

Productivity Inquiry Commission

By Email to: productivity.inquiry@pc.gov.au

Dear Commission,

Submission for Learning for Growth Interim Report 5

This letter outlines the Independent Higher Education Australia (IHEA) submission to the Commission in response to Interim Report 5 – From Learning to Growth.

IHEA agrees with the Commission’s view that “students make good choices”¹ and that “Across both VET and higher education, funding is often allocated to providers based on historical grant allocations, rather than contestable arrangements.”²

IHEA advocates for competitive neutrality and a level-playing field between universities and independent higher education providers because current funding arrangements distort student choice in favour of universities over providers and courses best suited to students’ interests and long-term career success.

Who we are

IHEA is the peak body that represents most of Australia’s registered Independent Higher Education Providers (IHEPs). IHEPs comprise almost 75% of Australia’s higher education sector and include dual-sector and multi-sector providers offering Vocational Education and Training (VET) and/ or English Language Intensive Courses for Overseas Students (ELICOS) to domestic and international students.

A list of IHEA’s full membership is available in **Appendix A**.

The independent higher education sector is central to Australia’s economic recovery, international education growth, and the availability of skilled workers in Australia’s struggling labour force. Before the COVID-19 pandemic, the independent higher education sector realised approximately \$2.64 billion, making the independent higher education sector Australia’s 21st largest export. Further, IHEPs consistently rank the highest in Australia for teaching quality, learner engagement, skills development, and overall quality compared to universities in government-endorsed Quality Indicators for Learning and Teaching (QILT) surveys. Notably, IHEA members also ranked in the top 5 in graduate outcomes for overall full-time employment and labour force participation rates in 2021 QILT surveys.

Growing enrolment trends in the independent higher education sector (18.2% between 2017 and 2020) also reflect the increasing value students place on independent higher education compared to public universities, whose growth rates are much lower (6.1% for the same period) despite disproportionate government investments in their favour.

Summary of recommendations:

IHEA makes the following recommendations:

¹ Productivity Commission: Interim Report 5 – From Learning to Growth, pg. 56

² *Ibid*, pg. 61.

1. End the FEE-HELP loan surcharge for independent providers which undermines student choice and is both iniquitous and anti-competitive.
2. Develop a universal, income-contingent loan scheme with equitable settings for all tertiary students
3. Amend the Higher Education Support Act (HESA) (2003) to widen CSPs to all higher education providers, i.e., delivering education in national priority fields
4. Equitable Government teaching and research funding access ensure that funding eligibility is driven by quality criteria rather than provider type.
5. A single tertiary system and regulator for the higher education and VET sectors that maintains TEQSA's case management approach
6. Greater engagement of all higher education providers in designing micro-credential course frameworks to ensure such courses best meet workforce needs, e.g., earlier independent higher education sectoral involvement in the Micro-credentials Pilot currently underway.

For greater detail about each of the specific recommendations, please refer to IHEA's submission to relevant sections of the Commission on Interim Report 1 – Keys to prosperity (**Appendix C**).

Appendix B outlines the Terms of Reference for the Commission's work which further contextualises this submission.

On behalf of IHEA, its members, and the students they serve, IHEA sincerely thanks you for considering the matters raised in this submission.

IHEA welcomes further opportunities to discuss these matters and potential solutions with you.

Yours sincerely,

The Hon. Dr. Peter Hendy
Chief Executive Officer

Contacts:

Independent Higher Education Australia

The Hon. Dr. Peter Hendy
Chief Executive Officer

Michelle Muchatuta
Policy & Research Director

APPENDIX A

IHEA MEMBERSHIP LIST

Academies Australasia Polytechnic

Academy of Information Technology

Adelaide Central School of Art

Adelaide College of Divinity

AIBI Higher Education

Alphacrucis University College

Australasian College of Health and Wellness

Australian College of Christian Studies

Australian College of Nursing

Australian College of Physical Education

Australian College of the Arts (COLLARTS)

Australian College of Theology

Australian Institute of Business

Australian Institute of Business and Management

Australian Institute of Management

Australian Institute of Music

Avondale University

BBI The Australian Institute of Theological Education

Bond University

Campion College

Christian Heritage College

Eastern College Australia

Education Centre of Australia

 Asia Pacific International College

 Higher Education Leadership Institute

Endeavour College of Natural Health

EQUALS International

Excelsia College

Governance Institute of Australia

HEPCo (The Tax Institute Higher Education)

Holmes Institute

Institute of Health and Management

Institute of Internal Auditors Australia

International College of Hotel Management

International College of Management, Sydney

Kaplan Business School

Torrens Global Education Services

 Think: Colleges

 Torrens University

LCI Melbourne

Le Cordon Bleu

Leaders Institute

Lyons College

Macleay College

Marcus Oldham College

Montessori World Educational Institute

Moore Theological College

Morling College

National Institute of Organisation Dynamics Australia

Navitas

 Australian College of Applied Professions

 College of Business and Technology

 Educational Enterprises Australia

 Melbourne Institute of Business and Technology

 Navitas Bundoora

 Queensland Institute of Business and Technology

 SAE Institute

 South Australian Institute of Business and Technology

 Sydney Institute of Business and Technology

 Perth Institute of Business and Technology

 Western Sydney University International College

Perth Bible College

Photography Studies College

Polytechnic Institute Australia

SP Jain School of Global Management

Sydney College of Divinity

Sydney Institute of Higher Education

Tabor College Adelaide

The College of Law

The MIECAT Institute

Universal Business School Sydney

University of Divinity

UoW College

Wentworth Institute of Higher Education

Appendix B

Productivity Inquiry: **Terms of reference**

I, Josh Frydenberg, Treasurer, pursuant to Parts 2 and 3 of the *Productivity Commission Act 1998*, hereby request that the Productivity Commission (the Commission) undertake an inquiry into Australia's productivity performance and provide recommendations on productivity-enhancing reform. This inquiry is the second of a regular series, undertaken at five-yearly intervals, to provide an overarching analysis of where Australia stands in terms of its productivity performance. The first report, *Shifting the Dial* was completed in 2017.

Background

Australia's economy has performed strongly in recent decades enjoying robust growth in incomes and living standards following 28 years of consecutive economic growth interrupted by the COVID-19 pandemic. Australia's economic recovery from the pandemic has been world leading however to ensure Australians continue to enjoy higher living standards, we need to continue to focus on the task of lifting productivity.

Productivity growth is vital for Australia's future, particularly as the Australian and global economies emerge and begin to recover from the economic impacts of COVID-19. The 2021 Intergenerational Report makes it clear that future growth in income and living standards will be driven from productivity growth as the participation effects of young migration are offset by an ageing population. Global and domestic productivity growth in recent decades however has slowed. Changes brought about by the COVID-19 pandemic and the global and domestic policy responses will also provide a unique historical context for this Review.

Given the scale and nature of the economic shock caused by the COVID-19 pandemic, it is expected to have an enduring impact on Australia's productivity challenge. The acceleration in the uptake of technology by business and individuals has stimulated growth in remote work, online commerce, businesses' digital presence and innovative delivery of public services like health and education. The pandemic has affected business models in some key sectors and underscored the need for labour mobility across the economy.

In this environment, Australia needs policy settings that foster a flexible and dynamic economy, that is able to adapt in the face of economic challenges and opportunities. Policy settings should encourage the economy to adapt to the growing importance of digital technologies, including through developing a skilled labour force. They must also be forward looking and support an environment that promotes economic dynamism, entrepreneurship and appropriate risk-taking, and innovation and technological adoption.

Against this background, the Review can play a critical role in making high-value and implementable recommendations to support Australia's productivity growth. Lifting Australia's productivity growth will involve a combination of economy-wide and

structural reforms, in addition to targeted policies in particular sectors to push Australian industries closer to the global frontier.

Scope of the inquiry

The Commission is to review Australia's productivity performance and recommend an actionable roadmap to assist governments to make productivity-enhancing reforms. Each recommendation should qualitatively and quantitatively estimate the benefit of making the reform and identify an owner for the action and a timeframe in which it might occur.

Without limiting related matters on which the Commission may report, its report to the Government should:

1. Analyse Australia's productivity performance in both the market and non-market sectors, including an assessment of the settings for productive investment in human and physical capital and how they can be improved to lift productivity.
2. Identify forces shaping Australia's productivity challenge as a result of the COVID-19 pandemic and policy response.
3. Consider the opportunities created for improvements in productivity as a result of Australia's COVID-19 experience, especially through changes in Australia's labour markets, delivery of services (including retail, health and education) and digital adoption.
4. Identify priority sectors for reform (including but not limited to data and digital innovation and workforce skills) and benchmark Australian priority sectors against international comparators to quantify the required improvement.
5. Examine the factors that may have affected productivity growth, including domestic and global factors and an assessment of the impact of major policy changes, if relevant.
6. Prioritise and quantify the benefit of potential policy changes to improve Australian economic performance and the wellbeing of Australians by supporting greater productivity growth to set out a roadmap for reform.
7. Revisit key recommendations and themes from the previous five yearly review in light of the above, where relevant.

The Commission should have regard to other current or recent reviews commissioned by Australian governments relating to Australia's productivity performance and include comparisons of Australia's productivity performance with other comparable countries. The Commission should support analysis with modelling where possible and qualitative analysis where data is not available, and this is appropriate.

Process

The Commission should consult widely and undertake appropriate public consultation processes, inviting public submissions. The Commission should actively engage with Commonwealth, and state and territory governments. The final report should be provided to the Government within 12 months of receipt of these terms of reference.

The Hon Josh Frydenberg MP
Treasurer

[Received 7 February 2022]



IHEA SUBMISSION TO PRODUCTIVITY COMMISSION ON KEYS TO PROSPERITY

18 October 2022

IHEA Submission to Productivity Commission Report on Keys to Prosperity

18 October 2022

Executive summary

IHEA welcomes the opportunity to contribute recommendations relevant to the independent higher education sector that will assist governments in productivity enhancing reforms that position Australia for increased prosperity and wellbeing. Our assumptions are that students make good choices of their own volition and therefore student choice drives prosperity, and that funding and regulatory settings should be equitable to support student choice and encourage competition and innovation.

Consideration of issues

IHEA's submission and associated recommendations relate to the higher education sector and cover four broad themes:

- 1. Student equity and choice** - Students should not be disadvantaged when choosing an independent provider as the highest quality provider appropriate to their educational needs.
- 2. Competitive neutrality** including market access, access to government funding, a level playing field in accreditation, and as regards regulatory fees (such as TEQSA's Cost Recovery) encouraging and supporting innovation in learning
- 3. Reducing red tape through streamlined regulation in dual-sector contexts**
- 4. International Education - student market positioning** as a means of:
 - sustaining Australia's world-class higher education reputation,
 - promoting economic activity
 - creating a pipeline of skilled workers to fill critical workplace shortages amongst present-day challenges affecting Australia's productivity performance
 - enhancing trade relations across all sectors as an outcome of positive experiences of alumni who return to home to lead companies and play a role in their governments.

Considering the above we make the following recommendations.

Summary of recommendations:

The following recommendations identify areas IHEA believes can achieve the greatest return in higher education reform:

1. End the FEE-HELP loan surcharge for independent providers which undermines student choice and is both iniquitous and anti-competitive.
2. Develop a universal, income contingent loan scheme with equitable settings for all tertiary students
3. Amend the Higher Education Support Act (HESA) (2003) to widen CSPs to all higher education providers, i.e., delivering education in national priority fields
4. Equitable Government teaching and research funding access ensuring that funding eligibility is driven by quality criteria rather than provider type.
5. A fairer distribution of regulator costs based on partial cost recovery and institutional enrolment numbers with the focus of costs related to TEQSA Cost Recovery related to course accreditation. These fees fall disproportionately on new entrants and are an efficiency-reducing barrier to entry in the sector.
6. A single tertiary system and regulator for the higher education and VET sectors that maintains TEQSA's case management approach
7. Abolition of student visa fees to; re-energise Australia's international education market, remove barriers to entrance, and advance a narrative of welcome to foreign students post pandemic impacts. The cost of such a reform is considered minor in a \$41 billion dollar industry
8. Improve processing times for student visas
9. Greater engagement of all higher education providers in the design of micro-credential courses to ensure such courses best meet workforce needs, e.g., earlier independent higher education sectoral involvement in the Micro-credentials Pilot currently underway.

Introduction

This document outlines Independent Higher Education Australia's (IHEA) submission to the Productivity Commission (Commission) on the Key to Prosperity Interim Report.

IHEA supports the Commission's view that "Lifting Australia's productivity growth will involve a combination of economy-wide and structural reforms, in addition to targeted policies..."¹ Further, like the Commission, IHEA supports "Policies that foster a business environment that encourages efficiency, innovation and diffusion, ... sound regulation."²

IHEA also notes the recent release of Report 5 on Learning to Growth and the following key points from that report:

- * " To support productivity growth, the tertiary education system needs stronger incentives for providers to deliver courses that adapt to growing and changing skill needs.
- * Government subsidies for tertiary education could be allocated more efficiently and equitably, without necessarily increasing the total amount of public funding.
- * Increasing the competition for funding across education providers could encourage sector innovation, competition, and student choice.
- * Given the growing importance of lifelong learning, rebalancing public funding to support ongoing skill acquisition may be warranted."³

With these key points in mind, IHEA welcomes the opportunity to provide recommendations to the Productivity Commission on productivity-enhancing reforms in higher education.

Who we are

IHEA is the peak body representing most of Australia's Independent Higher Education Providers (IHEPs) with campuses across Australia. IHEA members have different missions, scales and course offerings across the full Australian Qualification Framework (AQF) range (Diplomas to Doctorates). Members comprise:

- Four private universities (Bond University, Torrens University, University of Divinity, Avondale University);
- Three University Colleges (Alphacrucis, Moore Theological College and Australian College of Theology) and
- 67 not-for-profit and for-profit Institutes of Higher Education.

IHEA members teach 74 percent of the students in the independent sector (i.e., more than 120,000 students) and educate students in a range of disciplines, including law, agricultural science, architecture, business, accounting, tourism and hospitality, education, health sciences, theology, creative arts, information technology, and social sciences. A list of our full membership is provided in **Attachment A**.

IHEA holds a unique position in higher education as a representative peak body of higher education providers. Membership in IHEA is only open to providers registered with the Australian regulator – Tertiary Education Quality Standards Authority (TEQSA). However, some IHEA members are dual and multi-sector providers who also deliver Vocational Education and Training (VET) and/ or English Language Intensive Courses for Overseas Students (ELICOS) courses. IHEA's primary goal is to promote equity, choice and diversity for all Australian higher education students and to promote the reputation of independent higher education.

¹ Australian Government, 5-year Productivity Inquiry: Key to Prosperity Interim Report, p.g iv.

² *Ibid*, p.g xi

³ Australian Government, Learning to Growth Interim Report, p.g 43.

The independent higher education sector's relevance to productivity growth

The independent higher education sector is central to Australia's economic recovery, international education growth, and the availability of skilled workers in Australia's struggling labour force. Before the COVID-19 pandemic, in 2019-20, the independent higher education sector realised approximately \$2.64 billion, making the sector Australia's 21st largest export. In 2021, IHEPs ranked in the top 5 in graduate outcomes for overall full-time employment and labour force participation rates in government-endorsed Quality Indicators for Learning and Teaching (QILT) surveys. IHEP market success, evidenced from quality student experiences and outcomes indicate the value and quality that independent providers bring to the higher education sector.

As Australia's economic sector recovers, proper settings in the higher education sector will rebuild and grow this contribution. As foreshadowed, the independent higher education sector consistently dominates the highest quality ranking in the Government's QILT surveys. However, government funding decisions continue to disincentivise students from enrolling in the independent sector, e.g., the FEE-HELP loan fee of 20%, which is only applicable to undergraduate students from the independent sector.

The market appears to recognise the value of education services beyond public universities, as evidenced by enrolments at independent providers increasing faster than at public universities. Growing enrolment trends in the independent higher education sector (19% in 2019) also reflect the value students place on independent higher education relative to public universities. The independent higher education sector's growth is significant given the constraints placed on the independent sector by current policy and legislative settings.

Consideration of issues

The higher education sector is essential in supporting Australia's productivity performance, as an educated society with a capable workforce underpins innovation, opportunity, and economic growth.

Current challenges in Australia (some of which are considered in the Interim Report) include but are not limited to; poor productivity performance, skills and workforce shortages, global tensions, and pandemic recovery concerns such as international migration issues. In the current operating context, the Australian independent higher education sector is sensitive to:

1. Student equity and choice

Access and participation in higher education can unlock disadvantage. To this end, IHEA supports funding equity for all students and higher education providers. Productivity-friendly higher education reform should promote student choice and equity.

End the FEE-HELP loan surcharge for independent providers which is both iniquitous and anti-competitive IHEA views the FEE-HELP loan fee of 20 percent as a discriminatory fee on education and training for independent sector students. Independent sector students are the only HELP recipients required to loan 120 percent of their tuition costs to pursue their educational and career goals. This loan fee is not imposed on students attending public and private universities. IHEA's independently commissioned economic impact analysis of the FEE-HELP loan fee determined that it raises \$6.2 million per annum in general revenue but shackles independent sector students with \$100 million more debt than their course costs.⁴

As the Grattan Institute has noted "HELP, formerly known as HECS, has expanded since its introduction 27 years ago. New borrowing under the HELP scheme has grown fivefold over 20 years. Participation in undergraduate and postgraduate education has increased...⁵ HECS student charges were introduced to help finance expanded access

⁴ IHEA Report, <https://iheau.edu.au/wp-content/uploads/2019/05/Students-First-A-Fair-Go-for-All.pdf> -refer pg. 3 for some modelling.

⁵ Grattan Institute Report, 2016 – accessible from <https://grattan.edu.au/wp-content/uploads/2016/12/883-Shared-interest-A-universal-loan-fee-for-HELP.pdf>, pg. 8.

to higher education. Saving on public expenditure per student was a priority. FEE-HELP loans were introduced to improve access to full-fee courses and for all types of higher education provider.⁶

Previous economic modelling shows that a well-considered, universal income contingent loan scheme could earn nearly \$1.2 billion to offset interest costs under the HELP lending program in net savings,⁷ and bring social benefit to the Australian Community.⁸ Similarly, a 2014 report by Norton-Kemp, concluded that:

“there are significant further benefits to be obtained by extension of the demand driven system into the sub-bachelor level, and to private universities and to non-university higher education providers in TAFE and the private sector.”⁹

As a matter of competitive neutrality, creating sectoral efficiency and driving quality up, the Australian Government needs to urgently remove unfair taxes on tertiary students by permanently abolishing loan fee inequity that penalises independent sector students simply for choosing an independent sector provider. Instead, the Government might consider developing a universal, income contingent loan scheme with equitable settings for students regardless of student choice of provider.

Limited access to Commonwealth Supported places in national priority fields

Recently, skills and workforce shortages have identified an urgent need to train students in national priority fields. Earlier, the *Bradley Review of Australian Higher Education* (2008) recommended that access to funded places be extended across the sector following the establishment of the Tertiary Education Quality and Standards Agency (TEQSA).

“Recommendation 29

That the Australian Government introduce a demand-driven entitlement system for domestic higher education students, in which recognised providers are free to enrol as many eligible students as they wish in eligible higher education courses and receive corresponding government subsidies for those students. The arrangements would:

- *apply initially to undergraduate courses but then be extended to postgraduate coursework level courses subject to further work on the balance of public and private benefits at that level of study;*
- *apply initially only to public universities (Table A providers under the Higher Education Support Act 2003), but would be extended to other approved providers when new regulatory arrangements are in place...¹⁰*

TEQSA has been in place now for well over 10 years and assesses all providers according to the same Threshold Standards. As such and as a first step, IHEA proposes that all students should have an equal opportunity to be supported through Commonwealth Supported Places (CSP) in national priority fields of study across all higher education providers. Such an approach could be implemented where the provider has a proven history in managing FEE-HELP and other Government funding arrangement.

Access to funded places for all registered providers will deliver student equity and choice and help create a level playing field in Australia's tertiary sector. IHEA proposes that the *Higher Education Support Act (2003)* be amended to give access to CSP to all higher education students in national priority fields delivered by TEQSA registered higher education providers. As part of COVID-19 relief reform, CSP places were extended to all eligible higher education providers to offer undergraduate certificates in priority areas. This policy decision acts as precedent and as an example of competitive neutrality.

⁶ Grattan Institute Report, 2016 – accessible from <https://grattan.edu.au/wp-content/uploads/2016/12/883-Shared-interest-A-universal-loan-fee-for-HELP.pdf>, pg. 21

⁷ Ibid. pg. 42

⁸ Oslington, P. (2020). “The Economic Benefits of Australian Theological Education.” *Colloquium: The Australian and New Zealand Theological Review* 52(1): 7-33. <https://anzats.edu.au/journal/back-issues/52-1/>.

⁹ Kemp, D. & Norton (2014) Report, Review of the Demand Driven Funding System accessible from <https://www.education.gov.au/higher-education-reviews-and-consultations/resources/review-demand-driven-funding-system-report>, p.g iii.

¹⁰ Bradley, D., Noonan, P., Nugent, H., Scales, B., (2008), *Review of Australian Higher Education*, Final Report, Department of Education, Employment and Workplace Relations, Canberra. [Emphasis our own]

Recommendation(s):

1. Stop FEE-HELP loan fee inequity.
2. Develop a universal, income contingent loan scheme with equitable settings for all tertiary students
3. Amend the Higher Education Support Act (HESA) (2003) to widen CSP to all higher education providers, i.e., delivering education in national priority fields.

2. Competitive neutrality in higher education funding and regulation

Competition is essential for markets to function well. As such, competitive neutrality principles should underpin productivity-enhancing reforms in re-energising Australia's economy as it recovers from COVID-19 impacts.

Equitable access to government funding based on quality criteria instead of provider type

IHEA calls for equitable access to government funding. Areas in which competitive neutrality principles are not protected in higher education in Government support funding are evident in HESA, which provides exclusive access to funding to Table A and B institutions for:

- PhD student funding and Australian Research Council (ARC) grants
- [Disability Support Program \(DSP\)](#) which improves access for students with disabilities. A report by the National Centre for Student Equity in Higher Education (NCSEHE)¹¹ recommended:
"That the Australian Government conduct a holistic review of the participation of students with disability to ensure that higher education is free from discrimination, aligned with the requirements of the Disability Discrimination Act (1992) (DDA) and Disability Standards for Education (2005) (DSE), and consistent with Australia's commitment to the Convention on the Rights of Persons with Disabilities (CRPD). This review should include reference to the adequacy of financing to support these policy objectives."
- [Indigenous Support Program](#) to help meet the needs of Aboriginal and Torres Strait Islander students
- [Higher Education Participation and Partnership Program \(HEPPP\)](#) which helps people from low socio-economic status backgrounds
- [OS-HELP](#) – assistance to undertake part of a course of study overseas.

Independent providers are committed to improving access to higher education, particularly for students from equity backgrounds. Table A below illustrates that while only universities have access to Government equity funding, other higher education provider categories attract and retain students from equity groups at almost the same rate, despite the funding inequity.

Table A: Percentage of students from target equity groups across various provider types (data extracted from Department of Education, Skills and Employment (DESE) and National Centre for Student Equity in Higher Education (NCSEHE) 2019 data sets)

	Equity Target Group						
	NESB	Student with disability	Women in non-traditional areas	Indigenous	Low SES postcode measure	Regional	Remote
Independent Higher Education Providers	1.88%	5%	11.78%	1.80%	15.27%	14.41%	0.60%
Universities	3.49%	7.58%	16.57%	2.05%	17.17%	18.52%	0.85%
NCSEHE Data 2019 total % domestic students	3.20%	7.67%	17.72%	1.95%	16.83%	19.61%	0.80%
DESE total % domestic students	3.40%	7.44%	16.23%	2.04%	17.05%	18.28%	0.83%

¹¹ Tim Pitman, Katie Ellis, Matt Brett, Elizabeth Knight, Darlene McLenna, "Calculating the Costs of supporting people with disability in Australian Higher Education," National Centre for Student Equity in Higher Education (2022).

To illustrate, at one of IHEA's members, SAE Creative Media Institute (SAE), two-thirds of students are first-in-family, more than one in 10 have identified with a disability, and more than one in 10 come from a low SES background – which are higher than sector averages. Unfortunately, as an independent, non-university provider, SAE cannot access equity-related funding from the Government, such as the DSP or HEPPP. SAE students are also further subjected to the 20% loan fee referenced earlier that does not apply to university students.

The Council of Australian Government's (COAG's) 1995 decision to introduce competitive neutrality was designed "to remove resource allocation distortions arising out of public ownership of significant activities and to improve competitive processes."¹² These distortions occur because the prices charged by publicly owned enterprises may not reflect production costs which may lead to distortions in production and consumption.¹³

IHEA notes that postgraduate courses are generally much more expensive than in universities, with a more intensive learning experience, more senior staffing, smaller classes, and extensive research requirements. There is concern that universities, especially publically funded (Table A) universities may not be adequately calculating the actual cost base of these courses.

A closely related issue is access to the National Priorities and Industry Linkage Fund (NPILF) introduced under the Job Ready Package. NPILF allocates block grants to HESA Table A universities only (based on CSP Equivalent Full Time Student Load) to support enhanced engagement with universities and industry. Similarly, the lack of competitive neutrality in the HESA to do with Government research funding access can be solved by extending equitable Government funding access policies that ensure that access to funding is driven by quality criteria rather than provider type. In this context, competitive neutrality funding policies are even more critical.

Further, in the case of newer entrants into higher education (primarily independent providers), current arrangements for provider FEE-HELP approval includes a track record of delivery for at least two years. This policy results in newly registered providers seeking Commonwealth Register of Institutions and Courses for Overseas Students (CRICOS) registration to enrol international students to establish a record of operation essential to provider FEE-HELP approval. While Ministerial powers enable FEE-HELP approval on registration, independent providers are usually required to have been operating for a minimum of two years before being approved for FEE-HELP. This is an anti-competitive and efficiency reducing effect of policies that discriminate against independent providers and against new entrants to the market. Without reform to higher education funding, independent providers will continue to focus on the international market rather than the domestic student market, which may create a two-tier system that disreputes Australia's broader higher education sector. If Australia is to sustain a world-class higher education sector that harnesses entrepreneurship and innovation, that can capably train Australia's future workforce. In that case, it is in the national interest that equitable access to funding arrangements is guaranteed from the point of new provider registration. Such a reform would also demonstrate the Government's commitment to sustaining a high-quality higher education sector.

Regulatory concessions based on provider category instead of provider quality

IHEA considers TEQSA's proposed regulatory fees under the Cost Recovery Implementation Statements (TEQSA Cost Recovery) as unfairly affecting Independent of Higher Education Providers (IHEPs) – most of whom are independent providers. Universities have full Self-Accrediting Authority (SAA) and are subject to far fewer regulatory processes than independent higher education providers who often do not have SAA. Further, TEQSA's regulation of universities demonstrates a light touch when compared to non-university providers, of which most are independent providers.

Independent higher education providers operate under sound business models and have demonstrated resilience despite the challenging impacts of the COVID pandemic and current global geopolitical tensions. Within this context, the Australian higher education sector is characterised by complex and ever-evolving regulatory and legislative requirements and contested student markets in which independent and smaller providers are most vulnerable to regulatory processes compared to universities. To illustrate, all universities have full Self-Accrediting Authority (SAA), while only nine independent providers have full or partial SAA. If full cost recovery is

¹² Commonwealth Competitive Neutrality Statement, p. 4

¹³ *Ibid.*

implemented as planned, there is a danger that independent providers, especially smaller providers' courses, will not remain viable which will affect sectoral diversity and also affect student choice.

Further, TEQSA costs for registration and accreditation and annual reporting requirements are extensive and costly to administer. A fairer distribution of regulator costs based on partial cost recovery and institutional enrolment numbers is essential to sector diversity. We recommend the focus of TEQSA Cost Recovery be placed mainly on costs related to re-registration. After all, Australia's reputation for a world-class education system is not built on universities alone - especially considering Government endorsed QILT results regarding overall teaching and learning quality. TEQSA Cost Recovery should also reflect an equitable basis considering the commercial advantages public universities already enjoy through HESA funding arrangements.

Like smaller providers, TEQSA's Cost Recovery model disproportionately affects Professional bodies such as the Institute of Internal Auditors (IIA) (another IHEA member). IIA's higher education delivery model is based on advancing their professions and the quality recognition of their qualifications rather than the generation of revenue from education operations. Independent providers such as IIA do not rely on FEE-HELP loans or international student revenue, they subsidise their course(s) through other revenue generating activities. Without a duly considered Cost Recovery model, there is a danger that Professional Associations like IIA would no longer find it commercially viable to offer the course to members. While there are other internal audit courses offered overseas, IIA's course with Australian content is of significant benefit to students, members, graduates, the profession and the regulators, who rely on auditing expertise.. To illustrate, under TEQSA's recently confirmed Cost Recovery model, IIA estimates that fees for their Graduate in Internal Audit (GradCertIA) (the only one of its kind in Australia) would substantially increase by \$850 per student in fees.

Recommendations:

4. Equitable Government teaching and research funding access ensure that funding eligibility is driven by quality criteria rather than provider type. HESA amendment would be required to extend access to funding to all higher education providers that meet relevant eligibility criteria for the grant.
5. A fairer distribution of regulator costs based on partial cost recovery and institutional enrolment numbers with the focus of costs related to TEQSA Cost Recovery related to course accreditation. These fees fall disproportionately on new entrants and are an efficiency-reducing barrier to entry in the sector.

3. Reducing red tape through streamlined regulation in dual-sector contexts

Regulatory burden and duplication is a critical issue that affects the financial bottom line of providers. Excessive regulatory duplication exists for dual sector institutions. This duplication has a direct negative impact on institutional resources and contributes to internal uncertainty in relation to compliance obligations and outcomes. Despite public statements¹⁴ indicating that greater coordination and streamlining of regulatory processes for dual sector institutions is required, little progress to relieve regulatory burden for dual sector institutions has been achieved to date. Additionally, with TEQSA and ASQA moving to a fee-based cost recovery model in 2023 the implications of duplicative regulatory processes threaten to have a significant negative financial impact on dual sector institutions – a good proportion of which are IHEA members.

IHEA acknowledges that regulation of both the higher education and VET sectors in Australia is necessary to protect the quality and reputation of our post-secondary education sector. However, where regulatory design and

¹⁴ See ASQA <https://www.asqa.gov.au/faqs/how-are-multi-sector-providers-regulated>; DESE <https://internationaleducation.gov.au/regulatory-information/Provider-Registration/RegulatoryAuthorities/Pages/ESOSAgencies.aspx>, TEQSA https://www.teqsa.gov.au/sites/default/files/corporate-plan-2017-v1-0-final_as_at_28-8-18.pdf?v=1537159221, p. 11

processes are excessive or duplicative, a risk to the efficiency, consistency and coherency of the regulatory model exists. For the education sector, these risks are felt directly by registered providers as direct objects of regulation but also indirectly by the broad range of actors and agents within the national education system including governments, the community and students.

Red tape and regulatory duplication reduction – including a single tertiary system and regulator for the higher education and VET sectors

In the last Federal election, IHEA announced a policy recommending a National Tertiary Sector Reform Strategy to reform Australian tertiary education structurally. The Universities Accord (which IHEA suggested ought to be referred to as the Higher Education Accord to reflect the sector's diversity) is an excellent first step to developing productivity-enhancing reform that meets diverse interests.

IHEA proposes that the Higher Education Accord Reform strategy consider reducing barriers and red tape that unfairly burden dual and multi-sector providers co-regulated by TEQSA, Australian Quality Skills Authority (ASQA), and in some instances, Professional Associations. A simple reform streamlining regulation through single registration via TEQSA would remove barriers to independent providers who diversify their offerings across two differently regulated sectors, higher education and VET.

Australia's education and training system and employment services should be integrated, given their contribution to national prosperity. Education, employment and lifelong learning are essential in growing Australia's workforce capacity and supporting a knowledge economy.

The Independent sector is already straining under the weight of regulation, red tape and rising costs, including impending costs such as TEQSA's Cost Recovery. TEQSA costs for registration and accreditation and annual reporting requirements are extensive and costly to administer. Further, recent Government decisions to impose full cost recovery for TEQSA and ASQA only increase such costs, especially for dual providers. A holistic approach to education and training, including due consideration of regulatory impact, would ensure that the independent sector continues contributing to the availability of a skilled workforce that can meet industry demand and promote productivity gains.

Recommendation:

6. A single tertiary system and regulator for the higher education and VET sectors that maintains TEQSA's case management approach

4. International Education and student market positioning

Robust international education and student migration positioning has traditionally helped address Australia's workforce shortages. To this end, IHEA calls for the abolition of student visa fees to re-energise Australian international education and remove barriers to entrance while also advancing a narrative of welcome to foreign post-COVID-19 impacts. The cost of such a reform is considered minor in a \$41 billion industry. Effective management of international education growth will require policy settings that enable international student mobility and would ideally be supported by improved processing times for student visas.

The combined tertiary sector plays a crucial role in preparing Australians to enter the workforce empowered and ready to value-add to productivity and output. Australia needs to foster a culture of upskilling throughout a person's career. Workers strongly prefer shorter courses because short courses such as micro-credentials can equip students to keep pace with the changing nature of work without committing to a full degree qualification and help Australia to remain an internationally competitive society/economy. While IHEA acknowledges Government effort associated with creating the Micro-credentials Pilot program, IHEA advocates for greater collaboration with all higher education providers in the design of micro-credential courses to ensure such courses best meet workforce needs, e.g., earlier independent higher education sectoral involvement. Effective management of short course growth will require policy settings that enable the independent sector to expand to meet student demand, industry needs, and national interests.

Recommendations:

7. Abolition of student visa fees to; re-energise Australia’s international education market, remove barriers to entrance, and advance a narrative of welcome to foreign students post pandemic impacts. The cost of such a reform is considered minor in a \$41 billion dollar industry
8. Improve processing times for student visas
9. Greater collaboration with all higher education providers in the design of micro-credential courses to ensure such courses best meet workforce needs, e.g., earlier independent higher education sectoral involvement in the Micro-credentials Pilot currently underway.

We thank the Commission for the opportunity to contribute to the inquiry on Keys to Prosperity with a higher education lens, and welcome opportunities to speak to the items presented at public hearings related to the Interim Report(s) and to genuine sectoral reform soon.

Contacts:

Independent Higher Education Australia

Dr. Peter Hendy
Chief Executive Officer

Michelle Muchatuta
Policy & Research Director

APPENDIX A

IHEA MEMBERSHIP LIST

Academies Australasia Polytechnic
Academy of Information Technology
Adelaide Central School of Art
Adelaide College of Divinity
AIBI Higher Education
Alphacrucis University College
Australasian College of Health and Wellness
Australian College of Christian Studies
Australian College of Nursing
Australian College of Physical Education
Australian College of the Arts (COLLARTS)
Australian College of Theology
Australian Institute of Business
Australian Institute of Business and Management
Australian Institute of Management
Australian Institute of Music
Avondale University
BBI The Australian Institute of Theological Education
Bond University
Campion College
Christian Heritage College
Eastern College Australia
Education Centre of Australia
Asia Pacific International College
Higher Education Leadership Institute
Endeavour College of Natural Health
EQUALS International
Excelsia College
Governance Institute of Australia
HEPCo (The Tax Institute Higher Education)
Holmes Institute
Institute of Health and Management
Institute of Internal Auditors Australia
International College of Hotel Management
International College of Management, Sydney
Kaplan Business School

Torrens Global Education Services
Think: Colleges
Torrens University
LCI Melbourne
Le Cordon Bleu
Leaders Institute
Lyons College
Macleay College
Marcus Oldham College
Montessori World Educational Institute
Moore Theological College
Morling College
National Institute of Organisation Dynamics Australia
Navitas
Australian College of Applied Professions
College of Business and Technology
Educational Enterprises Australia
Melbourne Institute of Business and Technology
Navitas Bundoora
Queensland Institute of Business and Technology
SAE Institute
South Australian Institute of Business and Technology
Sydney Institute of Business and Technology
Perth Institute of Business and Technology
Western Sydney University International College
Perth Bible College
Photography Studies College
Polytechnic Institute Australia
SP Jain School of Global Management
Sydney College of Divinity
Sydney Institute of Higher Education
Tabor College Adelaide
The College of Law
The MIECAT Institute
Universal Business School Sydney
University of Divinity
UoW College
Wentworth Institute of Higher Education

Appendix B

Productivity Inquiry: **Terms of reference**

I, Josh Frydenberg, Treasurer, pursuant to Parts 2 and 3 of the *Productivity Commission Act 1998*, hereby request that the Productivity Commission (the Commission) undertake an inquiry into Australia's productivity performance and provide recommendations on productivity-enhancing reform. This inquiry is the second of a regular series, undertaken at five-yearly intervals, to provide an overarching analysis of where Australia stands in terms of its productivity performance. The first report, *Shifting the Dial* was completed in 2017.

Background

Australia's economy has performed strongly in recent decades enjoying robust growth in incomes and living standards following 28 years of consecutive economic growth interrupted by the COVID-19 pandemic. Australia's economic recovery from the pandemic has been world leading however to ensure Australians continue to enjoy higher living standards, we need to continue to focus on the task of lifting productivity.

Productivity growth is vital for Australia's future, particularly as the Australian and global economies emerge and begin to recover from the economic impacts of COVID-19. The 2021 Intergenerational Report makes it clear that future growth in income and living standards will be driven from productivity growth as the participation effects of young migration are offset by an ageing population. Global and domestic productivity growth in recent decades however has slowed. Changes brought about by the COVID-19 pandemic and the global and domestic policy responses will also provide a unique historical context for this Review.

Given the scale and nature of the economic shock caused by the COVID-19 pandemic, it is expected to have an enduring impact on Australia's productivity challenge. The acceleration in the uptake of technology by business and individuals has stimulated growth in remote work, online commerce, businesses' digital presence and innovative delivery of public services like health and education. The pandemic has affected business models in some key sectors and underscored the need for labour mobility across the economy.

In this environment, Australia needs policy settings that foster a flexible and dynamic economy, that is able to adapt in the face of economic challenges and opportunities. Policy settings should encourage the economy to adapt to the growing importance of digital technologies, including through developing a skilled labour force. They must also be forward looking and support an environment that promotes economic dynamism, entrepreneurship and appropriate risk-taking, and innovation and technological adoption.

Against this background, the Review can play a critical role in making high-value and implementable recommendations to support Australia's productivity growth. Lifting Australia's productivity growth will involve a combination of economy-wide and structural reforms, in addition to targeted policies in particular sectors to push Australian industries closer to the global frontier.

Scope of the inquiry

The Commission is to review Australia's productivity performance and recommend an actionable roadmap to assist governments to make productivity-enhancing reforms. Each recommendation should qualitatively and quantitatively estimate the benefit of making the reform and identify an owner for the action and a timeframe in which it might occur.

Without limiting related matters on which the Commission may report, its report to the Government should:

1. Analyse Australia's productivity performance in both the market and non-market sectors, including an assessment of the settings for productive investment in human and physical capital and how they can be improved to lift productivity.
2. Identify forces shaping Australia's productivity challenge as a result of the COVID-19 pandemic and policy response.
3. Consider the opportunities created for improvements in productivity as a result of Australia's COVID-19 experience, especially through changes in Australia's labour markets, delivery of services (including retail, health and education) and digital adoption.
4. Identify priority sectors for reform (including but not limited to data and digital innovation and workforce skills) and benchmark Australian priority sectors against international comparators to quantify the required improvement.
5. Examine the factors that may have affected productivity growth, including domestic and global factors and an assessment of the impact of major policy changes, if relevant.
6. Prioritise and quantify the benefit of potential policy changes to improve Australian economic performance and the wellbeing of Australians by supporting greater productivity growth to set out a roadmap for reform.
7. Revisit key recommendations and themes from the previous five yearly review in light of the above, where relevant.

The Commission should have regard to other current or recent reviews commissioned by Australian governments relating to Australia's productivity performance and include comparisons of Australia's productivity performance with other comparable countries. The Commission should support analysis with modelling where possible and qualitative analysis where data is not available, and this is appropriate.

Process

The Commission should consult widely and undertake appropriate public consultation processes, inviting public submissions. The Commission should actively engage with Commonwealth, and state and territory governments. The final report should be provided to the Government within 12 months of receipt of these terms of reference.

The Hon Josh Frydenberg MP
Treasurer

[Received 7 February 2022]