

**Consultation on  
Performance-based  
funding for the  
Commonwealth  
Grant Scheme**

**ENQUIRIES**

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## INTRODUCTION

La Trobe University is pleased to respond to the Consultation on Performance-based Funding for the Commonwealth Grants Scheme.

The Consultation Paper places a particular emphasis on linking funding to equity objectives, noting that, “The disparity in attainment between students from metropolitan areas and those who live in rural, regional and remote areas or come from areas of low SES disadvantage must be addressed.” The Paper further states that, “It is also expected that university students are satisfied with their experience, that they complete their qualifications, and that they are employed after they graduate.” These objectives align directly with those of the University. La Trobe University’s enabling Act sets out our commitment to quality and equity in its Preamble:

La Trobe's founding mission was, and remains, to serve the community of Victoria for the purposes of higher education, for the education, economic, social and cultural benefit of Victorians and for wider Australian and international communities.

From inception, La Trobe has been particularly focussed on providing access to quality higher education to those from disadvantaged backgrounds and has become an internationally recognised leader in this field.<sup>1</sup>

La Trobe is committed to ensuring that rural, regional and remote Australians and those from educationally disadvantaged and low SES backgrounds can participate in excellent higher education. Our students are supported to graduate from our metropolitan and regional campuses and to contribute to the social and economic welfare of their communities. Equity and growth in participation by students from all backgrounds is central to La Trobe’s mission, enabled by the ethos, ‘One university, many communities.’

## ABOUT LA TROBE UNIVERSITY

La Trobe is a multi-campus university covering central and north-eastern Victoria with campuses at Albury Wodonga, Bendigo, Mildura and Shepparton – as well as our central campus in Bundoora, Melbourne, and a new campus in Sydney. The Bendigo campus is the largest of our regional campuses with around 70 per cent of the University’s regional enrolments. La Trobe is second ranked in the state in serving rural and regional students with close to 9000 students from RRR areas studying at our campuses (below). One in five La Trobe students come from a low SES background,<sup>2</sup> and many are members of multiple equity groups.

Regional students by institution (DET 2017 Equity Statistics)

Institution	No. of regional students
Deakin University	9,630
La Trobe University	8,795
Federation University Australia	5,946
Swinburne University of Technology	5,094
The University of Melbourne	4,595
Monash University	4,566
RMIT University	3,311
Victoria University	1,365

\*Data includes students studying at all award course levels; All Regional and Remote data are based on a student’s permanent home address postcode. Regional and Remote categories are derived from the ASGS.

Because of the alignment between our objectives and institutional profile and the aims of the proposed performance-based funding scheme stated in the Consultation Paper, we believe our analysis of the suggestions for the proposed scheme will be of particular interest to government. Our submission overviews the effect on La Trobe of the 2017 decision to cease demand-driven funding by capping CSPs for domestic bachelor students and to cease growth in the proportion of people participating in higher education in future; offers principles for student-centred, equity-based performance funding; sets out key areas for caution in the design of a PBF scheme, and responds directly to the Consultation Questions.

<sup>1</sup> La Trobe University Act 2009.

<sup>2</sup> Department of Education and Training Selected Statistics, 2017.

## EFFECT OF CAPS ON BACHELOR CSPs AT LA TROBE AND ITS REGIONAL CAMPUSES

The present Consultation on possibilities for performance-based funding arrangements is framed within the context of the 2017 freeze on funding for bachelor-level CSPs, introduced in the 2017 December MYEFO. The cessation of the demand-driven system of CSP funding, and the decision by government to halt increases in participation in higher education by limiting future growth to that of the population has had a negative impact on La Trobe. A report published by the ABC based on load targets demonstrated the impact on La Trobe University of no longer being able to pursue growth at regional campuses as up to \$175 million in lost funding.<sup>3</sup> The amount of potential funding forgone is larger at La Trobe than the amount estimated for any other Victorian university, reflecting the ambitious scale of the growth we had planned for our regional campuses as part of our effort to close the participation gap between the regions and the cities. Investments made by La Trobe in our regional campuses became liabilities, reflecting the effect of sudden shifts in government policy and funding direction on university planning and finances.

The Consultation Paper places a particular emphasis on the desirability of growing levels of higher education attainment in rural, regional and remote Australia. **Growth in rates of attainment requires growth in levels of participation.** Limiting participation growth to population growth in the 18-64-year-old age bracket means no growth in the *proportion* of people attaining a higher education qualification. The university campuses and clinical schools across our region cannot grow in the present environment, and without growth attainment cannot be increased. Our regional communities also contain a large pool of potential mature age students who missed out on university upon leaving school and who are most likely to lose out in the more competitive selection environment that the limitation of CSPs below demand entails.

The effect of limits on participation is bad for regional Australia: higher education attainment is not only correlated with all other measures of education attainment, but also with socioeconomic and health outcomes, with community quality of life, and with economic activity. Education, at all levels, is central to regional development. Without individuals with the necessary skills, quality of life and economic activity fall. Industry cannot thrive, grow and innovate without access to an appropriate pool of talent. Individuals cannot achieve their full potential. Despite this, **education policy is currently divorced from regional development policy.**

## THE NATIONAL CONTEXT

In the period between the introduction of Demand Driven Funding in 2012 and 2016 participation by low SES people increased at rates above those of university applicants generally: low SES participation grew at 28.8 per cent over the 2011 to 2016 period against a background increase in enrolments of 21.6 per cent over the same period. The cessation of demand-driven funding will halt or reverse these gains. It will affect participation by those with less competitive entry qualifications – statistically, low SES and rural people – more than those from higher SES backgrounds and metropolitan people. Importantly:

**CSP growth tied to population growth means the government has abandoned long-held policy goals of increasing the overall proportion of Australians with university qualifications.**

We are also concerned that the decision to limit growth in CSPs funded by institutions' MBGAs to population growth appears to be absent any indexation. In practice, this means a *reduction* in the availability of places nationally year on year, as the cost of provision grows in line with inflation while funding remains flat. Failure to index per-student funding has been estimated by Universities Australia to be equivalent to a reduction of around 7,000 places per year nationally.

These observations are not directly attributable to the proposed introduction of performance-based funding, but rather speak to the context in which this approach is planned. If performance based funding is to have the beneficial effects suggested in the Consultation Paper, it will need to be implemented in a context of true growth in places that are

<sup>3</sup> ABC News. (Updated 14 June 2018). 'University funding freeze hits regional campuses worst, with up to 15 per cent of expected money on ice.' ABC News website, accessed 7 February 2019 at <https://www.abc.net.au/news/2018-06-14/university-funding-freeze-regional-campuses-worst-hit/9857532>

indexed to inflation. Failure to providing indexed growth funding will undermine the intent of the proposed funding approach and result in greater inequity and lower rural, regional and remote, and low SES participation.

## PRINCIPLES FOR REWARDING PERFORMANCE

The Consultation Paper notes that “the objects of the Higher Education Support Act 2003 (HESA) provide a framework for assessing what we want from Australia’s higher education sector and how providers are performing. To this end, the PBF scheme must support the objects of the HESA (as they relate to the CGS).” The first object of the Higher Education Support Act (2003) is that Australia’s higher education system be “characterised by quality, diversity and equity of access” (HESA 2003). Other objects include the development of cultural and intellectual life, meeting Australia’s social and economic needs and promoting free intellectual inquiry; as well as supporting the missions of universities, Australian research and students themselves.

In terms of how the allocation of funding for domestic undergraduate students might best reflect HESA’s objectives, La Trobe contends that such allocation should be student-centred and have the needs of students as the guiding principle of the allocation distribution. Equity should be a central principle to which funding and support measures adopted by government align. La Trobe’s Centre for Higher Education Equity and Diversity Research led a substantial research project on equity-based performance funding in late 2018, which we submit along with the present response. The report, ‘Principles for equity in higher education performance funding,’<sup>4</sup> argues that an equitable performance funding model should have the following characteristics:

- efficiency, with limited transaction and implementation costs;
- promotion of a developmental rather than punitive approach, which rewards institutions for improvement over time;
- strong accountability, consistency, and stability, to enable long-term planning and to avoid perverse incentives and ‘gaming’ of the metrics;
- expansion of institutional capacity to assist universities to analyse and improve their performance;
- broad stakeholder engagement in design and implementation;
- support for the diversity of institutional missions; and
- respect of provider autonomy, with prescribed uses of funding in place only when justified by strong policy reasons.<sup>5</sup>

After examining and analysing performance funding approaches internationally, as well as historical approaches adopted by Australia, the report finds that, to be effective, equity-based performance funding models must have student needs and the student voice at their centre. The authors conclude that:

The methodology of performance funding can become extremely complex. While accurate and sophisticated data is necessary to isolate genuine institutional performance, models also need to be student-centred to be effective and equitable. Historical attempts to provide better information for prospective students have seen limited success, partly because of the paucity of student trust and consultation. Positioning students at the centre of performance funding would involve explicitly including their voices and views within the metrics, including them in design and project consultation phases, and ensuring that new information produced is widely accessible, digestible, and useful, particularly to prospective and under-represented students.

By integrating student equity, distinguishing performance from outcomes, and positioning students centrally, it is possible to envisage an effective and equitable performance funding model. Such a model would reward institutions that best contribute to the national higher education objectives.<sup>6</sup>

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<sup>4</sup> Harvey, A., Cakitaki, B., & Brett, M. (2018). Principles for equity in higher education performance funding. Report for the National Centre for Student Equity in Higher Education Research. Melbourne: Centre for Higher Education Equity and Diversity Research, La Trobe University.

<sup>5</sup> *ibid.*, p.7.

<sup>6</sup> *ibid.*, p.48.

While objecting to the adoption of performance-based funding in a context of no growth, La Trobe commends the commitment to equity expressed in the Consultation Paper. Below, we consider key areas for caution in the design of a performance-based funding model, and later respond directly to the Consultation Questions.

## KEY AREAS FOR CAUTION IN THE DESIGN OF A PERFORMANCE-BASED FUNDING MODEL

Performance-based funding models are used widely to encourage or discourage particular behaviours and outcomes in organisations. These work best when the inputs, outputs or other activities that are to be rewarded are clear, measurable and directly related to the desired outcomes. Performance-based approaches can be useful where blunt measures of productivity are required, such as units of production in a factory setting. In areas where the outcome targeted is more difficult to measure – for example, ‘quality’, ‘experience’ and ‘value’ – great care needs to be taken to ensure that proxies are indeed closely tied to the desired outcomes, and that perverse incentives are not created.

In higher education systems, there have been a number of notorious missteps made in historical attempts to link funding outcomes to quality. Performance-based approaches to research, in particular, fall into this category. For example, when the UK government first implemented the Research Assessment Exercise, which rewarded research activity with the intent of stimulating overall research engagement, one outcome was that scholars turned toward short, superficial projects that would meet quantification goals within Exercise timelines but that were not aimed at quality or depth.<sup>7</sup> A positive outcome has been a greater weight put on impact factors and other measures of quality in research funding approaches elsewhere, yet serious damage was done before these perverse incentives were isolated.

A large US study on the effects of performance based funding schemes in universities, based on interviews across three US states, revealed effects including: restriction of admissions; weakening of academic standards; increased compliance costs; lessening of institutional co-operation; decrease in staff morale; less emphasis on missions not rewarded by performance funding; and decrease of faculty (academics’) voice in academic governance.<sup>8</sup> Many of these ill effects come about because strong university performance outcomes are ‘easiest’ when student selection is biased toward well-prepared high academic achievers (who tend to be middle and high SES) and when academic standards are not heavily enforced (raising grades and pass rates; making study less challenging to increase retention). Again, this goes to the need to keep equity at the centre of a performance-based approach to funding, rewarding inclusion and diversity.

Before moving to the Consultation Questions, we raise a number of key areas for caution in considering the introduction of a performance-based element in the funding of Australian universities:

### *General areas for caution*

- **Lack of demonstrated need for a PBF, weighting a risk/benefit calculation on the risk side.** Australia already has a number of agencies and activities in place to ensure quality: in particular, the Quality Indicators for Learning and Teaching (QILT), which supports students to vote with their feet through transparent indicators of a variety of areas of institutional activity, and TEQSA and its associated instruments including the Higher Education Standards Framework. These are effective tools aimed squarely at university quality.
- **Unintended perverse consequences.** This is the biggest challenge for a prospective PBF formula. Interactions between activities, inputs and other settings at universities are complex, and proxies for quality can be difficult to pin down. For example, attrition and low SES are highly correlated, so punishing attrition could cause universities to be more cautious about raising low SES participation.
- **Measures of outcomes are not always stable across, or even within, institutions.** For example, self-reported ‘student satisfaction’ measures can vary between disciplines and social classes even if ‘quality of teaching’ – itself notoriously difficult to quantify – is held constant.
- **Variation between institutions can be tightly clustered, leading to instability of measurement.** Our internal modelling across a variety of indicators suggested in the Consultation Paper shows tight clustering of

<sup>7</sup> Head, S. (2011). The grim threat to British universities. *Educational Studies*, (2), 282-295.

<sup>8</sup> Dougherty, K. J., Jones, S. M., Lahr, H., Natow, R. S., Pheatt, L., & Reddy, V. (2016). *Performance funding for higher education*. Baltimore: Johns Hopkins University Press, p.72.

institutions on a number of measures, and large variations in institutional rank across years. Benchmarking against rank means small changes in outcome can result in large shifts in relative position, which is unfair and unstable.

*Areas for particular caution in a context of limited or diminishing real growth in places*

- **No possible net gain in sectoral quality.** Where there is no potential for growth in total student places above population and funding is not indexed, a PBF will be highly competitive – a ‘win’ for one institution will mean a loss elsewhere, even where other institutions have not deteriorated in quality or reduced positive behaviour or activity. This is not an approach that will grow sectoral excellence.
- **Perversities in the claimed need to grow attainment for underrepresented groups.** The Consultation Paper places a particular emphasis on growing levels of higher education attainment in rural, regional and remote Australia and for low SES people. Growth in attainment requires growth in participation. In a highly competitive PBF context, low SES and RRR students are the most likely to miss out.
- **No rationale for turning away qualified students.** The Consultation Paper places a strong emphasis on raising attainment levels of RRR and low SES students. Higher rates of attainment means higher rates participation. If we are to increase participation of these students there will be less places available for otherwise qualified metropolitan and mid- to high-SES students, yet not rationale for turning these students away has been provided.

In short, the introduction of a PBF scheme of the kind considered in the Consultation Paper appears high risk, despite a lack of clarity about the specific problems it should resolve; is likely to diminish, rather than improve, growth in the participation of students from designated equity groups, and lacks sufficient nuance in the way institutional profiles are considered for perverse incentives and unintended outcomes be avoided. Public and transparent measures of performance are welcome; below we discuss the apparent success in the UK Teaching Excellence Framework in that regard. Yet the TEF exists in a demand-driven context and includes both qualitative and quantitative measures of performance at like-for-like institutions and is judged by expert peers. Without a return to a demand-driven system, an Australian PBF appears likely to run down overall sectoral quality.

## RESPONSE TO THE CONSULTATION QUESTIONS

### 1. How should a PBF scheme be implemented

The Consultation Paper states here that additional funding will be allocated to universities in 2020 for meeting their performance targets, but that decisions need to be made regarding PBF amounts for universities *from 2021 onward*. Clarity is needed about how the 2020 funding will be allocated, and against what targets.

#### *Consideration 1: How to grow a university's PBF amount from 2021*

The Consultation Paper states that, “The maximum amount of funding an institution receives is based on population growth of 18-64 year olds. While the national population growth rate for this age range could be applied to each university, another option would be to apply a more local or regional population growth for each university. For example, if population growth in Victoria is 2.2 per cent, compared to 1.0 per cent in Tasmania (based on ABS 2018 March data), universities in Victoria could be eligible for 2.2 times the funding an institution in Tasmania could possibly receive. Note that for such an approach, the total PBF amount could not exceed that defined by the national population growth rate (i.e. around \$70m each year). Is a more regionally-based population growth more appropriate?” (P. 12).

A state or regional measure is important for institutions that serve growing local populations. Such a consideration is particularly important for La Trobe, for we are located in Australia's fastest growing state and serve Melbourne's metropolitan outer North, one of this state's fastest growing areas (along with the South Eastern corridor).

On the other hand, we also seek to grow participation in the areas served by our regional campuses, in line with national objectives for increasing the educational attainment of RRR Australian. To do this, we require growth *above* local population levels for our regional campuses.

**We recommend that once a PBF approach is settled upon, government model the effects for each institution for feedback.**

We also note a potential error here: if the maximum amount of funding *an institution* receives is to be based on population growth of 18-64 year olds (nationally or locally), and institutions with poorer performance are to receive less than they otherwise might, then the total national funding pool cannot grow in line with the population (it will comprise the maximum *minus* disincentive amounts). We expect that the intent here is to convey that 'The maximum amount of funding *available to the sector* is based on population growth of 18-64 year olds (see also Q. 5).

**The total number of CGS places available to the sector should not shrink below population growth, also noting funding for places will not be pegged to inflation.**

### ***Consideration 2: How to treat a university's PBF amount from 2021***

This question asks whether a base amount of funding not subject to performance, for example the 2017 capped amount, be held constant so that the amount at risk grows each year.

The amount subject to performance should not grow year on year. University planning and mission development requires the annual funding levels each year to be capitalised into a base amount in the manner of a growth pool. Under this approach, if performance is high, the base will be ratcheted up another increment. Over-contestability is likely to be highly distorting and will mean that any unintended outcomes of the scheme will be magnified. Institutions require policy and funding stability to operate effectively.

Returning to our central point, that a PBF must be student-centred and focussed on equity, we contend that the instability and uncertainty in a high-risk, large, contestable pool will cause institutions to focus on securing 'safe' enrolments of better prepared students rather than in investing in attracting and supporting students who require higher levels of support.

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

A selection of performance measures are proposed in the discussion paper, which we comment on below.

First, however, we wish to address explicitly a key area of concern that is implicit in the Consultation Paper, that is, that universities may be accepting too many underprepared students who have a higher likelihood of not completing. This concern was raised by the previous education minister in the context of the future introduction of a PBF and is a concern shared by students, parents and universities themselves. In particular, concerns about low ATAR students and non-completion have been a feature of public conversations about preparedness. Analysis by the Grattan Institute shows that, overall, students with ATARs below 60 have a 40 per cent chance of not completing their studies.<sup>9</sup> While this cohort of students is comparatively small, and the majority of these students do successfully complete their courses (the 40 per cent risk of non-completion holds constant even in the 30-49 ATAR group<sup>10</sup>), it is right to ensure that universities that enrol students that may be at risk of non-completion work to support these students to succeed. However, Australian Government modelling reveals that low ATAR explains only 3.86 per cent of variance in completion rates,<sup>11</sup> and that while high ATAR is correlated with success and retention (students who have been high academic achievers in the past tend to go on to be high academic achievers in the future), for those who have not achieved well in the past, a large number of factors may be at play, of which ability is but one.

La Trobe contends in our parallel submission to the Consultation on the reallocation of Commonwealth Supported Places for enabling, sub-bachelor and postgraduate courses, that there is an important role here for enabling and sub-

<sup>9</sup> Norton, A., Cherastidham, I., and Mackey, W. (2018). Dropping out: the benefits and costs of trying university. Grattan Institute, p. 25.

<sup>10</sup> *ibid.*

<sup>11</sup> Australian Government. (2017). Completion Rates of Higher Education Students - Cohort Analysis, 2005-2014, Canberra: Australian Government, Department of Education and Training, p. 8.

bachelor programs. Research shows that the best way to build academic skills and provide support for otherwise underprepared students is to strengthen the sub-degree (enabling and diploma) space.<sup>12</sup> This could involve the expansion of enabling programs – in our parallel submission we argue that these should be uncapped – and greater coherence around diplomas, dual degrees and the like, which we address in our submission to the Review of the AQF. Strengthening sub-degree spaces would preserve, or indeed improve, student equity, while simultaneously encouraging institutions to improve the academic preparedness ('quality') of the Bachelor cohort overall. A PBF, by contrast, is likely to lead a narrowing of admissions and a reduction in equity, unless a range of rigorous and complex weightings are devised in the manner of the UK TEF.

Performance measure	Comments
<b>Student experience</b>	Supplementary metric adopted in TEF (UK) Core EPI adopted in PLF (NZ), and performance component in Tennessee and Louisiana (US) Course/qualification completion rate is core Educational Performance Indicator adopted in PLF (NZ), and performance component in Tennessee and Louisiana (US) Core metric adopted in PLF (NZ)
First-year student attrition/retention	Absent a specific equity and inclusion measure, rewarding retention / punishing attrition will be counter to the equity objectives set out in the Consultation Paper. Students at risk of not completing will become a potential liability to institutions.
Student completion within six years	
Overall student satisfaction	We support the reward of student satisfaction. Student satisfaction measures should have the student voice front and centre, including in the design of such measures. We discuss this more in the research paper accompanying this submission.
<b>Graduate outcomes</b>	Employment and highly skilled employment are core metrics adopted in TEF (UK), and performance component in Louisiana (US) Core metric adopted in TEF (UK)
Full-time employment rate	There are benefits to adopting these measures, for universities recognise the need to equip their graduates with the skills to succeed. Detailed modelling is needed, however, for we observe that some institutions generally considered to be of high quality have comparatively poor immediate graduate employment outcomes. La Trobe, however, ranks in the top half of institutions on both measures. We also note problems of lag at Q. 6.
Full-time further study	
<b>Equity</b>	The assessment process of TEF (UK) looks at the extent to which a provider achieves positive outcomes for disadvantaged groups. The ethnicity dimension is used in PLF (NZ) to monitor the achievement of groups of interest to the sector and government
Participation by students from low SES, regional/remote or Indigenous background	<b>We consider this to be the most important criterion for performance based rewards. Rewarding equity participation is directly aligned with the objects of HESA.</b>

We also note the emphasis on the UK Teaching Excellence Framework. We discuss the operation and merits of the TEF at length in the research paper accompanying this submission, but wish to make clear that the TEF is a highly nuanced, multi-stage program in which institutions have the opportunity to submit detailed contextual statements about their specific missions and contexts. Institutions demonstrate excellence on a broad range of measures (qualitative and quantitative), and metrics are subject to rigorous statistical testing, to benchmark like-for-like, with awards made holistically based on the judgement of expert peers. Further, the TEF has resulted in improved outcomes for a number of institutions (at least on early evidence) despite not presently having any funding at stake. This is further evidence that universities are keen for opportunities to demonstrate their commitment to learning, teaching and high level scholarship in transparent and student-centred ways without incentive funding and the instability and uncertainty that PBF entails.

<sup>12</sup> For example, approximately 70 per cent of students in the University of Newcastle enabling program continue on to university study (Trounson, A., 2012, May 19, 'Newcastle Uni the big winner from enabling boost as it enhances peer support,' The Australian). At La Trobe, our sector-leading dual enrolment (degree-diploma) model delivered in partnership with TAFEs in communities in regional Victoria saw around half of La Trobe's nursing commencements from the Shepparton campus enter through the degree-diploma pathway in 2018, and articulation rates to a degree rise from 5 per cent to 30 per cent when compared to previous models.



### 3. How should the PBF scheme be designed?

Institutional autonomy, sectoral diversity and the context and mission of institutions must be respected. We are concerned that the present allocation of places between institutions is merely an artefact of their position at the time of the freeze in 2017. Decisions taken by institutions to arrive at the number of CSPs they held in 2017 were made in a context of demand-driven funding with no notice that this would cease. That is, the present base level of CSPs at institutions exists not on the basis of planning or policy objectives, but chance. Before considering whether the base should grow or remain stable, a considered approach to allocating an appropriate base to each institutions needs to be undertaken.

**We recommend that DET consider the base needs of institutions according to mission and context before fixing a CSP allocation level to underlie the performance amount.**

Subject to these concerns about the lack of considered design in the current distribution of places between universities, we support in principle the concept of 'core + supplementary' measures. Again, we suggest that the UK TEF provides a strong model here. Institutions need to respond to the needs of their local communities and changes in society, the economy and the employment market more generally. An overly mechanistic approach would undermine institution autonomy and the ability to respond to local and national needs.

In a 'core + supplementary' model, equity (participation data) should be in the 'core' part of the model, in keeping with the HESA. Student satisfaction – which should include the student voice and not be based on simplistic measures like satisfaction surveys – should also be core. Mission-based measures, for example graduate outcomes in disciplines leading to professional practice for institutions with professional preparation as a key mission, might be supplementary.

We reiterate the key principles that should inform the design of a PBF:

- efficiency, with limited transaction and implementation costs;
- promotion of a developmental rather than punitive approach, which rewards institutions for improvement over time;
- strong accountability, consistency, and stability, to enable long-term planning and to avoid perverse incentives and 'gaming' of the metrics;
- expansion of institutional capacity to assist universities to analyse and improve their performance;
- broad stakeholder engagement in design and implementation;
- support for the diversity of institutional missions; and
- respect of provider autonomy, with prescribed uses of funding in place only when justified by strong policy reasons.<sup>13</sup>

**Again, after a PBF has been designed, careful modelling of the effects on each institution should be provided by DET for further feedback.**

### 4. How should performance benchmarks be set?

The long discussion in this part of the Consultation Paper is itself evidence of the potential for unintended negative outcomes inherent in metrics-based funding allocations.

We suggest that further analysis by DET is necessary here, particularly with regard to the stated assumptions. For example, it is well accepted that attrition is highly correlated with student characteristics such as socioeconomic status and other factors. However, the Consultation Paper states that:

...in the case of first-year attrition, the influence of student backgrounds on institutional performance may be overstated. A recent analysis of attrition rates found that, after controlling for student characteristics, institutions with low attrition still had below average rates, and institutions with high attrition still had above average rates. By far the largest influence on

<sup>13</sup> Harvey *et al.* *op. cit.*, p.7.

attrition was the institution attended. The analysis concluded, “controlling for student characteristics appears to make very little difference to the relative performance of institutions in terms of measured attrition rates” (Consultation Paper, p. 14, citing Department of Education and Training 2017, 73).

This is a surprising assertion. When considering the cited paper, it will be found that in the full passage the authors state that:

Controlling for student characteristics certainly makes a difference... Institutions with low adjusted attrition rates generally have higher ‘modified’ attrition rates while institutions with high adjusted attrition rates generally have lower ‘modified’ attrition rates. Controlling for student characteristics reduces variation in institutional attrition rates by just under half...

However, it is interesting to observe, notwithstanding controlling for student characteristics, that institutions with a low adjusted attrition rate still have ‘modified’ attrition rates that are below average. Conversely, institutions with high adjusted attrition rates still have ‘modified’ attrition rates that are above average. Controlling for student characteristics appears to make very little difference to the relative performance of institutions in terms of measured attrition rates.<sup>14</sup>

What the authors show here, is that even though student characteristics account for close to half of variation in attrition, institutions with generally low (bottom half) attrition remain in the bottom half, and those with generally high (top half) attrition remain in the top half. When the accompanying table is considered, variations in measured attrition between the base rate and the controlled rate are up to 12 percentage points – the University of Tasmania, for example, moves from a base measure of 37.7 per cent attrition to a logit ‘modified’ attrition rate of 25.4 per cent.

It is notable that the effects of controlling for student characteristics are smallest in the Group of Eight, who serve predominantly very high achievers who are likely to be well prepared regardless of their equity group characteristics, and greatest in institutions that predominantly serve low SES and RRR students and are located in regional Australia.<sup>15</sup>

The main concern of a PBF that does not place equity at the centre of measures of performance is that mistaken assumptions about the ability of institutions to mediate effects that are in fact related to student characteristics will result in selection decisions based on ‘safe bets’ and that equity participation will decline. The La Trobe review of PBF schemes by Harvey *et al.* from our Centre for Higher Education Equity and Diversity Research provides a number of examples:

Multiple analyses of performance funding regimes in the US have highlighted a decline in diversity of admissions following the introduction of funding by outcomes (Dougherty *et al.*, 2016; Jones *et al.*, 2017; Kelchen & Stedrak, 2016). Kevin Dougherty and colleagues (2016, pp. 174-175) conducted in-depth interviews with senior administrators at both four-year and community colleges in states with performance funding policies in place, and found that the majority of interviewees identified restricted admissions as the main unintended impact. Similarly, a study in Indiana examined whether the presence of the performance funding increased either the number of graduates, selectivity, or enrolment rates of minority and low-income students (Umbricht, Fernandez, & Ortagus, 2017). The researchers found that Indiana’s performance funding policy led to decreases in overall admission rates for minoritised students compared with private providers in Indiana, and also public institutions in similar states (Umbricht *et al.*, 2017, p. 664). Fewer students from racial and ethnic minorities were admitted, as well as students from low-income backgrounds. The researchers note that the effects of the performance funding policy may only be evident after four to six years, and so their findings may only reflect the short-term effect of performance funding (Umbricht *et al.*, 2017, p. 659).<sup>16</sup>

Other concerns about measurement effects include the potential for large shifts in funding outcomes based on small shifts in performance. While the Consultation Paper suggests that a ‘top half/bottom half’ approach to ranking (as shown in Figure 3 of the Consultation Paper) may be broad-based enough to discount the kinds of differences found in the DET paper on attrition, internal La Trobe modelling (using data collected for DET) shows that on many of the suggested measures institutions are tightly clustered in the measures to which ranks might be allocated, particularly around the median levels of distributions. This means that a small change against a measure will move an institution into or out of a benchmark group. This is not a stable basis for good institutional planning.

<sup>14</sup> Department of Education and Training. 2017. Improving retention, completion and success in higher education. Higher Education Standards Panel Discussion Paper. Quote appears on pp. 43-44.

<sup>15</sup> *ibid.* Table A1.

<sup>16</sup> Harvey, *et al.*, *op. cit.*, 24-25.

On the design principles of a PBF, the Consultation Paper states that:

The performance measures themselves should be appropriate and relevant to driving improved university performance, should be within control of universities, and should be straightforward to measure. The measure benchmarks that universities must achieve to receive performance funding should be achievable yet aspirational, should be set according to a sound methodology, and should take into account a university's mission and unique student cohort.

La Trobe agrees. We are concerned that many of the measures suggested in the paper do not meet these standards. Standards that are amenable to measurement, are in the control of institutions and do not have undue 'lag' (see also below) include:

- Participation by equity group members;
- The success rate (where the rate is the proportion for year(x) of actual student load (EFTSL) for units of study that are passed divided by all units of), although we note the potential incentive here for 'soft marking'; and
- Overall student satisfaction (although student characteristics can also cause distortions here).

Again, we suggest consideration of the kinds of measures of performance used in the UK TEF that are highly nuanced and responsive to institutional context and mission.

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

It is absolutely integral to the health of the Australian higher education system that unused funding be reallocated. Failure to do so would result in an overall reduction of CSPs year on year. This, on top of capping at population growth levels and failure to index would quite simply be disastrous for the sector.

Within the context of the suggested options, the simplest approach is that unallocated funds be "pooled" and redistributed among successful universities. This raises further questions, however, about levels of base funding not subject to performance from one year to the next. There is a potential here for 'feedback looping' where relative success or failure compounds year on year in undesirable ways. Again, **it is crucial that thorough modelling be undertaken and provided to the sector for feedback.**

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

As little lag in measured outcomes as possible is necessary for any workable PBF if it is to improve performance in ways that institutions can control. While strong employment outcomes, for example, are important to universities and to students, these are an example of a poor measure for an effective PBF scheme. These matters are considered further in the paper accompanying this submission.

## 7. How should the PBF scheme be regulated

Due to the high risk of instability and potential negative effects, it is important that as much public and parliamentary oversight as possible is built into the regulation of the scheme. At the very least, the allocation measures should be in the form of a disallowable instrument.

## KEY RECOMMENDATIONS

1. Any PBF must be student-centred and focussed on equity.
2. A PBF should not be implemented unless true growth funding is provided: preferably, to meet demand, but at the least, including indexation.
3. Present distributions of CSPs are not based on planning or policy objectives: DET should consider the base needs of institutions according to mission and context before fixing a CSP allocation level to underlie the performance amount.
4. A PBF should include the following principles:
  - efficiency, with limited transaction and implementation costs;
  - promotion of a developmental rather than punitive approach, which rewards institutions for improvement over time;
  - strong accountability, consistency, and stability, to enable long-term planning and to avoid perverse incentives and 'gaming' of the metrics;
  - expansion of institutional capacity to assist universities to analyse and improve their performance;
  - broad stakeholder engagement in design and implementation;
  - support for the diversity of institutional missions; and
  - respect of provider autonomy, with prescribed uses of funding in place only when justified by strong policy reasons.
5. Once any PBF approach is settled upon, government should model the effects for each institution for feedback.
6. Allocations should take regional growth and participation needs into account.
7. Any amount subject to performance should not grow year on year.
8. It is absolutely integral to the health of the Australian higher education system that unused funding be reallocated.
9. As little lag in measured outcomes as possible is necessary for any workable PBF if it is to improve performance in ways that institutions can control.
10. Due to the high risk of instability and potential negative effects, it is important that as much public and parliamentary oversight as possible is built into the regulation of the scheme. At the very least, the allocation measures should be in the form of a disallowable instrument.
11. The UK TEF provides a strong model for rewarding teaching excellence: TEF is a highly nuanced, multi-stage program in which institutions have the opportunity to submit detailed contextual statements about their specific missions and contexts. Institutions demonstrate excellence on a broad range of measures (qualitative and quantitative), and metrics are subject to rigorous statistical testing, to benchmark like-for-like, with awards made holistically based on the judgement of expert peers.