

UNIVERSITIES AUSTRALIA SUBMISSION

PERFORMANCE-BASED FUNDING FOR THE COMMONWEALTH GRANT SCHEME

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INTRODUCTION

Australian universities provide high-quality, accessible education to 1.4 million students each year, lead Australia's research efforts and are a major contributor to the social and economic wellbeing of our country.

Australia's universities are internationally recognised for their quality. Australian universities are highly placed on many global rankings and are a destination of choice for international students. Satisfaction levels for domestic students and employers are high.

Universities Australia (UA) supports the intention to strengthen quality in higher education, but we do not think this end will be achieved by the performance measures in the Government's discussion paper.

Australia has a well-developed and effective framework for higher education accountability and performance monitoring. The Higher Education Standards Panel develops rigorous standards, against which universities are regulated by TEQSA. The Government's Quality Indicators in Learning and Teaching (QILT) website makes a range of information on universities' performance available to the public, underwriting transparency and informing student choice. The strong performance framework in higher education gets strong results.

It is also important to note that performance funding systems, both domestically and around the world, are not always effective.

The discussion paper appropriately includes material on the impact of performance funding on access and equity. UA suggests that a recent report from La Trobe University on the use of performance funding in equity measures would be a useful resource.¹

The single most effective program to enhance performance in diversity, opportunity and success has been the demand-driven system (DDS), which ended with the Government's funding freeze in 2017.

UA has called on the Government to restore the demand-driven system to:

- Ensure that every qualified Australian student can access the opportunity of higher education;
- Continue to expand access to higher education among groups that have been under-represented at university (including people from low SES backgrounds, Indigenous Australians and regional students);
- Secure the increasing supply of graduate skills that the labour market will need; and
- Set consistent and transparent principles for funding higher education.

UA has serious concerns about the model proposed in the Department's discussion paper. Applying common metrics across the sector would ignore institutions' geographic and mission diversity. Such a blunt measure would neither encourage good performance nor discourage bad.

¹ Harvey, A., Cakitaki, B., & Brett, M. 2018. 'Principles for equity in higher education performance funding', La Trobe University.

RATIONALE

The discussion paper canvasses several rationales for performance-based funding. The most important of these are:

- ‘ensuring quality’ across the sector;
- ‘incentivising improvement’; and
- efficiency of public spending.

These are quite different aims, which may not necessarily be in alignment. It is not clear that performance-based funding is the best way to pursue these different aims.

The first rationale (‘ensuring quality’) is not well matched to the proposals put forward later in the discussion paper. The best way to allow high quality providers to increase their market share is to run a demand-driven system of allocating and funding places, combined with an effective and transparent system for making information available to students.

Incentivising improvement does not fit well with a metrics-based performance funding system that applies the same or similar metrics and incentives across the whole sector. Such a system would be poorly targeted, and less effective in both identifying problems and incentivising solutions. Performance improvement at a given institution must be dealt with at an institutional level. This includes taking into account the context in which a university operates.

There is a tension between the goal of efficiency of public spending and the quality aims of the proposed performance funding system. Rationing funding is unlikely to improve performance. It is unlikely that universities will be emboldened to try new initiatives in this funding environment, as the discussion paper predicts.

International analysis has consistently found that Australian universities are among the most efficient in the world. Universitas21 ranks Australia third for output (research output and its impact, student throughput, the national stock of graduates and researchers, the quality of a nation’s best universities and employability of graduates) but 14th for input resources. The gap between the two is a measure of efficiency – and only Australia and the United Kingdom are ranked in the top five for output but lower than the top 10 for resourcing.²

The marginal changes proposed to university funding would be of dubious effectiveness if there really were problems of inefficiency across the sector, whereas in Australia’s efficient higher education sector, they may be merely redundant.

² Universitas21 (2018), *U21 Ranking of National Higher Education Systems*, Universitas21, https://universitas21.com/sites/default/files/2018-05/U21_Rankings%20Report_0418_FULL_LR%20%281%29.pdf.

PREVIOUS PERFORMANCE FUNDING SCHEMES

PREVIOUS SCHEMES IN AUSTRALIA

As outlined in the Department's discussion paper, previous schemes in Australia have included the Learning and Teaching Performance Fund (LTPF) and Reward Funding. While the paper notes that these programs succeeded in drawing university attention to learning, teaching and equity, it is unclear whether longer-term changes in activity can be attributed to them.

As raised earlier in this document, the recent report from La Trobe University on equity in performance-based funding has some particularly useful recommendations.

The report also examines previous performance funding schemes in Australia, noting that the success of the LTPF is still up for debate and that it suffered from a lack of clarity between 'outcomes' versus 'performance'. Further, the report notes the difficulty with seeking to apply a 'one size fits all' model across Australia's diverse universities, and that the LTPF may have been more successful if its objectives and metrics had been more stable.³

INTERNATIONAL EXPERIENCE

Internationally, other performance funding schemes have faced similar problems. The New Zealand Productivity Commission, in its inquiry into 'new models of tertiary education', found that the country's Performance-Linked Funding program 'provides weak incentives for good performance and an insufficient sanction for below-threshold performance'.⁴

The assessment of the performance-based funding program in Germany (North Rhine-Westphalia) also points to the dangers of incorrectly calibrated targets. This model, where all institutions had to meet the same requirements, has been criticised as establishing 'winners and losers', contributing to a homogenised system, and emphasising quantity over quality.⁵

In particular, the Teaching Excellence Framework (TEF) – introduced in England from 2017 – has raised serious concerns. The TEF does not measure teaching excellence. Rather, it uses available indicators of student satisfaction and graduate employment outcomes – very similar to the indicators proposed in the current Discussion Paper – to assess universities' performance.

The TEF makes an attempt to adjust indicators for each university's context and circumstances, but in the absence of an agreed or obvious method for doing this, there is likely to be some scepticism about results and the role of subjective judgement in arriving at these. 'The policy dilemma can be expressed simply: the use of unadjusted raw data would be unscientific, and unfair, yet no definitive or uncontested algorithm for adjustment exists.'⁶

³ Harvey, A., Cakitaki, B., & Brett, M. 2018. 'Principles for equity in higher education performance funding', La Trobe University, p. 11

⁴ New Zealand Productivity Commission, 2017, 'New models of tertiary education final report', p. 8

⁵ De Boer et al. 2015. 'Performance-based funding and performance agreements in fourteen higher education systems: Report for the Ministry of Education, Culture and Science', Enschede, Netherlands: Centre for Higher Education Policy Studies, p. 78-79

⁶ James, R., 'Is the TEF good public policy? Probably not' in Universities Australia (2017), *Higher Education*, 23 February 2017, <https://www.universitiesaustralia.edu.au/Media-and-Events/HIGHER-ED-ITION/Articles/2016-2017/Is-the-TEF-good-public-policy--Probably-not->

Most contentiously, the TEF allocates universities to one of three very broad bands: ‘gold’, ‘silver’ and ‘bronze’. ‘These broad bandings exaggerate the apparent differences between institutions and create injustices at the margins of the bands.’⁷ The reputational impact of minor differences can be significant.

In any case, the objectives of the TEF are somewhat different to the performance-based funding system proposed for Australian in the Discussion Paper. For a start, there are no longer any financial incentives or penalties attached to the TEF. The system works through reputation and information, which are supposed to influence student choice and thereby institutional behaviour.

In some ways, the TEF is more like QILT – a public platform of accessible information for students on universities’ performance – than it is like a performance funding system. Effective provision of information to students through QILT – particularly in a demand-driven system of funding places – would achieve the same objectives as TEF, without the need for explicit performance funding.

⁷ Ibid.

SUPPORTING DIVERSITY

UA believes that a common system applied across the whole sector is likely to be unwieldy and unfair. A one-size-fits-all system would be unlikely to encourage genuine improvement in the sector and is likely to include perverse incentives that lead to negative results.

UA does not accept that there are quality problems in the university sector of a nature, magnitude or prevalence that warrant a blanket approach. As the Department acknowledges on page 7 of the discussion paper, university performance can only be sensibly and usefully measured on a wide range of indicators, with each university performing according to its own strengths.

Australia's university sector is diverse. Universities are very much part of their local communities and often reflect the make-up of their region. This diversity is a key factor of the sector's strength and allows students to consider a wide range of options when deciding what institution will best fit their needs and interests. Any measures that may have the unintended consequence of reducing this diversity cannot be supported.

A performance funding system should not penalise universities because their particular cohorts, communities or programs may lead to lower results than their counterparts' on particular indicators.

As such, a 'one-size-fits-all' approach to performance funding is unlikely to see measurable improvements across the board, and indeed creates a real risk of perverse incentives leading to negative outcomes.

The Government may wish to investigate a system working with each university to create a suite of targets and metrics that are appropriate to that institution. Agreements would have to span a reasonable period of time to allow for meaningful assessment.

An individualised approach, which acknowledges the diversity in the university sector, is more likely to result in positive outcomes than a broad and necessarily complicated scheme applied to the whole sector.

Recommendations:

- **Government should reconsider performance funding.**
- **Sector-wide metrics should not be applied.**
- **If performance funding system is pursued, Government should consider measures that are appropriately targeted to individual universities.**