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Office of the Deputy Vice-  
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Dear Mr English,

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

The University of Queensland (UQ) welcomes the opportunity to provide feedback on the proposal to introduce performance-based funding (PBF) as part of the allocation of funds under the Commonwealth Grant Scheme. The University is committed to ensuring that our students are supported, receive an excellent education, and achieve success as graduates in whatever form that takes for them. That might mean full-time salaried and well-paid professional employment, or it might mean success in entrepreneurial pursuits. Alternatively, a life built around commitment to community or the arts that builds upon the skills and knowledge gained at UQ is also a successful outcome in our view.

In pursuit of this we closely monitor a wide range of data, and continuously innovate to improve the student experience both inside and outside the classroom. We care about issues such as student retention and graduate employment rates. We are already financially incentivised to improve retention because funding is tied to student load, while graduate employment rates impact on our reputation and therefore our ability to recruit students. But universities have broad missions and outcomes that cannot be fully described in a collection of narrowly focussed quantitative metrics - many of which are on the PBF shortlist simply because they are easily available from our systems. It is for that reason that we cannot support a PBF that is both quantitative and simplistic in nature and also tied to our core student funding. Our specific concerns are outlined below in our responses to the consultation questions and our feedback on the more fundamental aspects of the proposal.

### **The proposal represents a funding cut in real terms, not a funding increase and could result in 36,000 fewer university students by 2025**

*1 - How to grow a university's PBF amount from 2021.*

*5 – Should the PBF funding of unsuccessful universities be redistributed?*

Australia's social and economic future is dependent upon highly skilled and educated critical thinkers and problem solvers. A recent survey of almost 40,000 employers world-wide found that over a third of Australian employers are reporting difficulties in finding the right skills to fill roles and globally this is as high as 45%<sup>1</sup>. The world needs educated people to build productivity and deal with complex issues such as cyber security, an ageing population, climate change, social change, food security and public health.

<sup>1</sup> Manpower Group (2018) *Solving the Talent Shortage* <https://downloads.manpowergroup.com.au/talent-shortage-2018>

Australia's future relies on us being at the forefront of change, but if we don't properly educate our population we will quickly fall behind.

Given this, it is frustrating the proposed PBF represents a funding cut in real terms and will mean that fewer Australian students will be funded to access higher education. Higher education funding must at least grow on the basis of both CPI indexation combined with population growth to ensure that the significant gains made in higher education participation over the last 6 years are not reversed. The total pool of funds must be distributed to the sector each year.

The PBF is essentially a mechanism to implement an efficiency dividend without the need for legislative change – noting that an efficiency dividend was proposed by the Government in 2013 but abolished in 2016 when it was clear it would not gain parliamentary support.

Using UQ as an example, our maximum basic grant amount (MBGA) is currently \$264m. In 2019 the average government contribution per equivalent full-time student is expected to be \$12,125. At that rate we are essentially funded for 21,773 full time students.

Under the proposed PBF, if we met the performance benchmarks in 2020 we would receive an additional 1.1% so our total funding would increase to \$267m. However, CPI currently sits at around 1.9% so the government contribution per student would increase to \$12,355. At that rate, and with the additional funding, we would effectively only be funded for 21,602 full time students in 2020. That is, despite meeting the performance benchmarks we would be funded for 171 fewer students.

If we continued to enrol the same number of students, we would incur the costs of teaching without the full level of funding. The student contribution component, which averages at \$8900 at UQ, would not cover the costs. It is therefore likely that we would reduce our domestic intakes accordingly. The intake cuts would be even higher for universities where student retention improved because the increased returning load would also put downward pressure on the university's capacity to recruit fully funded new students.

Table 1 demonstrates this at a national level, projecting the future impact on national university enrolments. The model assumes that the bachelor's CSP load in 2019 will be equal to the load in 2017<sup>2</sup> (556,620). It assumes that the average government contribution per EFTSL is \$11,300<sup>3</sup> in 2019 and that 1.9% CPI indexation is applied to this rate per annum. The model also assumes that the national MBGA will increase by 1.1% in 2020 and that PBF amount will then grow at a rate of 1.1% of the 2020 MBGA each year. The PBF figures in the model align with those quoted in the paper of \$70m in 2021, \$140m in 2022 etc.

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<sup>2</sup> The figure of 556,620 EFTSL is based on official statistics published by the Department of Education for 2017.

<sup>3</sup> This figure is lower than UQ's average of \$12,125 as UQ has substantial load in disciplines such as medicine, vet science and agricultural science which are in high cost clusters.

*Table 1: Projected impact of proposed PBF on the number of students funded nationally*

	2019*	2020	2021	2022	2023	2024	2025	Difference between 2025 and 2019	
								No.	%
MBGA (\$m)	\$6,290	\$6,359	\$6,359	\$6,359	\$6,359	\$6,359	\$6,359		
PBF (\$m)		Incl. in MBGA	\$70	\$140	\$210	\$280	\$350		
Total Funding (\$m)	\$6,290	\$6,359	\$6,429	\$6,499	\$6,569	\$6,639	\$6,709	\$419	7%
Average Govt Contribution per EFTSL	\$11,300	\$11,515	\$11,733	\$11,956	\$12,184	\$12,415	\$12,651	\$1,351	12%
National EFTSL	556,620	552,250	547,914	543,549	539,155	534,736	530,295	- 26,325	-5%
National Headcount Estimate	768,136	762,105	756,122	750,097	744,034	737,936	731,807	- 36,329	-5%
ABS Projections 18-64 year olds (Series B)	15,742,102	15,955,563	16,158,448	16,360,454	16,555,794	16,755,559	16,956,019	1,213,917	8%

Based on these assumptions, by 2025 the sector will receive funding for 26,325 fewer EFTSL. As many students are part time, this equates to 36,329 fewer students receiving an opportunity to attend university each year of A 5% reduction when the ABS projects<sup>4</sup> that the number of 18-64 year old's will increase by 8% over that time.

Cuts of this nature will not only reduce educational opportunities but will also impact on other areas of university activity such as community outreach, supporting innovation and engagement with industry.

Given this analysis we cannot support the proposed PBF. We can't help but ask if this policy is really designed to incentivise and reward performance when it appears to equate to the introduction of funding cuts by stealth. We could understand the rationale behind a policy that reduced funded places for institutions with poor teaching quality, but we don't understand the rationale for punishing prospective students with fewer opportunities to obtain a degree even if universities have met the performance benchmarks.

#### *1 - How to treat a university's PBF amount from 2021.*

We are also shocked by the suggestion that the MBGA would remain frozen at 2021 levels while the PBF funding increases. As time goes on, this snakes and ladders approach to funding would create compounding levels of financial instability within the sector and hinder our ability to plan effectively.

Imagine the situation of a university that continues to meet performance benchmarks up until 2024, but then falls under the threshold in 2025. The university will be informed of this in the second half of 2024, discovering that it will be facing a 5% cut in CGS funding in just a few months' time. In the case of UQ, this would equate to \$14.6m in funding which would cover 1081 EFTSL. To cut our student load that quickly to adjust, we would have to reduce our 2025 intake by 16%. This would create a huge amount of disruption to the aspirations and outcomes of young people in Brisbane and Queensland wishing to attend university that year, particularly if other large universities in the region such as QUT and Griffith also happened to lose their funding at the same time.

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

If the PBF was implemented as proposed it would be important to use the most up to date data available and to also release these data as soon as possible. The current situation whereby official data are released late in the year, many months after university validation, could not continue. Universities require funding certainty and will need to know the outcome of the PBF exercise before budget planning preparations begin. At UQ this process starts in mid-August when intake targets for the following year are set. By October, offers for the following year's intake are already being made.

<sup>4</sup> Australian Bureau of Statistics (2018), Population Projections Australia, 2017 (base). Cat. 3222.0

### **The design principles are sound but cannot be operationalised**

The principles outlined in Figure 1 are well considered and appropriate, but they are essentially theoretical in nature and we do not believe that they can be effectively operationalised, particularly using blunt quantitative measurements.

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

*3 – How should the PBF scheme be designed?*

There are no surprises in the list of potential metrics outlined in the consultation paper. These are all indicators that are monitored closely within the sector and regularly appear on government websites. They are good measures for understanding general trends and providing institutions with flags for more in-depth analysis, but they are essentially crude with a narrow focus. They can only provide a surface level insight into the quality of an institution's teaching and learning activities. They barely measure the value that a high-quality university education provides in today's world, never mind tomorrow's world. Universities currently still educate for the professions, but we are also focussed on teaching our students to be enterprising and creative thinkers who will build their own businesses, engage with employment in a flexible way and give back to society. These are outcomes that cannot currently be measured quantitatively. The goal is not as simple as ensuring our students are employed full time within 6 months.

The consultation paper rightly points out that the design of the funding formula needs to recognise "contextual differences between universities" and responds by proposing improvement based models or adjustments for cohort factors. However, our regular analysis of these data at UQ, show that changes in the results are often influenced by unexpected and ad-hoc factors beyond the university's control or as a result of strategic decisions. For example:

- In 2015 UQ shifted the medicine offering from bachelor's level to postgraduate with the last significant cohort of the undergraduate offering completing in 2017. Therefore, from 2019 onwards UQ's Graduate Outcomes Survey undergraduate sample will no longer include medicine graduates – a group that has very strong employment outcomes. We are expecting that, all things being equal, our graduate full-time employment rate will soften by around 1.6% pts just because of this small change in the cohort.
- In 2015, UQ also transferred its Ipswich campus to the University of Southern Queensland. This effectively changed UQ's local catchment area and so the participation of low ses students at the university dropped from 10.1% down to 9.5%.
- Over the next couple of years, we are investing heavily in building a new student hub. This facility will include state of the art teaching and learning spaces, creative common spaces and services that will engage students in a range of activities to support retention, success and employability. This initiative will significantly improve the student experience, but we expect that the short-term disruption caused during the building phase may dampen the satisfaction levels of our current students as we reconfigure existing student spaces into this new development.

These are just three examples of how the proposed metrics can be negatively influenced by factors completely unrelated to quality or performance. With millions of dollars at stake, how can a formulaic approach to PBF allocation be designed to account for the kinds of ad-hoc events listed above? To what extent will the proposed funding mechanism stifle innovation and decision making for fear of the change negatively influencing these unidimensional measures?

We don't believe these issues can be resolved using statistical methods. They could only be addressed with a deeper look at the underlying drivers of change combined with a qualitative assessment of the situation. On that basis, we would argue that to gain a true picture of quality and performance an assessment by an expert panel is required. This assessment must allow each institution to provide deeper analysis and qualitative information. However, this would be extremely resource intensive. Resources that would be better spent on teaching, learning and student support.

#### *4 – How should the performance measure benchmarks be set?*

The consultation paper proposes a range of options for setting benchmarks, but they all have significant flaws.

- Example A outlines an improvement-based model. By comparing a university against itself you can essentially control for the characteristics of the university, but how do you also control for external or ad-hoc factors such as the examples listed above, or issues such as an economic recession? Improvement metrics also penalise universities that are high performers. It's harder to shift a satisfaction rating from 90% to 95% than from 60% to 65%.
- Examples B and C outline excellence models. This would reward those with high scores but, given the funding attached, could significantly risk the financial sustainability of institutions with lower scores on the chosen metrics. This would undermine the ability of those institutions to improve rather than support improvement and ultimately result in worse outcomes for students (particularly in areas where competition is limited).

Putting aside the difficulties with the calculation of each metric, developing a model to choose which institutions are 'in' and 'out' that can withstand scrutiny will be extremely difficult. The Learning and Teaching Performance Fund took the approach of converting the metrics into z scores and then looking for breaks in the data to identify clusters of institutions. This is probably the only approach that has some merit if the Government is not willing to introduce a panel-based approach that incorporates qualitative information. An arbitrary 'top 50%' type approach would not be palatable when significant funding is at stake as it is likely that the universities on the border of the benchmark will be very close (and in the case of survey data, statistically the same). Even with a clustered approach that adjusts with each year's data, you would need to be certain that the gap between those receiving funding and those missing out was large enough to withstand a legal appeal.

We are also worried about how the PBF can be effectively implemented at a time when the Department of Education is also "Transforming the Collection of Student Information" – moving from a snapshot approach to data collection to overnight feeds of student record amendments directly from university systems via APIs. How will the department ensure that they are using data that accurately represents the 'truth' when the data are essentially live and changing? How will they recreate the official statistical collection to be an exact match to the current collection without breaking the time series? Will the preparation of the metrics under this new system be transparent and will universities be able to replicate the figures easily? The new system is due to be introduced in less than a year, but the sector has not yet received any information on these kinds of details.

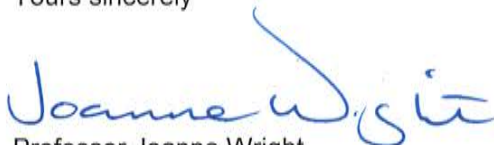
**Performance and improvement can be incentivised without compromising funding**

If performance improvement is genuinely the core aim of the PBF, we believe that the Government should look to the Excellence in Research Australia (ERA) exercise as an example of how an initiative can significantly lift performance without the need for financial sticks or carrots. While universities will undoubtedly respond to financial incentives, the complexity of the system is such that it's very easy to inadvertently incentivise perverse behaviour. When the incentive also directly risks an institution's financial stability there can be significant negative consequences for the provision of higher education.

ERA proves that a mechanism that uses an institution's reputation as the lever can be highly effective at lifting standards across the whole sector. Universities care about their reputation and a myriad of ranking agencies have clearly recognised this, such that their whole business model is built around this. A university's ability to attract students (both domestic and international), industry funding and international research partners is heavily dependent upon external perceptions of its quality and worth. While we wouldn't necessarily propose a model that is as resource intensive as ERA, if the Government is concerned about issues such as student retention and graduate employment rates then finding mechanisms to make these data more transparent to the community (with context) would focus universities on improving the student experience while also giving students better information to make an informed choice.

In summary we urge the Government to seriously reconsider its proposal for performance-based funding. We are strongly committed to ensuring that we deliver a high quality and supportive teaching and learning environment for our students and always strive for improvement. However, we cannot support a model that reduces performance to crude and narrow metrics, curtails opportunities for Australians to obtain a university education and has the potential to create significant disruption in the provision of higher education.

Yours sincerely



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Copy: Dr Clare Hourigan, Director, Planning and Business Intelligence, UQ