

UNIVERSITIES AUSTRALIA SUBMISSION

2017-18 PRE-BUDGET SUBMISSION

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CONTENTS

EXECUTIVE SUMMARY	4
UNIVERSITIES AND A CHANGING ECONOMY	6
THE RETURN ON INVESTMENT IN UNIVERSITIES.....	7
A STABLE POLICY AND FUNDING FRAMEWORK.....	8
MAINTAINING ACCESS AND PROTECTING QUALITY	9
A SUSTAINABLE DEMAND-DRIVEN SYSTEM.....	9
ADEQUATE FUNDING FOR STUDENT PLACES	11
INVESTING IN INFRASTRUCTURE	12
EFFECTIVE AND RELIABLE EQUITY FUNDING.....	14
FUTURE-PROOFING STUDENT LOANS.....	15
RESEARCH AND COLLABORATION.....	16
SUPPORTING INTERNATIONAL EDUCATION	18
SUPPORTING PHILANTHROPY	19
HEALTH WORKFORCE.....	20

EXECUTIVE SUMMARY

A profound shift is underway across the Australian economy.

As the mining investment boom recedes, we face an urgent task to broaden growth and diversify the economy.

Decisions taken now will shape Australia's living standards, job security and social cohesion in the years ahead.

Around the world, constrained public budgets and global uncertainty have become fixtures. Governments at home and abroad are wrestling anew with budget priorities.

Yet, despite these challenges, smart nations continue to invest strategically in higher education, research and innovation.

They are doing so to ensure their citizens aren't left behind by sweeping forces of globalisation and technological change.

Such investments are a down payment on a future with more higher-wage jobs, skilled and smart workforces and greater productivity gains.

They are also indispensable to the major research breakthroughs needed to create new jobs and new industries for Australia.

Amid forecasts that 40 per cent of today's jobs will not exist within two decades, the race is on to equip Australians for further dramatic changes in the job market, the economy and the workplace.

The types of skills and knowledge acquired through a university education will become increasingly essential.

This is true not just for individuals – but for communities, companies, industries, and the national economy. Having a highly-educated workforce is essential to lift overall national prosperity and the living standards of all Australians.

It is a key ingredient in the government's desire to diversify the economy, stimulate long-term growth and deliver jobs in the cities and the regions.

In this context, universities are the engines of Australia's future economic growth.

They are the essential infrastructure of this new era.

And they sustain Australia's third largest export sector, with the education of international students now contributing a record \$20.3 billion a year to the national economy.

To play their crucial role in securing Australia's future, universities need a more stable policy and funding environment.

Australia's universities have faced an unprecedented level of uncertainty in recent years.

We welcome the Government's assurance that it wants to end that uncertainty in 2017.

We await with interest the Turnbull Government's future announcements, including in the 2017–18 Budget.

While there may be a case for modest changes, the sector does not see a need for a dramatic overhaul.

Universities understand there are Budget constraints. We are not asking for significant increases.

However, we do ask that current funding is maintained across all areas including research and teaching infrastructure, and equity and participation programs.

Any proposals put forward by Government would need to achieve several objectives:

- Maintain high levels of access and participation, while guaranteeing quality;
- Make a Commonwealth-supported university place available to every Australian capable of completing a degree, regardless of their background;
- Ensure adequate levels of resourcing for teaching and research;
- Address universities' infrastructure and maintenance costs;
- Strengthen Australia's \$20 billion education export industry; and
- Support universities to continue to improve their efficiency and attract revenue from a variety of sources, such as philanthropy.

The sector stands ready to work with stakeholders to agree on the investment required to ensure Australia's universities can fulfil their crucial role in the nation's economic growth.

We want to ensure the return on the investment is maximised, and the global reputation of Australia's university system is maintained.

Universities Australia's priorities for the 2017–18 Budget are:

- Retain the demand-driven funding system.
- Maintain funding per Commonwealth-supported place (CSP) at least at current levels and abandon the proposed 20 per cent cut to the Commonwealth Grants Scheme (CGS).
- Ensure that base funding for CSPs adequately supports teaching and learning, base research capability and infrastructure, and community engagement.
- Ensure the \$3.7 billion in the Education Investment Fund (EIF) remains available to fund capital and operating costs of university research and teaching infrastructure.
- Progress the recommendations of Government-commissioned reviews of infrastructure funding in both higher education and research.
- Retain and improve the effective Higher Education Partnerships and Participation Program (HEPPP).
- Investigate changes to the Higher Education Loan Program (HELP) to ensure the scheme's integrity and financial sustainability.

- Commit to a five year timeframe to address the shortfall in funding for the indirect costs of research.

- Identify targeted and efficient programs that can be supported under the \$12 million International Education Strategy.
- Implement measures to support universities' efforts to develop philanthropy.
- Ensure sufficient funding for clinical placements to address underfunded areas of health professional education and clinical training, and support expansion of training places for all health professions beyond traditional public hospital settings.

UNIVERSITIES AND A CHANGING ECONOMY

Universities Australia (UA) agrees with the Government that higher education and research are more important to Australia than ever before.

The economy – and the labour market – are changing at breakneck speed.

It is impossible to predict the full impact of the current structural shifts, let alone the future change.

For nations, companies and individuals, resilience and adaptability will be central to success.

Universities play a vital role in equipping societies, industries and individuals for a future of rapid and unpredictable change.

Higher education develops the advanced generic and specific skills that individuals and nations increasingly need, and the open-minded inquiry and continuous learning needed to drive and respond to the new economy.

University research creates the new knowledge on which breakthroughs and innovation are based, and develops ways to apply knowledge to practical innovation.

Universities are the only institutions that combine rigorous education and training in both specific and generic skills, with both applied and blue sky research.

It is no coincidence that every successful modern economy has a strong university system.

The skills and innovative capabilities that higher education develops need to be spread more broadly across the population than in the past.

As traditional industries are disrupted—not only in manufacturing and primary industries, but increasingly in white collar industries too—a bigger share of the economy and the workforce will work in sectors where knowledge and innovation are crucial.

Deloitte modelling forecasts that around 3.8 million new graduates will be needed over the next decade.¹

The Australian economy will require 2.1 million more skilled graduates than it needed in 2015 and an additional 1.7 million skilled workers to replace those exiting the workforce as the population ages.

Universities play a vital role in ensuring that Australia has a skilled workforce that is able to meet the growing and changing employment needs of the economy.

Beyond the economic imperatives, having broad access to higher education is also important for social cohesion.

The more of our citizens who are equipped to adapt to disruptive change, the less likely it is that we will see large sections of our community 'locked out' of opportunities in the new economy.

Education has long been crucial in social mobility. It is more important than ever to maintain the role of universities as an enabler of opportunities for capable people from all backgrounds.

A world class higher education system that maintains quality in teaching and research while expanding access to an increasing share of the population should be recognised as a fundamental pillar of a well-functioning economy and society.

THE RETURN ON INVESTMENT IN UNIVERSITIES

Investment in universities is a must – both for national prosperity and social cohesion. It yields significant returns for society and for individuals.

The benefits for individuals are well known:

- 1.1 Graduates are less likely to be unemployed and more likely to participate in the labour market. The latest ABS statistics show the unemployment rate for people with a bachelor degree or higher was 3.2 per cent in 2016, compared with 8.2 per cent for those without a post-school qualification.²
- 1.2 Graduates earn more than workers without a degree, on average. According to the 2011 Census, the median male bachelor degree graduate has lifetime additional earnings of \$1.4million, compared to the median male without a post-school qualification. For women, the estimated lifetime earnings premium is just under \$1 million.³
- 1.3 Studies also show that universities graduates are more likely to have better health, more likely to be engaged in civic society, report higher life satisfaction and are more receptive to people from different cultures.⁴

The public benefits are just as significant:

¹ Deloitte Access Economics 2015, *The importance of universities to Australia's prosperity*, Deloitte Access Economics Pty Ltd, Canberra, <https://www.universitiesaustralia.edu.au/ArticleDocuments/The%20importance%20of%20universities%20to%20Australia%20s%20prosperity.PDF.aspx>.

² ABS 2016, *Education and Work, Australia, May 2016*, Cat. No. 6227.0, Commonwealth of Australia, Canberra.

³ Norton, A. and Cakitaki, B. 2016, *Mapping Australian higher education 2016*, Grattan Institute, Melbourne, p. 80.

⁴ Savage, J. and Norton, A. 2012, *Non-financial benefits of higher education: Analysis supporting Grattan's graduate winners report*, Grattan Institute, Melbourne.

- 1.4 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.⁵
- 1.5 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.⁶ 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 on universities in 2014.
- 1.6 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).⁷
- 1.7 Data published by the OECD in 2016 shows that, compared to those without a tertiary education, the net public benefit is US\$129,000 per male graduate and US\$90,000 per female graduate for Australia. Public benefits included higher tax revenue and lower social security transfer payments.⁸
- 1.8 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.⁹
- 1.9 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.¹⁰

A STABLE POLICY AND FUNDING FRAMEWORK

To be able to deliver on society's expectations, and to meet the challenges set by accelerating economic change, universities need a stable and reliable policy framework.

Predictable policy, regulatory settings and funding are needed for universities to operate and to innovate.

Universities are very large and complex organisations. Their activities—in both research and education—typically take place on a timeframe of several years.

In recent years, universities have faced an unprecedented degree of policy uncertainty.

We welcome the Government's assurance that it wants to end that uncertainty in 2017, so that we can plan with confidence and get on with the job of teaching and research.

⁵ Deloitte Access Economics 2015, *The importance of universities to Australia's prosperity*, Deloitte Access Economics Pty Ltd, Canberra.

⁶ Ibid.

⁷ Chapman, B. and Lounkaew, K. 2015, *Measuring the value of externalities from higher education*, Higher Education, 70, p. 767–785.

⁸ OECD 2016, *Education at a Glance 2016: OECD indicators*, OECD Publishing, Paris, Indicator A7.

⁹ Cadence Economics 2016, *The Graduate effect: Higher education spillovers to the Australian workforce*, Cadence Economics Pty Ltd, Canberra.

¹⁰ Deloitte Access Economics 2015, *The importance of universities to Australia's prosperity*, Deloitte Access Economics Pty Ltd, Canberra.

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

We cannot pretend that Australia can maintain a high quality university system into the indefinite future – one that meets fully the expectations of students, families, employers, industry and other research users – if very substantial revenue reductions are pursued.

The main policy challenge is how to pay for a university system on the scale and at the level of quality that Australia needs.

There is a general consensus that Australia needs to at least maintain the level of higher education participation.

No-one disagrees that the quality of the system should be maintained and improved.

In a severely budget-constrained environment, the Government is clearly grappling with difficult choices as it assesses and juggles public expenditure priorities.

Government has a profoundly important role to ensure that its discussions with the community about those priorities are well informed.

MAINTAINING ACCESS AND PROTECTING QUALITY

Policy and funding settings must continue to ensure that a Commonwealth-supported university place is available to every Australian who is capable of completing a university qualification.

This is not only a matter of equity of access and social justice, but an insurance policy for Australia's economic future.

Of course, the quality of the higher education system and the student experience must be maintained, as participation increases.

A SUSTAINABLE DEMAND-DRIVEN SYSTEM

In 2012, Government removed caps on the number of students that universities could enrol into Commonwealth-supported Bachelor places.

Uncapping places was a historic reform that both sides of politics supported, and continue to support.

This historic reform was designed to ensure that at least 40 per cent of our young people had a university degree to meet the estimated demand for 3.8 million skilled graduates by 2025.

An end to arbitrary limits on enrolments has opened up access to Australia's universities to sections of the population that have traditionally been under-represented in higher education, including Indigenous students, students with a disability and students from low SES backgrounds.

The Department of Education and Training (DET)'s data shows that:

- low SES undergraduate student enrolments increased 50 per cent, from 90,467 in 2008 to 135,859 in 2015;
- Indigenous undergraduate student enrolments have increased from 7,038 in 2008 to 12,240 in 2015, a growth of 74 per cent; and
- enrolments of undergraduate students with a disability have almost doubled, from 24,311 in 2008 to 47,256 in 2015.

As a result, low SES students' share of total domestic undergraduate enrolments has increased to 17.7 per cent – up by 1.6 percentage points on 2008.

The Indigenous share of enrolments has increased to 1.6 per cent – up 0.3 percentage points.

More needs to be done to support participation by regional and remote students. Growth in enrolments by these students grew 45 per cent between 2008 and 2015 – somewhat slower than overall enrolment growth.

The growth in commencing Commonwealth supported student enrolments that occurred under the demand driven system was initially rapid, especially during the transitional years prior to its full introduction (in 2009 and 2010).

The growth rate has been declining since 2012, the first full year of the new arrangements.

DET's data show that while annual growth in new student places funded by Government (CSPs) was 11.4 per cent in 2009, 8.3 per cent in 2010 and 8.5 per cent in 2012, growth rates have declined since then.

In 2015, commencing CSPs fell by 0.4 per cent. Meanwhile, Australia's population grew by 1.4 per cent in the 12 months to March 2016.

While some further growth is likely in future years, this is likely to align with population increase, rather than being driven by the absorption of unmet demand.

Enrolment growth has stabilised, quality is steady and attrition rates are around the same levels as they were a decade ago.

The demand-driven system for university places is a sustainable—and necessary—investment in Australia's future.

Any policy change to contain the modest growth in enrolments expected over the medium term would reduce university participation relative to population growth, and therefore participation rates.

This would be a backwards step for Australia.

It would limit our capacity to meet future employment needs, reduce the supply of high level skills to the labour market and disproportionately disadvantage students who already face the highest barriers to university study.

Universities Australia calls on the Government to retain the demand-driven funding system.

ADEQUATE FUNDING FOR STUDENT PLACES

While we acknowledge the Budget challenge, there is no defensible case for reducing the Commonwealth Grants Scheme by \$3.2 billion over the forward estimates.¹¹

These reductions would be in addition to changes in Budgets from 2011–12 to 2013–14 that have yielded savings of more than \$1 billion a year from the sector over the forward estimates.¹²

The magnitude of any such cuts would put at risk the quality of the higher education provided by Australian universities and run directly counter to the Government's ambition to reinvigorate the economy through education, research and innovation.

Any erosion of the quality of the system also puts at risk the international education market, Australia's third largest export industry.

Proposed cuts should be seen in the context of the following:

- The long-term rates of return to the economy and the Budget as discussed above.
- The low level of public investment in tertiary education compared with OECD benchmarks:
- according to the OECD's latest figures, Australia is ranked 32 out of 33 OECD countries for public investment in tertiary education, 0.7 per cent of GDP compared to an OECD average of 1.13 per cent in 2013;¹³ and
- Australian total investment in tertiary education institutes has been flat since 2000, while total investment in other OECD countries has been increasing.¹⁴
- Despite the increase in enrolments between 2008 and 2015, as a share of both GDP and total Commonwealth outlays, the Commonwealth is investing less in higher education in 2016 than it did in 2009.¹⁵
- The value of '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 in some disciplines.¹⁶

In late 2016, universities submitted data to the Department's Review of the Cost of Delivery of Higher Education.

While the results and outcome of the study are yet to be made public it is important to note that base funding is intended to cover more than just the direct costs of teaching and learning.

¹¹ Parliamentary Budget Office 2016, *Unlegislated Measures Carried Forward in the Budget Estimates – June 2016 Update*, PBO, Canberra

¹² Universities Australia 2016, *Universities Australia Pre-Budget Submission 2016-17*, Universities Australia, <https://www.universitiesaustralia.edu.au/Media-and-Events/submissions-and-reports/2016-17-Pre-Budget-Submission/2016-17-Pre-Budget-Submission#.V56qvlV96Uk>

¹³ OECD 2016, *Education at a Glance 2016: OECD indicators*, OECD Publishing, Paris, Indicator B2.3.

¹⁴ OECD, *Education at a Glance: OECD Indicators*, OECD Publishing, Paris, Indicator B2.3 (various years).

¹⁵ Australian Government, Budget Paper No.1, 2009–10 and 2016–17.

¹⁶ Universities Australia 2015, *Higher Education and Research Facts and Figures*, Universities Australia, Canberra, p.13

Base funding covers teaching, scholarship, a base research capacity and community engagement, and supports universities to meet costs of providing courses at an acceptable level of quality, including employment of academic staff as well as administrative support and infrastructure.

Assessing the adequacy of base funding is therefore not as simple as comparing funding rates with teaching costs as identified by the current review.

The *2011 Base Funding Review* found that 6 to 10 per cent of base funding supports base research capability.¹⁷

The report also noted that in the last year before the commencement of the CGS (2004), operating grants included a component of about 5 per cent to cover capital.

The review concluded that arrangements for funding infrastructure as of 2011 were not sufficient to meet universities' needs in a demand-driven system.¹⁸ The situation has not improved since then.

In a system where resourcing is constrained, a university cannot spend more than it receives.

Universities have to do the best they can to fund teaching in different fields and at different levels of study within the overall funding envelope.

Universities work to make delivery more efficient while maintaining quality, including the use of technology to deliver teaching more efficiently.

Universities Australia urges the Government to:

- **Maintain funding per Commonwealth-supported place (CSP) at least at current levels and abandon the proposed 20 per cent cut to the Commonwealth Grants Scheme (CGS).**
- **Ensure that base funding for CSPs adequately supports teaching and learning, base research capability and infrastructure and community engagement.**

INVESTING IN INFRASTRUCTURE

Universities face significant challenges in funding vital infrastructure for both research and teaching. This is particularly true for many regional universities.

UA noted in our response to the Government's higher education policy options paper *Driving innovation, fairness and excellence in Australian higher education* that the options paper did not reflect universities' diminished capacity to meet their infrastructure costs.

This applies both to new infrastructure—as well as to maintenance of existing infrastructure—since the announced closure in 2014 of the Education Investment Fund (EIF).

¹⁷ Jane Lomax-Smith et al (2011), *Higher Education Base Funding Review Final Report*, Australian Government, Canberra, p.84

¹⁸ *Ibid.*, p.85-87

We also noted with disappointment the Government's decision in the 2016–17 Mid-Year Economic and Fiscal Outlook (MYEFO) of its intention to remove the remaining \$3.7 billion in EIF funds.

UA has urged the Government to rethink this proposal and the fund should remain and made available for investment in universities teaching and research infrastructure.

A continued lack of investment in research and education infrastructure will make it impossible for universities to build the next-generation teaching spaces needed to educate and train Australian students for the jobs of the future.

It also risks Australia missing out on building the research facilities that are basic to world-class research and which assist Australia to attract and retain leading international researchers.

A lack of new infrastructure—and the inability to maintain older buildings as they fall into disrepair—will threaten Australia's ability to compete in global research and the international education market.

UA applauds the Government's commitment to long term funding certainty for national research infrastructure announced as part of the NISA.

While major national research infrastructure is now funded on an ongoing basis, universities still face serious challenges funding their own research infrastructure.

The draft *2016 National Research Infrastructure Roadmap* proposes national research infrastructure focus areas and is currently open for comment. It recommends the development of a Roadmap Investment Plan but does not identify potential funding sources.

The *Research Infrastructure Review Final Report*, September 2015 letter of transmittal noted that the case for investing in research infrastructure is strong.

It also said that current arrangements for planning and funding of national research infrastructure are not working well.

It voiced concern about successive governments' practice of funding long term investments on short term funding cycles.

It recommended the Government establish an Australian National Research Infrastructure Fund.

UA argues in our submission to the Roadmap that while the \$1.5 billion investment in National Collaborative Research Infrastructure Strategy (NCRIS) over ten years is welcome, this is operational funding only.

The issue of capital funding for national and landmark research infrastructure, as well as institutional infrastructure, remains unresolved.

A great deal of time and effort from eminent experts has gone into producing a number of reports such as the *National Infrastructure Roadmap* and the *Research Infrastructure Review Final Report*.

These major reports contain important recommendations about investment and planning.

UA urges Government to implement long-term, strategic, predictable funding for research and research infrastructure.

Funding uncertainty is a major threat to Australian research endeavours, with flow-on consequences for innovation, industry development and the country's international competitiveness.

Universities Australia urges the Government to:

- **Ensure the \$3.7 billion in the Education Investment Fund (EIF) remain available to fund the capital and operating costs of university research and teaching infrastructure.**
- **Progress the recommendations of Government-commissioned review of infrastructure funding in both higher education and research.**

EFFECTIVE AND RELIABLE EQUITY FUNDING

The Higher Education Partnerships and Participation Program (HEPPP) is an effective initiative.

It has helped to drive an historic increase in university participation by people from low SES backgrounds and other under-represented groups.

Higher education access and equity is a long-term issue, and long-term solutions are needed.

Government and universities should acknowledge and celebrate the gains made so far, and redouble efforts to make further improvements. HEPPP has only been in operation for six years.

HEPPP's success has come in spite of several funding cuts. HEPPP would be more effective if it received adequate, predictable funding.

HEPPP provides support for universities' activities in both outreach and student support, addressing both access to university for students from low SES backgrounds, and success once they enrol.

Both halves of the program are vital, and both should be retained.

Program design should include a rigorous evaluation framework.

This would enable Government and universities to be clearer about objectives, as well as making it easier to assess performance against these.

Universities Australia opposes any proposal to convert HEPPP into a Government-funded scholarship scheme.

HEPPP allows universities to provide scholarships and bursaries to eligible students, and should continue to do so.

Universities are well placed to make decisions about what kinds of projects and assistance—including scholarships—are most effective in supporting access and success among their own prospective and actual students.

Government scholarship schemes, on the other hand, should be considered as complementary and additional to, rather than as a substitute for, HEPPP.

Options for scholarship schemes could form part of a comprehensive and well targeted system of means-tested income support administered by the Commonwealth.

Universities Australia recommends that Government should:

- **Retain HEPPP as the main national program to support access, equity and participation in higher education;**
- **Commit to providing adequate and predictable funding for HEPPP;**
- **Retain both the partnerships and participation components of HEPPP as separate elements of the program;**
- **Modify the HEPPP Guidelines to make the program more flexible. In particular, make it easier for universities to use HEPPP funding to direct outreach and student support work to students from equity groups other than low SES; and**
- **Develop a detailed and rigorous evaluation framework and incorporate into HEPPP design. The framework should support evaluation of the HEPPP as a whole, the partnerships and participation components of HEPPP, and the various university activities funded under HEPPP.**

FUTURE-PROOFING STUDENT LOANS

Australia's globally emulated Higher Education Loan Program (HELP) has made access to higher education affordable for millions of Australian students.

It is a fundamental feature of the Australian higher education system.

HELP has supported growth in participation and opportunity for more than 25 years, and is essential to maintaining broad access to higher education and avoiding the accumulation of excessive levels of graduate debt.

Reported forecasts of HELP 'blowouts' in coming decades have been exaggerated.

While total HELP balances are projected to reach \$185 billion by 2025–26, most of this debt will be recovered.

A significant share of the recent growth in HELP debt has occurred through expansions in vocational education loans – rather than for university study.

More than half of the total increase in HELP lending between 2010 and 2015 was due to growth in the VET FEE-HELP loan.

Nevertheless, improved debt recovery could make HECS-HELP more sustainable for the long term, as well as removing some anomalies in the current structure of repayments.

We support further consideration being given to reasonable policy design adjustments that are consistent with the underpinning ‘fairness’ principles of the scheme and that do not undermine the fundamental policy intent or objectives of the scheme.

Universities Australia supports investigation of policy changes to ensure the integrity and financial sustainability of the HELP. These include:

- **debt recovery from all those who can afford to repay but currently do not;**
- **a moderate reduction in the minimum repayment thresholds and a modest increase in the repayment rate for high income earners; and**
- **consistent loan fee arrangements for all HELP loans.**

RESEARCH AND COLLABORATION

Research is a key driver of economic growth, national productivity and social wellbeing.

This is particularly true in an environment of rapid technological and economic change.

Australia’s future prosperity will depend increasingly on research breakthroughs that create new products, jobs and industries.

Universities account for around 70 per cent of the Australian publicly funded research effort and perform the major share of basic research—the foundation of Australia’s applied research and innovation system.

Universities are the only institutions that link all elements of advanced scholarship, innovation and development.

Other nations around the world are investing heavily in research, innovation and higher education, which are central to prosperity and global competitiveness.¹⁹

- China is on a path to becoming the world’s biggest investor in research and development within the next decade.
- The United Kingdom has allocated \$3 billion over five years to its Catapult Centres to promote industry-university collaboration, compared with Australia’s \$190 million over the same period for Growth Centres.
- Singapore increased its investment in research and development by 20 per cent for 2011–15, compared to the previous five year period.
- South Korea has a target of investing five per cent of GDP in research and development by 2020.

UA welcomes the initiatives under National Innovation and Science Agenda (NISA) that encourage business and universities to work more closely together.

It will be particularly important to develop a larger pipeline of projects that take great research and utilise it in business, industry and the community.

¹⁹ Universities Australia 2015, *Keep It Clever*, Universities Australia, Canberra

While we must never lose sight of the importance of basic research, Government, industry and universities recognise the benefits across our economy and society of businesses and universities working together to widen that pipeline.

It is important to pursue programs that encourage industry to reach 'in' to universities to complement the policy initiatives announced in the NISA that encourage universities to reach 'out' to industry and other research users.

UA continues to endorse the objectives of the Research and Development (R&D) Tax Incentive Review Report.

Australia's low levels of collaboration between industry and university researchers is a major barrier to Australia's successful transition to an innovation nation.

The NISA included important and positive measures to encourage universities to engage with business.

The new engagement and impact assessment and changes to university research block grants send a strong policy signal to universities regarding the Government's collaboration expectation.

These changes must be complemented by incentives to encourage industry to become active partners in the collaborative effort, and help drive national innovation.

UA strongly supports the introduction of a collaborative premium to the R&D Tax Incentive for businesses collaborating with universities and other publicly funded research organisations.

This is a positive and long-awaited measure that will help to drive the collaborative effort between industry and researchers to improve Australia's innovation performance.

A premium rate would help address industry concerns about additional overheads incurred in collaboration, and encourage greater use of existing infrastructure and capabilities across the research sector.

Nevertheless, the persistent underfunding of the indirect costs of research has distorted the university funding model, particularly for the most research intensive institutions.

In 2009, Allen Consulting estimated that universities had to find an additional 85 cents from other revenue sources for every dollar of competitive grant funding received, to cover costs not met by research grants.²⁰

The introduction of the Sustainable Research Excellence (SRE) Scheme included an aspiration to reduce this figure to 50 cents.

The target level of funding was based on international best practice, particularly on levels of funding for indirect research costs in England and the United States.

Regrettably, program cuts made by successive governments have left the unfunded indirect costs of research at their previous high level.

The impost created by SRE cuts has more than doubled over the past decade. In 2014 the gap was \$486 million, up from \$212 million in 2002.²¹

²⁰ Allen Consulting Group 2009, *The indirect costs associated with research funded through Australian Competitive Grants*, Allen Consulting Group, p. 54, July 2009

²¹ In 2014 constant dollars.

In 2014, universities sourced 54 per cent of their research expenditure from general university funds, including revenue from domestic and international students.²²

Universities Australia recommends that Government commit to a five year timeframe to address the shortfall in funding for the indirect costs of research.

SUPPORTING INTERNATIONAL EDUCATION

Australia's performance in international education continues to go from strength to strength.

In 2015–16, export earnings from international education exceeded \$20 billion for the first time.²³ Higher education accounts for about two-thirds (or \$13.7 billion) of total export earnings.²⁴

International education is Australia's third biggest export, behind only iron ore and coal, and is Australia's biggest services export. International education is Victoria's biggest export.

Recent modelling shows that international education supports more than 130,700 Australian jobs and sustains Australian living standards.²⁵

According to the latest available data, Australia was the third most popular destination for international students (in tertiary education) in 2013.

Of the top five destination countries, Australia was the only country that increased its market share between 2000 and 2013, as more countries entered the education export market.

Australia's market share was 5.1 per cent in 2000, rising to 6.2 per cent in 2013.²⁶

There is no room for complacency.

Traditional and newer competitors are scaling up their efforts in international education and as our traditional source countries build their domestic higher education capacity.

International research collaboration is another area where other countries are investing significantly and intensifying their efforts.

UA congratulates the Government on the recent National Strategy for International Education and looks forward to assisting in the implementation.

²² ABS 2016, *Research and Experimental Development, Higher Organisations Australia 2014*, Cat. No. 8111.0, Commonwealth of Australia, Canberra

²³ ABS 2016, *International trade in goods and services, Australia, October 2016*, Cat. No. 5368.0, Commonwealth of Australia, Canberra.

²⁴ ABS 2016, *International trade: supplementary information, Financial year, 2015–16*, Cat No. 5368.0.55.003, Commonwealth of Australia, Canberra.

²⁵ Deloitte Access Economics 2016, *The value of international education to Australia*, A report prepared for the Department of Education and Training.

²⁶ OECD, *Education at a glance: OECD indicators*, OECD Publishing, Paris, Indicator C4 (various years).

As has previously been argued by UA, a coordinated, whole of government approach, as called for in the National Strategy, is important to maintain the consistent and effective policy settings that underpin the international education sector in Australia.

This approach will ensure Australia maintains its position as a market leader in international education and allow the sector to be more responsive and agile in continually changing market settings.

UA commends the Government on the allocation of new funding in the 2016–17 Budget to support the implementation of the National Strategy. New funding totals only \$12 million.

To ensure that this modest amount of money is spent with maximum effectiveness and creates the greatest benefit for both the sector and Government, it is important that this funding is well targeted.

It is worth noting that the funding for the National Strategy will need to account for a number of programs that were previously funded under the Regional Links Program, which was cut from the 2015–16 Budget.

The program was used to fund a number of high-impact programs that built strong regional engagement and supported Australia's international education system.

Universities Australia recommends that the implementation of the National Strategy focus on high-level priorities, including activities that:

- **promote country-to-country engagement;**
- **build awareness of the value of international education; and**
- **ensure the integrity and value of the student experience, including employability skills and outbound mobility.**

SUPPORTING PHILANTHROPY

While many may consider the US and UK to be more advanced in higher education philanthropy, the Australian sector continues to show strong growth.

Recent studies undertaken by the Council for Advancement and Support of Education (CASE) show total funds secured in 2015 (\$538.2m) represented a 26 per cent increase over the amount in 2014.

There were also 70 confirmed pledges over \$1 million in that year, and the total number of donors grew by 23 per cent and alumni donors by 16 per cent.

Philanthropy, and advancement activities more generally, aim to engage both alumni and the broader community in a university's achievements and goals.

Funds raised through these activities can support specific programs (including teaching or research), scholarships or community outreach; they can also target specific infrastructure or maintenance outcomes.

While funds raised through philanthropic activities should never replace public funding, supporting universities in diversifying their revenue sources should be an aim for Government.

While many Australian universities are well advanced in their philanthropic activities, many smaller and younger universities are still beginning to build their capacity.

The report from the Philanthropy in Australian Higher Education Working Party, chaired by University of Melbourne Vice-Chancellor, Professor Glyn Davis, provides a number of recommendations to government to support universities at all stages of their philanthropy capability.

Following this report, UA and CASE held a symposium on philanthropy in higher education on 7 December 2016.

Speaking at the event, Minister Simon Birmingham undertook to consider the recommendations relevant to Government from the report, and to respond at a later date.

Universities Australia calls on the Government to implement measures to support universities' effort to develop philanthropy. These include:

- **A modest, government-funded financial package to support institutions relatively new to advancement and philanthropic activities to establish or grow their advancement operations in a sustainable manner. Structured over three to five years, the fund would support organisational investment and mirror other successful initiatives in the UK.**
- **Revisiting the proposal to introduce Charitable Remainder Trusts, or Living Legacy Trusts, which was first raised by Philanthropy Australia in their submission to the Tax White Paper process in 2015. The establishment of such trusts would facilitate and encourage giving to universities in Australia.**
- **Following the implementation of the above initiatives, within three years the Government should consider the benefits of a matched giving scheme. While the evolution of advancement in Australia is not yet at a stage to maximise the benefits of such an opportunity, the Government should give the proposal serious consideration when current budget pressures lift.**

HEALTH WORKFORCE

An adequate and appropriately skilled workforce underpins an effective health system. Australian universities play a major role in delivering that workforce.

Quality clinical placements are a critical and compulsory part of such workforce development and play a role in overall skill-mix and workforce distribution—a key challenge for Australia.

Although several factors determine where and what specialties graduates choose to work in²⁷ high quality clinical placements undeniably influence vocational choice and future workforce distribution.^{28, 29}

Ensuring sufficient volume, type and funding for clinical education, particularly clinical placements, are therefore paramount. However various issues exist in relation to this:

- A number of health and medical courses have been shown to be underfunded, particularly the clinical training component.³⁰ Underfunding in some disciplines is actually increasing.³¹
- Universities, already underfunded for clinical training, are increasingly being charged by state health services for placements, which state governments receive funding to provide.
- While UA welcomes the focus on increased training opportunities in rural areas, there are still not enough placements in non-traditional (non-public hospital) settings required to get the right skill mix and distribution for our future workforce needs.

The fragmentation of health care responsibility between all levels of government, public and private providers, different structures and regulators makes addressing these issues particularly challenging.

Various activities are currently underway to explore, elements including costs of health professional education, clinical training and health workforce. These include:

- DET's higher education costing review;
- the Independent Hospital Pricing Authority's (IHPA) work on Activity Based Funding (ABF) for teaching training and research (TTR); and
- Department of Health's medical workforce assessment and development of a Health Workforce strategy.

UA welcomes these activities. However, without a coordinated, inter-government approach, the ability to fully understand and adjust for factors that impact on clinical training in both the health and higher education sectors and across different governments and providers will be lost.

To ensure universities can provide quality, affordable clinical training to address future health workforce distribution and skill mix needs, Universities Australia calls for:

- **sufficient funding arrangements for clinical placements to address underfunded areas of health professional educations and clinical training; and**

²⁷ Singh K. 2013, *Factors that influence Australian medical graduates to become general practitioners*. Australian Medical Student Journal, Vol 4, Issue 2: http://www.amsj.org/wp-content/uploads/files/articles/amsj_v4_i2/37.pdf

²⁸ 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>.

²⁹ Victorian Department of Health 2011, *Victoria's Strategic Plan for Clinical Placements 2012-2015: Well Placed, Well Prepared*. <http://bit.ly/2inOwnW>

³⁰ Jane Lomax-Smith et al (2011), *Higher Education Base Funding Review Final Report*, Australian Government, Canberra,

³¹ 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>

- **support for universities to expand training places for all health professions beyond traditional public hospital settings and into areas of need: such as the disability, private and NGO sectors; and aged, primary and mental health care.**