



CHARLES DARWIN UNIVERSITY

Submission to: Australian Government Department of Education and
Training

Re: Performance-Based Funding for the Commonwealth Grant
Scheme

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February 2019

Summary of key points

- The proposed Performance Based Funding (PBF) scheme is a 'one size fits all' approach, which attempts to deliver greater accountability for use of public funding through another metric-driven ranking / league table exercise.
- It proposes the adoption of only standardised metrics, putting the need for institutional comparability ahead of the need to meaningfully understand university performance within an individual context. Such an approach has proven in other jurisdictions (namely New Zealand) to result in behaviour which improves metrics, not student outcomes or quality.
- The proposal to reward only the institutions in the top 50% will create an increasing gap between the top and bottom, as the compound effect of missing PBF funding prohibits ability for the bottom 50% to invest and deliver improvements that would move them to the top 50%. Those at the bottom of the bottom 50% are also likely to view PBF as unattainable from the outset.
- The adoption of institutionally specific, but still methodologically sound measures are recommended. These should align to institutional strategic plans but may also include areas identified by Government for specific focus. Institutionally specific key performance indicators (KPIs) should be set in the context of prior institutional performance and should be attainable, but aspirational. This would be more likely to drive improvements across the sector.
- The current proposal would see an indefinite end to the demand driven system and result in the net reduction in the number of funded undergraduate places nationally.
- This would reduce access opportunities across the country and would severely disadvantage jurisdictions like the Northern Territory, which already have far fewer funded places per head of population than other jurisdictions. Nationally in 2017 there was 1 EFTSL per 19 persons aged 18-49 years living in Australia. In the Northern Territory there was 1 funded EFTSL per 49 persons living in the Northern Territory (when taking consideration funded places used by Territorians at all institutions). Regional access to government funded undergraduate places is highly correlated to places allocated to universities in the same region. Therefore, the most effective way to increase access opportunities in a region is to increase the availability of funded places at the university local to that region.
- CDU is working with stakeholders across its region to raise tertiary aspiration and preparedness for school aged students. We are also working to offer comprehensive and well supported pathways (through both VET and HE) to support those older Territorians for whom university was not an option when they left school. CDU will therefore need increasing access to funded undergraduate places to ensure that eventually the Northern Territory reaches parity with other jurisdictions in terms of university access. The most efficient way to do this would be to allow CDU, and other regional universities in similar regional situations, to return to demand driven funding for the CGS, at least until their regional funding profile reached parity with the national funding rate of 1 EFTSL per 19 head of population aged 18-49 years (or whatever this figure morphs to nationally over time).
- An age range of 18-39 years represents an age cohort in the Australian population which is more closely aligned to the student profile in bachelor level studies across the country. Extending this to 18-49 years would cover the age profile for outlier institutions like CDU which cater for high proportions of Indigenous and disadvantaged students, who tend to be older when they start study and take longer to complete.

- Changes to small regional populations like the Northern Territory, are heavily impacted by large infrastructure projects in the region. This leads to boom and bust economic and population growth patterns. Indexing CDU's maximum basic grant (MBG) growth by the NT population growth would have seen negative or no growth in the MBG since 2016, when other jurisdictions would have grown. This would further widen the already large gap between the Northern Territory and the rest of Australia in terms of access to funded undergraduate places.
- It should also be considered that whilst most undergraduate enrolments from the Northern Territory are with CDU, and that Territorians make up the largest domestic geographic cohort at CDU, CDU has a considerable number of enrolments from students outside the Northern Territory. These students are often from regional and remote areas outside of the Northern Territory; or are metro-based students that come from more disadvantaged backgrounds than urban counterparts attending metro-based universities. Therefore, applying regional population indexes to the MBG for a university like CDU would not reflect the breadth of population trends which impact its student profile.
- CDU therefore maintains that a return to demand driven growth across the sector is the optimal solution. If this is not fiscally possible, then special dispensation for regional universities to operate outside the caps in a demand driven manner is the best way to raise access opportunities and outcomes for regional, remote and disadvantaged students.
- If a population growth metric is applied to determine the increase rates for the MBG, then it should be indexed against the 18-49-year age cohort, not the 18-64 year group as proposed in the consultation paper, as this is more closely reflects the Australian population cohort engaging in tertiary studies. It should also be applied using national population growth rates, and not state and territory-based population rates. In addition, the per EFTSL funding rates need to be CPI indexed on top of the MBG base, not within, to ensure that access opportunities keep pace with population growth and funding rates keep pace with rising cost of teaching.
- The types of standardised 'one size fits all' metrics proposed in the paper should be avoided. CDU has highlighted in our response an example of how a more meaningful and institutionally specific approach could be adopted. We believe such an approach would provide increased public accountability and transparency, and at the same time driving real quality improvements across the sector.

1. How should the PBF Scheme be implemented?

1.1 Institutionally specific metrics

- The proposed PBF scheme is a one-size fits all approach, which attempts to deliver greater accountability for use of public funding through another metric drive ranking / league table exercise.
- It proposes the adoption of only standardised metrics, putting the need for institutional comparability, ahead of the need to recognise actual institutional performance within its specific context. Such an approach has proven in other jurisdictions (for example New Zealand) to result in behaviour which improves metrics, not student outcomes or quality.
- New Zealand have had a performance linked funding (PFL) scheme in place for some years (referred to in the consultation paper). This was discontinued in 2019 after a recommendation in 2018 by their productivity commission that the metric-based model was not driving quality improvements in the sector. New Zealand is moving to a more qualitative and institutionally specific approach to measure institutional performance in 2019.
- CDU has no issue with improving our level of transparency and accountability for the delivery of quality outcomes with tax payer funds. However, we believe that methodologically sound and institutionally specific measures should be applied to assess individual institutional performance, rather than the comparative ranking of institutions using less meaningful metrics.
- Most if not all institutions have detailed strategic plans with associated reporting frameworks and KPIs. These KPIs are aligned to what will deliver a sustainable and optimal future for the institution and improved outcomes for its specific student cohort. These measures should be used as part of a meaningful performance-based funding model. For example, in section 2.1 below, we outline how the concept of retention is being applied at CDU to measure student engagement in the context of mature age enrolment patterns, which are often not continuous year-to-year.

1.2 Age Range Applicability for National Population Growth Rates Applied to the Maximum Basic Grant

- Nationally 90% of all domestic enrolments at the bachelor level (as covered by the non-designated CGS) are for persons aged 18-39 years of age.
- At CDU, where 78% of all bachelor level students have some form of educational disadvantage (as defined by membership to at least one of the nationally recognised equity target groups), students tend to be older at time of commencement and take much longer to complete. Here 90% of bachelor level students are between the ages of 18-49 years of age.
- If population growth targets were aligned to the Australian population aged 18-49 years (instead of 18-64 years as proposed in the consultation paper) this would more closely reflect the Australian population cohort engaging in tertiary studies, whilst still taking into consideration potential outlier student profiles of universities like CDU.
- In 2018 the estimated residential population of Australians aged 18-49 years grew by 1.5% on the prior year. The average annual growth rate over the 10 years from 2009 to 2019 was 1.3%.

1.3 Regional versus National Population Growth Rates Applied to the Maximum Basic Grant

- The consultation paper asks for feedback on possible regional population growth rates being used to index the MBG, instead of a single national growth rate. This proposal would only have merit if:
 - I. a university’s bachelor level student enrolment profile was driven only by population changes from the region within which it is located; and
 - II. the current distribution of places across the states and territories adequately reflected both the current and future distribution needs for funded places.
- In relation to the first point, and as previously stated, CDU’s bachelor level student profile is made up of students from a much broader catchment than just the Northern Territory. Therefore, a regionally applied population index would not capture all the population drivers impacting CDU’s student enrolment profile.
- In relation to the second point, the number of places utilised by persons living in a state or territory is highly correlated to the total number of places allocated in the MBG of universities within that state or territory. Table 1 below, compares the population aged 18-49 years of age in each state and territory; firstly, to the number of EFTSL enrolled at institutions in that state and territory, and secondly to students with a home location in that state or territory but enrolled at any university across Australia.

Table 1. Population Aged 18-49 years compared to Bachelor Level CGS EFTSL by state of institution v by student home location.

	Persons Aged 18-49yrs per EFTSL delivered by Institutions in the State	Persons Aged 18-49 yrs. per EFTSL delivered to Residents of the State by any Australian University
NSW	21.0	18.5
VIC	20.2	20.3
QLD	19.7	18.4
WA	20.8	22.0
SA	18.8	17.7
ACT	13.2	25.3
TAS	16.1	23.3
NT	35.5	48.8
Total	19.4	19.4

Sources: ABS: 31010D0002_201806 Australian Demographic Statistics, Jun 2018, Population: Table 7 Estimated resident population, by age and sex—at 30 June 2017; Dept Ed: 2017 Section 2 All Students, Table 2.6, & Section 4 All student load, Table 4.2; and UA Enrolments Data Set: Home Location by State

- Table 1 above shows that there is a high degree of correlation between the number of funded CGS undergraduate EFTSL at institutions in a state and territory and the access rates for people living in those states and territories. This would suggest that the best way to increase access opportunities is to increase the allocation of places to institutions within that state or territory.

- The table above also shows that Northern Territorians currently access funded undergraduate places at a rate well below the national average. As of 2017, Territorians accessed 1 funded undergraduate EFTSL for every 48.8 persons aged 18-49 years, compared to 1 EFTSL for every 19.4 persons of the same age nationally. This is because:
 - The Northern Territory has higher rates of educational disadvantage than other States and Territories, and this results in lower levels of aspiration and preparedness for tertiary education upon school completion.
 - Associated with this, there are lower levels of tertiary attainment amongst the older Northern Territory population, due to historically lower levels of aspiration and preparedness at school.
 - Coupled with this CDU is a young university and was capped before it reached maturity in terms of size.
- CDU is working with stakeholders across its region to raise tertiary aspiration and preparedness for school-aged students. We are also working to offer comprehensive and well supported pathways into undergraduate courses (through both VET and HE) to support those older Territorians for whom tertiary study was not an option when they left school.
- CDU will, therefore, need increasing access to funded undergraduate places to ensure that eventually the Northern Territory reaches parity with other jurisdictions in terms of university access. The most efficient way to do this would be to allow CDU, and other regional universities in similar regional situations, to return to demand driven funding for the CGS, at least until their regional funding profile reached parity with the national funding rate of 1 EFTSL per 19 head of population aged 18-49 years.
- In addition to this, small regional populations like the Northern Territory, are heavily influenced by large infrastructure projects in the region. This leads to boom and bust economic and population growth patterns. Therefore, indexing CDU's MBG growth by the NT population growth would have seen negative or no growth in the MBG since 2016, when other jurisdictions would have grown. This would further widen the already large gap between the Northern Territory and the rest of Australia in terms of access to funded undergraduate places. This is shown in the graph below which compares the annual growth rate for the Northern Territory population aged 18-49 years to the National population of the same age.

Figure 1. Annual rate of population growth, Northern Territory v Australia, for persons aged 18-49 years.



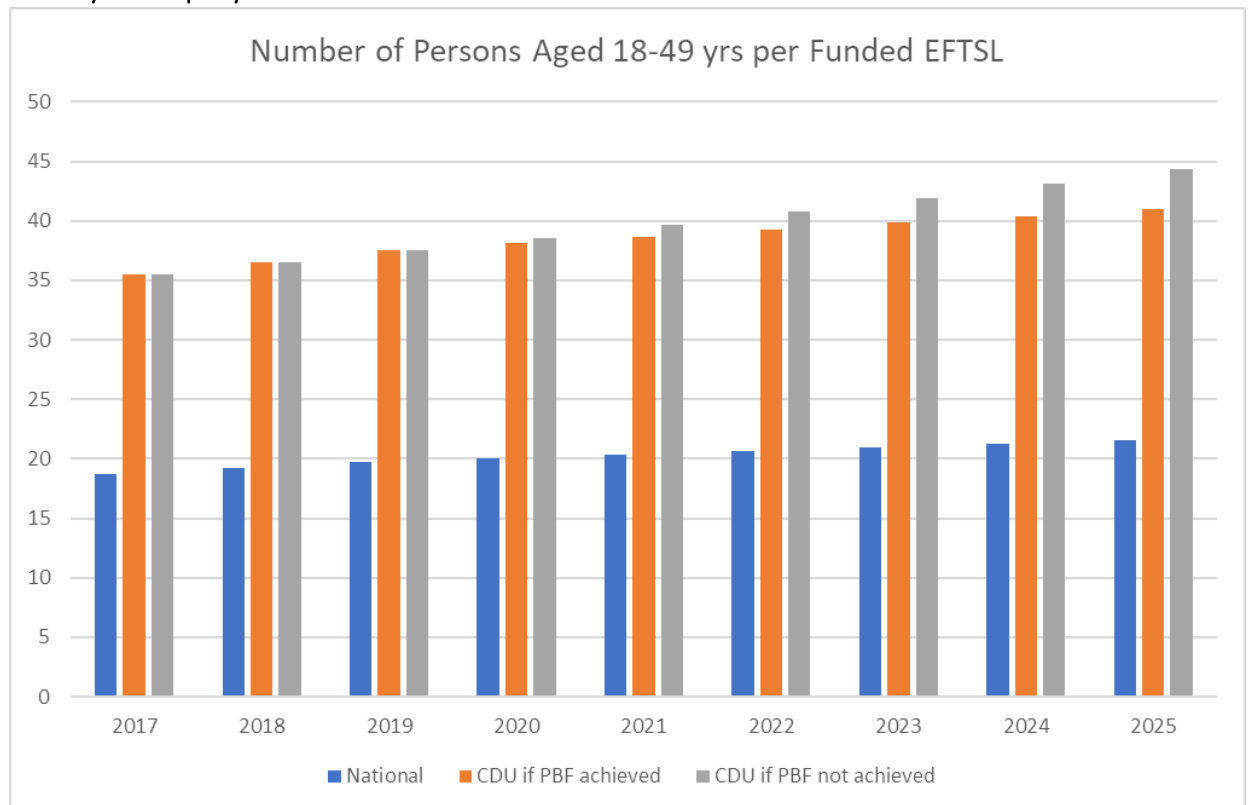
ABS: 31010DO002_201806 Australian Demographic Statistics, Jun 2018, Population: Table 7 Estimated resident population, by age and sex—at 30 June 2017

- CDU therefore maintains that a return to demand driven growth across the sector is the optimal solution. If this is not fiscally possible, then special dispensation for regional universities to operate outside the caps in a demand driven manner is the best way to raise access opportunities and outcomes for regional, remote and disadvantaged students. This will ensure the distribution profile of the MBG has the flexibility to adapt to change in response to a range of factors, not just population growth.
- If a population growth metric is applied to determine the increase rates for the MBG then it should be indexed against the 18-49-year age cohort, not the 18-64 group as proposed in the consultation paper. It should also be applied using national population growth rates, and not state and territory-based population rates. In addition, the per EFTSL funding rates need to be CPI indexed on top of the MBG base, not within, to ensure that access opportunities keep pace with population growth and funding rates keep pace with rising cost of teaching.

1.4 Growth in Maximum Basic Grant versus Rates of Indexation

- The consultation paper proposes a model where the total MBG for government funded undergraduate places would only grow through a population growth index. Presumably the current practice of indexing the per EFTSL rate for CGS places (currently at 1.49% per year) would continue, but within the constraints of the MBG, as per the 2018 and 2019 capped funding years.
- Effectively this means indefinite cessation of the demand driven funding system, and a net decline in the number of Government funded undergraduate places across Australia for the foreseeable future, given the legislated indexing of funding growth per EFTSL over time.
- If the total value of the MBG was increased by 1.3% per year (the 10-year average annual rate of population for 18-49-year-olds); and at the same time the per EFTSL rates were indexed at 1.49% per year within the total amount of the MBG, then the total number of funded full-time equivalent undergraduate places in 2025 would be about 560,000 EFTSL, compared to 567,000 in 2017. This would mean, cumulatively between 2019 and 2025 there would be 140,000 fewer funded EFTSL offered to undergraduates across the sector.
- This would negatively impact accessibility of higher education for the population. It would take the number persons aged 18-49 yrs. per commonwealth funded undergraduate place nationally from 1 EFTSL: 19 persons in 2019 to about 1 EFTSL: 22 persons in 2025 (shown in Figure 2 below).
- The impact of this effective reduction in funded undergraduate places would be amplified in a small jurisdiction like the Northern Territory, where the number of funded undergraduate CGS places is already well below this national benchmark. Assuming that CDU achieves the PBF agreed metrics and a national population metric is applied, then CDU would go from delivering 1 EFTSL per 38 persons aged 18-49 years living in the NT in 2019, to 1 EFTSL per 41 persons by 2025. If CDU was not successful in achieving any PBF targets, then this would drop to 1 EFTSL per 44 persons by 2025 (shown in Figure 2 below).

Figure 2. Numbers of persons aged 18-49 years per funded EFTSL, assuming the total value of the MBG is increased by 1.3% per year, and per EFTSL rates are indexed, with the total value of the MBG by 1.49% per year.



1.5 Compound Annual PBF Scheme

- The consultation paper proposes an option that the 2019 MBG become the base funding for institution non-designated funding for all future years, and then the annual population growth indexation factor become a compounding pool of allocable funds for the PBF.
- This would effectively mean that a institution which is successful from 2020-2022 for example, but then not successful in 2023, would lose the cumulative funding awarded in the prior years and be reset back to 2019 funding levels.
- This would mean as time goes on, base funding would cover increasingly fewer students, with a larger and larger number of students covered by places that are essentially at risk / unstable. This will create significant load management issues for institutions and Government long-term.

2. What performance-based measures should the PBF Scheme draw on?

- CDU recommends that a PBF be based on institutionally specific performance measures aligned to areas identified in negotiation between Government and the institution.
- They should be aligned to an institution's strategic plan and associated KPIs and could draw on metrics that are not comparable on an institution to institution basis, but that are methodologically sound, publicly reportable, independently auditable, and meaningful in assessing an institution's performance.
- Retention, attrition, and cohort completion rates are highly correlated and largely measure the same phenomena. Poor first year attrition in one year will result in a poor cohort completion rate six year later, and therefore not reflect institutional performance in the immediate period leading up to the assessment for PBF.

2.1 Retention / Attrition Rates

- Retention and attrition measure the same thing and reporting and publication of these as two measures (as in the HESP report) is misleading.
- CDU historically has retention rates in the lower quartile for the sector. However, comparing the retention rates for two universities with significantly different student profiles doesn't provide a useful insight into performance. Statistical adjustments which aim to 'normalise' student profiles to make the retention rates comparable are also not helpful in understanding the institutionally specific context that are associated with the retention rates.
- Retention (and attrition) is a measure of the year to year re-enrolment (or not) of a student. It is not a measure of whether a student leaves a institution or the sector permanently.
- CDU's market research into retention has found:
 - For a school leaver aged student, university study is usually the centre of their world, and part-time work and other commitments supplementary to their studies. Because of this, they are less likely than mature aged students to face external barriers which require them to stop study for periods. Therefore, when they do stop studying, it is often related to the experience of the student at the institution. Therefore, for a university where the majority of students are school-leavers, the current retention metric might be a good indicator of institutional performance.

This is not the case for mature aged students. At CDU more than 65% of CDU's bachelor level students are over the age of 35 when they commence their studies. Most work full-time, many have families and they all balance the financial and time commitments that come with this. University study is important to them but is not the centre of their world. 'Attrition' for these students is often caused by the non-institutionally related factors. Work, life and family commitments are the main reason mature aged students cite as reasons for taking a break from study (including as examples, one or more income earner losing employment; a woman having another child; becoming a carer for an aged relative). Often this break extends for a full academic year, during which time the student is counted as not retained. But many of this cohort subsequently return to study and progress on to complete their program. Therefore, the traditional retention metric is not a good indicator of institutional performance, where the

student cohort is made up of mature aged students and institutional factors have little to no bearing on their reason for taking time out of study.

- When surveyed, 68% of CDU students that had been counted as not-retained from one academic year to the next, said they still considered themselves a CDU student, and that they intended to return to CDU to study.
 - CDU students are only slightly more likely to attrite between their first and second academic years of study (as measured by first year retention rates) as they are to attrite at any point during the up to 10 years it can take them to complete a bachelor level degree.
 - For CDU students study is important, but it's not the centre of a CDU's student's world, and therefore from their perspective, an optimal student outcome is the flexibility to take breaks from study to allow them to balance study around the other commitments in their life.
- Education is a lifelong and life wide journey, and public funding of continuous education is the key to enabling Australia to transform the workforce from a manufacturing base to embrace digital and knowledge economies of the future. We must therefore start designing education policy, funding and measurement which embraces this, and move away from outdated concepts of what a university experience looks like and how it delivers outcomes.
 - For these reasons, CDU believes:
 - Retention rates only show part of the picture of whether we are providing a supportive study environment which delivers optimal results and return on public funding. Many of CDU's students being counted as not-retained return to study with CDU and progress on to complete their course. CDU also has some of the best employment outcomes and graduate starting salaries in Australia, indicating that the University is producing quality, sort-after graduates which is a good return on public investment.
 - Retention of all students year to year, not just first year students, is more important, and indicative for CDU on whether we are performing in this area. For this reason, our strategic KPIs set out targets for improvement in retention of all domestic coursework students in all years of study, not just first year.
 - Re-engagement of students once they take a break is also critical. For many students the external factors (work, life, family) which prompt them to take a break from study continue to intervene unless the student is supported (either by the institution or others in their life) to find a way to re-balance this. In 2018 CDU implemented a new campaign to more proactively re-engage students that have previously been counted as not-retained. This campaign was implemented across the domestic government funded profile (at all course levels, not just bachelor) and as a result CDU lifted the proportion of students being re-engaged from 13.9% in 2017 to 18.8% in 2018. These re-engaged students are not currently added back into the non-retained figures, but if they were it would have improved CDU's 2016 retention rate for bachelor level students from 72% to 78%, putting CDU retention near the sector average and well above the bottom quartile of universities.
 - This is just one example of how a methodologically sound, publicly reportable, and independently auditable metric could be developed to have an institutionally specific context in a PBF.

2.2 Cohort completion within six years

- Cohort completions are highly correlated with crude retention rates and would largely double count performance, either good or bad.
- There is also a significant lag in this measure which would be unhelpful to use for assessment of funding.
- CDU and other similar universities would require 10-year cohort completions because of our mature aged cohort and longer average time to completion. This would mean in the 2020 PBF assessment, CDU's crude retention from 2009 would heavily impact the assessable cohort completion rate for 2018. After adding the re-engagement cohort back into our retention rate, CDU has made nearly a 10% improvement in bachelor level retention since 2009. Therefore, using this measure to assess the current day performance of CDU would be inappropriate.
- It is therefore recommended that cohort completions not be used in a PBF scheme.

2.3 Graduate employment rate and full-time further study

- CDU supports the use of this measure where the benchmark is institutionally comparable and not sector comparable.
- Year-on-year institutional graduate employment rates would need to be contextualised with employment market conditions within the region the institution operates.
- Further full-time study is factored into the graduate employment rate and therefore not required as a separate metric.

2.4 Equity participation

- CDU is supportive of the inclusion of student equity profile in any PBF.
- Across the sector the student outcomes, using the standardised metrics, are lower for disadvantaged students. Therefore, including Equity participation rates would ensure that the PBF doesn't disincentivise intuitions from enrolling disadvantaged students.
- However, using participation rates alone, would be counter to the student outcome focused principles otherwise contained in the consultation paper. Therefore, institutionally specific targets which show progress towards parity in institutionally determined metrics for target equity groups would add additional value.

3. How should the PBF scheme be designed?

- The consultation paper proposes a core set of pre-determined and standardised metrics along with a shopping list of optional but still standardised metrics from which an institution could choose to be assessed. CDU believes this doesn't go far enough to create a truly meaningful performance-based funding model.
- Metrics that are institutionally specific, methodologically sound, publicly reportable and independently auditable should be applied as they best suit an institution (as with the CDU retention and re-engagement example provided earlier).

4. How should performance measure benchmarks be set?

- Under a model which adopted institutionally specific measures, institutions would commit, in consultation with Government, to targets, with performance thresholds ranges which would determine the extent to which PBF would be received. These would be developed based on the institution achieving incremental improvement.
- The proposal to reward only the institutions in the top 50% will create an increasing gap between the top and bottom, as the compound effect of missing PBF funding prohibits ability for the bottom 50% to invest and deliver improvements that would move them into the top 50%.
- For those institutions towards the bottom of the bottom 50%, PBF may appear unattainable from the outset.
- The compound impact of not receiving PBF will reduce the overall funding for an institution ultimately disadvantage the students at such institutions.

5. Should PBF funding of unsuccessful universities be redistributed?

- All institutions should be able to achieve full PBF funding without there being a need for a nominal proportion of withheld funds to prove the scheme has value.
- Making un-allocated funds available for designated place allocation, as proposed in the paper, will complicate funding agreement negotiation as well as complicate estimates reporting.

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

- Cohort completion data is too lagged for inclusion in any PBF scheme, as previously outlined.
- At present, prior full-year data is only available from the Government in the fourth quarter of the following year. This is too late to commence negotiations for PBF funding for the next year. Institutions need certainty about future year funding before the main semester one admissions period opens in August each year.
- Cohort completions aside, retention data has some of the longest time lags, with the metric released almost two years after the activity which impacts the measure. Including re-engagement in CDU’s measure increases this lag by a further year which would be unhelpful for PBF assessment.
- Interim data supplied by institutions, which could be independently audited once annual government data validation is finalised, could be used to reduce the time lag in data used in a PBF scheme.