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To the Department

Re: Performance-based funding for the Commonwealth Grants Scheme

The Australian National University (ANU) welcomes the opportunity to provide feedback to the Performance-based funding for the Commonwealth Grants Scheme discussion paper.

We are encouraged by the objective of the paper to have clear, transparent metrics that can be consistently communicated and understood across the higher education sector. Transparency across higher education, whether it be in admissions as recently reformed, or through funding, is to be commended.

This realisation of transparency requires a commitment to clear, medium term goals. Performance based funding must recognise that impactful and long-lasting strategic objectives are unable to be realised in single years, and that agreement of objectives for 3-5 years provides certainty for institutions and student of outcomes, and enables setting of greater goals than can be achieved in single year funding arrangements. Any performance-based funding discussions require a medium-term outlook.

With regards to the specific points for feedback requested in the discussion paper, responses to these are outlined below.

1. How should the PBF Scheme be Implemented?

While some institutions may have at their core a regional focus, The Australian National University is through its very foundations in Commonwealth legislation our National University, to service the nation. Applying a state or regionally based growth figure may appear advantageous to ANU, given that ACT growth rates are currently sitting between 0.6 to 1% above the national average dependant on demographic. However, the growth model applied should very clearly align with our role and mission of the national university.

The discussion paper raises the option of keeping a university's MBGA flat at 2020 levels. Any PBF allocated in a given year should form part of an institution's MBGA in subsequent years. To keep the MBGA flat each year and only increase the PBF amount cumulatively increases university exposure to fluctuations over which an institution has no control. As the amount grows larger, institutions are then increasingly impacted on their ability deliver their core education and research by factors outside their control, for example a strong labour market, a decrease in birth rates, or a switch in demand for vocational and higher education.

2. What performance measures should the PBF scheme draw on?

The measures outlined in Table 1 appear reasonable and focussed on student outcomes, a quality educational experience, and access to high education. They are supported.

Appendix 1 includes additional measures not referenced in Table 1. Appendix 1 suggests the inclusion of Debt Not Expected to be Repaid (DNER) by a graduating cohort 5 years after graduation as measure through which PBF is allocated. The core work of a university is the delivery of quality education and research. Making universities responsible for the debt of students after graduation, whether these students are working offshore, pursuing further study a prestigious domestically or abroad, or have made the decision to start a family, is an inefficient use of resources, outside the scope of work of universities, and

makes universities responsible for an administrative activity that a commonwealth agency would deliver far more effectively.

The targets set around the potential performance measures in Table 1 need to be aligned with an institution's strategic goals, focussed on medium term outcomes, and not articulate short term, annual goals that do not have a lasting impact on an institution's performance but rather indicate only a short term commitment.

Aligned with the strategic nature of these goals, appropriate planning needs to be built in to processes, with the measures established well in advance. A conversation in December of the year prior will again not lead to lasting impactful change. An expectation of the capacity to strategically plan and allocate resources on a 12 month cycle only, with notice in December, will lead only to short-term thinking and action. Performance measures must be clear, agreed well in advance over a 3-5 year cycle, and from a defined list to avoid surprises arising from short term policymaking.

3. How should the PBF scheme be designed?

There has been ongoing dialogue around the need for differentiation and diversity in the university sector. This has been most recently highlighted as part of the Provider Category Standards review, which indicates "[t]he 2017-18 Commonwealth Budget Higher Education Reform Package included a measure to undertake a review of the PCS to ensure they support the Australian Government's goals for a diverse, high quality higher education sector that meets the needs of students, employers, the sector and the wider community"¹ [emphasis added].

The metrics applied need to be flexible enough to enable this diversity. Core measures are warranted to ensure quality outcomes, but these should be supplemented with measures unique to the institution, to ensure differentiation is encouraged rather than minimised.

4. How should performance measure benchmarks be set?

Appendix 2 of the discussion paper contains a range of sample measures. None of these are supported in their entirety, being the application of broad based, proxy indicators for quality with contestable modifications of raw numbers to determine funding. Rather than taking this approach, targets should be negotiated with institutions, clearly articulated, transparent, set well in advance and for a 4-5 year period to ensure a strategic focus and the embedding of long lasting improvements to performance.

Figure 3 of the discussion paper proposes that the top 50% of universities in a particular performance measure receive funding. This means that for every measure 50% of universities will not receive funding. This actively discourages investment by universities that are well below the 50% threshold and will not be able to get to that level. It also does not provide a transparent metric for PBF, as the threshold could only be set after a PBF period once data is available from all universities and they can then be placed in the top or bottom 50%. The Australian National University strongly disagrees with using this measure that splits the university sector into halves.

In addition, the allocation of an institution into the top or bottom half of the sector as a simple allocation has a significant incorrect underlying assumption. Measures such as full-time employment rate, full-time further study, and overall student satisfaction are based on survey responses, and as such include confidence intervals. The determination of whether an institution is in the top or bottom 50% of the sector cannot be made where confidence intervals exist. A situation where if the upper boundary is taken an institution may be eligible for funding, and the lower boundary an institution would not, is neither transparent nor defensible.

The first sample measure detailed in Appendix 2, of comparing a university only to its own 10 year average, disproportionately impacts institutions, with those performing below average having greater capacity to improve their performance, whereas those performing near the top of the sector requiring far greater investment and interventions to reap minor gains.

¹ <https://www.education.gov.au/review-higher-education-provider-category-standards>

The second sample measure, of a weighted average, fundamentally assumes that students only exist within a single discrete cohort of students, and so works only if low-SES students aren't also external, or indigenous students aren't also from a regional/remote background or low-SES. Even were these assumptions then true, it then creates an arbitrary number for average attrition. Rather than trying to manipulate the data and develop arbitrary figures, an appropriate attrition rate should be agreed for each cohort.

The third option, of regression analysis, is complex to the extent that the full example cannot be provided, and is not aligned with the Commonwealth's goal of transparency.

5. Should the PBF funding of unsuccessful universities be redistributed?

This is a strategic decision for the Commonwealth; if reallocated then it should be very clear whether that reallocation is for the year only, or will be moved to a university's MBGA on an ongoing basis after the first year.

6. How much 'lag' is acceptable between the PBF data and the funding year

Lag is a necessary aspect so as not to delay operations, given this funding will be used to support quality education and research. However, due to the variable nature of education year on year, a 3 year metric is recommended to be used to smooth out any one year increases or decreases and require sustained, ongoing improvement.

7. How should the PBF Scheme be regulated

It is not the place of a University to determine legislative mechanisms for the implementation of the PBF scheme.

Thank you again for the opportunity to provide feedback on the discussion paper for the Performance-based funding for the Commonwealth Grant Scheme discussion paper. To have a significant impact on the sector and outcomes for students, Performance based funding must have a medium-term outlook, recognise that realisation of embedded, strategic objectives occur over multiple years, and be focussed on establishment of measures well in advance of funding years. This provides certainty for students and universities of outcomes, and enables setting of greater goals for greater impact.

Yours sincerely



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