



The Group of Eight Limited
ABN 98 089 687 990

GPO Box 139
Canberra ACT 2601
Lvl 4, 10 Moore Street
Canberra ACT 2600
Australia

t: +61 (0)2 6175 0700
www.go8.edu.au

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Professor Paul Wellings CBE
Chair, Expert Advisory Panel
Performance-Based Funding for the Commonwealth Grant Scheme
c/- Department of Education and Training
GPO Box 9880
CANBERRA ACT 2601

Via email: HEReform@education.gov.au

Dear Professor Wellings

The Group of Eight (Go8) writes in response to the Government's Discussion Paper - *Performance-Based Funding for the Commonwealth Grant Scheme*.

In discussion with both the Minister and the Department of Education and Training, I have directly raised the willingness of the Go8 to work constructively to develop a useful framework for performance-based funding; to ensure it has efficacy within the higher education funding architecture.

As performance-based funding relates to the Commonwealth Grant Scheme (CGS), the Go8 position is for the overall design of such a scheme to **positively reflect both sustained excellence in performance as well as improvement in performance over time**.

While Go8 members may make their own more detailed submissions, in summary, the Go8 recommends:

The Government adopt the Seven Design Principles proposed by the Go8

1. Clarity	The objectives for the performance contingent funding policy are clear.
2. Simplicity	The process underpinning the performance contingent policy is as simple as possible, with guidelines and outcomes-reporting accessible to stakeholders and the burden placed on providers minimised.
3. Transparency	The process and method is evidence-based and clear to all stakeholders.

4. Acceptability	There is broad acceptance of the method applied, and the legitimacy of the data used, to measure performance aligned with stated policy objectives.
5. Efficacy	The measures accurately assess provider performance, and the changes in performance, over time.
6. Positive incentives	The selection of performance measurement and funding measures and their application should incentivise improvement by providers while discouraging behaviours inconsistent with stated policy objectives.
7. Stability	The approach to performance measurement and funding does not change frequently, giving providers certainty to invest in long-term strategies to improve performance.

These Principles are intended to assist develop the Government’s final position; underpinning proposed funding arrangements for the CGS.

They highlight the need to focus on university mission and context, transparency, incentives for improvement and the avoidance of perverse incentives and the unintended consequences they deliver.

The Principles are also aligned with the values that frame the Go8 submission to the *Consultation Paper on the reallocation of Commonwealth supported places for enabling, sub-bachelor and postgraduate courses*.

It is anticipated, under the Design Principles, that **regular, evidenced-based evaluation and review of the performance metrics by an expert panel will be a prominent feature of any final performance funding framework**.

Consistent with these Design Principles:

- Government **consider limiting the scheme to three core measurement metrics:**
 - **Attrition**
 - **Participation for students from under-represented backgrounds**
 - **Graduate outcomes**

These metrics can be used, with weighting, across all universities and applied in a manner consistent with the Design Principles.

Present concerns with the indexation methodology notwithstanding, the Go8 remains strongly committed to excellent performance and delivering the best outcomes for our students.

The Go8 will continue to advocate for a coherent funding model that delivers a stronger platform for quality Australian higher education, and research in particular, to benefit economic growth and the lives of the Australian community.



- Government ensure a **consistent and adequate rate of indexation** is applied to provide equity and appropriate incentives within the funding framework, consistent with the Design Principles; and
- Government enhance **transparency and accountability by incorporating the performance-based funding framework in a legislative instrument**, consistent with the Design Principles.

Performance of the Go8 (as context)

An investment in Go8 universities is a robust and prudent one for Australia's future. On any reliable indicator, Go8 universities perform very strongly for the Australian community.

As Australia's leading research-intensive universities, Go8 members are significant net contributors to the Australian economy.

In 2016, in total, the Go8 generated a total economic impact of \$66.4 billion to the Australian economy¹. This is against a benefit to cost ratio of 5 ½ : 1.

While much of this impact is delivered through our world-class research activity, Go8 universities are consistently the first choice in applications to Australian universities, with close to 74,000 applications in 2018 comprising 22.3 per cent of all applications to Australian universities².

In 2016, Go8 **teaching and learning activities delivered more than \$4.9 billion to the Australian economy³**.

- This includes **approximately \$1.5 billion in net benefit accrued by the Commonwealth Treasury (in 2016 alone)**.

The very significant Go8 impact from those activities does not align with the suggestion in the Discussion Paper that '...it is appropriate to introduce a level monetary accountability for universities.' Universities have multiple – and often overbearing – layers of accountability to various Commonwealth and State bodies

Go8 universities are also placed in the world's top 100 universities for every broad subject area of the 2018 QS World University Rankings. That is a definitive statement of performance and quality.

Importantly, each year Go8 universities deliver Australia over 100,000 high quality graduates, including more than 55 per cent of Australia's science graduates and over 40 per cent of Australia's graduates in engineering

¹ *The economic impact of Group of Eight universities*; London Economics; 2018. https://www.go8.edu.au/Go8_London-Economics-Report.pdf

² *Undergraduate Applications Offers and Acceptances 2018*; Department of Education and Training.

³ https://www.go8.edu.au/Go8_London-Economics-Report.pdf

disciplines. The Go8 also educates more than half of Australia's medical, dentistry and veterinary medicine students. It attracts more than 30,000 regional and remote students who choose to study away from home.

The capabilities of Go8 universities to deliver the above may very well be jeopardised by the implementation of a poorly-constructed performance-based funding scheme.

Core performance measurement metrics

1. Attrition

In June 2018, the Higher Education Standards Panel noted that 'Australia's higher education attrition rates have been relatively stable for over a decade and it is clear many universities already invest significantly to support their students.'⁴

The Panel also noted, however, that in *settling on a method* to assess attrition it was important to avoid 'a descent into unresolvable technical arguments' and, in that light, suggested measuring university performance using adjusted attrition rates.⁵

On this basis, and consistent with the Design Principles, an attrition-based performance measure under this framework could have the following features:

- the '*new adjusted attrition*' rate could be adopted, with an assessment of **university performance over a rolling three-year average**
- universities' **absolute performance** could be assessed against a defined benchmark of performance; and
- universities' **relative performance** (i.e. performance improvement) could be assessed for those with a 'new adjusted attrition' rate *higher* than the defined benchmark using a rolling average over three years

The result of this approach would be:

- **absolute performance** *below* a defined level would result in achieving the performance-contingent component established or weighted under this element
- for performance *above* that defined rate, **improvement on previous performance** (using the rolling average) would result in achievement of the performance-contingent amount *or a proportion* of it depending on the extent of improvement and distance from the absolute performance 'benchmark'.

⁴ Final Report – Improving retention, completion and success in higher education; HESP; 2018, p4

⁵ Ibid, p44. The Panel also noted – as highlighted in the Discussion Paper – that '[c]ontrolling for student characteristics appears to make very little difference to the relative performance of universities in terms of measured attrition rates.'

These features ensure this element is consistent with the Design Principles, while also establishing the broader framework will be **incentive-based rather than punitive** and take account of the very different student profiles across Australia's universities.

The establishment of a benchmark for absolute performance could be set below the national average while possible scales for relative improvement could then be informed by university factors.

2. The vital participation for students from under-represented backgrounds⁶

Consistent with the method applied for attrition, improvements in university performance under this metric would be assessed by a rolling average of performance and also use **both a defined absolute performance level and university improvement** above that rate.

The Go8 believes that to ensure consistency with the overarching goals of the performance framework, this element should be designed to incentivise performance in terms of **increasing participation, as well as improving outcomes, and so that importantly participation rates would be weighed with success rates for the same cohort.**

Increasing participation in higher education for students from under-represented backgrounds remains, as it should, a significant policy goal across the sector. It is important for Australia that changes to the university funding model through the CGS do not jeopardise the positive improvements that have been made in recent years in the successful participation of students from a range of previously under-represented backgrounds.

Linking universities' funding to the *successful participation* of under-represented student groups also ensures that successful participation, which remains stubbornly low for some groups, in particular low SES students, is given the maximum opportunity to improve.

The Go8 is convinced that linking funding outcomes to university performance in this area can provide a valuable incentive for universities.

Consistent with the Design Principles, the assessment and further incentivisation of successful participation in higher education by students from under-represented backgrounds could have the following features:

- university **participation rate for students from under-represented backgrounds** assessed over a rolling three-year average
- weighting this participation rate **by the success rate for the same cohort of students at the university⁷** and

⁶ In this context, increased participation would include for students from all key defined equity groups consistent with other Government priorities (LSES, Indigenous, regional, remote, students with a disability etc)

⁷ Published participation rates already have an element of continuation at university incorporated and as such are the preferred measure over access rates.

- **improvements in the *successful participation*** of the same student cohort are then incentivised through a proportion of performance-contingent funding

Weighting the headline participation rate with the success rate for the same cohort has the potential to maximise the positive intent of the broader framework, as well as ensure that any potential to otherwise embed perverse incentives is minimised.

Even so, **universities must continue to ensure their obligations are met by supporting students so that as many as possible progress through to degree completion and see the value in leaving university with a HECS debt.**

3. Graduate outcomes

The Go8 is **strongly of the view that an *overall employment rate*, not the full-time employment rate, offers a more effective** way of assessing employment of graduates based on sector-wide data.

To remain consistent with the Design Principles, however, data must be **weighted with rates of progression to further full-time study**. This ensures data is robust for this purpose and more accurately and effectively incorporates differences in university mission and context across the sector.

In addition, further analysis should be undertaken each year to ensure that the outcomes for graduates (employment and further study) *at each university are viewed within the context of the labour market in which the university (predominantly) operates*. These labour markets are consistently very different across what is a vast nation.

Graduate employment outcomes are overwhelmingly influenced by broader labour market trends, and university graduates who are new entrants to the labour market are particularly affected by those trends. **The limitations on universities' abilities to influence these trends is a significant weakness in the data that underpins discussion of graduate employment outcomes.**

While it would be unreasonable to make any university directly responsible for the employment outcomes of graduates in the broader labour market, in the same vein it would also be unreasonable to compare university performance across jurisdictions and regions with very different economic characteristics.

In that context, and consistent with the Design Principles, underlying graduate outcomes at the university level might be examined on the following basis to assess performance:

- the *overall employment rate* for recent university undergraduates, weighted by the *rate of progression to further full-time study* for recent university undergraduates^{8,9}; and

⁸ The overall employment rate being a stronger measure as it is the proportion of employed (full-time, part-time or casual) as a proportion of those available for employment

⁹ The definitions on employment and progression to further full-time study are important:

The **full-time study rate** picks up those graduates who reported being in full-time study as a proportion of all graduates.

- university benchmarking could then be confined to the regional labour markets within which universities (predominantly) operate, with comparisons made to overall employment rates for the relevant age cohort in those regions.

Using the overall employment rate for recent university graduates is a preferred measure as it encompasses different types of employment and market conditions.

There are also clear reasons to **use progression to further full-time study as a measure of performance** as it reflects the need to move toward a more highly skilled workforce as well as reflecting the range of Australian university missions.

Across the sector, 14 universities have rates of progression (from undergraduate) to further full-time study above the national rate of 20.7 per cent; and nine universities have rates of progression above 24 per cent.

These need to be appropriately weighted to ensure they are not unfairly penalised; because this percentage of their graduates do not become “employees” for some years, until completion of their further study.

The actual performance of those universities may in fact be very strong – to allow meaningful comparison with universities where rates of progression may be below, say, 15 per cent (12 universities across the sector).

This demonstrates how the use of a **weighting for progression to further full-time study is critical in protecting the individual mission of universities.**

Australia is entering a period symbolised by the global forces of change and disruption: one characterised by a series of social, political, cultural, technological and economic upheavals. In the context of such change and disruption, greater depth and breadth of investment in education is essential, and it is critical that investment is also directed at postgraduate education in an effort to facilitate a more highly skilled workforce.

An appropriate and consistent rate of indexation

The total economic impact delivered by the Go8 to the Australian economy, which I have highlighted earlier in this submission, is significant; **it is in fact greater than the total value of all Australian agricultural production.**

- In addition to this total impact of over \$66 billion, the **2016 Go8 student cohort is estimated to deliver an approximate employer benefit of \$11.24 billion.**¹⁰

Yet in the face of that very substantial impact, the Government is inexplicably proposing a clearly inadequate method of indexation. Indexation is designed to supply the available pool of funding, contingent upon performance measures, that would supply Australia’s future workforce.

¹⁰ *The economic impact of Group of Eight universities*; London Economics; 2018. https://www.go8.edu.au/Go8_London-Economics-Report.pdf



The Government's proposed indexation method means available funding for the Maximum Basic Grant Amount for universities in 2020 will have a ceiling of approximately 1.2 per cent above 2017 levels.

- **This represents a substantial real cut in funding for students, irrespective of a university's achievement of performance targets. The rate of indexation must be lifted, while not compromising other programs.**

To illustrate this point, it is relevant to **reinforce that the Government is in fact proposing to fund fewer students per year. Assuming this is the desired outcome, it would be useful to inject some honesty into the discussion on that point.**

Based on 2017 load and estimated funding per Equivalent Full Time Student Load (EFTSL), and assuming all universities reap the full performance contingent funding amount, it is clear the **Government is intending to fund approximately 5 per cent fewer students by 2025.**

Put another way, this is **approximately 36,300 fewer domestic students (headcount) participating in a university education in 2025.**

- A reduction on that scale represents a rapid de-skilling of Australia's workforce in areas of critical need, during a period of economic disruption in an age of global innovation.
- So, at the same time the Government will be cutting its investment in Australians' higher education, the Government's own projections see the 18-64-year-old demographic growing by 8 per cent.

This sends a deliberate message to the Australian community:

Australian universities are being pressured by the Government to enrol domestic students in places for which there is no Commonwealth support.

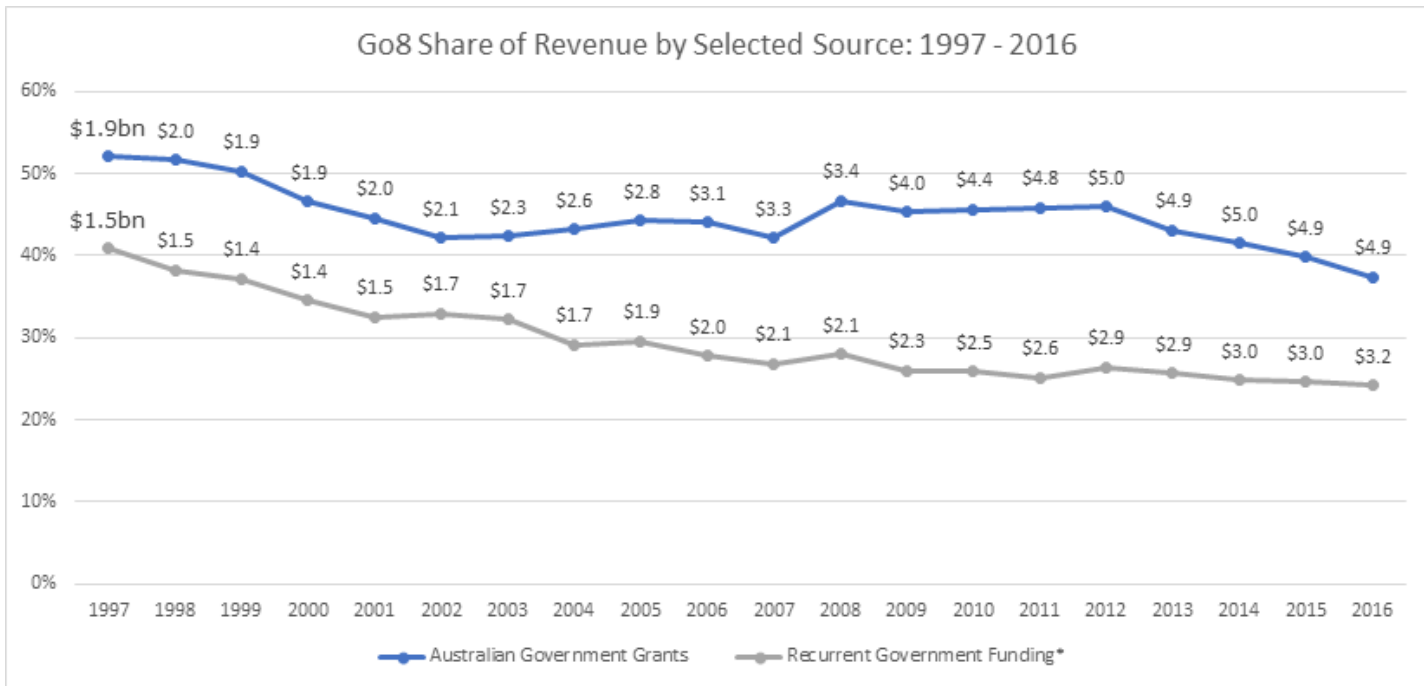
- **It is likely this could be viewed by the wider Australian community as the first step in a broader policy to implement fee-paying undergraduate places in public universities on a larger scale.**

The impact of this funding cut on Go8 universities and our students would be significant: The Department's data shows that in 2017 there were over 145,000 Commonwealth Supported Places at Go8 universities, or close to 26 per cent of the sector total.

Cutting 5 per cent of those places would mean more than 7000 students would not get an opportunity to experience and benefit from a world leading research-informed education at a Go8 university.

The degree to which Commonwealth Grant Scheme funding contributes to overall university revenues may be somewhat overstated, particularly when conflated with other forms of funding.

Excluding direct student payments and deferred payments through the Higher Education Loan Program, **recurrent Government funding to Go8 universities as a proportion of overall revenue, has been in steady decline from over 40 per cent in 1997 to 24 per cent in 2016.**



Source: Higher Education Funding Reports, Department of Education and Training

*Recurrent Government Funding: From 2002 to 2016 this comprises *Commonwealth Grant Scheme and Other Grants* plus *Education Research Grants* or equivalent. From 1997 to 2001 this is Operating Revenue from Commonwealth Government Grants pursuant to the Higher Education Funding Act - excluding HELP

In the event all Go8 universities meet or exceed set performance targets for 2020 and receive full performance contingent funding – an estimated total of \$18.8 million – this would equate **to approximately 0.6 per cent of the 2016 revenue for all Go8 universities derived from recurrent Government funding sources (as above).**

A missed portion of what is already a small proportion of overall revenue is unlikely to drive or incentivise performance. Of course, schemes should not be punitive either.

Rather, Go8 universities will continue to drive excellence in performance in the pursuit of excellent educational outcomes in a research informed context because, as we continue to demonstrate, it is in the national interest, the public benefit, that we do so.

The Go8 would welcome the opportunity to engage with Government on possibilities for a more realistic indexation rate that might be achieved within Budget parameters, and which notes existing program allocations.

Failing the Government’s willingness to arrive at a more realistic rate of indexation, the Go8 submits it is **essential that, at a minimum, any performance-contingent amount received by a university in one year, forms part of the Maximum Basic Grant Amount upon which performance increases may be built in following years.**

Similarly, the reallocation of amounts within the scheme that are not awarded to universities failing to meet performance benchmarks or improvement targets is strongly supported by the Go8.

This distribution may most simply be achieved using a pro rata mechanism to universities which have met the achievement benchmarks/improvement targets, as suggested in the Discussion Paper.

The Government's suggestion that the proposed indexation factor could be 'regionalised' depending on where a university is based in an effort to reflect regional population growth rates may seem to have initial appeal, however it could lead to unintended consequences.

For example, there would be significant challenges finding an appropriate indexation factor for universities with multiple campuses across metropolitan and regional areas, or, with multi-jurisdictional universities. Rather, it would be consistent with the proposed Design Principles and with broader considerations of equity and transparency in the funding architecture, to **ensure a single indexation factor is applied across the sector.**

Incorporating the scheme in a legislative instrument

The Discussion Paper includes two brief suggestions on how it might be possible to enable and regulate a performance-based funding scheme.

Of these, the suggestion to incorporate the framework for a performance-based funding scheme into a legislative instrument is more appealing and one which the Go8 could support.

This approach would enable the scheme to provide clarity and transparency both to the Parliament and to stakeholders. The level of oversight and accountability – to both Government and universities – that this approach would offer, would not be available under any other feasible approach.

- A key rationale for the Government implementing performance-based funding is '...to introduce a level of monetary accountability for universities' use of public funds...' **Accountability cannot be achieved in the absence of transparency and clarity of purpose, as established in the Design Principles, and it must apply in manner that ensures confidence and delivers efficacy to the scheme.**

While a legislative instrument would establish the framework for performance-based funding – also incorporating the Design Principles – it would be the Funding Agreements that provide the machinery to deliver the financial outcome to universities.

As all proposed performance measures utilise publicly available data, this approach would allow a transparent and accountable mechanism for scrutiny of the financial outcome against the data, and the framework in the legislative instrument.

The Go8 readily acknowledges the many complexities of designing, developing and constructing a viable performance-based funding architecture that will meet long-term goals.

Noting those challenges, however, I must reiterate the commitment of the Go8 to excellence in performance and that if a robust scheme can be developed that genuinely reflects the performance of all universities, the Go8 would be in a position to support it.



I would of course welcome the opportunity to discuss these issues with you directly.

Yours sincerely

A handwritten signature in blue ink, appearing to read "V. Thomson", with a long horizontal flourish extending to the right.

VICKI THOMSON
CHIEF EXECUTIVE

