

2024-2025 Pre-budget submission

January 2024

EXECUTIVE SUMMARY

The 2024-25 federal budget is the Albanese Government's first opportunity to respond in full to the Australian Universities Accord final report. The government must embrace it with both hands. In a fast-changing strategic and economic environment, Australia needs more of what universities do – more skilled workers, more research and development and stronger regional ties.

A high-performing university sector supports a high-performing nation and underpins a higher and more sustainable standard of living for all Australians. It does this by producing the skilled workers who make our economy hundreds of billions of dollars bigger and through the research and development that propels our technological, social and economic progress. These functions are vital to keeping Australia on a path to fiscal and economic health, while ensuring our nation can respond to the challenges and opportunities ahead of it.

With the first major review of Australia's higher education system complete, it is imperative that the government throws its full support behind a sector that serves Australia's interests. To that end, the budget should contain commitments to underpin the future of our universities and foster an environment – through the provision of funding and favourable policy settings – in which they can continue delivering for the nation.

In addition to the priority recommendations included in our submission to the [Australian Universities Accord discussion paper \(April 2023\)](#), Universities Australia recommends the 2024-25 budget includes:

- funding for a limited number of fee-free university places for disadvantaged students to drive university enrolments and future economic growth in areas of national priority that are currently unsubscribed.
- funding to gradually increase the number of university places to meet Australia's future skills needs.
- cost-of-living support for students undertaking compulsory placements and greater financial assistance for PhD students.
- increased funding in research and development to support the delivery of national priorities and maintain Australia's world-class research reputation.

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ECONOMIC IMPERATIVE

THE NEED TO INVEST IN UNIVERSITIES

Australia's economy is in a state of flux, driven by a series of major forces, trends and transitions that will continue to shape and define our economic environment in the decades ahead. The government has identified these as:

- technological and digital transformation
- climate change and the net zero transformation
- population ageing
- rising demand for care and support services, and
- global shifts such as geopolitical risk and fragmentation.

Universities are central to helping Australia navigate these challenges and opportunities through the skilled workers they educate and the research and development they undertake. These vital functions universities perform on behalf of the nation are essential to addressing Australia's economic and productivity issues.

In the decade to 2020, Australia's productivity growth was the slowest in 60 years, underscoring the urgent need to raise productivity and prosperity in a rapidly evolving economic environment. The government's White Paper on Jobs and Opportunity acknowledges the key role of universities in this task with its focus on meeting Australia's skills needs and building our future workforce.

University-educated workers permeate every corner of the Australian economy, making it \$185 billion bigger than it otherwise would be and underpinning a higher standard of living for all Australians, regardless of where they live. On average, people with a university degree enjoy higher wages, better employment outcomes and improved health and wellbeing. The benefits to the wider community and economy are even greater. Each new university graduate delivers an average of \$891,000 in benefits to the broader economy over their lifetime through higher tax contributions, the creation of new

jobs and higher wages for non-graduate workers, and increased investment.

This is helpful in the context of Australia's future skills needs. The National Skills Commission (NSC) has previously projected that over the coming years, more than 50 per cent of new jobs will require a bachelor degree or higher and by 2050, the university system will need to support double the number of students currently studying on a Commonwealth-supported place at university to meet Australia's skills demands, growing from 900,000 to 1.8 million in that period. By 2035, we will need 1.2 million. While the demand for graduates grows ever stronger, too few Australians are going to university which is an issue government must look seriously at addressing. If university attainment doesn't progress beyond current levels, modelling by Universities Australia puts the cost to the economy of undershooting the NSC's target at \$7 billion in 2026.

As noted in the Australian Universities Accord interim report, the answer lies in large part in increasing the higher education participation of Australians from underrepresented groups – including First Nations people, lower socio-economic groups, people with disability and those from rural, remote and outer suburban communities. To reach population parity, the interim report found that as much as 60 per cent of the future enrolment increase in 2035 would need to come from these equity groups.

The economic imperative for more university-educated workers is already evident. Jobs and Skills Australia's (JSA) last Labour Market Update report (December 2023) found that around 88 per cent of total employment growth (over the year to August 2023) was in occupations that typically require post-school qualifications, reflecting the importance of the higher education and vocational education and training systems to growing a high-skilled Australian workforce and supporting Australia's economic prosperity.

Government policy and funding settings should support universities to prepare the next generation of Australians to meet the workforce needs of the nation – now and in the future.

Beyond educating the skilled workforce that spurs our economy, universities undertake a significant portion of Australia’s research and development that is vital to our social, technological and economic progress. Concerningly, Australia’s spend on research and development has been in free fall relative to the economy, dropping from 2.2 per cent of GDP in 2008 (around the OECD average) to 1.8 per cent in the latest data. In the same period, the OECD moved up to 2.6 per cent. Government spending on research and development has also fallen to its lowest ever level on record at 0.49 per cent of GDP.

Declining investment in research and development puts at risk Australia’s ability to prepare for the challenges and opportunities before it. It also undermines the nation’s ability to innovate and generate new ideas and ways of living and working to drive economic and productivity growth. Lifting investment in higher education research and development by just one per cent would raise productivity and increase the size of Australia’s economy by \$24 billion over 10 years. This is an essential ambition.

At a time when Australia desperately needs more of what the higher education sector does for the nation, universities are more financially vulnerable than at any other time in history, due to poor policy decisions and consequences of the COVID-19 pandemic. Caps on university places, confused market signals to students, the abandonment of infrastructure investment initiatives and slowing expenditure on research and development does not serve Australia’s interests.

To strengthen Australia’s economic and productivity fortunes, government must seriously invest in the institutions that drive productivity and grow the economy in ways that pay for themselves. Universities do this in spades, but they can’t continue doing more with less. The 2024-25 budget

is a chance to turn reform ideas into real action and support a university system that delivers on Australia’s social, technological and economic needs.

SUMMARY OF RECOMMENDATIONS

SKILLED WORKFORCE

1. Match the initial funding provided for 180,000 fee-free TAFE places to provide some fee-free university places for disadvantaged students from January 2025 in areas of critical skills need to drive university enrolments and future economic growth.

2. Gradually increase the number of Commonwealth supported places to meet Australia's future skills needs and deliver a sustainable funding framework to support university operations.

3. To further drive workforce growth:

- a. expand placement capacity and quality supervision in nursing and other health professions of known workforce need, and
- b. provide cost-of-living support for students undertaking compulsory placements in areas of skills shortages.

4. Establish five-year mission- and place-based partnership agreements between universities and government that address local, regional and national priorities by delivering a flexible basic grant amount for university operations alongside an additional funding bucket to deliver projects focusing on regional and national needs.

5. Further funding for Jobs and Skills Australia to work in partnership with universities to create workforce programs to address national priorities.

6. Funding for additional enabling and pathway programs to increase the number of university students from underrepresented backgrounds.

RESEARCH

7. Increase government investment in research and development to at least the OECD average (0.65 per cent of GDP).

8. Implement the 2016 Ferris, Finkel and Fraser Review recommendation around a R&D Tax Incentive collaboration premium and supplement the RDTI with direct incentives which lower the barriers to participation in R&D for SMEs.

9. Increase the rate of PhD stipends to better support higher degree research students whose work is vital to the nation's future.

INTERNATIONAL

10. Funding to support senior Australian leaders to undertake learning and development opportunities with strategically important partner countries.

11. Raise investment in activities that counter foreign interference in universities to levels in similar jurisdictions such as Canada.

SKILLED WORKFORCE

1. Match the initial funding provided for 180,000 fee-free TAFE places to provide some fee-free university places for disadvantaged students from January 2025 in areas of critical skills need to drive university enrolments and future economic growth.

Australia needs more university-educated workers to drive economic growth and prosperity, but as demand for graduates grows, less Australians are going to university. The number of domestic enrolments at universities fell from 1,161,912 in 2021 to 1,102,683 in 2022. This slide needs to be urgently addressed.

Universities Australia recommends the government match its initial commitment of \$493 million to support fee-free TAFE places to deliver fee-free university places for disadvantaged students in areas of national priority, starting in 2025, to drive university enrolments and future economic growth.

One area in particular need of attention is the technology sector, which the government has targeted with its fee-free TAFE initiative in recognition that Australia needs to produce 60,000 new technology workers a year to meet demand and to allow Australia to flourish as a modern, advanced economy. University course completions in information technology fell from 32,829 in 2021 to 26,747 in 2022, making this a greater challenge.

Australians responded overwhelming to the government's offer of fee-free TAFE in areas of priority skills needs with almost 300,000 students enrolled to 30 September last year, smashing the initial 2023 target of 180,000 enrolments. A further 300,000 places are being offered from 2024. Replicating this policy for university places could help attract more students to university to help ease Australia's skill shortages while delivering cost-of-living relief for students who may otherwise not pursue a university degree, particularly those from underrepresented groups.

2. Gradually increase the number of Commonwealth supported places to meet Australia's future skills needs and deliver a sustainable funding framework to support university operations.

Australia needs to significantly increase tertiary education participation and attainment levels to create a stronger economy and a fairer society over the next three decades. To meet the government's 55 per cent attainment rate for people aged 25 to 34 years by 2050, the higher education system needs to grow by at least 300,000 Commonwealth supported students by 2035 and an additional 900,000 Commonwealth supported students by 2050 (double the existing 900,000 Commonwealth supported students studying at Australian universities now).

Under current funding conditions, universities cannot meet the government's graduate and workforce targets without an increase in grants to universities. Over the decade from 2009 to 2019, federal government grants (excluding HECS-HELP) per student diminished compared to the exponential growth in operating expenses. During this period, the operating cost per enrolled student increased by 35 per cent, while government grants per enrolled student decreased from 0.7 per cent of GDP to 0.6 per cent of GDP. Universities cannot continually do more with less. The continued decline in real government funding will continue to make it difficult for universities to meet the government's attainment benchmarks.

Universities Australia recommends the government gradually increase the number of Commonwealth supported places in support of the growing need for more university-educated workers. Additional financial support for students struggling in current economic conditions would also be a welcome step toward boosting university enrolments. The government should increase Centrelink payments (Austudy, ABSTUDY, Youth Allowance) to above the Henderson poverty line and to align payments with other payment types.

3. To further drive workforce growth:

- a. expand placement capacity and quality supervision in nursing and other health professions of known workforce need, and**
- b. provide cost-of-living support for students undertaking compulsory placements in areas of skills shortages.**

Australia is facing a significant shortfall of health professionals, particularly nurses. Projections show the nation needs another 85,000 nurses by 2025, and 123,000 by 2030 under current settings. General practitioners (GPs) are also projected to be in short supply relative to estimated demand over the coming decade. A further 10,000 GPs will be needed to care for Australians.

While migration has a role to play in bringing skilled workers to our shores, most of Australia's new-entry health professionals will be educated in Australia. Universities are doing all they can to educate the health workers Australia needs, but limited access to clinical placements often means institutions cannot meet student demand for health courses. Placements are mandatory in all pre-registration health courses for domestic students and often for overseas-qualified staff before they can start work in Australia. Universities are reliant on health service providers to deliver placements for students and cannot educate more professionals without more – and the right type of – clinical placements. Lack of access to sufficient, quality clinical placements in health, aged care and disability services and/or lack of evidence-based, safe, acceptable alternatives to placements limits health student enrolments and constrains workforce growth.

To address Australia's health workforce needs, Universities Australia recommends the government fund and establish a national multistakeholder placement body to identify and oversee implementation of expanded, sustainable, quality placement capacity across Australia.

A further obstacle to broader workforce growth is placement poverty. Work placements are compulsory in all entry-level health, teaching, social

work and veterinary science degrees. However, placements are unpaid and can put significant financial pressure on students. A 2023 study of students on compulsory placements across different professions found that:

- 96.5 per cent of students reported loss of regular income during placement,
- 80 per cent of students reported significant increases in expenses during placement, and
- up to 55 per cent of respondents reported difficulty meeting basic living costs during periods of coursework, with up to 87 per cent experiencing difficulty during placement.

Students experiencing placement poverty are more likely to delay completion of or withdraw from their course.

To support workforce growth in areas of national need, Universities Australia recommends the government provide further cost-of-living support for students undertaking compulsory placements in areas of skills shortages.

4. Establish five-year mission- and place-based partnership agreements between universities and government that address local, regional and national priorities by delivering a flexible basic grant amount for university operations alongside an additional funding bucket to deliver projects focusing on regional and national needs.

Meeting the graduate, skills and workforce needs of the future requires careful planning and sustainable practices that support student engagement and success in higher education. The Productivity Commission's Advancing prosperity: 5-year Productivity Inquiry report recommended a range of initiatives to better target funding for universities, recognising the importance of better investment in student education (refer to recommendations 8.4 – 8.8).

To meet these recommendations, Universities Australia recommends the government takes a flexible mission- and place-based approach to funding over a five-year period to support the objectives of educating the current and future workforce.

Under the existing Job-ready Graduates Package, university funding was split into various categories that limited a provider's ability to respond to changes in its student demographic and regional needs, while also reducing overall real funding by six per cent. This prescriptive approach has not led to the intended beneficial outcomes of the package and demonstrates the necessity for flexibility in how universities use public money to meet their regional needs and national aspirations. By integrating accountability and compliance measures into the agreements, and aligning them with appropriate funding principles, targets should recognise the importance of greater public investment in universities to meet the learner and workforce targets Australia requires.

5. Further funding for Jobs and Skills Australia to work in partnership with universities to create workforce programs to address national priorities.

Modelling undertaken by Jobs and Skills Australia (JSA) underscores the vital role of universities in meeting Australia's skills needs, with more than 50 per cent of new jobs requiring a university degree. JSA has been established under a true tripartite model, ensuring universities and vocational education and training providers are working in partnership with government. This approach must continue. Much of the Albanese Government's focus has so far been on vocational education and training, but this ignores the reality that universities are also vital from a skills and training perspective.

Universities Australia recommends the government provide additional funding to ensure JSA is appropriately resourced, and universities continue to have a seat at the table on matters pertaining to workforce planning, including in the development of the National Lifelong Learning Strategy.

The benefits of collaboration between the higher education and vocational education and training sectors have been demonstrated through the creation of the government's TAFE Centres of Excellence and JSA's net zero workforce report, The Clean Energy Generation. Continuing this productive and essential engagement to address workforce needs requires sustained funding that reflects Australia's evolving workforce landscape and skills needs.

6. Funding for additional enabling and pathway programs to increase the number of university students from underrepresented backgrounds.

Enabling and pathway programs are an essential avenue for supporting more students from disadvantaged and underrepresented backgrounds to attend university. Research undertaken by the National Centre for Student Equity in Higher Education shows student success among these cohorts is tied to the availability of well-designed enabling and pathway initiatives. The current level of government funding for these programs limits their availability and success, potentially putting the government's commitment to give more students from underrepresented backgrounds the chance to go to university at risk. Specific funding for enabling and pathway programs (within the Higher Education Participation and Partnership Program) accounts for 1.8 per cent of funding under the Commonwealth Grants Scheme (CGS). This falls well short of the four per cent target identified in the Bradley Review (2008).

Universities Australia recommends the government lift investment in enabling and pathway programs to at least four per cent under the CGS.

The Australian Universities Accord interim report highlighted the need for increased participation of equity students to meet Australia's workforce needs by 2050, which requires increasing the availability of enabling and pathway programs. Without additional dedicated equity funding, on top of the necessary operational costs of higher education, universities cannot meet the objectives of the government, nor support students to access university.

RESEARCH

7. Increase government investment in research and development to at least the OECD average (0.65 per cent of GDP).

Government investment in research and development (\$12.1 billion in 2022-23 or 0.49 per cent of GDP) has fallen to its lowest ever share of GDP at a time we desperately need more research, not less. When indirect industry R&D tax measures are subtracted, direct government funding for research falls even further to 0.36 per cent of GDP. This leaves Australia trailing well behind the OECD average for government investment in R&D of 0.65 per cent.

More alarmingly for government, it puts the Labor Party's promise to boost expenditure on research and development to three per cent of GDP, in conjunction with universities and business, further out of reach. Declining government investment in research and development seriously jeopardises our ability to advance as a nation. Australia needs research and development to boost our flagging productivity and drive economic growth, as well as to help Australia respond to the challenges and opportunities in front of it. Direct investment in key initiatives like the Research Training Program, the Research Support Program and the National Competitive Grant Programs is necessary to support the vital work university researchers do for our nation and for the benefit of all Australians.

Universities Australia recommends the government increase its investment in research and development (through direct investment initiatives) towards the OECD average to ensure Australia remains a safe, successful and prosperous nation into the future.

8. Implement the 2016 Ferris, Finkel and Fraser Review recommendation around a R&D Tax Incentive collaboration premium and supplement the RDTI with direct incentives which lower the barriers to participation in R&D for SMEs.

Recent research from the OECD found that the impact of the R&D Tax Incentive (RDTI) is more than three times as large with respect to 'experimental development' (drawing on research to produce new or improved products or processes) than with respect to basic and applied research. Basic and applied research are the bread and butter of university researchers and form the basis of any subsequent translation and commercialisation efforts. It makes sense to focus efforts where the RDTI is yet to realise its full potential.

Creating an incentive for businesses to collaborate with universities on such projects could amplify the impact of the RDTI while also generating outcomes (in particular, applied research outcomes) which are better connected with industry need and more readily translatable to positive social and/or economic outcomes. The same OECD report also suggests that the RDTI and direct funding have a "complementary, mutually reinforcing effect" and that this may be particularly true with respect to small firms.

Universities Australia recommends the government increase investment in direct R&D incentives for small and medium-sized enterprises to assist them in overcoming the upfront costs of research and development.

9. Increase the rate of PhD stipends to better support higher degree research students whose work is vital to the nation's future.

Research students are the backbone of Australia's university research workforce. They are also critical to Australia's research output today. In 2020, higher degree research students comprised more than half of the total university research workforce, but the number of domestic PhD students is now in decline, particularly in areas (such as STEM) which are critical for Australia's future safety, success and prosperity.

One of the biggest barriers to undertaking a PhD is cost, especially for older students who are supporting families and paying off mortgages (the average age for a domestic student enrolling in a PhD is 34). Government funding for PhD students is welcome, but the current annual stipend of \$32,192 (plus universities' contribution of up to \$5,000) is not nearly enough for students to live and leaves them straddling the poverty line.

To attract and retain the pipeline of researchers Australia needs to support its future, Universities Australia recommends the government increase the base stipend to \$35,000 to deliver a living wage for PhD students.

INTERNATIONAL

10. Funding to support senior Australian leaders to undertake learning and development opportunities with strategically important partner countries.

Universities are a willing and important partner of government in supporting Australia's prosperity and advancing our global interests. Through education, we make friends. Students and researchers who study and work in Australia return to their home country with a deeper appreciation and understanding of our nation, helping bridge the gap between cultures. We need more of this in a fast-changing geopolitical environment.

Universities Australia recommends the government provide financial support to Australian leaders undertaking a mobility experience within their study, research or professional field to enhance knowledge, build enduring relationships with partner countries and grow Australia's connections with the world.

Financial support from government would go a long way to lifting the percentage of students gaining international experience. In 2019, only 19 per cent of the graduating cohort across all study levels undertook an international study experience, despite the benefits of international mobility. Government funding to support offshore leadership experiences would support Australia's interests abroad and help boost its soft power in the face of increasing geopolitical volatility. The government has previously done this through the now-defunct Endeavour Leadership Program. Establishing a similar program would help build and strengthen Australia's interests abroad.

11. Raise investment in activities that counter foreign interference in universities to levels in similar jurisdictions such as Canada.

Australia's universities are not immune to the unprecedented level of espionage and foreign interference our nation is experiencing. This puts the vital research our institutions undertake at risk, and threatens Australia's social, technological and economic progress.

In response to the rise of foreign actors targeting universities, our institutions are continuing to implement measures outlined in the Guidelines to Counter Foreign Interference in the Australia University Sector. The financial cost associated with this work is significant, and universities are bearing it alone in the absence of government funding. This puts Australia out of step with partner countries that have responded to the rise of foreign interference with specific funding to support universities in countering these challenges. The Canadian Government, for example, is providing CAN\$125 million over five years, and CAN\$25 million annually thereafter, to help their universities secure research from threats.

Universities Australia recommends the government invest the equivalent amount to support Australian universities in their efforts to counter foreign interference and maintain Australia's world-class research reputation.