

UNIVERSITIES AUSTRALIA SUBMISSION

2018–19 PRE-BUDGET SUBMISSION

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EXECUTIVE SUMMARY

Budgets tell a story about priorities. When Governments announce increases or cuts in revenue and spending, they send a signal to voters and the nation about what matters most to them.

The 2018-19 Budget affords a powerful opportunity. It is a chance for the Government to convey that its greatest priorities are investments in Australia's people, productivity and prosperity.

The 2018–19 Budget affords a powerful opportunity. It is a chance for the Government to convey that its greatest priorities are investments in Australia's people, productivity and prosperity. It is a chance to secure future growth by investing in the smarts and skills of our people. A renewed commitment to the nation's higher education and research agenda is

the vehicle to deliver on these priorities. Conversely, cuts to universities would be a disinvestment in Australia's future. The decisions made today will decide Australia's prosperity tomorrow.

Two key challenges lie ahead for our nation. One is to lay the foundations for jobs and growth in the coming high-skills, hi-tech era. This will be an era in which more of Australia's population than ever will need a higher level of education to do and create the new jobs to meet the needs of the digital economy.

The other is to attend skilfully to social cohesion. This is crucial at a time where large-scale economic change risks dislocation and disadvantage for vulnerable sections of our community. Investments in providing access to university education for Australians from regional, poorer or disadvantaged backgrounds

Our nation's investment in broad access to higher education is a powerful inoculation against entrenched disadvantage – and the political and economic dislocation that inevitably results.

are vital to this task. Our nation's investment in broad access to higher education is a powerful inoculation against entrenched disadvantage – and the political and economic dislocation that inevitably results. Australia's future social cohesion will be shaped by our commitment to grow our economy for the many, not just the few.

The jobs of the next decade will grow out of today's investments in research and development (R&D). That's why the Conservative UK Government committed an extra £2.3 billion to R&D in Chancellor Phillip Hammond's recent Budget. The UK has also set a national target to lift its R&D spend to 2.4 per cent of GDP. By comparison, Australia's R&D spend was significantly lower at last measure – at just 1.9 per cent of GDP. Our nation's research investment strategy in this Budget should be bold and ambitious in providing the basis for future jobs and growth.

On the latest figures, investment by business in R&D has gone backwards. Despite tax breaks worth \$3.1 billion under the R&D tax incentive, Australian business is now doing less of the R&D that leads to new productivity and job creation. This Budget affords an opportunity to act on the '3 Fs' review of the R&D tax incentive. It is a chance to get this investment trend heading back in the direction needed to drive future economic growth.

One of the fundamental roles of a national Government is to lay the foundations for growth and prosperity. The contribution of universities to productivity gains in our nation's economy and workplaces over the past three decades have been profound. Productivity gains from university research were worth an estimated \$10 billion a year over the past three decades. And the productivity gains from our skilled graduates were worth \$140 billion to our economy in 2014. Universities are a substantial part of Australia's nation-building productive infrastructure.

Sustaining our investments in Australia's universities is smart policy to deliver on key public policy priorities.

As it frames this Budget, we encourage the Government to recalibrate its thinking on the public investments that deliver the best people, prosperity and productivity returns.

RECOMMENDATIONS

Universities Australia encourages the Government:

- to reconsider the returns on the investment in a strong, vibrant university and research system;
- to defer 'performance-funding' scheme pending comprehensive consultation with key stakeholders;
- to retain the demand-driven system;
- to, at least, maintain funding for the Commonwealth Grant Scheme (CGS), Research Block Grants, and the Higher Education Participation and Partnership Program at 2017 levels indexed for 2018;
- to implement the recommendations of the Review of the R&D Tax Incentive, including a premium rate for companies that collaborate with publicly funded research organisations;
- to commit to a long-term plan for education and research infrastructure investment;
- to consider options for the Skilling Australians Fund reflecting the contribution universities make to skill development: either exempting universities from the levy or setting a differential contribution; and
- to provide support for universities to:
 - expand training places for all health professions beyond traditional public hospital settings and into areas of predicted need: such as the disability, private and NGO sectors as well as aged care, primary and mental health care; and
 - work in partnership with the aged care, health and disability sectors to build sustainable education and training capacity.

1 INTRODUCTION

Governments around the world are looking to position their nations for a global economy that is more competitive than ever. Australia is no exception. To maintain our prosperity and standard of living, Australia needs to compete successfully with the world's best.

The task is to shape forward-looking, long term policies to support sustainable economic growth and maintain social cohesion.

To secure a prosperous and harmonious future, national Governments must make wise decisions now. The task is to shape forward-looking, long-term policies to support sustainable economic growth and maintain social cohesion.

Economic changes beyond the control of Governments will reshape jobs and industries – and some will disappear. But the innovation system is replacing more jobs than it destroys. Many of these new jobs require higher levels of education than the jobs they replace. Professor Brian Cox – a leading international advocate for science and innovation – recently noted the challenge for Government was ‘to make sure it has a research, innovation and education system that creates new jobs and educates the workforce faster than the old jobs [disappear]’.

The 2018–19 Budget is an opportunity for Australia to chart a course for the future – by setting investment priorities today.

UA welcomes the chance to make a submission to the 2018–19 Budget process. Our submission will outline some key ways in which universities – through higher education, research and community engagement – are crucial to the task of building a prosperous, adaptable and resilient Australia.

Australia needs a more diverse economy. We can achieve this by fostering a broader range of sectors and by underwriting innovation and research – the source of new industries, products and jobs for the future.

While Australia's economic fundamentals are currently sound, there are some obvious challenges.

Despite increasing employment, wage growth remains weak; and costs associated with health, education and social support are escalating.

At the same time, traditional industries are faltering in an era of greater international competition and increasing automation. These trends are reaching into a wider share of the economy, including service industries and professional occupations.

Looking further ahead, Australia will need to invest in skills, productivity and innovation to maintain our economic position and standard of living.

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In this challenging environment, Government has a vital role to play: investing in Australia's productive capacity to build the nation's adaptability and

resilience. Universities can make a uniquely important contribution to Australia's efforts to make itself more productive, innovative and resilient.

Higher education develops the advanced generic and specific skills that individuals, firms and nations increasingly need. Open-ended inquiry and continuous learning – the most traditional academic values – also instil the attitude and capabilities needed to drive and respond to the new economy.

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Businesses recruit graduates for hard-headed business reasons and the returns add up. If graduates didn't add value to businesses, employers would recruit less educated workers and save on wages.

University research creates the new knowledge that innovative breakthroughs depend on, and develops ways to apply knowledge to practical innovation.

By bringing together research and education, universities put the education and training of the future workforce in a context of innovation. A university education not only teaches a defined body of knowledge – but it also equips graduates with analytical and adaptable skills to operate in a world where change is constant.

Universities – along with other post-secondary education and training institutions – will only become more important, both to the national economy and to the ability of individuals to contribute to it.

Given the wide-ranging importance of higher education and research, UA is disappointed that recent governments have prioritised cuts to universities in the pursuit of Budget savings. UA acknowledges the challenging Budget environment and agrees that running continuous deficits is neither responsible or sustainable. In this context, fiscal prudence is vital: indeed, responsible budgeting and prudent investment choices are crucial for sustaining Australia's longer term economic security.

In this submission, UA is not seeking additional funding for universities.

There is no case for large cuts of the kind that recent governments have proposed. There is a strong case for maintaining funding for higher education and research at current levels.

At the same time, there is no case for large cuts of the kind that recent governments have proposed. There is a strong case for maintaining funding for higher education and research at current levels.

Cutting university funding is a false economy. It would save the Government some money now, but cost the nation dearly in the long run. Pursuing major cuts to universities is short-term thinking. What Australia needs is a research and higher education investment plan for the long-term.

It is counter-intuitive to put forward multi-billion-dollar cuts to universities, at the same time as reducing tax to corporations. By Treasury's own estimates,

corporate tax cuts will cost the Budget \$65 billion over ten years in revenue foregone. Treasury's own estimates suggest a modest macroeconomic impact, relative to the cost: a one per cent increase in GDP and 0.4 per cent growth in employment in the long-term.

A more effective approach would be to invest in skills, productivity and innovation by supporting education and training, especially in Australia's world class universities. This would be an investment for the long-term – positioning Australia and Australians for continuing change in the uncertain times ahead.

2 PRODUCTIVITY AND INNOVATION: THE FOUNDATIONS OF PROSPERITY

As the economist Paul Krugman famously observed more than 20 years ago, 'productivity isn't everything, but in the long run its nearly everything'.¹

Especially in advanced economies like Australia, continued growth in economic activity, employment and living standards depends largely on improving productivity.

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As in other advanced economies, growth in total factor productivity has slowed in Australia in recent times.

Without advances in technology it will be difficult to improve (or even maintain) capital productivity. Similarly, labour productivity – especially in a 21st century knowledge economy – depends on improvements in human capital.

The American economist Robert Solow estimated that 80 per cent of long-term economic growth in the United States was due to technological improvements.²

According to the Organisation for Economic Co-operation and Development (OECD) estimates, 50 per cent of economic growth in member countries results from innovation, and the proportion is expected to grow.³

At the firm level, innovation makes a clear difference:

'Innovation active businesses make up 45 per cent of all employing businesses in Australia, but contribute to over 60 per cent of sales and employment. They are 40 per cent more likely to increase income and profitability, twice as likely to export and two to three times more likely to report increased productivity, employment and training'.⁴

The impact is equally clear at a whole of economy level: R&D explains up to 75 per cent of total factor productivity growth. There is a high return on investment: 10 to 30 per cent for private returns and more than 40 per cent for social returns.⁵

¹ Krugman, P. 1994, *The Age of Diminished Expectations*, MIT Press, Boston.

² Solow, Robert M. 1956, 'A Contribution to the Theory of Economic Growth', *Quarterly Journal of Economics*, 70(1), p. 65–94 and Solow, Robert M. 1957, 'Technical Change and the Aggregate Production Function', *Review of Economics and Statistics*, 39 (3), p. 312–320.

³ Cited in Department of Industry 2016, *Australian Innovation System Report 2016*, p.1

⁴ Department of Industry 2016, *Australian Innovation System Report 2016*, p.1

⁵ Department of Industry 2016, *Australian Innovation System Report 2016*, p.2

Innovation drives employment growth:

*'Innovative businesses encourage a virtuous cycle for skills, employment and labour market flexibility. Innovative businesses are significantly more likely to increase employment, training and more flexible working arrangements than non-innovators. Innovative businesses, particularly small ones, are also much more likely to be profitable and productive because of innovation leading to further demand for skilled workers.'*⁶

As an earlier edition of the Australian Innovation System report observed:

*'An educated and skilled workforce is essential for successful innovation because such a workforce is more likely to be able to generate and implement new ideas and to adapt to new technological and organisational change originating from elsewhere.'*⁷

Universities make an indispensable contribution to improve the productivity of both capital and labour. Both research and higher education drive technological improvements. New knowledge from research makes practical technological breakthroughs possible. Entrepreneurs and employees with a background in higher education – where learning is led by research – bring an open-minded and innovative approach that is quick to identify problems and opportunities for improvement, and receptive to new and creative solutions.

Education builds the human capital that innovative businesses need. International studies show that an additional year of education can raise the level of productivity by 3 to 6 per cent.

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A report to the Australian Government estimated that an 8 per cent increase in bachelor degree attainment and 11.8 per cent increase in Certificate III-Advanced Diploma qualifications could result in a 2.5 per cent and 1.5 per cent increase in labour productivity, respectively in the medium term.⁹

A recent Parliamentary Budget Office (PBO) analysis found that if annual labour productivity growth is 0.25 percentage points higher than 2017–18 Budget assumptions, real GDP will be 2 per cent higher in 2027–28 than in the Budget projections; resulting increases in Government receipts – including an increase of more than \$6 billion in personal income tax receipts – mean underlying cash balance in 2027–28 will be a surplus of 0.6 per cent of GDP compared to 0.3 per cent in Budget projections.¹⁰

⁶ Department of Industry, Innovation and Science 2012, *Australian Innovation System Report 2012*, p.4

⁷ Department of Industry, Innovation and Science 2012, *Australian Innovation System Report 2012*, p.4

⁸ OECD 2006, *Sources of knowledge and productivity: How robust is the relationship?*, STI Working Paper 2006/6, Paris

⁹ KPMG Econtech 2010, *Measuring the Impact of the Productivity Agenda*, Report commissioned by the Australian Government.

¹⁰ Parliamentary Budget Office 2017, *2017-18 Budget medium-term projections: economic scenario analysis* Report 05/2017, p.17

Treasury projects that the macroeconomic impact of a \$65 billion cut to company tax will be relatively modest: in the long-term, a 1 per cent increase in GDP and 0.4 per cent growth in the number of jobs.

When making decisions about relative priorities, Universities Australia urges the Government to adopt those measures that have the most significant and reliable return on investment.

Difficulty in getting skilled employees was reported as a major barrier to innovation by Australian businesses. After 'access to additional funds', it was the most commonly cited barrier.¹¹ In 2012, access to skilled employees was the most common barrier cited by employers.¹²

As advanced economies move further up the value chain and knowledge-based service industries account for an even bigger slice of their economies, a greater share of their work forces will need to hold advanced, post-secondary qualifications.

In 1986, the largest group of workers were in occupations classified as skill level 4 (roughly equivalent to a certificate II or III). Since then, demand for highly skilled workers has grown rapidly. Now, the largest group of workers are in the highest (skill level 1) category – occupations requiring a bachelor degree or higher qualification.¹³

The Australian Government Treasury's *Analysis of Wage Growth* report, released on 8th December 2017, confirms international studies dating back to the 1960s show an increasing proportion of jobs require non-routine cognitive skills, such as systems analysis, originality, written expression, complex problem solving and critical thinking (see Figure 1). This coincides with increasing demand for university educated workers.¹⁴

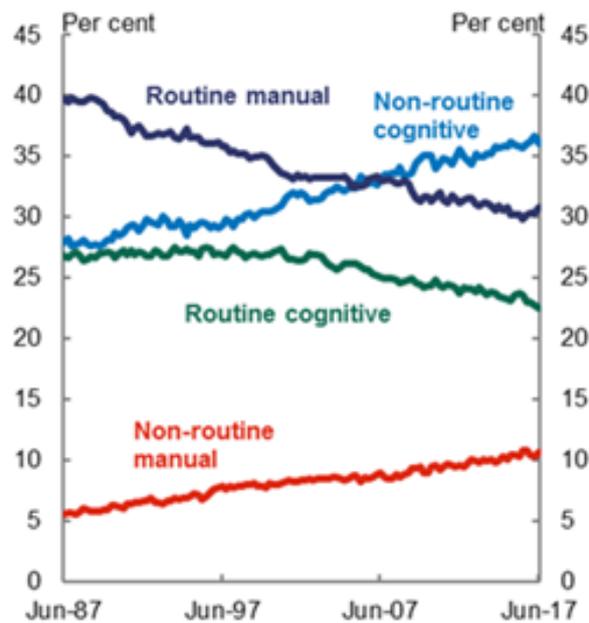
¹¹ Department of Industry 2016, *Australian Innovation System Report 2016*, p.4

¹² Department of Industry, Innovation and Science 2012, *Australian Innovation System Report 2012*, p.4

¹³ Mason, C., Reeson, A. and Sanderson, T. 2017, *Demand for people skills is growing faster than demand for STEM skills*, The Conversation, 14 November 2017.

¹⁴ Autor, David H., Levy, Frank and Murnane, Richard J., 'The Skill Content of Recent Technological Change: An Empirical Exploration', *The Quarterly Journal of Economics*, 118 (4), November 2003, pp 1279–1333. <https://doi.org/10.1162/003355303322552801>

Figure 1: Employment share by skill type



Source: The Australian Government Treasury 2017, *Analysis of Wage Growth*, November 2017, Canberra.

Note: Routine manual includes labourers, trades workers and machinery operators. Routine cognitive includes salespeople or administrative workers. Non-routine manual includes service occupations related to assisting others such as nurses and hospitality workers. Non-routine cognitive includes manager and professionals.

As stated in the Treasury report, routine jobs are more susceptible to displacement by technology and automation than non-routine tasks. The trend towards technological advancement and automation will continue to increase as Artificial Intelligence and robotics become more commonplace. This will be accompanied by a continued trend towards higher-skilled jobs.

Investing in innovation and human capital is what Australia needs right now.

Investing in innovation and human capital is what Australia needs right now. In an age of rapid, unpredictable economic change, increasing Australia's capacity for productivity and innovation

will equip individuals and firms with the tools to adapt to change, and to thrive in the new and changing world.

To reconsider the returns on the investment in a strong, vibrant university and research system.

3 UNIVERSITIES' CONTRIBUTION TO THE ECONOMY

Countries in our region are investing heavily in their higher education and research systems. They know that this investment yields substantial returns for the nation and for individuals.

Successful nations understand the link between investing in higher education and research, and enduring national prosperity. This explains why countries in our region are investing heavily in their higher education and research systems. They know that this investment yields substantial returns for the nation and for individuals.

The benefits for graduates are well known.

Graduates are less likely to be unemployed and more likely to participate in the labour market. The latest Australian Bureau of Statistics (ABS) data show the unemployment rate for people with a bachelor degree or higher was 3.1 per cent in 2017, compared with 8.2 per cent for those without a post-school qualification.¹⁵

According to the 2016 Census, university graduates earn 70 per cent more than people with no post-school qualifications and contribute substantially more to national taxation receipts.¹⁶

The public benefits are just as significant.

The public benefits of higher education exceed the private benefits.

In May this year, the Government cited a new study by Deloitte which shows that the public benefits of higher education exceed the private benefits. The report shows that, after controlling for students'

'innate ability', 55 per cent of the benefit to the economy from each graduate was a public benefit, compared to a 45 per cent private benefit.¹⁷

Data published by the OECD in 2017 shows that, the net public benefit is US\$149,800 per male graduate and US\$119,900 per female graduate for Australia. Public benefits included higher tax revenue and lower social security transfer payments.¹⁸

A recent study estimated that an additional year of higher education undertaken in Australia generated spillover public benefits worth between \$10,635 and \$15,952 per year of higher education per student (in 2014 dollars).¹⁹

¹⁵ ABS 2017, *Education and Work, Australia, May 2017*, Cat. No. 6227.0, Commonwealth of Australia, Canberra.

¹⁶ ABS 2016 Census, Employment and income by qualification level – people aged 20-64 years

¹⁷ Deloitte Access Economics 2016, *Estimating the public and private benefits of education*, unpublished report to DET, p.47, cited in Australian Government 2016, *The Higher Education Reform Package*, p.9-10

¹⁸ OECD 2017, *Education at a Glance 2017: OECD indicators*, OECD Publishing, Paris, Indicator A7.3.

¹⁹ Chapman, B. and Lounkaew, K. 2015, 'Measuring the value of externalities from higher education', *Higher Education*, 70, p. 767–785.

A highly educated workforce benefits everyone. For every thousand university graduates who enter the Australian workforce, 120 new jobs are created for those without degrees. Wages for non-degree holders are boosted by \$655 a year – or \$12.60 a week – when more graduates join the national workforce.²⁰

The university sector contributed around \$25 billion to the Australian economy in 2013. Universities directly and indirectly accounted for 160,000 full-time equivalent jobs.

Deloitte modelling shows the university sector contributed around \$25 billion to the Australian economy in 2013, accounting for over 1.5 per cent of Australia's GDP. Universities directly and indirectly accounted for 160,000 full time equivalent jobs.²¹

University education added an estimated \$140 billion to Australian GDP in 2014, due to higher labour force participation and employment of university graduates and increased productivity of the workforce. Australia's GDP is 8.5 per cent higher due to these impacts.²² This equates to roughly a sixfold return on \$25.3 billion university spend from all sources, and more than a tenfold return on Commonwealth Government investment in universities in 2014.

The value of the stock of knowledge generated by university research was estimated at \$160 billion in 2014, equivalent to almost 10 per cent of Australia's GDP. Increased investment in university research over the past 30 years has been estimated to account for almost a third of the average growth in living standards over this period.²³

Economic modelling by Deloitte shows that Australia will need 3.8 million new graduates to meet labour market needs over the next ten years.²⁴

²⁰ Cadence Economics 2016, *The Graduate effect: Higher education spillovers to the Australian workforce*, Cadence Economics Pty Ltd, Canberra.

²¹ Deloitte Access Economics 2015, *The importance of universities to Australia's prosperity*, Deloitte Access Economics Pty Ltd, Canberra.

²² Ibid.

²³ Ibid.

²⁴ Ibid.

4 THE GOVERNMENT'S HIGHER EDUCATION PACKAGE

In the 2017–18 Budget, the Government brought forward a package of higher education changes. While the package was an attempt to move beyond the policy paralysis that had prevailed since the failure of the 2014–15 Budget package, it was disappointing that the Government chose to focus so heavily on reducing the public investment in universities.

Universities and their students have already contributed \$3.9 billion to Budget repair since 2011–12.²⁵ The case for further reductions to contributing to a strong, vibrant university system is still to be made.

Contrary to claims of runaway growth, funding as a percentage of GDP has been flat.

Public funding for universities in Australia is relatively low compared to the OECD average. Contrary to claims of runaway growth, funding as a percentage of GDP has been flat.

According to the OECD's latest figures, Australia is ranked 30 out of 34 OECD countries for public investment in tertiary education, 0.7 per cent of GDP compared to an OECD average of 1.1 per cent in 2014.²⁶

Despite the increase in enrolments between 2008 and 2016, the Commonwealth is investing less – as a share of both GDP and total Commonwealth outlays – in higher education in 2017–18 than it did in 2009–10.²⁷

Higher education funding expert Mark Warburton recently observed that:

'Australia has GDP of \$1.7 trillion and the record for the longest run of uninterrupted GDP growth in the developed world. We can afford a decently funded tertiary education sector to keep that economic performance going'.²⁸

The value of average 'base funding' per student is approximately the same as it was 20 years ago despite recommendations from the past two major reviews that per student funding rates be lifted, at least for some disciplines.²⁹

²⁵ Universities Australia 2017, *The Facts on University Funding*, <https://www.universitiesaustralia.edu.au/Media-and-Events/submissions-and-reports/The-facts-on-university-funding/The-facts-on-university-funding>

²⁶ OECD 2017, *Education at a Glance 2017: OECD indicators*, OECD Publishing, Paris, Indicator B2.3. Note that OECD figures for public funding do not include costs to Government of operating the HELP scheme. OECD data on higher education financing include some anomalies due to the difficulty of comparing different systems.

²⁷ Australian Government, Budget Paper No. 1, 2009–10 and 2017–18.

²⁸ Warburton, M. 2017, *Campus Morning Mail*, 1 December 2017, http://campusmorningmail.com.au/news/beyond-the-demand-driven-obsession-and-policy-impasse/?utm_campaign=website&utm_source=sendgrid.com&utm_medium=email

²⁹ Universities Australia 2015, *Higher Education and Research Facts and Figures*, Universities Australia, Canberra, p.13

Commonwealth-supported enrolments are stable: the expansion phase of the demand-driven system is over, and participation has settled at a new, higher level. Everyone agrees that higher participation is a good thing – for skills supply and economic growth, as well as for access and social mobility.

It is difficult to justify a cut to per student funding to offset enrolment growth, when enrolments growth has stabilised.

The *Higher Education Support Legislation Amendment Bill 2017* (HESLA Bill) has not progressed in the Senate because Senators were not convinced of the necessity for change.

In addition to the proposed reductions to funding student places, universities have been particularly concerned about the ‘performance’ funding system that would penalise/reward universities for a number of matters outside of their control and disadvantage those students and institutions that require the greatest support. The proposal would give current and future Ministers unprecedented powers to interfere not only in the funding but also in the core academic activities of universities.

It has never been clear what problem the proposed ‘performance’ funding system was supposed to fix.

It has never been clear what problem the proposed ‘performance’ funding system was supposed to fix.

Recently released data from the Department of Education and Training (DET) shows clearly that the higher education sector has maintained quality at a time of rapid, historic expansion in participation.

This is a major achievement. There is no evidence of a decline in quality. There is no sign that the demand-driven system has led to higher attrition or lower completion. First year attrition sits at around 15 per cent – the same level as was observed in 2005³⁰. Six-year completion rates are at 66 per cent – down only one percentage point on the 2005 commencing cohort.³¹

Graduate employment – like employment across the entire economy – took a hit from the Global Financial Crisis (GFC), but the short-term employment figures have been improving since.

More importantly, medium-term fulltime job rates for graduates (after three years) have held up over the past ten years, despite the GFC. While immediate outcomes have fluctuated with economic circumstances, the full time employment rate for graduates after three years remains at around 90 per cent. In 2017, 80 per cent of graduates employed full time were working in

management or professional jobs three years out from graduation.³² Australian university graduates

Australian university graduates are two and a half times less likely to be jobless than people with no post-school education in Australia.

³⁰ DET 2017, *Higher Education Student Statistics 2016*, Appendix Table 2.

³¹ DET 2017, *Cohort Analysis for domestic commencing bachelor Table A and Table B institution students, 2005-2015*.

³² DET 2017, *2017 Graduate Outcomes Survey – Longitudinal*.

are two and a half times less likely to be jobless than people with no post-school education in Australia³³.

These outcomes reflect the strength of Australia's existing well-developed and effective framework for higher education accountability and performance monitoring.

The Higher Education Standards Panel is responsible for setting standards that all universities must comply with. The Tertiary Education Quality and Standards Agency (TEQSA) regulates higher education providers against these Standards. Providers – including universities – must be registered every seven years. Further, TEQSA continuously monitors providers against clear standards in teaching, course design, learning outcomes and progression.

The higher education system is transparent.

The Government's Quality in Learning and Teaching (QILT) website provides a range of data on student satisfaction with different courses and institutions as well as students' employment outcomes. These data give prospective students solid information about the performance of different institutions across various fields of education to assist them in making well-informed choices.

Universities have well developed and effective procedures for internal performance monitoring, quality assurance and regulation. A review of higher education in 2014 found that '*TEQSA regulates a sector that for the most part [is] already compliant, self-regulating and monitored*'.³⁴

The 2014 review of regulation found that:

'All higher education providers are highly attuned to the importance of reputational capital for attracting students and therefore develop effective internal regulatory mechanisms to ensure provision of quality higher education'.³⁵

Internal quality assurance uses methods including course evaluation, benchmarking and course reviews. These often include monitoring of success rates and student outcomes.

The current strong performance framework in higher education gets strong results.

The current strong performance framework in higher education gets strong results.

Universities Australia encourages the Government to defer 'performance-funding' scheme pending comprehensive consultation with key stakeholders.

³³ ABS 2017, *Education and Work, Australia, May 2017*, Cat. No. 6227.0, Commonwealth of Australia, Canberra.

³⁴ Lee Dow, K. and Braithwaite, W. 2013, *Review of Higher Education Regulation*, p.40

³⁵ Ibid, p.22

5 THE DEMAND-DRIVEN SYSTEM: SUCCESSFUL AND SUSTAINABLE

Growth in the number of student places funded under the demand-driven system has plateaued.

Growth in the number of student places funded under the demand-driven system has plateaued. As a result, the level of Government expenditure on the demand-driven system is also stable.

After the move to a demand-driven system was announced in 2009, aggregate Government funding for university places increased significantly as universities absorbed unmet demand for higher education.

This was the policy intent, supported by both sides of politics, then and now.

The demand-driven system is a historic reform designed to ensure that at least 40 per cent of our young people have a university degree to meet the estimated demand for 3.8 million skilled graduates by 2025. This target was based on attainment rates – and Government targets – in high-performing OECD countries. Germany adopted a target of 40 per cent for access to tertiary education by 2020, and the United Kingdom adopted a 50 per cent higher education participation under the Blair government.

Australia now educates 175,000 more students in Government-supported places than in 2008. Enrolment initially grew at around 6 per cent during the transitional years prior to the full introduction of the demand-driven system.

Nine years later, annual growth in enrolments has stabilised to levels slightly below population growth. In 2016, Government-supported places grew by only 1.5 per cent, down from 1.6 per cent in 2015, 3.6 per cent in 2014 and 5.2 per cent in 2013.

Consequently, growth in public investment has also stabilised.³⁶

The opening of the system, combined with the flagship equity program – the Higher Education Participation and Partnerships Program (HEPPP) – has led to an increase in Indigenous students, students with a disability, and students from low socio-economic background, both in number and as a proportion of the total student body.

The opening of the system, combined with the flagship equity program – the Higher Education Participation and Partnerships Program (HEPPP) – has led to an increase in Indigenous students, students with a disability, and students from low socio-economic background, both in number and as a proportion of the total student body.

The latest DET data show that:

- low SES undergraduate student enrolments increased 55 per cent, from 90,467 in 2008 to 140,462 in 2016;
- Indigenous undergraduate student enrolments have increased from 7,038 in 2008 to 13,320 in 2016, a growth of 89 per cent;
- enrolments of undergraduate students with a disability have more than doubled, from 24,311 in 2008 to 50,206 in 2016; and
- Enrolments of students from regional and remote areas have increased from 110,124 in 2008 to 163,292 in 2016, a growth of 48 per cent.

³⁶ DET various years, *Higher Education Student Statistics*.

As a result, low socio-economic students' share of total domestic undergraduate enrolments has increased to 17.9 per cent – up by 1.8 percentage points on 2008. The Indigenous share of enrolments has increased to 1.7 per cent – up 0.4 percentage points on 2008.³⁷

It is a necessary investment in the future of Australia and Australians. It is an investment that yields a significant return.

Supporting the number of places currently in the sector is a significant Budget commitment. It is a necessary investment in the future of Australia and Australians. It is an investment that yields a significant return.

Universities Australia encourages the Government to retain the demand-driven system.

³⁷ DET various years, *Higher Education Student Statistics*.

6 UNIVERSITIES NEED A STABLE POLICY AND FUNDING FRAMEWORK

To be able to meet society's expectations, and the challenges set by accelerating economic change, universities need a stable and predictable policy framework. Stable policy, regulatory settings and funding are needed for universities to operate and to innovate.

In recent years, universities have faced an unprecedented degree of policy and funding uncertainty. The fundamental structure of the current policy and funding environment is basically sound. There are, of course, some policy anomalies, and some areas where things could improve. Limits on access to sub Bachelor pathway places, distribution of postgraduate places and systematic underfunding of research are all important issues that need to be addressed.

The Government's 2017 proposals would, however, inflict substantial damage without addressing some of the sector's key challenges. By threatening the sustainability of the whole system, the package would have brought further confusion, along with a number of unforeseen consequences.

With the package having stalled in the Senate and reports the Government might circumvent the Senate by making cuts through other, non-parliamentary means, prospective students and universities now face further uncertainty. Universities are unable to plan or provide accurate information to those considering studying at their institutions. Some universities are unable to guarantee 'vertically-integrated' post-graduate places that are a fundamental requirement for graduation.

This level of policy volatility and uncertainty also creates a heavily risk-averse environment where universities are less likely to innovate and try new things in meeting the evolving needs of students, employers and the broader community.

Speculation about alternative cuts by non-legislative means have added a further layer of uncertainty. Cuts of this kind would be – even more clearly than the Budget package – driven by Budget rather than policy considerations.

Speculation has focussed on the following areas:

- Freezing CGS funding at 2017 levels
- Cuts to Research Block Grants
- Cuts to HEPPP
- Constraining sub-bachelor and enabling processes
- Constraining post-graduate places

It would be a blow to both student equity and to the Government's own innovation and growth agenda. And it would begin the inevitable reversal of the significant advances made in expanding access for disadvantaged students at Australian universities over the past nine years.

Freezing Commonwealth Grants Scheme funding to universities at 2017 levels would effectively end the demand-driven system – a historic and bipartisan policy achievement. It would be a blow to both student equity and to the Government's own innovation and growth agenda. And it would begin the inevitable reversal of the significant advances made in expanding access for disadvantaged students at Australian universities over the past nine years.

An unindexed, freeze on university funding is equivalent to a cut.

An unindexed, freeze on university funding is equivalent to a cut. The operating costs for universities will continue to rise commensurate with inflation and the number of students wishing to enrol at university is also likely to increase at a similar pace to population growth.

A dollar cap would put increasing pressure on already strained university budgets with hard decisions having to be made in relation to uneconomic courses, campuses, student services and staffing. It will also incentivise courses with low levels of public contribution such as business, accounting and law in favour of high cost courses that attract higher levels of public contribution such as nursing, science, technology, engineering and maths – the areas where skills shortages are greatest.

Freezing CGS funding would damage skills supply to the economy – right as some forecasters begin to anticipate skills shortages in key sectors. It would also restrict universities' capacity to respond to changing demand from both employers and students.

Cuts to Research Block Grants (RBGs) would worsen already inadequate research funding, and would undermine Australia's transition to the knowledge economy. This would also subvert Government policy objectives in research and innovation. It is hard to see how reducing support for university research would promote the Government's aim to increase research collaboration between universities and industry.

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The Higher Education Participation and Partnerships Program (HEPPP) – the Government's flagship equity program – is subject to possible cuts, simply because this program is not protected by legislation. In the Budget, the Government emphasised the importance of HEPPP by seeking to enshrine funding for the program in legislation, a proposal that universities strongly support.

HEPPP has already suffered cuts amounting to a quarter of a billion dollars in recent years. Having started at around 2 per cent of CGS, on a trajectory towards 4 per cent, HEPPP has not got close to the target, due to repeated cuts. HEPPP funding sits at around 2 per cent of the CGS in 2016–17.

Despite its modest funding and repeated funding cuts, HEPPP has been tremendously successful, along with the demand-driven system, in creating aspiration, opening access, and supporting those from traditionally under-represented groups success at university. To further reduce support for this flagship equity and access education program would also represent another backward step in mobilising the transformative power of education to the benefit of all.

Importantly, too, Australians oppose cuts to these vital programs.

Polling for Universities Australia conducted by highly-respected firm JWS Research – which also conducts research for several federal Government Departments –

shows 63 per cent say funding cuts would limit access to university for all Australians. The public also oppose cutting funding without Parliamentary approval to either university research funds or HEPPP. Notably, too, there are stronger levels of opposition among older people and those that live in regional/rural areas. Almost seven in ten people aged 55 and over, and those living in regional and rural areas oppose backdoor cuts to HEPPP.³⁸

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We cannot pretend that Australia can maintain a high-quality university system – one that meets fully the expectations of students, families, employers, industry and the broader community – if substantial cuts are pursued.

A world-class university system requires significant and sustained investment.

Universities Australia encourages the Government to at least maintain funding for the Commonwealth Grant Scheme (CGS), Research Block Grants, and the Higher Education Participation and Partnership Program at 2017 levels indexed for 2018.

³⁸ <https://www.universitiesaustralia.edu.au/Media-and-Events/media-releases/Voters-say-backdoor-cuts-would-limit-uni-access-for-all-Australians#.WinJkUqWaUk>

7 REJUVENATING INDUSTRY RESEARCH AND DEVELOPMENT

Recent figures from the Australia Bureau of Statistics show that Australia's gross expenditure on research and development (GERD) is in decline. From a peak of 2.25 per cent of GDP in 2008–09, expenditure on R&D in Australia has plummeted to 1.88 per cent of GDP in 2015–16.³⁹

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Australia's universities are powerhouses of high-quality, cutting edge research. However, Australian business innovation continues to lag world standard, with less than half of Australian businesses engaging in innovation, and only 1.2 per cent of those businesses engaged in new-to-world innovation.⁴⁰ Although successive policy interventions have encouraged universities to collaborate with businesses, it is clear that more effective incentives are needed for businesses to take advantage of the expertise available within Australian universities.

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Policy settings for business innovation fail to encourage sufficient novelty in new commercial offerings. Incentives are poorly targeted and need to be adjusted to ensure that they optimally encourage *additional* research and development, rather than subsidising business-as-usual activity.

The Review of the R&D Tax Incentive – completed 18 months ago – suggested several reforms to better target the \$3.1 billion invested in the incentive. UA continues to urge the Government to implement these recommendations.

A premium rate would jump-start Australian business collaboration with world-leading researchers.

UA strongly concurs with the review's recommendation for a premium rate of the incentive for businesses that collaborate with publicly funded research organisations. This would jump-start Australian business collaboration with world-leading researchers, increasing their exposure to new ideas that could lead to transformative innovations and the greatest possible benefit to the Australian economy.

In addition, UA recommends that the Government considers reducing reliance on the R&D tax incentive as the sole substantial policy lever to encourage business innovation for small-to-medium enterprises who may not be able to fully capitalise on the tax offset. Most other OECD countries utilise a mix of tax incentive and direct support for business R&D. Direct support mechanisms

³⁹ ABS 2017, *Research and Experimental Development, Businesses, Australia*, 2015–16, Cat. No. 8104.0, Canberra.

⁴⁰ ABS 2016, *Innovation in Australian Business, 2014–15*, Cat. No. 8158.0, Canberra.

could reduce barriers to businesses engaging in R&D, whilst simultaneously improving the targeting of additional R&D activity.

Universities Australia encourages the Government to implement the recommendations of the Review of the R&D Tax Incentive, including a premium rate for collaborations with publicly funded research organisations.

8 RESEARCH AND EDUCATION INFRASTRUCTURE

Australia's comprehensive universities are the stewards of a high-quality national research capability, recognised globally for their excellence. Australian researchers are productive, producing 2.6 per cent of the world's scientific output, despite being home to only 0.33 per cent of the world's population.⁴¹ Moreover, research is valuable: the contribution of Australian university research to the economy was estimated to be \$160 billion (or 10 per cent of GDP) in 2014.⁴²

Australia's investment in research, particularly research infrastructure, is falling behind.

These achievements have not occurred by chance: they are the result of more than half a century of deliberate and careful co-operation between researchers, universities and governments. Yet Australia's investment in research, particularly research infrastructure, is falling behind.

Although the Government's commitment to provide operational funding to existing National Collaborative Research Infrastructure Strategy (NCRIS) facilities is welcome, the sector is still waiting for the Government to take up the challenges outlined in the reports of the Higher Education Infrastructure Working Group, the Research Infrastructure Working Group and the Research Infrastructure Roadmap.

Research infrastructure operates on 7 to 10 year planning and procurement cycles. Significant investment in research infrastructure last occurred in 2012, meaning that a new investment plan is overdue. If universities are unable to replace outdated infrastructure and embrace the next generation of research infrastructure, Australia's researchers will lack the tools to investigate the most pressing issues affecting the social, environmental and economic wellbeing of the community.

However, university infrastructure needs extend beyond large-scale research infrastructure: institutional-scale research and educational infrastructure are also in need of renewal to ensure that students and researchers have access to

Funding pressures have forced universities to defer much-needed infrastructure spending, leaving them with a backlog of more than \$4 billion in repairs and renewal.

appropriate facilities. Funding pressures have forced universities to defer much-needed infrastructure spending, leaving them with a backlog of more than \$4 billion in repairs and renewal⁴³ – a situation that gets worse with each passing year. Next-generation teaching and learning facilities are

needed to ensure students have access to contemporary technologies and universities can keep up with changing modes of course delivery.

⁴¹ Scimago Lab, *Scimago Journal & Country Rank*, 2016.

⁴² Deloitte Access Economics 2015, *The importance of universities to Australia's prosperity*, p.84

⁴³ Department of Education and Training 2015, *Higher Education Infrastructure Working Group Final Report*, 2015, p. 9-10.

A smart, agile 21st century economy requires orderly investment in cutting-edge research and educational infrastructure. With the Education Investment Fund (EIF) in abeyance and slated for abolition, universities have no alternative to funding capital from their operating margins. These are simply insufficient to fund transformative infrastructure. Crumbling infrastructure cannot support world-class research and education – it is well beyond time to address this.

Universities Australia encourages the Government to commit to a long-term plan for education and research infrastructure investment.

9 THE SKILLING AUSTRALIANS FUND

On 18 October the Minister for Immigration, the Hon. Peter Dutton, introduced the *Migration Amendment (Skilling Australians Fund) Bill 2017* to Parliament. This legislation will amend the *Migration Act* to compel employers who nominate a worker under the temporary and permanent migration programmes to pay a nomination training contribution charge of \$1800 per year for a Temporary Skills Shortage (TSS) visa and \$5000 for nominations under the 186-visa pathway. The Skilling Australians Fund will be administered by the Department of Education and Training to support skills development to improve employment outcomes.

When the Skilling Australians Fund was announced in the May 2017 Budget, Universities Australia commended the Government for its acknowledgement that more must be done to prepare Australians for active participation in our society and economy, particularly in regional areas. However, the core business of Australia's universities is exactly this – preparing Australians for the future, giving them the skills to make a real contribution to our society and economy. A significant number of UA members are major contributors in regional communities. Moreover, the Government has, through its recent and very welcome adjustments to the 457 visa occupations lists, recognised that Australia's universities compete in a global market for talent, and that employing international staff is a core element to ensure that our sector retains its world-class reputation.

Universities Australia questions the policy logic of requiring universities to pay a levy that takes further significant funding out of university budgets – and penalises them for maintaining their global competitiveness.

Universities Australia questions the policy logic of requiring universities to pay a levy that takes further significant funding out of university budgets – and penalises them for maintaining their global competitiveness. This competitiveness is essential to maintain and grow our \$28 billion education export industry. The cost of the Skilling Australians

Fund levy to the sector for TSS visas is estimated to be more than \$9.5 million per year.

As spending from the Skilling Australians Fund is prioritised towards apprenticeships and traineeships, most of our universities will be excluded from accessing the fund despite being compelled to contribute to it.

UA would welcome the opportunity to discuss options that would respect the intent of the fund without penalising our members. These options include exempting universities from contributing to the fund, a differential levy (the Tuition Protection Service levy could be a model for this option), or designing the program so that all of Australia's universities can bid for project funding.

As the peak body representing Australia's university sector, UA advocates strongly for a skilled migration framework that maintains a strong and dynamic university system. We do so in recognition of the role our sector plays in Australia's prosperity – as well as realising Australia's trade and investment potential. A poorly-designed visa system will undermine the ability of universities to attract world-class academics into Australia – which is crucial to

the global collaborations that will help us to create new jobs and new industries for Australia.

Universities Australia encourages the Government to consider options for the Skilling Australians Fund reflecting the contribution universities make to skill development: either exempting universities from the levy or setting a differential contribution.

10 UNIVERSITIES AND THE HEALTH WORKFORCE

The Australian government is currently reviewing Australia's future health, aged care and disability sector workforce needs. Each of these sectors require health professionals – and the predictions are that increased numbers are needed.⁴⁴

Australian universities play a crucial role in these sectors by delivering them skilled workers through health professional education and training.

Australian universities play a crucial role in these sectors by delivering them skilled workers through health professional education and training. Quality clinical placements are a crucial and compulsory part of such workforce development and are one of the key factors that influence where and in what speciality graduates choose to work.^{45,46}

Ensuring sufficient volume, type and funding for clinical education, particularly clinical placements, is essential to achieving the workforce skill mix and distribution Australia needs. However, various barriers exist to providing the number and type of placements needed:

- Universities – already underfunded for some clinical training^{47,48} – are increasingly being charged by state health services for placements, which State Governments receive funding to provide.⁴⁹
- The Independent Hospital Pricing Authority's (IHPA) teaching and training (TT) Activity Based Funding (ABF) work – while bringing greater transparency to how public hospitals use such funds – will further exacerbate the situation. This is because the teaching and training activity based funding will exclude embedded clinical teaching and training costs. Embedded education constitutes about 80 per cent of the clinical placement experience yet will not be costed into the TT ABF. Including these costs in the service delivery ABF further discourages – rather than incentivises – quality teaching as ABF drives hospitals towards reaching the 'efficient' (average) price rather than rewarding investment in teaching and training which would tend to lead to price increases.

⁴⁴ Senate Community Affairs Committee June 2017: <https://engage.dss.gov.au/wp-content/uploads/2017/07/Aged-Care-workforce.pdf>

⁴⁵ Henry J, Edwards B and Crotty B. 2009, *Why do medical graduates choose rural careers?* Rural and Remote Health (Internet) 2009; 9:1083. <http://www.rrh.org.au/articles/subviewnew.asp?ArticleID=1083>.

⁴⁶ Victorian Department of Health 2011, *Victoria's Strategic Plan for Clinical Placements 2012–2015: Well Placed, Well Prepared*. <http://bit.ly/2inOwnW>

⁴⁷ Jane Lomax-Smith et al 2011, *Higher Education Base Funding Review Final Report*, Australian Government, Canberra.

⁴⁸ Medical Deans Australia and New Zealand (MDANZ) 2016 submission to "Driving Innovation, Fairness and Excellence in Australian Higher Education"
<https://submissions.education.gov.au/Forms/Archive/AHE/Documents/1141.%20Medical%20Deans%20Australia%20and%20New%20Zealand.pdf>

⁴⁹ Administrator National Health Funding Pool. National report August 2017: <http://www.publichospitalfunding.gov.au/Reports/national?month=aug2017>

- While there has been a focus on increased training opportunities in rural areas, there are still not enough placements in the settings required (such as aged, primary and disability care) to get the right skill mix and distribution for our future workforce needs:
 - The bulk of Australia’s current health and care challenges are best addressed outside of hospitals in the community – where most care is already delivered;
 - However, 70 to 80 per cent of clinical placements for health professional students occur in public hospitals. Without sufficient exposure to aged, primary, disability and other ambulatory care services, the chances of students choosing – and/or their readiness – to practice in these settings is reduced;
 - Aged care, primary and disability care have predicted an increased need for health professionals and assistants over time, especially in allied health and nursing, but many of these services now operate in the private/NGO sectors;
 - Private/NGO sector services are often not well set up for teaching students and trainees (supervisor capacity, capability, support, culture). Their business models (fee-for-service, not-for-profit) and infrastructure constraints (physical space and IT) also work against taking students; and
 - Apart from the Practice Incentive Payment (PIP) for medical students and some rurally-focused programs, there is currently little, if any, ongoing national funding support for placements outside of public hospitals in the aged, primary and ambulatory care settings where workforce is needed.
- The shared but fragmented responsibility for health workforce training and development – between Governments, public/private providers and regulators – also presents challenges. The recent Accreditation Systems Review has recommended establishing a mechanism, such as the Health Education Accreditation Board (HEAB) that brings relevant parties together for accreditation discussions including how these impact on future training and workforce development. Such a forum would be useful, especially in relation to inter-professional supervision matters as these can limit the expansion of clinical placements beyond public hospitals.

Universities Australia encourages the Government to provide funding support for universities to:

- expand training places for all health professions beyond traditional public hospital settings and into areas of predicted need: such as the disability, private and NGO sectors as well as aged care, primary and mental health care; and
- work in partnership with the aged care, health and disability sectors to build sustainable education and training capacity.