

## Productivity Inquiry submission

October 2022

- The Innovative Research Universities (IRU) welcomes the opportunity to make this submission to the Productivity Commission. The five-yearly productivity inquiries are important for reviewing Australia's performance and policy settings across a wide range of areas, and soliciting ideas for productivity-enhancing reforms. The IRU supports the previous submission made to the 2022 Productivity Inquiry by Universities Australia.
- After reviewing the Inquiry interim reports, the IRU wishes to highlight the following key points as priorities as the Commission develops its final report to government.
- We support the focus on education as a critical driver of innovation and productivity and the benefits it delivers to both individuals and also the broader society and public good. The Commission's work to present the evidence on both the private and public benefits of education is vital for informing a debate about the right balance between private and public contributions to the costs of education.
- The interim reports also clearly present the evidence for the "rising demand for tertiary education" and the future skills needs of the Australian workforce, which will increasingly require graduates with tertiary qualifications. In our recent submission on the *Jobs and Skills Australia Bill 2022*, the IRU outlined key recommendations to ensure that universities are included in the work of Jobs and Skills Australia and that skills analysis and policy is connected to the work to underpin the Australian Universities Accord ([link](#)).
- We also welcome the Commission's discussion in the interim reports of current government policy and funding settings for tertiary education, and note the finding that "the higher education sector in particular will be unable to meet... additional demand under current funding arrangements". Our analysis has focused on the Job Ready Graduates (JRG) policy package which provides the current framework for funding university places for domestic undergraduate students. (See IRU discussion papers on the JRG released in September 2022 [here](#).) We believe that the JRG needs to be reformed as part of the Universities Accord. Our analysis shows that the JRG has made the system more complex and exacerbated inequalities, and we agree with the conclusion in the interim report that differential subsidies based on immediate skills needs have little effect. We also agree that students make good choices, and that improvements to the current system are possible without necessarily increasing public funding. However our modelling of reform options clearly shows that, without additional government funding, some students will end up paying more to correct the problems of the current system.
- The interim reports compile the available evidence to show that Australia's tertiary education attainment rate is high by international standards and that measures of student and employer satisfaction are also very positive. This provides a valuable snapshot of a high-quality and high-performing tertiary sector.

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- The interim reports put forward a number of ideas for driving more competition, more diversity and more use of technology in teaching, but further analysis and discussion would be required to establish how these reforms would improve upon quality and student/employer satisfaction.
- The IRU agrees that student equity, retention and completion are important areas for continuing focus. This is a priority for our universities, which already have high levels of participation by students from equity group backgrounds. Addressing Australia's unfinished business in equity in tertiary education is not only the right thing to do, it will also help to address short-term skills needs while delivering major long-term benefits across society. We agree with the Commission that more work is needed to develop a better evidence base and framework for evaluation of existing programs, with the sharing of best practice across the sector. We welcome additional funding for the National Centre for Student Equity in Higher Education and commit to working in partnership across our group and with external organisations such as NCSEHE on these issues.
- The discussion of equity and completion in the interim reports also highlights important factors that should influence how we think about competition and diversity in tertiary education. Interim report 5 makes it clear that there is already variation across the country (and across institutions) when it comes to participation by students from equity groups. Policy and funding reform should not necessarily seek to create more diversity, but rather recognise the diversity that already exists and allow institutions to respond flexibly to serve the needs of their distinct student cohorts and communities. Rather than driving increased competition between universities and TAFE for example, the optimal approach could be increased alignment (through Federal/State Government agreement, funding models and the Australian Qualifications Framework) and increased flexibility to allow for greater collaboration and the delivery of joint programs.
- The *Higher Education Support Act 2003* requires higher education providers to have a mission-based compact with the Australian Government, to set out agreed performance and accountability measures unique to each institution's distinct mission. The interim reports do not address the role of compacts in university funding, but more use could be made of them to support diversity and the report's recommendation for "contextual adjustment" in funding, "given the large effect of each university's context". Within the accountability framework provided by the compact, universities could then be given more flexibility with places and funding to serve their communities and support student success.
- Consideration of equity and existing diversity among student cohorts/institutions should also inform further work on the costs of delivering tertiary education, and how the cost of delivery is linked to government contributions. Recent research shows that the costs of delivery vary widely not only across fields of education, but also across different groups of students ([link](#)). Future policy reform could shift emphasis from activity-based funding to mission- and need-directed.
- Finally, the interim reports highlight the changing nature of innovation as Australia shifts to a services-dominated economy. This has wide-ranging implications across government policy and for both education and research in universities. The interim reports pay little attention to the contribution of university research to innovation and productivity. We note that the previous Productivity Commission report *Shifting the Dial* (2017) recommended that government funding for university teaching and research be separated to avoid cross-subsidisation, and that government fund the full cost of research. While the former has been implemented through government policy since 2017, the latter remains unaddressed.

- In line with structural change across the Australian economy, the IRU agrees that both STEM and HASS knowledge and skills will be critical for productivity growth, and that process and human skills will be as important as technology and “things”. The universities in the IRU pioneered innovative, multi-disciplinary approaches to higher education, teaching and research from their founding in the late 1960s and early 1970s. The Commission’s interim reports have a focus on the *how* of teaching (suggesting for example that more use should be made of technology) but not the *what*. Policy reform should support innovative approaches to education and research that integrate multiple disciplines, rather than privileging some disciplines over others.
- New government programs to incentivise research commercialisation should be broadened to support the translation of university research in all sectors, including the public and community sectors as well as the private sector. The focus on capturing benefit through patents should be widened to recognise the productivity gains from economic and social spillovers from university IP. Through high-quality and highly internationalised research (connected to education), universities also support the integration of global knowledge into innovation that benefits Australian companies, communities and governments. We agree that broader shifts in the economy and society should again drive new thinking about higher education and research, and how they support innovation and productivity. This should be a focus of the process towards a new Australian Universities Accord. Australia will be more innovative and productive into the future if it takes an inclusive approach to integrating the widest range of people, talent, knowledge and ideas.