**Submission on Performance-based funding for the**

**Commonwealth Grant Scheme Discussion Paper**

University of the Sunshine Coast

15 February 2019

# Introductory Comments and Context

USC welcomes the opportunity to provide input to the consultation on the Performance-based funding for the

Commonwealth Grant Scheme discussion paper.

As a general comment, the topics covered in the Discussion Paper are expansive. The discussion relating to operation of a scheme, including those related to technical and legislative aspects, are given appropriate consideration. The question of “performance” is the more difficult matter.

The Discussion Paper references the different roles of different universities. As context to our response, USC would like to expand slightly on this them. Of interest is the difference in maturity of metropolitan and regional engagement with tertiary education, and of the potential to lock-in educational disadvantage with a “one size fits all” approach to funding only new (population-driven) demand. Even more broadly, the alignment of economic, social and education policies is challenging, but its necessity comes to the fore when considering the potential for a change in institutional behaviour and priority setting (as will inevitably happen with “performance” is defined in a variable funding model).

Performance funding for the CGS must relate to educational outcomes. However, allocation of new student load must balance new demand (population growth), latent demand (catchment educational disadvantage) and university strategic direction. In this context, at the simplest level, consider several different “types” of university:

* Research universities (largely Go8). These institutions provide international, national and state academic and research leadership, and are fundamental to having a competitive nation. Market research shows that students who select these universities are motivated by perceptions of institutional status, quality of facilities and academic staff, and the idea of an “elite” institution. These universities do not operate in areas of education disadvantage, and growth linked to national trends (or less) seems intuitively sensible. The stereotype of undergraduate teaching quality being of less important than research quality can be checked with some form of teaching performance measure (e.g. QILT data).
* Employment-focussed universities. Students select these on the basis of course offerings, location, perceptions of graduate employment outcomes, entry standards and support. These universities can be grouped into three sets:
  + Universities in metropolitan settings. Growth of these universities is influenced by organisational decision making – for example, Swinburne has been one of the fastest growing universities, while in the same catchment Victoria University has been one of the slowest.
  + Universities in growing regional settings. This includes USC, which has been the fastest (percentage) growing university in Australia over the last ten years. USC services a growing population catchment (new demand), areas of long-standing education disadvantage (significant latent demand), and areas where economic growth is a topic of great importance (increased strategic importance of the university).
  + Universities in regional settings that are not growing and/or do not has a sustainable population base (for an Australian university, say 500,000+ people).

The challenge for a performance-based CGS increment is how to embrace and support realistic goals for different university types, catchments and missions. Interestingly, this has parallels in the inception of Mission-based Compacts.

The diagram below illustrates the growth in Australian domestic student load (EFTSL) over the period 2007-2017. Please note that no differentiation of internal and external (online) delivery has been made – this influences the results especially for universities in small regional settings.

*Growth in domestic student load at Australian universities, 2007-2017.*



In terms of the previous discussion, USC is the fastest growing institution in Australia (166.9% increase). As mentioned, USC benefits from operating in a growing regional catchment (region defined roughly by 30 minutes of car travel) and long-standing education disadvantage. With new campuses in Moreton Bay, Caboolture and Fraser Coast, the potential for this level of growth from both new and latent demand is high. To illustrate the latent demand, consider traveling the four hours from Brisbane to Hervey Bay, which is the USC catchment. The percentage of young adults with degrees changes from 53% in Brisbane to 23% in Moreton Bay South (northern outskirts of Brisbane), to 13% in Moreton Bay North (55 km from the Brisbane CBD, and the lowest rate of degree attainment in Australia), to 24% in the Sunshine Coast, and finally to 14% in Wide Bay (the second lowest rate of degree attainment in Australia, and roughly four hours from the Brisbane CBD).

*Growth in domestic student load at Queensland universities, 2007-2017. Growth is relative to the state growth of 40.7% over the period.*



**In a fair society, the communities serviced by USC deserve a preferential increase in student places to break the cycle of educational disadvantage. The performance measure at the heart of any assessment of USC must relate to delivery of this opportunity to the community, as well as supporting the communities in building capacity using the graduates.**

Growth in student load of other Queensland universities over the same 2007-2017 period, relative to the state average growth of 40.7%, is shown in the figure on the right. The university with the least growth, James Cook University (25.1% over the 10-year period), is arguably a regional university in a catchment with limited population and economic growth (apart from mining-related activities, which arguably detract from local university enrolments). The second slowest growing university is the University of Queensland (25.6%), a research university and state / national / international leader in some areas. UQ has a stated policy of limited domestic student expansion, as part of their larger strategic vision. The next three – QUT, Bond, Griffith – are metropolitan universities that have chosen to grow at a particular pace. The two universities behind USC in growth rate, CQU (57.3%) and USQ (50.1%), are regional universities who have embraced delivery outside of their jurisdiction to achieve scale. This has obvious benefits to the local community in terms of institutional viability.

A final piece of contextual data is provided in the table on the right, illustrating the relationship between population growth and education growth over the period 2007 – 2017. There are some similarities between Victoria, Western Australia, Queensland and New South Wales (ratio between population growth and EFTSL growth is 2.16, 2.03, 2.01 and 2.34, respectively). In other jurisdictions, this does not hold. It is possible to intuit explanations – WA and Queensland trends are influenced by mining, Tasmania making concerted steps to address disadvantage, Victoria and NSW roughly in proportion with each other based on population growth, ACT having people from interstate travel to attend ANU, NT student load growth driven by CDU’s external delivery growth, etc. However, the point is that market-led behaviour under the demand driven system does not mimic a simple model of load distribution.

*EFTSL growth and population growth (%) by state, 2007-2017.*



**It is USC’s contention that distribution of new student load must include consideration of:**

* **Population growth by catchment (new student demand)**
* **Education disadvantage (latent student demand)**
* **University strategic plans**
* **Past institution and market behaviour under the demand driven system**

Performance assessment must also take account these factors.

Responses to Consultation Questions follow.

# How should the PBF be implemented?

*Consideration 1: how to grow a university’s PBF amount from 2021*

As described in the previous data, national and state population growth trends have been poor predictors of institutional student load growth over the last ten years. **USC strongly advocates for a regional (catchment) scheme that considers local population growth (new demand), as well as regional disadvantage (latent demand).**

For those universities engaged in significant online activities, online students constitute a national student group and should be evaluated in relation to national population growth.

*Consideration 2: how to treat a university’s PBF amount from 2021*

Performance schemes enable the government to drive institutional behaviours in a manner aligned with policy or priority of the day. However, this must be balanced against planning. For a small regional university such as USC, around 90% of teaching-derived income is spent on the business of teaching – wages, operational expenses, capital maintenance (but not new capital works), etc. This is a stable model, and USC’s Aa3 stable credit rating from Moody’s supports that notion.

In this context, a small-percentage performance-based funding component will have a significant impact on USC’s functioning. Separate funding will provide significant financial uncertainty.

**USC’s recommendation is that the performance funding be added to the MBGA.**

# What performance measures should the PBF scheme draw on?

In line with the previous discussion, different performance measures should be applied to each university. There may be a “mandatory set” that all universities are assessed on, for example teaching quality, and then some “optional items” that universities may enter into based upon catchment characteristics, community need and/or university strategic plan. This option has been suggested in the Discussion Paper, and USC strongly supports the notion.

An important major consideration here is what factors universities can have control over their ability to influence (as stated in the discussion document). Concordant with measures defined by QILT, a key driver must be the quality of the student experience, especially in learning and teaching. This aspect is within the gift of each university, and where accreditation is a factor necessitating certain expectations, it is applied evenly to all universities.

Performance in areas such as attrition and graduate employment are modulated by the regional and national economic circumstances. Strict control over student intake may reduce attrition, but at the expense of an equity agenda. High levels of graduate employment are often related to local opportunity (mining, major construction) or the percentage of mature age students, where the student is already employed. There are also related to subject areas on offer – for example, if a university has a large proportion of creative arts graduates their overall employment rate will suffer when compared with an institution with high numbers of medical and dental graduates.

For USC, ‘overall employment’ rates would be a better measure of graduate outcomes, as many graduates choose not to work full-time therefore it is incorrect to assume that only those in full-time employment are ‘successful’. Performance measures would also better align with the USC vision is they recognised work to improving attainment rates for students from under-represented groups and long-standing educational disadvantage.

# How should the PBF scheme be designed?

A weighted segmented approach where QILT as a measure of Quality, Equity, Attrition and GOS could be used. As mentioned previously, the concept of core and supplementary measures would help the scheme best fit the range of universities in Australia, the set of which contribute a sector that punches well above its weight in the international stage.

A word of caution in relation to the setting of equity targets for all universities – past programs have driven institutions to engage in a “temporary” way with disadvantaged communities outside of their catchment, and then leave as soon as the funding program finishes. This does more harm than good and leaves the community and its senior leaders unhappy with both the institution and the sector.

# How should performance measure benchmarks be set?

USC supports the notion of peer-group assessment in selected measures such as attrition.

The threshold approach of minimal acceptable levels if used to simply additionally fund or not fund may require a value judgment that could be avoided if a weighted approach to a basket of measures is used, with a sliding scale that evaluates each factor. Given that attrition is a lagged measure, and taking into account the time it takes for new initiatives to take effect, an approach which looks at each institution’s time-series performance through one of the measures, e.g. moving average, simple assessment from one year to the next, may be appropriate. For each of the performance measures determined, the data of each institution will need to be assessed and the minimum acceptable level of performance determined based on that for each institution considering their strategic goals. An approach of weighting measures seems appropriate, based on factors such as:

* lag time - relevance of data
* what institutions have most control over; and
* relevance in relation to government priorities

Given the focus on attrition, some additional comments are warranted. A privately commissioned study of 2500 attritted students from a particularly Australian regional university, 68% of students classified as ‘not-retained’ have in fact only ‘deferred’ their study (in their view). These “deferrers” were found to be predominantly older (more likely to be 31 to 35 years old) and enrolled part-time. The decision to defer study was strongly influenced by non-institutional factors, of work and family demands and health concerns. Of these three non-institutional influencers, work demands were most influential, with these students struggling to balance the combined load of work, family and study. This suggests some mitigation of attrition measurements by age, study status, region and equity status. This mitigation may be simpler with an institutional peer comparison regime or year-by-year comparisons (although for USC, this may be problematic as programs are moved into disadvantaged regions.

# Should the PBF funding of unsuccessful universities be redistributed?

We agree that the pooling of funds would be appropriate.

The redistribution of pooled funds through designated places would help to produce supplementary effects that may support the need for sub-bachelor qualifications as a route to higher education that suits the current economic circumstances. This could be revisited every 3 -5 years. Clarity would be needed about any redistribution. The scheme needs to ensure that universities that are improving on their measures are rewarded to continue this work to potentially reach the threshold that may be set.

Generalising this, pooled funding could be used for initiatives (including by the universities who were unsuccessful in attaining necessary performance funding levels) as deemed necessary for the sector – teaching quality initiatives, targeted scholarships, regional teaching fellows to work in regional / rural / remote areas, etc.

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

The ability for a university to respond to a new funding stream depends on the timeliness of the data used in evaluation. Attrition by the national measures is highly lagged and it is difficult to see the effect of interventions unless shorter term proxy measures are used by each University. Since the overall thesis of this response from USC is that quality of the learning and teaching experience is the key factor within the control of the Universities and a major factor that adds value to the student’s capability, we strongly endorse the use of measures from QILT with immediacy that are not strongly modulated by socioeconomic determinants such as is the case for attrition.

# How should the PBF scheme be regulated?

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There needs to be a national framework (transparent so it is clear which data fields/algorithms have been used) by which universities are assessed. The drivers for each university to achieve can be stated in the Funding Agreement or Compact.