RMIT University Submission

Consultation Paper on Performance-Based Funding for the Commonwealth Grant Scheme

February 2019

1 Summary of RMIT University's response

RMIT University welcomes the opportunity to provide input into the proposed introduction of performance-based funding for the Higher Education sector.

RMIT is strongly committed to delivering a high-quality student experience and strengthening graduate outcomes. We broadly support the introduction of performance-based funding where it can be shown (with evidence) to enhance student experience, participation and success of equity cohorts and work-readiness/graduate-outcomes across the sector. These are objectives that align to RMIT's strategic vision.

RMIT desired outcomes from the implementation of a performance-based funding scheme

- The introduction of a new funding model provides the opportunity for the Government to deliver greater certainty and sustainability of funding for universities to enable ongoing and long-term planning to meet the institutional objectives of a transformational student experience, parity in learning outcomes and equity in participation;
- Any agreed scheme must enable institutions to continue to pursue their own mission in such a way that allows them to contribute to their local communities, economies and contexts and thus allowing for differentiation within the sector but not in misalignment to the broad objectives of Government; and
- The design of the scheme must be based on the fundamental premise of lifting the quality and outcomes of the whole sector within a global marketplace, with a strict view to evidence linking performance measures with outcomes and not inadvertently create "haves" and "have nots". It must not constrain innovation at a time when the sector is confronting new challenges and expectations.

The ambition of the Government to build a robust, equitable and effective system that will meet their needs while underpinning a vibrant and diverse Higher Education sector will take time and considerable consultation with the sector to achieve. As such, RMIT proposes that the measures, mechanisms and funding model developed use a phased approach to ensure that a sustainable model is established that will provide accountability to Government and deliver the desired outcomes without unnecessary complexity or administrative burden to all parties involved.

Given the lessons that are emerging from the TEF (UK) it is in Australia's best interest to learn from the mistakes that have gone before in a similar context in order to provide a suitable, sustainable scheme.

RMIT would welcome the opportunity to engage in structured discussions throughout 2019 and 2020 to build out a robust, forward-looking and sustainable performance-based funding model. A phased approach would deliver the following staged outcomes:

1. Create shared agreement on the intent of performance-based funding with specific attention to identifying and building a structured evidence base, linking agreed measures with improved student outcomes;
2. Establish an agreed set of clearly defined measures aligned to the agreed intent:
    a. Key measures for consideration
    b. Considerations in applying specific measures
    c. Addressing quality, relevance and timeliness of student related data
3. Define the funding methodology and allocation approach, including an appropriate timeline for implementation; and
4. Establish an appropriate legislative basis for implementation.

2 Establishing a shared agreement on the intent of performance-based funding

Prior to confirming measures, mechanisms and funding settings there needs to be agreement on the intent of performance-based funding and how it can be effectively implemented to enable, and not hinder, sector-wide quality uplift and innovation to meet student needs. Further exploration is needed on how such a system would strengthen Australia's diverse Higher Education sector as a whole, the quality of its education and its ability to graduate a diverse cohort of students with skills and experiences to meet critical workforce requirements as both our economy and industries evolve. Numerous similar schemes have preceded this proposed performance-based funding proposal, each with their own intent. Understanding how this approach will be different and enhance the quality of Australia's Higher Education system will be strengthened with sector agreement. The use of evidence linking improvements in student outcomes with the relevant metrics is key to this process.

3 Establishing an agreed set of clearly defined measures aligned to the agreed intent

3.1 Key measures for consideration

In order to understand performance, there are a range of measures that may be considered as a basis for funding that broadly fit within the categories of student experience (satisfaction, retention, skills), graduate outcomes and equity, and many of these were outlined in the consultation paper. As the Government considerers the suite of measures that would be included in a performance-based scheme RMIT would like to note the following; with the preface that all measures need to be aligned to the mission of each university and be flexible and negotiable.

- **Retention and completion** are important measures of university performance aligned to broadening access and equity in Higher Education. Patterns of attrition and completion for diverse cohorts also need to be accounted for, so that the measures utilised do not discourage the recruitment of students more likely to attrite. Measures should take into account the value that Higher Education adds for those diverse cohorts – and universities like RMIT must continue to provide the opportunity for a broad cross section of students to succeed. The changing nature of student engagement in Higher Education should also be taken into consideration as students increasingly demand more flexible and non-linear modes of delivery and universities respond to this student-based demand through initiatives such as online learning, micro-credentials and blockchain delivery.
    - **Retention and completion rates for Government-prescribed equity cohorts** should be included as they are critical to addressing gaps in education for equity cohorts. Policy and funding settings need to continue to be aligned to any participation measure, in order to support equity cohort retention and success measures.
- **Graduate outcome measures** should incorporate a broader definition of employment – one that aligns to the changing nature of the workforce and the global world of work. Such measures may include a composite which encompasses self-employment (noting that the Quality Indicators for Learning and Teaching (QILT) employment and self-employment measures are poorly articulated and need to be reviewed).
- **A skills measure** could be included to complement the graduate outcome measures as it relates to student and graduate perceptions of their work-readiness. The measure could focus on current student or graduate perception of their skills (Skills Development in the Student Experience Survey or Generic Skills in the Graduate Outcomes Survey) or be a combination of both to reflect current student and recent graduate perception of their skills acquisition.

Other measures that align to the mission and purpose of individual universities and Government policy, such as **innovation, and community and industry engagement** should also be considered and can be developed. RMIT would be pleased to work with the Government and other universities to develop validated measures.

3.2 Considerations in applying specific measures

There are existing levers to drive institutional performance and accountability in what is already a high-quality sector. Such levers include QILT, Academic Transparency, the publication of university performance data and regulation through TEQSA. Further targeted funding (ie HEPPP) for defined equity cohorts supports the achievement of retention, completion and success rates for students from these cohorts.

The introduction of performance-based funding should complement, rather than duplicate the existing levers. Rather than prescribing a set of measures for all universities, specific items (from a “menu” of key measures) should be negotiated between the Minister and each university on a cyclical basis. This would enable both parties to identify priority areas aligned to policy and their institutional mission, purpose and strategy. It would also provide greater accountability, with focused improvement in student outcomes and ongoing distinctiveness. The diverse student cohorts of individual universities and local economies would importantly need to be considered.

3.3 Addressing quality, relevance and timeliness of student related data

To use the QILT data and other student related data sets to determine university performance and funding, significant issues need to be addressed. Such issues include the timeliness of data and how fit-for-purpose it is, how much control individual universities have on their performance, and the impact of the different demographics on performance. The questions that make up key measures should be reviewed regularly to ensure that they are clearly articulated and unambiguous to the students being surveyed and are clearly aligned to any purpose for which the data will be used. Data issues range from the timing and frequency of surveys, to the cohort being surveyed and the timing of the release of institutional and national data files. Much of the data is lag and largely irrelevant once received.

Addressing these issues through consultation and engagement with the sector would not only underpin more accurate measurement of university performance for performance-based funding but would also significantly improve institutional efforts towards performance enhancement.

4 Defining the funding methodology and allocation approach, including an appropriate timeline for implementation

Appropriate sequencing of the development of performance-based funding is essential to ensuring that any calculation methodologies are based on appropriate measures underpinned by a robust, accurate and purposeful data set. Given the intent and measures have not yet been agreed, at this point we can only comment at a high level about some key principles that should inform the design of the funding methodology and allocation approach, pending the appropriate consultation and agreement. RMIT reinforces the recommendation that this area be revisited and the opportunity for consultation be opened at a time when measures have been agreed *with* the sector.

As stated above, the current lag in the data makes the timely assessment of the ‘impact of performance’ difficult and therefore risks penalising a university that is putting in place the foundations of sustainable improvement. Modelling would need to be undertaken to understand the time required for universities to positively shift performance on the measures agreed, and for the data to reflect any such change to ensure that funding is appropriately allocated. RMIT would welcome the opportunity to work with government to test the implications of this work (as a test site).

Design of an implementation plan also needs to take into account the cyclical variations in performance through such mechanisms as rolling averages over defined time-periods to ensure stability of funding. Appropriate performance expectations and their relationship to funding allocation would need to recognise the differences between universities due to their mission, location, student cohort and demographics, and to variations based on external labour-force and economic drivers.

5 Establish an appropriate legislative basis for implementation

The legislative basis for implementation should be agreed with the sector once a draft performance-based framework has been established and agreed with the sector. At a general level RMIT would preference implementation that was stable and reliable over time (and not subject to undue variation year-to-year or via Ministerial discretion). Further, the performance-based funding mechanism should seek to complement and reinforce an unrestricted demand-driven funding system that realigns commonwealth support and student contribution amounts.

6 APPENDIX

Summary responses to key questions from the Consultation Paper

1. How should the PBF scheme be implemented? How do grow a university's PBF amount from 2021? How to treat a university's PBF amount from 2021?

Implementation of the PBF model should be delayed until 2021 to ensure appropriate time to develop and test a funding model that will position the sector for the future. This testing needs to ensure that there will not be adverse outcomes for the sector or individual universities in what is an already strong and high-quality sector supporting the Government's economic and social agendas.

In line with other recommendations, the implementation model should be simple, carefully considered and built out over time. Population growth is not a sufficient metric to grow performance-based funding as it is lower than CPI and varies across states and territories. A combination of population and key cohort growth indicators could be used if it represented appropriate growth of student numbers and investment in the sector.

The model should be tested in 2020 without the financial incentives/penalties in place. Universities should therefore receive the maximum base grant amount (MBGA) and the full performance allocation distributed on a pro-rata basis according to load. The 2020 allocation (MBGA and pro-rata performance funding) should be used as the baseline for 2021 funding. Funding, in alignment with the Higher Education Standards Act, cannot decrease; rather, increases could be awarded based on meeting agreed performance standards year-on-year.

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

A set of measures should be established that broadly fit within the categories of student experience (satisfaction, retention, skills), graduate outcomes and equity, from which individual universities could negotiate their targets based on their mission. The measures should be aligned to industry and global workforce requirements and be designed in such a way to enable innovation and evolution of the sector. These measures should include:

- Satisfaction – current students and recent graduates;
- Retention and completion (total and for Government-prescribed equity cohorts);
- Graduate outcome measures including composite with self-employment;
- A skills measure to assess work-readiness; and
- Other measures that align to the mission and purpose of individual universities and Government policy, such as innovation, and community and industry engagement.

The measures should be within the control of universities and should not include HECS-HELP debt recovery for that reason. Whilst adding complexity, an element of qualitative review such as the TEF) would add nuance and richness to the understanding of performance. Careful thought would be required to understand the value of such an approach, depending on the quantum of funding.

3. How should the PBF scheme be designed?

Specific measures for each university should be agreed with that university on a cyclical basis and aligned to institutional mission, location and cohort. Measures should be based on the established set identified through the consultation process. This would enable both parties to identify priority areas aligned to policy and institutional mission, purpose and strategy. It would also provide greater accountability to Government, focused improvement in student outcomes and ongoing distinctiveness of individual universities.

4. How should performance measure benchmarks be set?

Appropriate sequencing of the development of performance-based funding is essential to ensuring that any calculation methodologies, benchmarks or thresholds are based on appropriate measures underpinned by a robust, accurate and purposeful data set. Performance benchmarks should be simple and should focus on improvement for each individual university and not ranking against others. It also will need to take into account the following:

- Cyclical variations in performance through such mechanisms as rolling averages over defined time-periods;
- The differences between universities due to their mission, location, and student cohort and demographics; and
- The timeliness of the data sources and how fit-for-purpose they are, how much control individual universities have on performance, and the impact demographics on performance.

RMIT reinforces the recommendation that this area be revisited and the opportunity for consultation be opened at a time when measures have been agreed *with* the sector.

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

The distribution of unallocated performance-based funding would again be dependent on the model being proposed and therefore should be developed once the intent of the scheme and measures have been agreed. The allocation model would need to ensure that it does not inadvertently create a system that is polarised into ‘haves’ and ‘have nots’ based on ability to access funding on an annual basis. This risk may be mitigated through a tiered system by which a proportion of funding is allocated based on achievement of each performance threshold or expectation. As such it would be expected that the full funding allocation in each year could be distributed on a pro-rata basis dependent on the achievement of performance expectations.

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

The current lag in the data makes the timely assessment of the ‘impact of performance’ difficult and therefore risks penalising a university that is putting in place the foundations of sustainable improvement. Modelling would need to be undertaken to understand the time required for universities to positively shift performance on the measures and for the data to reflect any such change. This would ensure that funding is appropriately allocated. RMIT would welcome the opportunity to work with government to test the implications of this work (as a test site). This would need to be underpinned by robust, timely and fit-for-purpose data.

7. How should the PBF scheme be regulated?

Consultation on regulation of the scheme would need to be undertaken once the other aspects have been designed. Broadly performance-based measures should be negotiated as part of the CGS agreement with each university (noting that the process would need to start earlier to accommodate the additional preparation and negotiation required for performance-based funding).

The selected measures should be drawn from the ”menu” of measures that have been agreed through the development process. Agreed measures should be aligned to each university’s stated mission. Care needs to be taken in the development of the agreements to avoid gaming of the system, and to ensure alignment to the agreed intent of the scheme.