# Response to the “Performance-based funding for the Commonwealth Grant Scheme” Discussion Paper.

## Introduction

The Government’s proposal to introduce performance-based funding (PBF) for universities raises a number of important considerations for the higher education sector, and its capacity to meet student and workforce demands in coming years.

The PBF discussion paper proposes to retain 2017 as the base funding year, with increases in funding from 2020 linked to national population growth of 18-64 year olds. There is no indication that the demand-driven system will be restored, or that Commonwealth Grant Scheme (CGS) funds will be indexed by the consumer price index (CPI).

IRU modelling, based on ABS data, indicates the 17-18 year old school leaver cohort population will grow at 2-3 times the rate of 18-64 year olds in coming years. Compounding this potential shortfall, the rate of population growth for 18 – 64 year olds is likely to remain behind the CPI.

If universities maintain current participation rates, real funding per student will decline, even for those universities that receive the full allocation of PBF, and the quality of the student learning experience will be put at risk.

However, it is likely that universities will respond to a decline in real funding by reducing student intakes, locking increasing numbers of students out of the expanding job sector that requires a tertiary qualification.

This will limit the capacity of sector to address the ongoing undersupply of places and significantly lower participation rates of school leavers and young adults from regional, rural and remote areas, as highlighted in the [*Independent Review into Regional, Rural and Remote Education*](https://www.education.gov.au/independent-review-regional-rural-and-remote-education).

Similarly, although more than 40% of 25 year olds now hold a higher education qualification, [attainment levels](http://www.iru.edu.au/wp-content/uploads/2018/11/The-take-up-of-tertiary-education-Nov-18.pdf) in the lowest SES quintile are 19%, compared to 61% for the highest quintile. The proposed PBF scheme risks perpetuating disadvantage and reducing opportunities for participation in the high-skilled job market.

Griffith University therefore strongly urges the Government to:

* restore the demand-driven system
* ensure full CPI indexation of CGS funding
* implement a PBF framework that drives enhanced student outcomes without undermining the capacity of universities to serve their local communities and address inequality.

## Reponses to Discussion Paper Questions

### How should the PBF scheme be implemented?

#### Consideration 1: Should national or state/regional population growth determine maximum funding an institution can receive?

Rates of population growth across different states, cities and regions within Australia differ markedly from the national average. As Australian students overwhelmingly attend local universities, unequal population growth will drive unequal demand for limited places. Griffith therefore supports the view that at least state, and preferably population growth within a university’s main catchment, should determine the maximum funding an institution can receive. As population growth in the 17-18 year cohort is predicted to be substantially greater than the overall 18 – 64 year old population, using an age range that more accurately reflects the demographics of CGS-funded students should be implemented, for example 17-30 year olds.

The current proposal does not allow flexibility to fund growth in areas that are historically underrepresented or where the population is growing faster than the national average. For example, higher education participation rates in the city of Logan are currently only 60% of those of Brisbane, and significantly below national rates. Encouragingly, over the last decade, growth in participation in Logan is 80% higher than the national average, a trend that has the potential to significantly reduce disadvantage over time.

Logan is one of the fasting growing cities within Australia, with the current population of 320,583 people (2017) projected to grow to 490,522 people by 2036 (4.3% pa growth, compared with 1.7% pa for Queensland).

Importantly, according to the 2016 census, 35% of Logan City’s population falls into the most disadvantaged Socio-Economic Indexes for Areas (SEIFA) quintile, and only 7.6% are in the least disadvantaged quintile.

Adequately serving disadvantaged areas such as Logan with a growing demand for higher education and a rapidly expanding population will prove challenging if the proposed funding model is implemented.

It is essential that any PBF model does not inadvertently undermine the steps already taken by universities to widen participation and break the cycle of entrenched disadvantage. At a minimum, funding should reflect regional population growth, but should also allow universities to expand places to meet additional demand in underserved and disadvantaged cities, towns and regions.

#### Consideration 2: Should PBF beyond 2020 be added cumulatively to a university’s MBGA, or should it be kept separate, such that the amount at risk each year grows by $70 mill to 140 mill in 2021, $210 mill in 2022 etc?

Griffith does not support either proposal in its current form.

If the first scenario is adopted, adding the PBF to the maximum basic grant amount (MBGA) each year from 2020 means that the funding at risk each year is constant, and within manageable limits. However, if a university does not meet performance targets in one year and therefore does not receive PBF, the funding base for all subsequent years will be reduced under the current proposed scenario. There must be a mechanism to revert to the new base the following year, such that the university is not disadvantaged indefinitely for one year’s performance.

If the second scenario is adopted, and the PBF at risk grows each year, this will have a disproportionate impact on universities who fail to meet targets in later years. Reducing a university’s funding to 2017 levels in 2025 will have significantly more impact than in 2020. Given the lack of certainty around the PBF, universities will inevitably adopt a budget planning process based on 2017 allocations, and will have to treat the PBF as an unbudgeted top-up that can only fund short term initiatives. Growing student load under these circumstances will become increasingly challenging.

If scenario 2 is ultimately adopted, Griffith proposes that a cap equivalent to one year’s PBF allocation should be introduced to ensure the impact on universities in the future is fair and manageable.

On balance, Griffith prefers the first scenario, but with the proviso that funding lost in one year can be restored by meeting targets in subsequent years.

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

In determining which measures should be used to underpin the PBF scheme, it will be important to understand what the Government is aiming to achieve with the scheme. As acknowledged in the discussion paper, Australia already has a high quality higher education system.

An individual university’s performance in measures of student success and satisfaction is now freely available through the QILT database. Universities therefore already have a significant incentive to ensure students rate their experience positively. In addition, retaining students has the benefit of ongoing funding for that student, over a longer period of time.

Although there is always room for improvement, overall the measures of success currently widely used are positive. Despite the rapid expansion of university places under the demand-driven system, attrition has remained steady, or improved, student satisfaction is high and employers are generally satisfied with the graduates they employ. Graduate employment rates have rebounded since the GFC and the recent release of the GOS-L data confirms that in the longer term particularly, graduate employment rates are high, and variation in graduate outcomes between universities diminishes over time.

Of the potential performance measures proposed in Table 1 of the discussion paper, Griffith supports the introduction of first year adjusted attrition, overall student satisfaction and equity measures. The QILT teaching quality indicator could also be included, although it tends to mirror the overall satisfaction measure.

Griffith does not believe that full-time employment rates measured shortly after graduation are the best indicator of graduate outcomes. For many graduates, personal circumstances including family responsibilities prevent them taking up full-time employment. For others who are intent on establishing their own business (a growing trend), full-time employment is unlikely in the short-term. For many, the short period of time between graduation and the survey makes it unrealistic that they will have found full-time employment.

If employment rates are to be included as a performance measure, Griffith contests that overall employment (full-time and part-time) rates should be used as a more accurate measure. Ideally, over time, the inclusion of employment rates three years post-graduation (the GOS-L survey measure) would be included as these more accurately reflect the life-long potential for employment, and are not skewed by short-term trends. We do recognise the need to balance more accurate longer term data with the time lag that makes this data less suitable for a PBF model.

Griffith also proposes that employer satisfaction measures should be included to incentivise universities to ensure graduates have the skills to effectively participate in the graduate workforce.

As discussed above, the benefits of a university education are not evenly distributed. Students from low SES backgrounds, Indigenous and regional/remote students have lower participation rates than those from high SES, inner metropolitan backgrounds. Griffith therefore supports the inclusion of performance measures aimed at addressing the underrepresentation of these groups in higher education, provided they take into account the challenges associated with recruiting and retaining these students.

Griffith does not support the inclusion of a measure of debts not expected to be repaid (DNER) in future PBF measures. The capacity of graduates to repay their HECS/HELP debt post-graduation is largely beyond the control of universities. While universities may be able to influence starting salaries of graduates by offering more places in degrees that lead to higher paid jobs, this has the potential to skew the potential workforce in ways that may not be beneficial for Australia at large. In the longer term, when most debt is likely to be repaid, students’ university experience has a diminishing impact on earning capacity. In addition, a DNER measure could act as a disincentive for universities to recruit students from groups with likely lower earning capacity, for example women, or people with a disability.

### How should the PBF scheme be designed?

It is essential that the PBF allows sufficient flexibility for universities to pursue individual priorities and missions, and not drive behaviour towards uniformity. Allowing autonomy and choice in determining targets is essential.

The discussion paper is silent on how a mix of performance measures will be handled in determining funding allocations.

If a number of different performance metrics are to be adopted, there will need to be a mechanism to weight performance outcomes. If universities are able to determine which measures, and the relative weightings to be applied to each of the performance criteria, this would go some way to ensuring universities have flexibility to set their own priorities.

In addition, all targets should reflect an individual university’s improving performance, rather than performance against national benchmarks, which will inherently advantage some universities over others. A scheme that disadvantages half of Australia’s universities is untenable. Every university should have the assurance that funding will depend solely on their performance against agreed benchmarks, and not how well others perform. Ongoing improvements in performance can be achieved by incrementally raising standards over time.

National benchmarking will also actively discourage the kind of sector-wide collaborations that lead to the uptake of new innovations and practices that continuously improve student learning and the student experience.

Nuanced performance targets for equity groups will be important, as typically these students have higher attrition rates than the broader student population. Acknowledging this will ensure universities continue to focus on widening participation.

Griffith also proposes that a three year rolling average of performance should be utilised. This will reduce the risk of a significant shortfall in funding resulting from one year’s poor performance, and will give universities more warning that a period of budget constraint is imminent.

Three year rolling averages will also encourage universities to innovate, and not be deterred from trialling new initiatives that might adversely affect SES ratings in the short term.

### How should performance measure benchmarks be set?

Griffith strongly holds the view that all universities that meet designated minimum standards should receive PBF; this must be a fundamental premise of the scheme. It does not support a scheme whereby only the top 50% of universities receive funding.

The stated outcome of rewarding higher quality and efficient providers with a greater market share is problematic. For example, two of the three universities mentioned in the paper with high attrition rates (University of Tasmania and Federation University) are critical to driving higher participation rates in areas that are chronically underrepresented- Tasmania, where the UTas is the only higher education provider, and regional Victoria where Federation University is based. It does not seem plausible that reducing the market share of these universities is in Australia’s or their regions’ best interests, particularly as both universities have higher than average full-time graduate employment rates. Griffith therefore supports the proposal that universities should be measured on the basis of their own performance rather than through national benchmarking which will inevitably advantage some universities over others.

PBF criteria must, as far as possible, utilise data that is already collected, provided it is robust, reliable and cost effective. The criteria must also be fair, and acknowledge the range of providers and their missions. DET data and QILT survey results are the obvious data sources to consider. However, the QILT survey does not distinguish between different student cohorts who will inevitably have different retention or employment outcomes. PBF criteria will need to account for this if institutions are required to meet pre-determined benchmarks. Alternatively, if the performance criteria require universities to continuously improve their own performance without needing to meet national benchmarks, high level QILT data would still be useful as the composition of the student cohort at individual universities is not likely to shift significantly year on year.

As the discussion paper rightly states, using first year attrition as a measure of performance is complex. The recent DET discussion paper, ‘Improving retention, completion and success in higher education’ (2017) was only able to attribute 22.6% of variation in student attrition to factors associated with either the institution, or the student’s characteristics. Although the institution contributed the greatest proportion to this variation, as stated in the PBF discussion paper, this represented less than 19% of the overall variation; more than 80% of the variation in attrition rates therefore appears to be beyond the institution’s control. If attrition is to be a performance indicator, requiring universities to improve their performance over time, rather than meet rigid external benchmarks, better mitigates against the uncertainty of factors that influence attrition, and is a fairer approach.

### Should the PBF funding of unsuccessful universities be redistributed?

Yes. If PBF funding of unsuccessful universities is not redistributed, successful universities will not be able to increase their load to make up for inevitable contractions in load from unsuccessful universities. Ensuring the total envelope of CGS funding to the sector is maintained is essential to ensure as much as possible, eligible students will be offered a place.

In addition, redistribution will provide a greater incentive for universities to meet performance targets.

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

Ideally, the “lag” should be as short as possible in order that universities are able to respond to performance measures within a reasonable time frame. For this reason, Griffith does not support the use of six year completion rates. Data from 2019 should be the primary source for 2021 funding allocation.

For many measures, such as retention/attrition, student satisfaction or equity measures, this is achievable and sensible. However, for employment outcomes, there are significant issues with using the short term outcomes measured in the GOS, as employment rates are volatile, and can change quickly in response to external employment market trends. In this regard, the outcomes of the GOS-L survey are more meaningful, but inevitably less relevant as the basis for performance funding. A formula that allows both short and long term employment trends should be considered.

As acknowledged in the discussion paper, 2020 funding will based on 2018 or earlier data. It is unclear how the Government proposes to deal with 2020 funds, given that it will be based on historical outcomes over which universities now have no influence. The Government should consider using 2020 as a trial year, with full implementation from 2021.

### How should the PBF scheme be regulated?

Given the long-term implications of PBF, universities need confidence that the measures by which they will be judged are likely to be applied over the medium term. Amending the CGS Guidelines to include PBF requirements with Parliamentary oversight will be important in enabling universities to effectively plan their approaches to meeting their PBF targets.

Any review of performance measures and the application of the PBF scheme in general should be carried out under the auspices of the Parliament.

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