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Professor Paul Wellings CBE  
Panel Chair  
Performance-Based Funding for the Commonwealth Grant Scheme  
[HEReform@education.gov.au](mailto:HEReform@education.gov.au).

Dear Professor Wellings

Thank you for the opportunity to comment on the Department's Discussion Paper regarding the proposed introduction of performance-based funding for the Commonwealth Grant Scheme.

Central Queensland University has a range of concerns regarding the Discussion Paper and its proposed implementation. At a conceptual level, the University believes that the Australian higher education sector is an incredibly diverse group of institutions that reflect different institutional histories, regional needs and areas of recognised institutional expertise. Attempting to develop and implement a performance funding model that reflects those differences and does not unduly advantage or disadvantage institutions based on the model or methodology selected is an incredibly complex task. The Paper does not clearly identify the Department's expectations regarding institutional performance, only that the scheme should ensure quality, incentivise improvement and ensure efficient utilisation of public funding. It also raises the question of whether the proposed performance funding model should be adjusted or weighted to reflect regional or state population growth, further confusing the purpose of the proposed funding and complicating its intended implementation.

At a more practical level, the implementation of a performance funding mechanism focusing on ensuring quality and performance also needs to consider broader sector issues, such as the relationship of any performance funding model to the risk and performance monitoring currently undertaken by TEQSA. The extent to which the proposed funding mechanism might operate independently of TEQSA (potentially resulting in contradictory assessments of institutional quality); align with or utilise TEQSA's expectations and methodologies; or require some adjustment of TEQSA's role is not addressed in the Paper. The risk that the process and its associated data may be perceived or utilised by stakeholders as a de-facto ranking process also needs to be considered and addressed.

The University is particularly concerned about the robustness and appropriateness of many of the potential performance measures listed in the discussion paper. A range of potential measures and datasets are noted in the Discussion Paper, however little attempt is made to clearly identify the Department's performance expectations of institutions, link potential performance measures to those expectations, or to assess the robustness or appropriateness of different potential measures. For example, the Discussion Paper discusses in some depth the Higher Education Standards Panel report on *Improving retention, completion and success in higher education* (2017) and its use of attrition as a

means of identifying poorer performing universities. The University would note that the HESP report also includes a number of recommendations regarding the modelling of attrition rates, including that the Department:

*“further develop and publish the calculation of attrition rates that take into account key student characteristics so as to better reflect institutional differences.”*

The HESP Report clearly identifies a range of reasons beyond institutional quality as contributing to institutional attrition rates, and believes that such factors should be taken into account in the calculation of attrition rates. A number of potential methodologies are discussed or suggested in the HESP Report, however no clear consensus or recommendation is noted as to which may be the most appropriate or best reflects the Department’s aims.

The University believes that lack of such consensus and the absence of testing of alternate models of attrition highlight issues with the appropriateness and robustness of current datasets as institutional performance measures. While existing datasets provide measures of enrolments or outcomes, they do not reflect the extent to which such outcomes are the result of institutional performance, or how well such outcomes align with the Department’s performance expectations of institutions. Similar concerns exist with other proposed measures – independent consultants such as Access Economics having queried the extent to which graduate outcomes reflect institutional performance, and the extent to which they reflect factors such as the relative strength of different regional and state economies and the demographic and discipline split of different institutions’ graduating cohorts. The key questions of what performance goals are being assessed under the proposed performance funding scheme; what measures should be used to assess the achievement of those goals; and whether existing measures of performance are sufficiently robust or appropriate to be utilised in such a scheme require more consideration and further consultation with the sector at a more advanced stage.

The University has provided feedback below to the specific consultation questions noted in the discussion paper, however such feedback should be considered in the context of the comments noted above.

With kind regards



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## How should the PBF scheme be implemented?

The University believes that any performance-based funding scheme should:

- Ensure that performance-based funding accrues to an institution's Maximum Basic Grant Amounts on an annual basis, and is carried forward into future Funding Agreements as a component of the institution's Maximum Basic Grant Amount rather than accumulating as a separate funding pool;
- Be clearly linked to institutional performance measures, and not further complicated by issues such as state or regional population growth;
- Be based upon the performance data for the specific student cohort that the performance funding relates to (Commonwealth supported bachelor degree students comprising the University's undesignated load).

Over the long term, the introduction of a performance-based funding framework has the potential to significantly complicate Australia's higher education funding environment. Central Queensland University believes that attempting to integrate into that framework additional funding weightings for changes in population at a state or regional level will create a level of complexity that may undermine the basic rationales of recognising and rewarding institutional performance. Specifically, the University is concerned that that such an approach may:

- create a situation where two institutions achieve similar outcomes against the Department's performance measures, but are allocated very different amounts of performance funding because of regional or state population factors (effectively rewarding regional population growth rather than institutional performance);
- not fit well with the student profile of national institutions (such as the Australian National University or the Australian Catholic University), or institutions that service multiple states/regions (such as Central Queensland University);
- ignore the disparities in higher education access and attainment that currently exist between states and regions by focusing on raw population growth as a distribution mechanism, rather than consideration of more nuanced regional needs;
- create complications in implementing a performance funding framework in instances where state or regional populations are stagnate, decline or vary over time. At a state level, the current Australian Bureau of Statistics Population Projections (Cat No 3222.0) note the risk of population decline in states such as Tasmania in the medium term, and regional populations in Queensland have varied significantly in recent years from the impact of the Mining Boom and other factors.

In its worst possible manifestation, a performance funding framework that is weighted for regional or state population growth may remove the financial incentive associated with performance targets for institutions in low population growth regions, as such institutions may find their performance funding undermined by regional population changes outside their control. The University believes that a performance-based funding scheme should focus on rewarding institutional performance, and that addressing state or regional population growth and disparities in access and participation rates between regions should best be considered in a separate framework that specifically addresses those considerations.

The University also believes that performance based funding should be incorporated into the institution's Maximum Basic Grant Amount on an annual basis, rather than accruing the amount of

funding associated with any performance based funding scheme into a separate funding mechanism. If the amount of performance contingent funding that an institution receives accrues on an annual basis, the financial impact of losing that accrued funding could be significant and become a major risk issue for an institution's operations and course delivery. Such risks would become particularly significant if the Department adopts a rankings-style methodology that ensures a given number of institutions will miss out on performance funding each year. Such an outcome creates significant financial risk for institutions as the amount of funding "at risk" under performance funding increases each year. Managing that financial risk may adversely affect the quality of courses delivered to students, effectively undermining the intent of a performance funding framework. A process whereby the amount of performance based funding "at risk" to an institution is limited and capped provides a more stable financial environment for institutions in which to plan while still maintaining the financial incentive associated with a performance based funding environment.

### **What performance measures should the PBF draw on?**

As highlighted by numerous reports and the Department's own datasets, very few – if any – Australian institutions would achieve excellent outcomes across all possible performance measures. As such, the University believes that any performance funding model should incorporate a range of measures with expected minimum levels of performance set by the Department, with an expectation that institutions will nominate a number of these measures for their individual performance to be assessed against. This is reflective of the diverse nature of the Australian higher education sector and the communities that it serves.

The specific range of measures monitored by the Department and the number and diversity of measures that each institution should be expected to "pass" is open to discussion, however *Performance Framework for Regional Universities* proposed by the Regional Universities Network provides a potential model that incorporates a range of measures relating to student outcomes (employment outcomes, student satisfaction, employer satisfaction); student performance (weighted attrition, completion rates); community engagement and service; and engaging educationally disadvantaged communities. A copy of the paper is available at:

<http://www.run.edu.au/resources/RUN%20Performance%20framework%20final%20report%2012%20June.pdf>

The University acknowledges that the range of measures and the complexity of calculating some of the individual measures noted in the paper may be problematic, however is highly supportive of the general framework and approach recommended by the paper. As discussed in the paper, the University also believes that performance measures should be adjusted for and weighted to reflect issues outside the institution's control – such as the impact of peaks or troughs in a regional economy on graduate employment outcomes and the impact of an institution's student cohort on its attrition rates.

In terms of specific measures, as previously noted the University believes that completion rates are heavily influenced by first-year student attrition, and as such the use of 4, 6 or 9 year completion rates would be assessing institutions on their performance several years prior to the year in which performance funding is being allocated. The University does not believe that this represents best practice in performance management, or an ideal outcome from a performance funding methodology.

The University also does not support the use of more complicated measures (such as HELP debts not expected to be repaid) noted in the Discussion Paper as a potential performance measure. The rationale for this recommendation is:

- Such measures are currently in their infancy, and University's currently have a low awareness of such measures as they apply to individual institutions and the implications of such measures for institutional performance;
- In many cases such measures are indicative of sector or program performance rather than institutional performance. HELP debt, for example, is accumulated over a student's period of study within the Australian higher education sector – not necessarily during the period of their study at a single institution – so the question of which institution “owns” a student and is responsible for that student's debt is problematic;
- Institutions often have limited visibility of a student's prior HELP debt at the time of making an Offer of Admission – meaning there is limited scope for universities to proactively manage the “HELP risk rating” of their incoming cohort.

Central Queensland University believes that if the Department is committed to improving the efficiency of the spending of public funds by limiting enrolments by students who have high HELP debts or a demonstrated history of poor academic performance, a policy-driven rather than performance-funding driven approach may be a better solution – particularly given the sector-wide issues associated with institutional transfers and the lack of visibility institutions have on applicants' HELP debts (and in some cases prior academic history) at the time students are made an Offer of Admission.

#### **How should the PBF be designed?**

The University believes that any performance funding framework should include clearly articulated expectations of institutional performance against specified goals. As noted above, in reflecting the diversity of the sector and the educational needs of different communities, such a framework should allow institutions to select which performance measures they should be assessed against - in effect identifying which policy goals institutions believe that they are best contributing to.

The University is not supportive of a “rankings” approach, as such a methodology implies that it is not possible for all universities to meet the minimum performance expectations set by the Department. The University is concerned that the reputational damage of an institution failing to meet quality benchmarks may far exceed the dollar cost of missing out on performance funding, and would not support a situation where each year 25% or 50% of all Australian universities are perceived by external stakeholders as having failed to meet the Department's expected performance standards.

#### **How should performance measure benchmarks be set?**

Any performance-based funding framework should reflect and reward institutions' current performance, and allow universities to identify and address performance issues in a timely manner. As such, the University does not support the utilisation of 10-year averages or similar measures that effectively “carry forward” performance from prior years and reward institutions on historical rather than current performance. Similarly, the University would not support the use of completions data as a performance measure due to the lag associated with the way this dataset is currently reported. The

most recent 6-year completion rates for bachelor degree graduates available from the Department relate to students who commenced their study in 2012, and are heavily influenced by attrition in the 2012-13 window. The University does not believe that data reflecting attrition outcomes from 6 – 8 years ago is a reflection of its current performance, or an appropriate measure for the Department to utilise in assessing or comparing current sector performance.

The University is also strongly opposed to a rankings-type process (outlined in Figure 3 in the Discussion Paper), as such a methodology implies that it is not possible for all universities to meet the minimum performance expectations set by the Department. Such an outcome would result in a set number or proportion of all Australian universities failing to meet the Department's expected performance measures each year, and could potentially have a significant impact on the reputation of both the universities concerned and on the Australian higher education sector as a whole. It could also create a de-facto performance ranking of Australian institutions that is open to misinterpretation and misuse by stakeholders other than the Department of Education and Training.

### **Should the performance-based funding of unsuccessful universities be redistributed?**

While redistributing performance-based funding of unsuccessful universities may seem an appealing policy notion, it should be recognised that such an approach over time has the potential to create a very complex funding environment for Australian universities, with each institution receiving very different funding amounts for the delivery of the same type of course. The potential funding available for redistribution would vary on an annual basis, and is likely to vary depending on the number and specifics of institutions that do not meet performance criteria.

While the idea of a "performance bonus" in addition to performance funding might have some attraction to institutions and to government, there is no compelling reason to allocate funds in such an ad hoc manner or evidence that this methodology represents the best use of public funds. The University would prefer to see such surplus funds invested in more structured strategies to improve educational access and participation rates amongst educationally disadvantaged communities than being redistributed amongst institutions in such a manner.

### **How much "lag" is acceptable between performance-based funding data and the funding years?**

Central Queensland University accepts that education is a process that occurs over an extended period of time and that there is value in measuring outcomes and performance at different stages of students' enrolments. As a result, any measures of performance will have some lag factor associated with them. However, the University would also be concerned if purely historical data that has no relationship to the institution's current performance was used to formulate current or future performance funding.

The University would be concerned if measures such as completion rates were used to assess current performance. The lag associated with such measures would mean that if performance funding was introduced in 2019, it would be based upon completions' data heavily influenced by student attrition amongst students who commenced their studies in 2012. The University does not believe that this represents an appropriate assessment of its current performance. It would have similar concerns regarding the utilisation of 10-year averages or similar measures that effectively "carry forward" performance from prior years, and reward institutions on historical rather than current performance.

An additional lag-related factor relates to the processing of performance data by the Department and advice to institutions regarding whether or not they have met their performance targets for a given year, and the actual payment date for performance-related funding. In recent years the release date of the Department's student and staff-related datasets have progressively slipped from July to November. Release dates of other datasets that may be considered as part of a performance-based funding model have been similarly fluid. The University is concerned that if a performance funding mechanism is implemented, the processing of data relating to institutional performance funding needs to be managed in much more timely and regulated manner than has been the case in recent years. Given the range of measures under consideration, the University is concerned as to how the Department intends to manage this process across the different stakeholders in the Australian higher education sector to ensure that payments are made to institutions in a timely manner.

### **How would the performance-based funding scheme be regulated?**

The University believes that the mechanisms and formulae relating to any performance funding system should be legislated. The *Commonwealth Grant Scheme Guidelines* would appear to be the most logical legislative instrument to incorporate such mechanisms and formulae into.

In terms of implementing such legislation, the University believes that performance targets should reflect each institution's individual circumstances and student cohorts, and allow institutions to select which performance goals they are being assessed against from a range of possible options. As such, it would be essential that each individual institution's performance targets be clearly articulated, and that the Department be advised of which performance targets each individual institution should be assessed against.

Including these targets in institutions' Funding Agreements would be one way of documenting these targets, however the University would note that the timing of the release of institutional Funding Agreements in recent years has not been conducive to the communication of performance targets. Universities need to be advised of their performance targets for the coming year well in advance to ensure that they are able to make and implement informed management decisions to meet their designated performance targets. For example, advising an institution in January of its targets for equity group enrolments for that year is problematic from a performance management perspective in that the major opportunities for an institution to influence its enrolments (via the Admission Centre offer rounds) are either underway or have already passed. If Funding Agreements are to be used as the mechanism for communicating performance targets they must be released much earlier than has been the Department's recent practice (ideally no later than September of the prior year) to allow institutions to actively manage their performance against agreed goals, or a separate mechanism to communicate performance targets should be developed.