Economics, Commerce	\$2,703	
Humanities	\$4,556	\$4,647
Maths and Statistics	\$5,381	\$8,217
Behavioural Science and Social Studies	\$7,233	
Education	\$7,950	
Computing, Built Environment, other Health	\$8,057	
Clinical Psychology	\$7,233	\$10,106
Allied Health	\$8,057	
Foreign Languages, Visual and Performing Arts	\$9,908	
Nursing	\$10,953	\$11,280
Engineering, Science, Surveying	\$13,411	\$14,363
Medicine, Dentistry and Veterinary Science	\$16,810	\$18,227
Agriculture	\$17,870	

*Estimates based on current rates of indexation (HEIF) and increases in 2008.

Simplified funding clusters

Supporting apprentices and technical colleges

The Government is committed to assisting apprentices to invest in their future. *Skills for the Future* committed \$837 million to support skill creation. *Realising Our Potential* builds on this and will attract new apprentices with wage and fee support and shorter apprenticeships while increasing the status and availability of quality technical training. These measures are part of the Government's plan to restore the true value of technical and vocational training.

The Government is providing additional assistance of \$549 million over four years to Australian Apprentices in skill shortage trades.

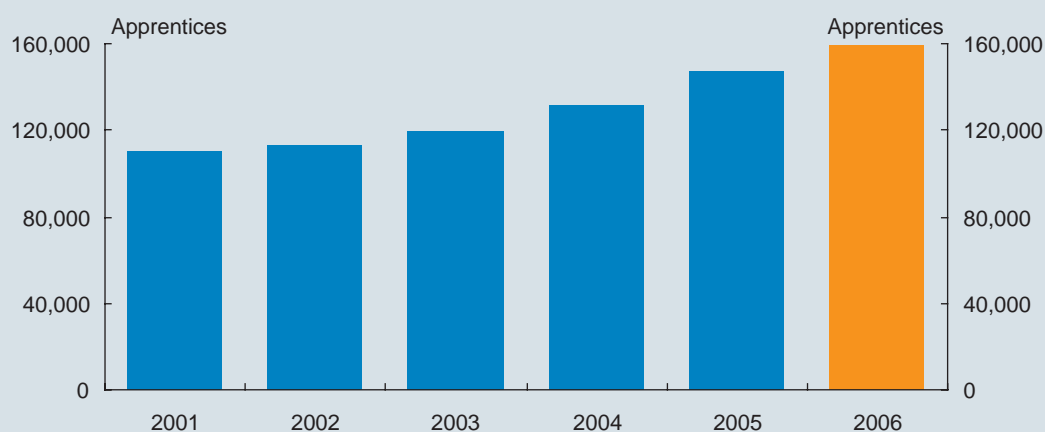
From 1 July 2007 eligible Australian Apprentices under the age of 30 will receive an additional tax exempt payment of \$1,000 per year as a wage top-up to be paid in six-monthly instalments during the first and second years of the apprenticeship. Around 228,000 apprentices will benefit over four years.

Eligible Australian Apprentices will also receive a voucher to reimburse the course fees payable to their Registered Training Organisation by up to \$500 per year. This voucher will also be available to Australian Apprentices in both the first and second year of their Australian Apprenticeship in a skill shortage trade. Around 252,000 apprentices will benefit over four years.

Included in the *Realising Our Potential* package are a further three Australian Technical Colleges in the Brisbane, Sydney and Perth areas at a cost of \$84 million over five years. This will build on the Government's existing commitment of \$468 million to support 25 Australian Technical Colleges.

The Government will also provide funding of \$59 million over four years to Registered Training Organisations to partner with industry and local employers to develop and implement fast-track apprenticeships with competency-based, rather than time-based, progression.

Registered Training Organisations will be able to apply for up to \$50,000 to work with industry partners to develop innovative training arrangements that allow apprentices to complete their training much more quickly than the current four-year periods.



Traditional apprentice numbers continue to grow (NCVER 2007)

Higher quality schooling

In schools, the focus of *Realising Our Potential* is on improving quality. This includes raising standards for teaching and learning, and improving literacy and numeracy outcomes for students.

A quality school education is critical to every student's future. Every parent is entitled to expect that their children will receive a high quality education and develop the core skills necessary to be able to realise their potential, no matter which school they attend.

The States and Territories have primary responsibility for government schools and therefore provide the bulk of funding to these schools. The Australian Government provides significant complementary funding for non-government schools to support parental choice.

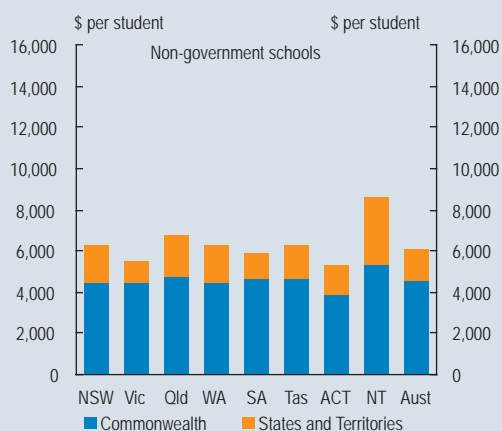
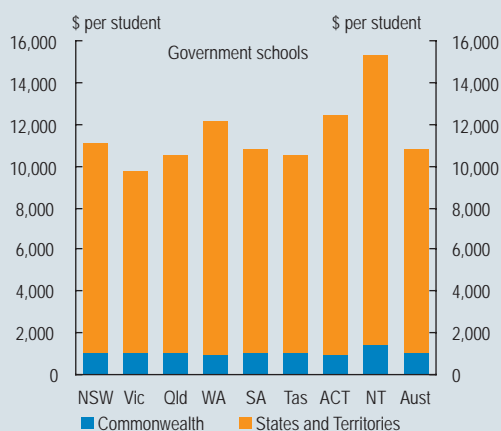
Government schools continue to receive the bulk of public funding, receiving around \$10,800 per student on average, compared to around \$6,150 per student in non-government schools in 2004-05.

When revenues from private sources (including private school fees) are taken into account, schools in the non-government sector receive around the same average funding per student as schools in the government sector.

The Australian Government's aim through *Realising Our Potential* is to improve the quality of Australia's school system and the education outcomes it provides.

There is a broad consensus on how to improve the quality of schooling. Reforms to enhance teacher quality, deliver more consistent curriculum in key subjects and provide principals with greater autonomy are essential. Improving literacy and numeracy outcomes at all stages of schooling is also vital.

Realising Our Potential focuses on these key areas of reform.



Total government funding per student in government and non-government schools, 2004-05

A focus on teacher quality ...

The Government will continue to place priority on improving the quality of teaching across all school sectors. International research points to the quality of teaching as a critical factor in lifting student performance.

Pay dispersion in teaching is lower than in other occupations. On average, Australian teachers reach the top salary band within nine years of graduation and this has a negative effect on the attractiveness of a teaching career.

In addition to promoting quality teaching through the next schools funding agreement, the Government will provide additional funding of \$77 million from 2008 for the practical component of teacher education to ensure students training to be teachers are provided with a minimum of 120 days of practical experience in schools for three and four-year degrees.

To complement this investment in teacher training, the Government will require national teacher training and registration standards to be developed.

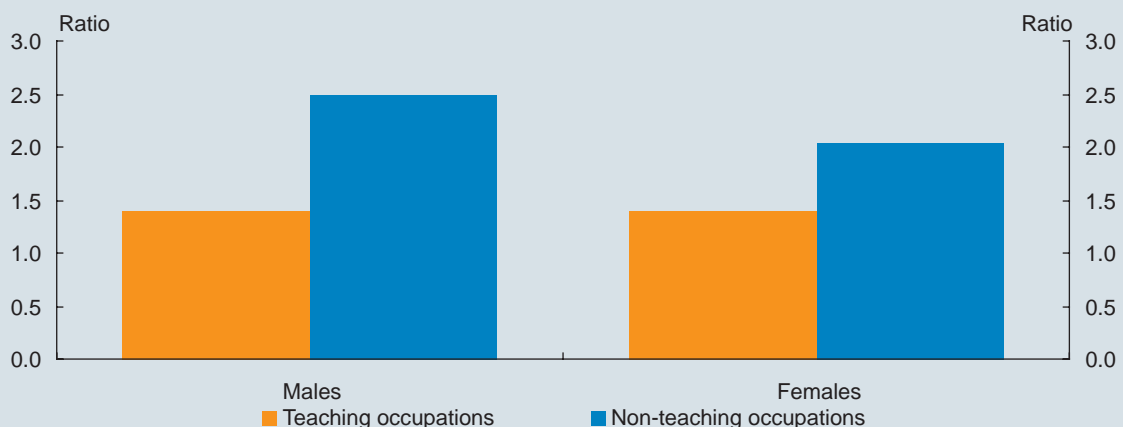
The Government will also provide \$102 million from 2008 to establish Summer Schools for teachers to undertake professional development to upgrade and extend their skills

in the areas of Literacy and Numeracy, Australian History, Maths, Science and English. Teachers will receive a \$5,000 bonus on completion of the course from the Australian Government.

A particular focus will be given to attracting teachers to regional and remote schools with an additional five, ten and twenty per cent loading to non-government schools' funding entitlement depending on their remoteness, at a cost of \$121 million over four years. States and Territories will be asked to match this funding increase for regional and remote government schools under the next schools funding agreement.

The next schools funding agreement will tie funding to improving quality further through:

- providing performance-based remuneration to encourage and reward quality teaching
- providing greater autonomy to principals.



Pay dispersion: ratio of average pay at the 90th percentile to the 10th percentile, 2003 (Leigh and Ryan 2006)

... and literacy and numeracy

Australia's schools are delivering good literacy and numeracy results for most students, but there is scope for improvement.

Literacy and numeracy achievement is the single most influential factor in Year 9 students staying on to complete Year 12 and the strongest predictor of tertiary entrance performance.

Most Australian 15 year olds perform well in international comparisons of literacy and numeracy, ranking 4th in reading and 8th in maths in standardised OECD testing.

Notwithstanding these good results, there is scope for improvement. In 2005, a total of around 10 per cent of students in Years 3, 5 and 7 did not reach the minimum level of achievement expected in reading, writing and numeracy testing by State and Territory governments.

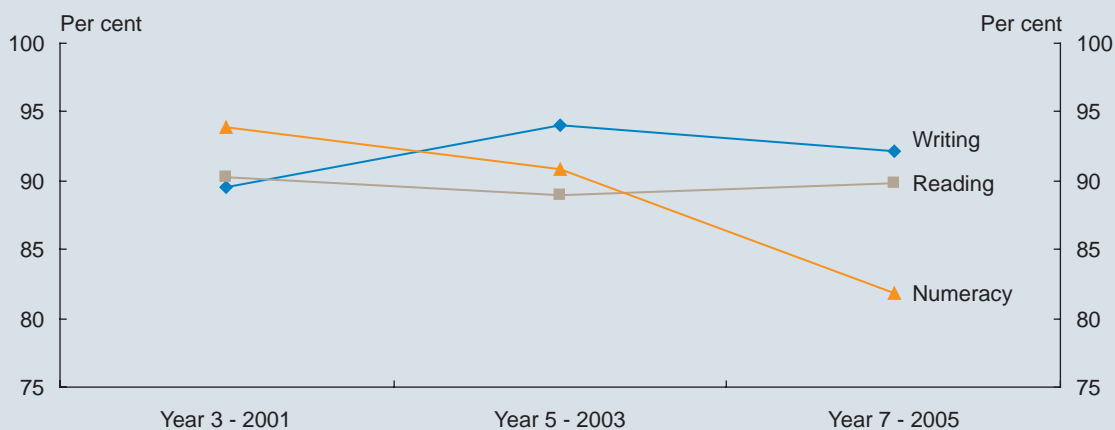
Literacy and numeracy skills are critical for a student's ongoing learning and their ability to access employment opportunities. *Realising Our Potential* includes \$457 million over four years to assist students who do not meet the minimum standards for literacy and numeracy.

From 1 January 2008, a \$700 voucher will be provided to parents whose children do not achieve current literacy or numeracy benchmarks in Years 3, 5 and 7. The vouchers will be able to be used by parents to fund tutoring to help their children catch up.

From 1 January 2009 (following the introduction of national literacy and numeracy tests in 2008) vouchers will be extended to eligible students in Year 9.

This will guarantee that all children who need help can get it. These vouchers will particularly benefit indigenous students who have lower literacy and numeracy outcomes on average compared to their non-indigenous peers.

In addition to this direct support to parents, the Government will provide \$53 million over four years to directly reward schools that make significant improvements in the literacy and numeracy performance of their students. Schools will be able to apply to receive up to \$50,000 in any year.



Proportion of a cohort of students achieving literacy and numeracy benchmarks, 2001-2005

National standards and choice

Clear, comparable and accessible information can better inform parents' choices, as well as the decisions of school authorities and schools themselves. The Government has a key role to play in developing high-level national standards and facilitating national reporting on both student outcomes and the performance of schools.

Standards

The next schools funding agreement will include:

- national standards for core curriculum in key areas
- national standards for assessment of Year 12 results, including externally-moderated exams
- timely, accurate reporting for parents on literacy and numeracy attainment, with school, state and national comparisons.

Realising Our Potential includes funding of \$13 million over two years to work with the States and Territories to develop core standards in English, Maths, Science and Australian History in Years 10, 11 and 12. Core standards for Australian History will build on the outcomes of the Australian History Summit in August 2006.

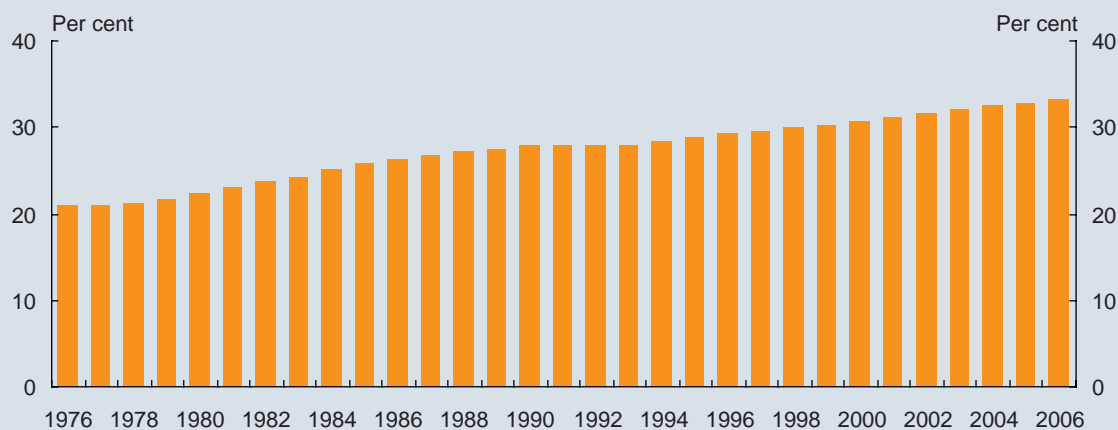
The Government will also provide \$15 million over three years to promote the use of student aptitude tests by universities as a supplementary mechanism for assessing Year 12 students seeking entrance to a tertiary course.

Choice

Choice is often restricted within the government school sector, leaving parents with little option other than to move their children into the non-government sector. Parents and students have been voting with their feet since the 1970s.

The number of students in government schools peaked in 1978 at 2.4 million. Today there are fewer full-time students in government schools than there were in 1974. Growth in total student numbers of around 500,000 since 1974 has occurred entirely in non-government schools.

As part of the next schools funding agreement, the Australian Government will encourage greater choice within the government school sector, including the establishment of more selective high schools.



Proportion of full-time students enrolled in non-government schools, 1976-2006

Summary of measures

Realising Our Potential

	2007-08	2008-09	2009-10	2010-11	Total
	\$m	\$m	\$m	\$m	\$m
REVENUE MEASURES					
EDUCATION, SCIENCE AND TRAINING					
<i>Department of Education, Science and Training</i>					
Realising Our Potential					
– increasing university funding	-	0.2	0.8	1.7	2.8
– allowing more responsive universities	1.3	2.9	3.6	4.2	12.0
– FEE-HELP for Diploma and Advanced Diploma VET courses	1.8	6.8	15.1	25.3	49.0
Sub Total	3.1	10.0	19.5	31.2	63.8
Total Revenue measures	3.1	10.0	19.5	31.2	63.8
EXPENSE MEASURES					
EDUCATION, SCIENCE AND TRAINING					
<i>Department of Education, Science and Training</i>					
Realising Our Potential – Higher Education					
– Higher Education Endowment Fund	-	304.0	304.0	304.0	912.0
– increasing university funding	156.8	143.2	133.6	126.0	559.6
– allowing more responsive universities	51.3	56.6	57.1	58.2	223.2
– Diversity and Structural Adjustment Fund	16.5	16.7	16.8	16.8	66.8
– reducing red tape for universities	0.6	0.3	-	-	0.9
– additional Commonwealth Learning Scholarships	11.6	22.3	26.6	30.9	91.4
– extending Rent Assistance to Austudy recipients	13.2	24.0	24.5	25.1	86.9
– extending income support to Masters students	5.5	11.2	12.5	14.1	43.3
Realising Our Potential – Vocational Education and Training					
– support for young Australian Apprentices in skill shortage trades	69.3	87.1	90.7	95.4	342.5
– fee assistance for Australian Apprentices	47.8	52.2	52.9	53.6	206.4
– fast-track apprenticeships	6.4	11.8	17.3	23.0	58.5
– FEE-HELP for Diploma and Advanced Diploma VET courses	4.3	3.4	3.5	3.4	14.5
– Australian Technical Colleges	1.1	19.8	27.4	17.1	65.4
Realising Our Potential – Schools					
– national literacy and numeracy vouchers	70.9	120.9	131.4	134.1	457.4
– additional support for regional and remote schools	15.4	32.2	35.2	38.3	121.1
– rewarding schools for improving literacy and numeracy outcomes	2.2	17.0	16.9	17.0	53.2
– improving the practical component of teacher education	18.8	19.2	19.4	19.6	77.0
– Australian Government Summer Schools for Teachers	30.0	24.8	23.2	23.6	101.7
– national teacher training and registration standards	2.7	2.2	-	-	5.0
– core curricula standards	4.4	8.6	-	0.1	13.0
– national student aptitude test for tertiary admission	4.9	4.8	4.8	-	14.5
Sub Total	533.9	982.5	997.9	1000.1	3514.4
Total Expense measures	533.9	982.5	997.9	1000.1	3514.4
SUMMARY OF EXPENDITURE					
<i>Total expense measures</i>	533.9	982.5	997.9	1000.1	3514.4
<i>Total capital measures</i>	-	-	-	-	-
Total expenditure	533.9	982.5	997.9	1000.1	3514.4
<i>Total revenue measures</i>	3.1	10.0	19.5	31.2	63.8
Net additional expenditure	530.8	972.5	978.4	968.9	3450.6