



Professor Paul Wellings CBE
Chair
Performance-Based Funding for the Commonwealth Grant Scheme
Department of Education and Training
by email: HEReform@education.gov.au

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Dear Professor Wellings

Thank you for the opportunity to provide input to the discussion paper on Performance-Based Funding for the Commonwealth Grant Scheme (CGS).

Deakin University supports the discussion paper's proposition that the CGS should address public expectations around student access, success, quality, completions and graduate outcomes. The expectations of the CGS are also described in the objectives of the *Higher Education Support Act 2003*. These include contributing to the development of cultural and intellectual life, the creation and advancement of knowledge and meeting the social and economic needs for a highly skilled and educated population.


Australia's social and economic needs are evolving. Digital disruption, global uncertainty and continued disparities in education attainment are increasing the demand on Australia's tertiary education system to upskill and reskill a greater proportion of the population. Australia needs an agile and flexible higher education system to respond to these challenges.

Deakin holds reservations about the impact of performance funding and caps to Maximum Basic Grant Amount (MBGA) on the sector's ability to address the social and economic need for higher education, and particularly noting the needs of regional Australia. Deakin therefore recommends that performance-based funding be combined with a place-allocation mechanism that can align the supply of high-quality and cost-effective higher education with social and economic demand.

Deakin notes that consultation on performance-based funding coincides with other consultations and encourages the Department to be mindful of interdependencies and unintended consequences of these processes. A summary of Deakin's positions on these consultations is provided in Appendix A.

I welcome opportunities for Deakin representatives to speak to this submission should the need arise.

Yours sincerely



Professor Jane den Hollander AO
Vice-Chancellor



Deakin University

Submission: Performance-Based Funding for the Commonwealth Grant Scheme

PREAMBLE

Deakin University supports the discussion paper's core proposition: taxpayer funding necessitates that public universities fulfil public expectations concerning equity, student experience and graduate outcomes. These expectations also extend to research, community and economic development.

Fiscal challenges to the Commonwealth budget arising from growth in the Commonwealth Grant Scheme (CGS) appear to have moderated and any suggestion that there is some form of crisis or cost blow-out should be avoided. Deakin recommends that attention is placed on medium to longer-term social and economic outcomes of higher education policy. The Commonwealth can successfully offset CGS costs by adjusting investment in other programs. Growth in demand has stabilised but may return as the post-millennial generation reaches adulthood and chooses to be educated at a post secondary level.

The more pressing economic challenges facing Australia are adapting to digital disruption, and risks and opportunities linked to a digital fast-paced, competitive interconnected global economy. The Maximum Basic Grant Amount (MBGA) will constrain growth in places for a first degree and make it harder to retrain those whose livelihoods have been affected by automation and other disruptions that have had an impact on our world more generally. We must ask if we as a nation are equipped to respond to these circumstances and why we hesitate to grasp the opportunities that our higher education sector offers to the education and enablement of our future generations.

Some regions are better equipped than others to adapt to changes in higher education provision. There are significant risks that the MBGA combined with performance-based funding (PBF) will place social and economic needs in conflict. Higher education attainment in Melbourne's inner-east (Burwood Campus) is double that of Geelong (Waterfront and Waurn Ponds Campuses), and triple that at Deakin's Warrnambool Campus.¹ Notwithstanding proposed equity measures in the PBF scheme, the finite number of Commonwealth Supported Places available is likely to be allocated to students who have performed better in school. Places will gravitate towards more advantaged regions with high demand, exacerbating challenges faced by regions with low attainment. Competition between providers will decrease, narrowing student choice. The pace of innovation will slow as incentives for transition to digital technologies and teaching weaken. As a nation, we know all of this through the many reviews of our system.

Deakin advocates for a financing policy framework that is aligned with the core objectives of higher education, as described in the *Higher Education Support Act 2003*, and which rewards high quality across the entire mission of universities. Concerns about fiscal impact on the higher education budget arising from recent expansion have eased and the Commonwealth should be focused on how best to direct investment in higher education. The MBGA and PBF run the risk of distorting the system in ways that are not consistent with system objectives, particularly with regard to access to higher education in the regions and facilitating innovative high-quality online delivery. This does not negate the legitimacy of performance-based funding, but suggests that design and implementation of a PBF require very careful consideration.

¹ Statistical Area Level 4, persons aged 20-39, Australian citizens.

DEAKIN UNIVERSITY'S RESPONSES TO CONSULTATION QUESTIONS

1 How should the PBF scheme be implemented?

Increases to the MBGA should be responsive to population growth, and social and economic need. Deakin is Australia's sixth largest university and operates across capital city, major city and regional locations, as well as being a major online education provider across Australia and our near regions. Demand for Deakin's programs across these communities exceeds both localised and national population growth measures. Deakin proposes that MBGA increases be linked to changing needs rather than population as a driver for economic growth.

PBF should be of a magnitude that can drive performance improvements, but not so high that system or institutional quality is compromised. Deakin recommends that the upper and lower limits of performance-based funding be quantified through additional research. This could take the form of a trial run of PBF in 2020 in which indicative performance allocations are calculated but funding would continue to be aligned with demand for places. This would allow for refinement of the measures and processes and further modelling of the 'sweet spot' for magnitude of the PBF. Without clear quantitative evidence, PBF should not exceed 2.5 per cent of an institution's MBGA over forward estimates.

As the final report of this review is expected mid-2019, well after the 2020 budget-setting process, this allows time for a well-planned implementation from 2021 or later if substantial additional work arises from the pilot program.

2 What performance measures should the PBF scheme draw on?

PBF performance measures should be aligned with the core purposes of the CGS. These purposes include a direct contribution to the cost of higher education to provide equitable access and support Australia's intellectual and economic development. These purposes are consistent with measures relating to equity, experience and graduate outcomes, and should be augmented with research and community service functions. Research and community service have been estimated to constitute 30 per cent of the Commonwealth contribution amount.

The proposed measures satisfy performance funding principles, but need refinement. The period of completion rate measurement should control for the proportion of part-time and online enrolments and annualised measures must accommodate trimester academic calendars and evolution beyond this to 'start anytime' (currently used at Deakin in postgraduate courses). Equity measures should be extended to all equity groups. Overall satisfaction measures in the Student Experience Survey and Graduate Outcomes Survey are commonly adopted by universities as a strategic plan performance indicator and are preferred over any sub-scale measures.

Should the PBF adopt any composite indicators or relative weightings across various measures, Deakin recommends that an expert panel review the integrity of the approach. Deakin would be pleased to nominate suitably qualified experts to assist this process.

It is not appropriate to include debt not expected to be repaid (DNER) as a measure without first understanding patterns of DNER by cohort and institution and considering the most appropriate policy responses to any concerns arising from analysis. This measure may conflict with measures to encourage participation by equity groups. There are alternative mechanisms for ensuring the sustainability of the Higher Education Loan Program that include recouping HELP debt from graduates working overseas.

3 How should the PBF scheme be designed?

4 How should performance measure benchmarks be set?

PBF should support system diversity by specifying minimum acceptable thresholds of performance across all measures, whilst allowing institutions to select performance measures relevant to their core mission and strategy and to continue the Federal Government's interest in differentiation and 'fitness for purpose' of its publicly funded universities. By allowing universities to select from a menu of measures consistent with CGS

purposes, and with pre-defined minimum thresholds and frontiers of excellence, the PBF would allow universities to play to their strengths recognising one size does not fit all. This would also better serve communities with particular needs - for example the needs of the Warrnambool community in South -West Victoria are very different from those of the community that surrounds the Deakin Burwood Campus in metropolitan Melbourne. This approach is consistent with the precedents set in Mission Based Compacts, which recognised the importance of improvement from a lower baseline and rewarded institutions at the frontier of high performance on core and custom measures.

5 Should the PBF funding of unsuccessful universities be redistributed?

Given the fiscal challenges associated with CGS increases have moderated, any savings arising from the design of PBF should be directed towards high-quality higher education. PBF should, by definition, incentivise performance, rather than serve other purposes, such as savings. The objective of the introduction of PBF is to increase quality across the higher education sector and nurture the reputation and reach of the Table A providers. An alternative strategy for savings would be the re-investment in a sector-wide quality improvement fund, which would assist providers *and* students to succeed.

6 How much “lag” is acceptable between PBF data and the funding year?

Higher education data is generally very lagged by contemporary standards and delays between performance measures and funding therefore seem unavoidable and hence introduce risk to an already vulnerable system. Performance measures should demonstrate an appropriate level of variance, be under a university’s control to resolve within a reasonable timeframe (no more than two years after any corrective action), and without adverse social and economic consequences.

7 How should the PBF scheme be regulated?

Given the scheme has the potential to affect a significant proportion of university revenue, it is appropriate that it be integrated into policy with parliamentary oversight and approval, within the *Higher Education Support Act 2003*, and if this is not possible, then through a disallowable instrument.

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APPENDIX A: SUMMARY OF DEAKIN UNIVERSITY'S RESPONSES TO CURRENT CONSULTATIONS

Provider Category Standards

The Provider Category Standards should be maintained as broadly as possible as a reference point for registration by TEQSA, with minor amendments that specify research intensity thresholds, and the standing and standards that apply to the category of overseas university.

The Higher Education Standards Framework could be augmented with a statement of provider attributes relevant to eligibility for public subsidy. A more stable and effective policy context would arise by making explicit the rationale that drives public subsidy, and alignment of institutions with this rationale.

Australian Qualifications Framework Review

The AQF is not currently fit for purpose, nor likely to support adaptation to the social and economic challenges facing Australia. The AQF embeds outdated notions of a linear pathways from school to higher levels of higher education that does not recognise contemporary and evolving career and learning trajectories, industry and community demands, nor the opportunities presented by digital technologies.

A more nuanced approach would segment foundational and transferable skills from discipline-specific skills and recognise that the form of learning will vary according to individual circumstance. This can be achieved through stackable credentials and better recognition of shorter, more agile credentials. Deakin notes that sub-bachelor and postgraduate courses have restricted access to Commonwealth subsidy, and credentials attract no Commonwealth subsidy. Reform of the AQF can normalise a better approach and ensure better targeting of Commonwealth subsidies. The interaction between a qualification, institutional quality assurance and assessment processes is critically important in supporting any change in approach.

Performance-Based Funding

Deakin believes the CGS should address public expectations around student access, success, quality, completions and graduate outcomes. These public expectations also extend to research and community development and should be included as performance measures.

Deakin recommends that performance-based funding be combined with a place-allocation mechanism that aligns supply with demand. Deakin holds reservation about the impact of performance-funding and caps to the Maximum Basic Grant Amount (MBGA) on sector agility.

The problem of CGS growth has been superseded by challenges of repositioning the Australian economy to embrace opportunities of digital disruption. The need to upskill and reskill whilst maintaining social cohesion requires an agile and flexible higher education system.

Reallocation of Commonwealth Supported Places

The reallocation process should produce a statement of principle that informs the rationale for public subsidy across course levels, with reference to both the logic of public subsidy and regulation of full fee places by provider category.

Deakin argues that a clear and consistently applied policy is a pre-condition for a more responsive high-quality system. Any statement of principle should include distinct reference both to economic need (such as supporting the booming Melbourne economy) and social need (such as mitigating disadvantage in specific communities). Whatever mechanism is introduced for place reallocation, it should include provision for cyclical review such that allocations can be adjusted to future changes in social and economic need.