



15 February 2019

Acting Group Manager
Higher Education Group
Department of Education and Training
GPO Box 9880
Canberra ACT 2601

Email: HEReform@education.gov.au

Dear Sir,

Performance-based Funding for the Commonwealth Grant Scheme
Response from Macquarie University

Thank you for the opportunity to comment on the Discussion Paper on *Performance-based funding for the Commonwealth Grant Scheme*.

While the intention behind the proposed funding mechanism is to 'ensure high performance at universities by linking funding growth to performance and equity requirements', it is far from clear that adopting the proposed measures is the best way to achieve this end.

The most likely outcome is some complicated and awkwardly constructed combination of far from perfect indicators, often with very long time-lags. And the most likely effect is that while the proposed scheme is intended to improve performance, it will end up rewarding those who already do well. Where institutions are struggling to improve, limiting their funding will do nothing to encourage change.

There are better ways of promoting the objects of the Higher Education Support Act, leaving aside all the incentives for quality improvement within universities themselves at a time when resources are so scarce. If we are to have performance funding, the Government and individual universities could draw up funding contracts which recognise the unique situations of each institution and encourage greater institutional diversity.

Another strategy would be to introduce competitive grants processes which are already central to many aspects of higher education. To take an example, HEPPP funded initiatives have had major impacts on access and equity and, incidentally, have encouraged collaboration between universities—something not considered at all as a strategy in the Discussion Paper.

Far more effective as a way to promote access and student success would be to end the freeze on Commonwealth Grant Scheme funding by restoring the demand-driven system. As the *Review of the Demand Driven Funding System* by the Hon. Dr David Kemp and Mr Andrew Norton found,

'access has improved for students from all categories. Greater competition for student enrolments, and the opportunity for greater responsiveness to student demand, has driven innovation and lifted quality.'

Answers to the first three questions raised in the Discussion Paper are attached.

Should you need any further information on this matter, the University's Director of Government Relations, Peter McCarthy, can be contacted at peter.mccarthy@mq.edu.au or at (02) 9850 6841.

Sincerely,



S Bruce Dowton

**Performance-Based Funding (PBF) for the Commonwealth Grant Scheme
Response to the Discussion Paper from Macquarie University**

1. How should the PBF scheme be implemented?

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

There is no obvious rationale for basing PBF amounts on either national or regional population growth rates. Perhaps the one advantage in the latter approach is that it establishes an admittedly loose relationship between population and likely demand for university entry in different parts of the country, on the assumption that most students remain in their home States or Territories.

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

Appendix 1 of the Discussion Paper identifies the QILT Surveys as potential measures for PBF. The Surveys are undoubtedly useful; however, they are not at the point where they could provide the level of accuracy on which to base funding distribution:

- The *Student Experience Survey (SES)* is a sample survey and only unweighted percent satisfaction scores have been published in the national reports and on the QILT website. For the purpose of the PBF, comparing universities by using unweighted scores could disadvantage those which have small samples.
- *SES* teaching quality and overall satisfaction levels are mentioned as potential metrics. Equally, indicators might also be considered to reward universities for skills development, quality of learning resources, or improvement in the quality of student support.
- The proposal to use satisfaction scores from the *Course Experience Questionnaire (CEQ)* needs to be considered carefully. The change in survey methodology in 2016, with the shift from the Australian Graduate Survey (AGS) to the Graduate Outcomes Survey (GOS), led to sharp drop in reported levels of graduate satisfaction which in turn had a significant impact on CEQ scores. Understanding why this happened and developing a robust methodology to weight scores for the CEQ, would be needed before this could be considered a reliable indicator.
- The 2017 *Graduate Outcome Survey (GOS)* results from universities in major capitals such as Sydney and Melbourne reported much lower full-time graduate employment rates than the regional universities. Adjustments would need to be made to take account of this difference which is likely to have complex origins, well beyond the control of universities.
- The *Graduate Outcome Survey—Longitudinal (GOS-L)* may be thought to provide a more reliable measure of employment rates as it is a follow-up of the GOS after three years. However, GOS-L data can be based on very small numbers of responses, as only a small portion of the original GOS respondents agree to participate in later studies. If a decision is made to use GOS-L data as a PBF indicator, a robust methodology would be required to ensure validity of findings.
- The *Employer Satisfaction Survey (ESS)* is not yet mature enough to be included in performance-based funding. In the past two years, a very small proportion of

graduates provided their direct supervisors' contact details and an even a smaller proportion of those supervisors completed the ESS. For example, in 2017, out of 2,583 Macquarie graduates who were employed and who responded to this survey, only 196 provided valid supervisor details, and only 90 supervisors completed the ESS. Thus, comparisons between universities will be based on a very small number of responses, which could potentially lower data quality and disadvantage some universities due to circumstances beyond their control.

The full-time employment rate is proposed as a key measure for the PBF. However, a more accurate perspective on the state of the labour market can be found in the overall employment rate which has been used in the GOS since 2016. That takes into account the complexities of the current labour market in Australia including female workforce participation and work-life choice.

If the full-time employment rate were to be used as a PBF indicator, this would disadvantage Macquarie University. From the November 2018 round more than 40 per cent of Macquarie graduates will be surveyed every year within three months of completing their courses. This is despite the GOS methodology, which envisages graduates being surveyed 4-6 months after completion. Therefore, to compare the full-time employment rate for Macquarie University after three months with that of other universities after six months is not to compare like with like.

Appendix 1 of the Discussion Paper also identifies measures of attrition, retention, success and completion as potential measures for the PBF. Here, there is a need to avoid perverse incentives. Completion rate measures must not encourage any form of inequitable behaviour in making direct offers. For instance, if it is assumed that applicants will not complete in time because they have caring responsibilities or the need to undertake significant paid work while they are studying, this may discourage some universities from making offers to such cohorts.

The Discussion Paper suggests using HELP debts not expected to be repaid (DNER) as a possible measure in future years. It is hard to see how universities can exercise much influence here. The Discussion Paper concedes 'that institutional performance may only play a minor role in determining repayment rates' and it rightly says that performance measures 'should be within the control of universities'. Were such a measure to be introduced, the danger is that it might also act as a perverse incentive. A university might prioritise direct offers to cohorts of students who are likely to pay their HECS HELP payments upfront or make voluntary repayments, which would be clearly inequitable. Or it could focus on offering degree programs in those areas where graduates will earn very high salaries, which would be contrary to the needs of most students and of the larger community.

3. How should the PBF scheme be designed?

The Discussion Paper suggests that 'performance measures could be set that reward participation by equity group student' or 'alternatively, performance measures could be set specifically for equity group students, [so that] universities are rewarded for meeting attrition rate, student satisfaction or graduate outcome benchmarks for specific equity groups'. This may not be feasible in universities where enrolments of specific groups are low, and where satisfaction and graduate outcomes measures would not be statistically significant.

If there is to be performance-based funding, universities should be able to identify performance measures that align with their specific missions and include these in funding

contracts. Doing this would go some way to meet the Expert Panel goal to 'account for the varied missions and strengths of different providers' and would encourage greater diversity in the sector.
