MONASH University

Mr Dom English
Higher Education Group
Department of Education and Training
C50MA7
GPO Box 9880
Canberra ACT 2601

15 February 2019

Dear Mr English,

Monash University welcomes the opportunity to provide comments on the *Performance-based funding for the Commonwealth Grant Scheme* discussion paper. Monash University considers that the Department of Education and Training (DoET) discussion paper represents a good starting point for developing an appropriate framework for performance funding. We welcome the opportunity to work constructively with the Government to develop a robust and transparent funding approach.

Monash's summary feedback is detailed below, further expansion of these items are provided in the appendices (page 3+).

INCENTIVISING IMPROVEMENTS

Monash supports the introduction of a performance metric framework for institutions in recept of public funds. The discussion paper presents a valuable first step in a higher education sector discourse regarding the development and implementation of a framework.

However, Monash believes the funding mechanisms as currently articulated in the discussion paper will not incentivise improvements in institutional performance to the extent envisaged by the Department, as the proposed approach continues to represent a cut to University funding[1] and some of the proposed metrics compound this further[2].

DESIGN: PRINCIPLES

Monash is supportive of the performance funding scheme principles proposed. However, we do not believe all of the proposed measures (Table 1 on page 13 of the consultation paper) align with these principles (refer to Table 2).

Monash is supportive of some of these indicators being used to allocate performance contingent funding to institutions through an institutional compact approach, which implicitly recognises the distinctiveness of Australia's universities in terms of their scope and mission, with 'excellence' thresholds for each indicator to acknowledge and reward very strong performance. This proposal is discussed further in the next section ('Consultation Questions').

In summary, Monash feels that directly comparing institutions on these measures is invalid and contrary to the spirit of a performance metric framework and performance contingent funding, as they are strongly influenced by students' characteristics (including their academic ability and preparedness), institutions' course profiles, and factors beyond the control of institutions, such as local labour market conditions and the composition of the populations in the regions in which they operate. As such, the scheme risks rewarding (or penalising) institutions based on who they are, rather than how they perform.

PROCESS & IMPLEMENTATION

Monash strongly believes the proposed timeline for institutional notification of their performance based funding allocations occurs too late in the year. Institutions need to be notified in the first half of the year in order to be able to appropriately plan for any additional load over and above that funded in their MBGA.

The current implementation timeline seems optimistic given that this is an election year, and all of the changes occurring in the student data submissions space (TCSI project). Monash strongly recommends that they first year be a 'pilot' year so that institutions can scenario plan and test outcomes to avoid any unintended consequences.

CONSULTATION QUESTIONS

How should the PBF scheme be implemented?

Monash strongly supports the identification of an alternative to the proposed 18-64 year old population increase to the MBGA, one which is over and above the CPI rate, if the government truly wants to incentivise performance. We recommend that the growth mechanism for performance based funding take into account population skills needs or the rapidly changing economy and

[1] Monash may have the potential to increase their MBGA by a maximum of 1.3% (18-64 year old population growth, if all of the performance metrics are achieved), but CPI is currently 1.9%. Therefore, Monash will need to continue reducing its commencing student intakes.
[2] The aforementioned reduction to commencing student intakes (and thus load) is further compounded by the performance based metrics proposed. For example, improvements to an institutions attrition/retention.

projected employment growth for individuals with Bachelor or above qualifications, rather than simply reflect the changing dynamics of our ageing population.

Monash does not support the proposed approached to performance based funding as of 2021. In drawing this conclusion we have made several assumptions which we have categorised as option 1 and option 2 regarding our 2021+ funding (as detailed in the appendices). In relation to option 2, the specific example provided in the discussion paper, we believe this represents a number of challenges due to an increasing proportion of University funding being determined on an annual basis as a result of institutional performance. Given the Government proposed timelines for notification of a University's performance based funding (October), this will significant impact institutions ability to proactively plan and manage their student intakes and could have a detrimental impact in terms of public perceptions of quality across the sector.

What performance measures should the PBF scheme draw on?

Monash has strong reservations about each proposed indicator if universities are to be compared directly, as this approach implicitly ignores institutional distinctiveness. For this reason, Monash strongly advises that the scheme be structured as a set of institutional compacts, which would see institutions evaluated against their own prior performance.

In addition, Monash recommends that these compacts should include an 'excellence threshold' for each indicator, to account for very strong performance but limited scope for improvement. Without this provision, institutions with great scope for improvement would be advantaged, even if their absolute performance is below that of other institutions.

Based upon our own analysis Monash supports the use of several performance measures as detailed in Table 3. As with the indicators reported on the QILT website, Monash endorses a multi-year rolling average to smooth out minor fluctuations in the underlying data.

How should the PBF scheme be designed?

Monash supports the proposal for institutions to be able to tailor their performance based funding metrics to reflect our own individual institutional mission, agreeing that the concept of compulsory and supplementary measures selected by the institution would strike the correct balance.

How should performance measure benchmarks be set?

Monash supports within-institutional comparisons to measure changes in performance over time.

Where an institution already has a high level of performance against an identified measure, it becomes increasingly difficult to make incremental improvements. Paradoxically, such a high-performing institution would be penalised under a funding model that only rewards improvement. As such, a threshold 'excellence' consideration should also be included (as was the case in the LTPF).

Should the PBF funding of unsuccessful universities be redistributed?

As previously stated Monash supports the implementation of improvement and excellence thresholds, which should enable the DoET to implement a mechanism to address this and ensure all funding is allocated.

How much "lag" is acceptable between PBF data and the funding year?

Universities require funding certainty and need to know the outcome of performance based funding before our annual budget planning process begins, at Monash this is in July.

How should the PBF scheme be regulated?

Monash supports the Government proposal to amend the Commonwealth Grant Scheme Guidelines to include the PBF requirements to ensure Parliament oversight of the design of the performance formula, that the Government clearly sets out the performance requirements in each university's CGS funding agreement or other agreements, and that there is transparency to the process.

Please refer to the appendices for further explanation of each of the summary points mentioned above.

In closing, I would like to express Monash's concern with the disconnected nature and barrage of consultation papers released by the Government prior to Christmas. These papers demonstrate a fragmented approach to Higher Education policy and sector engagement, they lack a common narrative which provides a holistic view of how these proposals will enhance higher education provision within Australia.

If you would like me to clarify any of these comments, please don't hesitate to contact me.

Yours sincerely,

Nicola Powell

Director of University Planning & Statistics

APPENDICES

INCENTIVISING IMPROVEMENTS

DESIGN

- International Approaches
- Principles

PROCESS & IMPLEMENTATION

CONSULTATION QUESTIONS

- How should the PBF scheme be implemented?
- What performance measures should the PBF scheme draw on?
- How should the PBF scheme be designed?
- How should performance measure benchmarks be set?
- Should the PBF funding of unsuccessful universities be redistributed?
- How much “lag” is acceptable between PBF data and the funding year?
- How should the PBF scheme be regulated?

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INCENTIVISING IMPROVEMENTS

Monash supports the introduction of performance metrics and associated funding for institutions in recept of public funds. The discussion paper presents a valuable first step in a higher education sector discourse regarding the development and implementation of a framework. However, **we do not agree that it will incentivise improvements in institutional performance to the extent envisaged by the Department, as the proposed approach continues to represent a cut to University funding.** Our reasoning for this is provided below.

Since the MYEFO announcement of December 2017, our 'maximum basic grant amount' (MBGA) for domestic Bachelor students has been frozen at the level of funding we received in 2017. However, the Commonwealth Contribution Amount (CCA, $ per EFTSL) paid to institutions has been indexed (CPI of 1.9% in 2018). As a result, Monash has had to reduce the number of Bachelor students we admit in order to remain within our MBGA, as activity exceeding our MBGA will be borne at our own cost.

The Department proposed to provide an opportunity for institutions to increase their MBGA from 2020 onwards dependent upon their performance in a range of metrics. The size of this increase is to be in line with national population growth rates of the 18-64-year-old population which is currently 1.3%[3]. Therefore, Monash may have the potential to increase their MBGA by a maximum of 1.3% (if all of the performance metrics are achieved), but CPI is currently 1.9%. As a result, the Commonwealth will continue to fund fewer student places and Monash will still need to reduce the number of students we admit, with an overall load reduction of approximately -1% if we achieve all of the performance benchmarks to -2% if we don't receive performance funding (see Table 1 below). However, these proportions will in fact be higher, as they can only be applied to our commencing intakes given that our returning load (over 70% of our undergraduate cohort) is already committed.

The aforementioned reduction to commencing student intakes (and thus load) is further compounded by the performance based metrics proposed. For example, improvements to an institutions attrition/retention will result in a need to reduce commencing intakes further – as institutions will have a greater proportion of returning load which needs to be covered within their MBGA. Thus dis-incentivising any improvement on this metric.

TABLE 1: SUMMARY OF MONASH'S APPROXIMATE LOAD REDUCTIONS UNDER THE PROPOSED MODEL.

		2017 (Oct. Est)	2018 (Oct Est.)	2019 Plan	2020	
					No performance based funding received	Achieve max. (est.) performance based funding allocation
UG non-designated		$285.3 m	$285.3 m	$285.3 m	$285.3 m	$285.3 m
performance funding		-	-	-	$0	$3.7 m
MBGA		**$285.3 m**	**$285.3 m**	**$285.3 m**	**$285.3 m**	**$289 m**
Average CCA per EFTSL (inc. 1.9% CPI)		$10,954	$11,172	$11,401	$11,660	$11,660
EFTSL Funded		26,046.7	25,539.2	25,027.2	24,471.5	24,789.2
Variance (to 2017 or 2019)	**EFTSL**	**-**	**-507.5**	**-512**	**-555.7**	**-238**
	%	**-**	**-2%**	**-2%**	**-2%**	**-1%**

Additionally, tying performance based funding growth to the 18-64 age population increase has no clear rationale. What is proposed is an arbitrary approach that does not take into account current and projected changes in the labour market as reflected in the Government's own data. *The Department of Jobs and Small Business* has indicated that in the five years to May 2023 the greatest growth in jobs by skill level will be for jobs that require a Bachelor degree or higher. That is, jobs that require a University education are projected to grow by 10% during this five year period.[4] The population growth rate of those aged 18-64 old, by contrast, has been declining steadily over the past four decades. The growth of this age group was only 6.5% in the five years to 2018, and is projected to keep falling.[5]

The growth of 18-64-year-olds and the growth in employment for individuals with a skill level of Bachelor degree or higher are moving in the opposite direction. Given our ageing population and era of technological disruption, these trends are likely to continue into the foreseeable future. A failure to take into account the economic environment and the Government's own assessment of the 'jobs of the future' as a driver of demand for education, reflects an inconsistency of policy and a lack of vision for the future labour market.

Monash strongly supports the identification of an alternative to the proposed 18-64-year-old population increase to the MBGA, one which is over and above the CPI rate, if the government truly wants to incentivise performance.

It is recommended that the growth mechanism for the performance based funding take into account population skills needs or the rapidly changing economy and projected employment growth for individuals with Bachelor or above qualifications, rather than simply reflect the changing dynamics of our ageing population.

[3] 3101.0 - Australian Demographic Statistics, Jun 2018, Released at 11:30 AM (CANBERRA TIME) 20/12/2018
[4] '2018 Employment Projections - for the five years to May 2023', Labour market information Portal, Department of Jobs and Small Business, http://lmip.gov.au/default.aspx?LMIP/EmploymentProjections
[5] 3101.0 - Australian Demographic Statistics, Jun 2018, Released at 11:30 AM (CANBERRA TIME) 20/12/2018

DESIGN

International Approaches

The experiences of our international university peers who have implemented, refined and evaluated performance based funding (PBF) models provide valuable insights for consideration in the development of the Australian approach. A review conducted by Monash identified 49 different PBF approaches implemented in 25 countries. Insights gained from this review include:

- the need for ongoing refinement and evaluation of the PBF model to ensure the sustainability of the program.[3]
- a clear association between the level of complexity of the scheme, its implementation success and overall success; such that models with a large number of metrics (i.e.>10) are reported to be the most challenging to implement and maintain, commonly resulting in refinement of the approach to reduce the number of metrics or discontinuation of the approach entirely.[6,7]
- a recent shift in the performance targets of performance based funding models towards a contract based target selection approach which involves an agreed target between each institution and government/funding body as opposed to standard targets applied to all institutions.[8] **The contract based target selection approach recognizes and supports the diversity of tertiary education providers**, differences in institutional missions and may also reflect the growing understanding of the impact of student characteristics (which are not in the control of the institution) on student outcomes.

Principles

Drawing upon the experiences of our international peers**, Monash is supportive of the performance funding scheme principles proposed** (Figure 1 on page 10 of the discussion paper). In particular, that the scheme:

- *Recognises each universities individual missions*, distinct purposes and student cohorts
- *Provides an effective and reasonable incentive to improve provider performance*. Noting that we do not agree that the current proposal fulfils this.
- *Utilises accurate and trusted data to ensure a robust evidence based approach*, which ensures the correct identification of metrics - validity and reliability.
- *Allows for accurate, timely and easily reproducible metrics* particularly at the institutional level. However, Monash is concerned: that the impact of the Transforming the Collection of Student Information (TCSI) project upon future data collections has not been fully considered – which could invalidate time series analysis[9].
- *Be cost effective to implement and measure*. We urge the Government to ensure that the costs of establishing, collecting and maintaining data for the selected performance measures do not result in a significant administrative burden for neither the government nor institutions. Given the limited funding associated with the proposed scheme, this would further exacerbate a scheme which, as it is currently proposed, does not 'incentivise improvement'.

However, Monash does not believe all of the proposed measures (Table 1 on page 13 of the consultation paper**) align with these principles**. Our views on these indicators are summarised in Table 2 below.

[6] Jonkers, K. and T. Zacharewicz, *Research performance based funding systems: a comparative assessment.* Institute for Prospective Technological Studies, Joint Research Centre,, 2016.
[7] Miao, K., *Performance-Based Funding of Higher Education: A Detailed Look at Best Practices in 6 States.* Center for American Progress, 2012.
[8] Magalhães, A., A. Veiga, F.M. Ribeiro, S. Sousa, and R. Santiago, *Creating a common grammar for European higher education governance.* Higher Education, 2013. 65(1): p. 95-112.
[9] Institutions will need to be provided with extensive methodological and technical specifications in order to replicate any Department metrics given the overly complex data collection practices which are to be implemented as a part of the TCSI initiative. These specifications need to be provided well in advance of implementation given the significant workload involved for institutions to rebuild all of their institutional reporting and performance monitoring frameworks which utilise the government submitted data. The University has previously experienced difficulties replicating Department metrics due to the lack of specific technical and methodological information provided to the University, at a time when the data collection process is significantly simpler than that proposed under TCSI.

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TABLE 2: SUMMARY OF MONASH RESPONSES TO PROPOSED MEASURES

Proposed measure	Comments
First-year student attrition / retention	▪ First-year student attrition is strongly associated with students' academic preparation/performance[10], advantaging selective institutions, and potentially providing perverse incentives to restrict admission of academically-underprepared students (with potential impacts on access and equity), thereby failing to recognise institutions' **distinct missions and cohorts**. ▪ Some institutions with high performance on this indicator **may struggle to improve further**, potentially advantaging institutions with room for improvement (if funding is based on improvement rather than absolute performance).
Student completion within six years	▪ Institutions with large part-time cohorts will be disadvantaged on this measure, **failing to recognise universities' distinct purposes and cohorts**. Allowing students to take part-time study loads is an important **access and equity** consideration, as it allows students to balance study with work, caregiving and health responsibilities. ▪ Given the importance of students' first year experience on their eventual completion, institutions would be evaluated on their performance six years prior, and any improvements to institutional practice would take many years to manifest themselves in the data. This calls into question the **timeliness** of this indicator. ▪ Six-year completion rates (2010-2015) are strongly correlated with first-year attrition rates (r=-0.87), meaning that the **same issues relating to institutional selectivity apply here**. The strong correlation between these two indicators also calls into question the need of having both retention/attrition *and* completion indicators, and the latter is arguably more problematic for the reasons listed here.
Overall student satisfaction	▪ Overall student satisfaction results are significantly associated with certain bio-demographic characteristics (e.g. study area, citizenship, age, attendance mode)[11], which vary across institutions, and within institutions over time. Any indicator would need to statistically control for this variation, or it would be **more a measure of institutional profile than institutional performance**. ▪ The range of overall satisfaction results across institutions is low[12], with **no statistically significant differences across most institutions**. Any indicator would need to consider that most Australian universities perform similarly on this indicator, so that funding is not allocated (or withheld) on the basis of trivial (or non-) differences. ▪ "Satisfaction" as a construct is potentially problematic, because it **depends on students expectations of their higher education experience**, which may vary across student cohorts. The SES does not consider students' pre-enrolment expectations, meaning that this cannot be controlled for statistically
Full-time employment rate	▪ Graduate employment is highly dependent on local labour market conditions[13], which vary spatially and over time, and are **beyond the ability of institutions to meaningfully influence**. Statistically controlling for this is a nontrivial and potentially controversial matter. ▪ As with SES overall satisfaction, graduate employment is **significantly associated with institutions' characteristics and those of their students[14]**, which vary across institutions, and within institutions over time. Institutions offering more vocationally-focused degrees are advantaged, as are those with large mature-age cohorts (as these individuals are more likely to already be in employment at the time of the GOS), for example. The precise indicator used

[10] Analysis undertaken by Monash University shows that, within the University, students' academic performance is strongly associated with retention. Moreover, a model predicting institutional retention rates (from the Higher Education Statistics Collection) as a function of mean institutional ATAR shows that the latter explains a great deal of variation in the former (>40%), and is strongly significant ($p < 0.001$).
[11] Blood, G., & Carroll, D. (2018, December). *Assessing the association between university rankings and students' perceptions of teaching quality*. Paper presented at the International Academic Conference on Social Sciences, Sydney.
[12] Graduate Careers Australia and the Social Research Centre. (2015). *2014 University Experience Survey National Report*. Canberra: Department of Education and Training.
[13] Carroll, D., Heaton, C., & Tani, M. (2018). *Does It Pay to Graduate from an 'Elite' University in Australia?* IZA, Discussion Paper No. 11477. This paper considers graduate salaries as an outcome, but illustrates the heterogeneity in outcomes by region, controlling for graduate and institutional characteristics.
[14] Karmel, T. & Carroll, D. (2016). *Has the graduate job market been swamped?* National Institute of Labour Studies, Working Paper No.228/2016. This paper presents statistical modelling of graduate employment (and further study), with graduate and institutional characteristics, and local labour market conditions as explanatory variables.

	would need to account for these factors in order to respect institutions' individual missions and cohorts. ▪ Using full-time employment as an indicator does not account for graduates wishing to work part time. Part-time employment has been increasing in popularity in Australia in recent decades, with many people choosing to work part time[15]. Excluding these individuals presents an incomplete picture of the graduate labour market.
Full-time further study	▪ If comparing absolute performance, this indicator **advantages institutions that have adopted the so-called 'Melbourne Model'**, which essentially incorporates further study into its educational offering. ▪ Further full-time study rates vary considerably by field of study[16], and tend to be higher in relation to generalist degrees (e.g. science, arts). This fact essentially ties this indicator to institutions' respective course profiles and hence fails to account for institutional distinctiveness.
Participation by students from low SES, regional/remote or Indigenous backgrounds	▪ If comparing absolute performance across institutions, these indicators advantage institutions located in areas with larger low SES, regional/remote and Indigenous populations, respectively. **This indicator carries the risk of rewarding institutions on the basis of their geographic location**. Regional universities, for example, would be strongly advantaged on the regional/remote indicator, as would institutions in economically disadvantaged areas on the low SES indicator.
Student repayment of DNR (HELP debt)	▪ This is an issue for the tax office. It is not appropriate for Universities to be held accountable for students HELP debt which is expected to not be repaid**. Monash adamantly opposes this proposed potential measure.**

In brief, Monash feels that *directly* comparing institutions on these measures is invalid and contrary to the spirit of performance contingent funding, as they are strongly influenced by students' characteristics (including their academic ability and preparedness), institutions' course profiles, and factors beyond the control of institutions, such as local labour market conditions and the composition of the populations in the regions in which they operate. As such, **the scheme risks rewarding (or penalising) institutions based on who they are, rather than how they perform**.

That being said, Monash is supportive of some of these indicators being used to allocate performance contingent funding to institutions through an **institutional compact** approach, which implicitly recognises the distinctiveness of Australia's universities in terms of their scope and mission, with 'excellence' thresholds for each indicator to acknowledge and reward very strong performance. This proposal is discussed further in the next section ('Consultation Questions').

PROCESS & IMPLEMENTATION

Monash strongly believes the proposed timeline for institutional notification of their performance based funding allocations occurs too late in the year. Institutions need to be notified in the first half of the year in order to be able to appropriately plan for any additional load over and above that funded in their MBGA. Also refer to further comments under consideration 2, option 2.

Given the implementation of the TCSI project and its requirements for daily/weekly reporting of data, and the significantly increased administrative burden this has placed upon institutions. Monash would assume one of many benefits which will result from this initiative is the more timely release of finalised government submission data. Therefore, it should be possible to notify institutions in the first half of the year (by the end of June) of their performance based funding allocations, enabling institutions to proactively plan (rather than reactively which has now been the case for a number of years with the Department) for any additional load over and above that funded in their indexed MBGA.

The current implementation timeline seems optimistic given that this is an election year, and all of the changes occurring in the student data submissions space (TCSI project). **Monash strongly recommends that they first year be a 'pilot' year so that institutions can scenario plan and test outcomes to avoid any unintended consequences**.

[15] Data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey suggest that the three most common reasons for working part time are to accommodate study, a preference for part-time hours and caring for children. See: https://www.rba.gov.au/publications/bulletin/2017/sep/3.html

[16] Karmel and Carroll (2016).

MONASH University

DISCUSSION PAPER QUESTIONS

1. How should the PBF scheme be implemented?

Consideration 1:

An alternative to the proposed 18-64 year old population increase to the MBGA is needed, one which is over and above the CPI rate, if the government truly wants to incentivise performance. We also recommended that the growth mechanism for performance based funding take into account population skills needs or the rapidly changing economy and projected employment growth for individuals with Bachelor or above qualifications, rather than simply reflect the changing dynamics of our ageing population.

Consideration 2:

Monash does not support the approach proposed. Our response is based upon the assumption, that this consideration proposes two options for our funding agreements of the future, as follows:

Option 1:

MBGA includes YoY Performance Based Funding awards

- 2021 MBGA = 2018 MBGA ($285.3 m) + performance based funding ($0-$3.7m as per Table 1).
- 2022 MBGA = 2021 MBGA + performance based funding ($0-$3.7m).
- 2023 MBGA = 2023 MBGA + performance based funding ($0-$3.8m).

Monash example:

Year	Prior Year MBGA (max: best case)	Base Funding (max: best case)	Performance Based Funding Min	Performance Based Funding Max	MBGA for the year Min	MBGA for the year Max
2020	$285.3 m	$285.3 m	0	$3.7 m	$285.3 m	$289.0 m
2021	$289.0 m	$289.0 m	0	$3.7 m	$289.0 m	$292.7 m
2022	$292.7 m	$292.7 m	0	$3.8 m	**$292.7 m**	**$296.5 m**
2023	$296.5 m	$296.5 m	0	$3.9 m	**$296.5 m**	**$300.4 m**

As previously mentioned the proposed 18-64 year old population increase to the MBGA does not incentivise improvements in institutional performance to the extent envisaged by the Department. This option continues to represent a cut to University funding

Option 2:

Performance Based Funding awards are removed from MBGA and awarded under an alternative mechanism.

- Monash's 2018-2020 funding agreement states that we have a UG non-designated Maximum Basic Grant Amount (MBGA) of $285m.
- 2020 MBGA = 2018 MBGA ($285.3 m) + performance based funding ($0-$3.7m as per Table 1). Note this doesn't offset 3 years of CPI increases which have eroded our MBGA.
- 2021 – 2023 funding agreement:
  - our MBGA for the term of the agreement will be as per our award in 2020 ($285.3 - $289 m)
  - the performance-based funding (PBF) component will be separate from the MBGA from 2021+ and will increase each year, e.g. nationally 2021 = $70m, 2022 = $140m, 2023 = $210m.
- That the performance based funding must be spent on student load only and cannot be redirected for use in other areas across the institution.

Monash example:

Year	Prior Year MBGA (max: best case)	Current Year MBGA (max: best case)	Performance Based Funding Min	Performance Based Funding Max	University Funding for the year Min	University Funding for the year Max
2020	$285.3 m	$285.3 m	0	$3.7 m	$285.3 m	$289.0 m
2021	$289.0 m	$289.0 m	0	$3.7 m	$289.0 m	$292.7 m
2022	-	$289.0 m	0	$7.4 m	**$289.0 m**	**$296.4 m**
2023	-	$289.0 m	0	$11.1 m	**$289.0 m**	**$300.1 m**

This option presents a number of challenges as follows:

- Given the governments proposed timelines for notification of University's performance based funding (October), which Monash does not support, this will result in funding allocations being determined 1 or 2 months prior to our primary student intake.
- In the example provided above $11.1m in performance funding, with an average student CAA in 2023 of approx.$12,400 equates to an additional 900 EFTSL.
    - This will detrimentally impact Universities ability to proactively plan for and ensure appropriate resourcing e.g. support services for students, which cannot be ramped up and down at the drop of a hat (as is suggested with this approach).
    - It will result in massive fluctuations in commencing intakes at institutions, especially if performance funding is subsequently not obtained in the following year, which will impact intuitions ability to accurately estimate future load pipelines (for Government estimates etc)
    - It will drive perverse incentives across the system due to a 'use it or lose it' mentality – this could detrimentally impact entry standards in some institutions as they fight to compete against institutions who have been awarded funding at the last minute and thus can accept a significantly large number of domestic TAC Students.
- In real terms, this continues to perpetuate a culture of sustained funding cuts to the university sector.
- An increasing proportion of University funding is determined on an annual basis as a result of institutional performance.
    - Assuming, the performance based funding must be spent on student load only and cannot be redirected for use in other areas across the institution this will force institutions to potentially be over/under enrolled in comparison to their funding e.g. if commencing load is increased, and performance based funding is not achieved in subsequent years the resulting additional returning load will not be funded (increasing institutional financial risk).

Monash's Recommendation:

Monash proposes the following solution:

- Indexed MBGA's - institutions are appropriately funded for the student's they teach. With new revised MBGA's to include both the existing non-designated and sub-bachelor cohorts.
- The ability for institutions to enrol students within +/- 5% of their MBGA without penalty
- The development of a future fund for performance based funding which would quickly grow e.g. $70, $140, $210, $280 etc. And be paid in addition to an institutions indexed MBGA.
- The ability for institutions to spend their performance based funding as they determine appropriate to support their students – support services, resources, etc.

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

As discussed previously in relation to Table 2, Monash has strong reservations about each proposed indicator if universities are to be compared directly, as this approach implicitly ignores institutional distinctiveness. For this reason**, Monash strongly advises that the scheme is structured as a set of institutional compacts, which would see institutions evaluated against their own prior performance.** This approach by its very nature accounts for institutional distinctiveness, since institutions are being compared only against themselves; however, statistical methods may be used to control for confounding factors over time (e.g. changes to an institution's student composition, local labour market conditions). In addition, Monash recommends that these compacts should include an 'excellence threshold' for each indicator, to account for very strong performance but limited scope for improvement. Without this provision, institutions with great scope for improvement would be advantaged, even if their absolute performance is below that of other institutions.

Based on our analysis presented in Table 2, Monash proposes the following performance measures (refer to Table 3). As with the indicators reported on the QILT website, Monash endorses a multi-year rolling average to smooth out minor fluctuations in the underlying data and, in the case of the survey-derived indicators (i.e. SES and GOS), maximise the number of cases available for analysis.

TABLE 3. MEASURES RECOMMENDED BY MONASH UNIVERSITY

Measure	Y/N	Rationale	Notes
First-year student attrition/retention	Y	▪ Key academic performance indicator that is available for all institutions (unlike GPA/WAM). ▪ Based on objective and timely HEIMS data.	▪ To account for differing institutional missions, it is recommended that this indicator capture retention within the Australian higher education system (i.e. adjusted retention rate); not within an institution (or course). ▪ It is recommended that this measure be restricted to bachelor students only, in line with how retention is reported in the Higher Education Statistics Collection.

			▪ Statistical methods may be used to control for changes to the student composition over time (e.g. residency, field of study).
Student completion within six years	N	▪ As discussed in Table 1, this measure is inherently lagged (improvements made by institutions will not show up in the data for many years), and is strongly correlated with first-year retention.	▪
Overall student satisfaction	Y	▪ This measure recognises the importance of the student experience. ▪ Already reported as a QILT indicator. ▪ Existing robust data collection infrastructure, in the form of the Student Experience Survey.	▪ DET will need to ensure that institutions do not selectively target students in cohorts associated with high overall satisfaction results when administering the Student Experience Survey (perverse incentive). ▪ Because this measure is based on survey data, which is inherently error-prone, statistical methods will need to be utilised to determine whether any changes over time are statistically significant.
Overall employment rate	Y	▪ As discussed in Table 1, overall employment is preferable to full-time employment, because the latter excludes part-time workers, who represent an increasingly large share of the Australian labour market, many of whom are working part time as a conscious choice. ▪ Graduate employment is a key outcome of the higher education sector, which should be recognised in the suite of measures. ▪ Existing robust data collection infrastructure, in the form of the Graduate Outcomes Survey.	▪ Similar to overall satisfaction, the DET will need to ensure that students in cohorts associated with strong employment outcomes are not selectively targeted by institutions for follow-up. ▪ It is recommended that this measure be restricted to domestic bachelor students. ▪ As a survey-derived measure, statistical methods will need to be utilised to determine whether any changes over time are statistically significant. ▪ Overall labour market conditions will need to be controlled for when measuring universities' performance over time, as this factor is beyond their control but is a key driver of graduate employment.
Full-time further study	Y	▪ Further full-time study is a valid pathway for recent graduates and should be recognised as such in any indicator suite.	▪ If the intention behind this indicator is to capture students who are engaged in a productive non-employment activity ('earning or learning'), a combined indicator that captures individuals engaged in study or work may be preferable to the two existing graduate outcomes indicators. ▪ The GOS caveats relating to overall employment also apply here.
Participation by students from low SES, regional/remote or Indigenous backgrounds	Y	▪ Important access and equity indicators. ▪ Based on objective and timely HEIMS data.	▪ Not every indicator will be applicable to every institution. Metropolitan institutions, for example, will struggle to recruit additional regional students; and efforts to do so may see them engaged in a 'zero sum game' with regional institutions for enrolments. A better approach may see the requirement that institutions include at least one 'equity' indicator in their institutional compact, with institutions

		given the chance to nominate the equity groups relevant to their institutional mission.
Student repayment of DNER (HELP debt)	N	▪ This is an issue for the tax office. It is not appropriate for Universities to be held accountable for students HELP debt which is expected to not be repaid**. Monash adamantly opposes this proposed potential measure.**

3. How should the PBF scheme be designed?

Monash supports the proposal for institutions to be able to tailor their performance based funding metrics to reflect our own individual institutional mission, agreeing that the concept of compulsory and supplementary measures selected by the institution would strike the correct balance. Once selected, institutions would ideally commit to their set of indicators for a specified number of years, to ensure that institutions strive for performance in these areas, and do not simply nominate indicators on which they are performing well at a given point in time.

4. How should performance measure benchmarks be set?

Monash supports within-institutional comparisons to measure changes in performance over time. In the case of survey-derived indicators (SES and GOS), this would need to account for statistical uncertainty, so that only statistically significant differences are rewarded. As discussed earlier, statistical adjustment may be prudent in relation to some indicators to control for external factors, such as local labour market conditions in the case of the employment measure, and changes in student characteristics over time.

Where an institution already has a high level of performance against an identified measure, it becomes increasingly difficult to make incremental improvements. Paradoxically, such a high-performing institution would be penalised under a funding model that only rewards improvement. **As such, a threshold 'excellence' consideration should also be included (as was the case in the LTPF).** What constitutes 'high' performance is challenging to define in relation to certain indicators, because this will potentially vary by geographic region and institution type.

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

As previously stated **Monash supports the implementation of improvement and excellence thresholds**, which should enable the DoET to implement a mechanism to address this and ensure all funding is allocated.

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

Universities require funding certainty and need to know the outcome of performance based funding before our annual budget planning process begins, at Monash this is in July.

The data used by the department should the latest available, noting that institutions should also have access to this data to undertake their own internal analysis. Any lag should be reduced or avoided where possible. The current situation where data is released very late in the year could not continue. We assume the Departments use of public funds for the TCSI project will result in improvements to the timeliness of data availability and provision.

7. How should the PBF scheme be regulated?

Monash supports the Government proposal to amend the Commonwealth Grant Scheme Guidelines to include the PBF requirements to ensure Parliament oversight of the design of the performance formula, that the Government clearly sets out the performance requirements in each university's CGS funding agreement or other agreements, and that there is transparency to the process.