



Professor Pip Pattison AO

Deputy Vice-Chancellor (Education)
Office of the Deputy Vice-Chancellor (Education)

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Professor Paul Wellings CBE,
Vice-Chancellor, University of Wollongong
Chair, Performance-based funding for the Commonwealth Grants Scheme Expert Panel
By email: HEReform@education.gov.au

Dear Prof Wellings,

Discussion Paper on performance-based funding (PBF) for the Commonwealth Grant Scheme, released December 2018

Thank you for the opportunity to provide feedback on the Government's proposed performance-based funding ('PBF') system for the Commonwealth Grant Scheme ('CGS').

In **Appendix A** we provide some high-level feedback on key issues arising from the proposal from the University of Sydney's perspective. Our responses to the Discussion Paper's specific consultation questions are provided at **Appendix B**.

For the benefit of our staff, students and other stakeholders interested in these matters – but not familiar with the detail of the Government's reform plans – a one-page summary of the key elements of the proposed PBF system is included at **Appendix C**.

We look forward to continuing this important discussion with the Department and other stakeholders over the coming months. Please do not hesitate to contact me should you wish to discuss any of the ideas or suggestions mentioned in our submission.

Yours sincerely,

Professor Pip Pattison AO

Deputy Vice-Chancellor Education

Appendix A Summary of The University of Sydney's positions on the proposed performance-based funding system

Appendix B The University of Sydney's responses to the consultation questions set out in the Department of Education and Training's [Performance-based funding for the Commonwealth Grant Scheme Discussion Paper](#)

Appendix C Summary of key points of the performance-based system

Office of the Deputy Vice-Chancellor Education
Room 405, Level 4
F23 Administration Building
Corner of Eastern Avenue and City Road
The University of Sydney NSW 2006
Australia

T +61 2 9351 3517
E pip.pattison@sydney.edu.au
sydney.edu.au

ABN 15 211 513 464
CRICOS 00026A

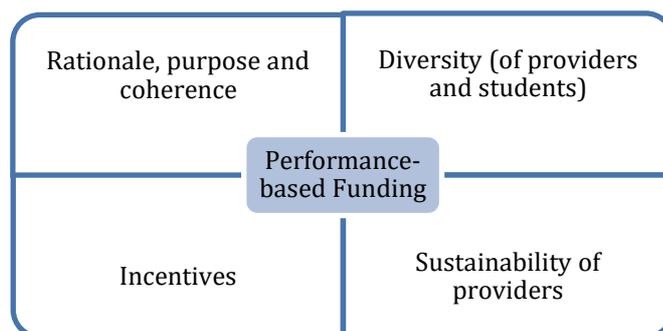
Appendix A

Summary of The University of Sydney's key issues arising from the Department of Education's [Performance-based funding for the Commonwealth Grant Scheme Discussion Paper](#), released 18 December 2018

We have approached the proposed PBF reforms by analysing what these changes would mean for the University of Sydney and Australia's higher education sector looking ahead to the next five to ten years from now.

We agree with the underlying assumption of this policy proposal that quality and excellence are of crucial importance for universities and worth promoting and stimulating across the system. Quality and excellence are important not only for students, with regards to the appropriate use of public spending, but also to address inequality by enabling social mobility through improved educational outcomes. Our analysis of the Government's PBF proposals has identified four main areas of relevance that need to be addressed by design principles of a successful PBF model:

Figure 1 Key PBF Areas of Relevance



1) Rationale, purpose and coherence

Australia's current higher education quality assurance framework

Universities operating in Australia do so under a well-developed framework of monitoring and accountability. This framework includes the quality and accountability sections of the Higher Education Support Act, the Threshold Standards and ESOS National Code, the TEQSA Act and the regulator's registration and re-registration requirements, and internal and external performance monitoring for quality assurance purposes. In this context, it will be important to target the PBF proposal to avoid duplication or confusion with existing mechanisms.

Comparison to performance measures in other jurisdictions

We support international benchmarking while also recognising that every country has individual characteristics, regulatory and funding frameworks that shape and determine the success of PBF schemes. The Australian university sector already shares best practice in approaches to education such as through the STARS network (Students Transitions Achievement Retention and Success), teaching and learning networks, conferences and forums and workshops etc.



One of the key lessons learned from other countries applying PBF models to their higher education sectors is to ensure that funding outcomes are not based solely on providers' previous year's results. Such practice penalises already high performing providers, does not account for sometimes large explainable fluctuations that may occur on some metrics from year-to-year, or for example for the fact that attrition rates can only be optimised to a certain degree.

In the UK, results of the Teaching Excellence Framework have created a high-stakes system of winners and losers, where winners receive additional resources to invest in additional improvement, while loser are left with less to invest. We strongly support suggestions that Australia's approach to PBF avoids this mistake.

A closer analysis of the New Zealand performance-linked funding raises the question of whether there would be value in Australia considering different metrics of PBF for different AQF levels. Attrition rates do not only differ across modes of attendance but also across levels of qualification obtained and the mode of study. Sector-wide, the highest attrition is associated with sub-bachelor degrees, followed by bachelor degrees and the lowest attrition rate can be observed for postgraduate degrees. It is important that the PBF scheme avoids a blanket approach and can accommodate these different performance baselines.

The amount of PBF varies considerably across the international case studies cited in the Discussion Paper. This raises the question of what is the ideal amount of total government funding to be allocated via a performance-based mechanism? The amounts at stake need to be large enough to incentivise private behaviour without entrenching poor performance by providers that miss out on funding. Many universities have large and complex budgets and are increasingly dependent on the capacity to predict and plan for revenue and expenditure. With the introduction of the proposed new PBF system, providers will be under pressure to allocate any PBF funds to discretionary activities, limiting their capacity to commit long-term funding to support improvement.

Coherence and integration with concurrent policy proposals

We urge the Department to ensure maximum coherence in the outcome of this process with the many overlapping policy consultations that are occurring concurrently. We especially see a need and scope for much greater consistency in policies governing the funding of enabling, sub-bachelor, bachelor and postgraduate courses supported through the CGS.

2) Diversity

The Australian university sector is often described as lacking diversity and our universities are regularly encouraged to differentiate their missions, course offerings and approaches to delivery. However, the performance funding plan risks driving further homogenisation. In an environment of increasing competition for students and funding, enforcing uniform standard metrics on all providers may result in less aspirational and more risk averse strategic decisions. This may have the perverse effect of lowering the performance of the sector over time - the opposite of the policy intention set out in the Discussion Paper.

The PBF design principles need to allow for as much customisation as possible to accommodate and foster diversity in provider missions. Only an agile and adaptable PBF system will be able to achieve the outcomes the Government desires.

3) Incentives

Incentivise positive provider behaviour

We understand that the Government aims to strengthen incentives for universities to focus on the outcomes that matter most to students and that the CGS is arguably the most important funding lever the Government can use to drive provider behaviour.

We strongly support the Government's aim to ensure a high quality Australian higher education system. However, the assumption that the CGS is the most important lever to drive university behaviour should be considered in the broader financial context of factors that impact upon university behaviour. For example, the declining share of overall revenue from CGS received by many Australian universities means they are increasingly responding to a broader range of incentives (e.g. educational experience and outcomes for students who pay fees) and, indeed, this dependence is already creating a strong incentive for performance, potentially more powerful than the PBF proposal. Domestic funding trends and policy developments relevant to universities' research and research training activities are also key drivers of behaviour, as are international developments including rankings of universities and changes in the availability of funding from overseas to support Australian university research.

Risk of creating perverse incentives

The focus on key performance indicators needs to be examined through a risk analysis lens. One of the key risks of the proposed suite is that providers will aim to increase student satisfaction and retention through 'management' or 'operational' changes (e.g. student administration systems), to the detriment of teaching standards and quality.

Another risk is that the focus on performance is not able to adequately capture the complexity of providers' missions and consequently reduces them to a simple dichotomy of performance indicators. The University of Sydney believes strongly in the broader individual and societal value of enriching intellectual endeavours. This includes promoting academic excellence and ensuring that students are as well prepared as possible to contribute to national and global communities. It also means strengthening the capacity of our students to be inventive, make positive impacts in the world, integrate their emerging professional, personal and ethical identities and lead fulfilling lives. It includes high quality teaching and research but also the engagement in controversial discussions focused on addressing humanity's greatest challenges. Although we understand the immediate value attached to a fit-for-purpose national economy and workforce, we are concerned to maintain the broader purpose of a university education and therefore suggest that a PBF system actively monitors the risks of narrowing the purpose of Australia's higher education system.

4) Sustainability of providers

Growth of places, indexing and compounding

While the proposed PBF system provides opportunities for providers to receive more funding, we are concerned that it does not include the capacity to grow undesignated CSP places. The

proposal would effectively entrench a less generous, and more uncertain, amount of CGS indexation than was in place prior to the introduction of the funding freeze in 2018. Without any opportunity to grow the value of CGS funding for non-designated and designated CSPs in real terms, Australian universities will face an ever-greater incentive to diversify their revenue streams, including by enrolling domestic and international full-fee paying students.

Timing, forecasting and planning security

We are concerned that the proposal to inform providers of the outcomes of the PBF system each September/October for funding impacts in the following academic year will not give providers nearly enough time to adjust their budgets and load planning. We note also that many providers start making offers for places well before September/October the year prior to the academic year in which these students would commence. In NSW for example, applications for 2020 places though UAC will open in April 2019. Increasingly, university budget planning occurs over multi-year cycles. We need to be careful that the uncertainty in future planning associated with the PBF does not have an overall adverse performance impact that washes out any local performance increases.

Taking these timing concerns into account, we suggest a three-year funding cycle, which will assist with university planning and management and reduce the reporting burden for providers. Changes to the student experience are complex and often take longer-term to manifest. A weighted rolling funding average of three years is suggested. Provider performance for the next PBF cycle would be calculated over 3 years where the first year accounts for 10%, the second year for 30% and the third year for 60% of the overall performance. This approach acknowledges the lead times required for changes to the student experience to show impact and still provides relevant incentives. As noted above, we also have serious concerns that basing PBF allocations solely on past performances creates not only path dependency but potentially locks out poor performing providers from funding to improve their future performance. Basing PBF forecasting on past performance also risks deterring providers from being agile and potentially from pursuing innovative approaches that may carry with them risks of short-term declines in one or more of the proposed performance metrics.

Appendix B

The University of Sydney's responses to the consultation questions contained in the Department of Education and Training's [Performance-based funding for the Commonwealth Grant Scheme Discussion Paper](#), released 18 December 2018

1. How should the PBF scheme be implemented?

Consistently with the "Fair" design principle, providers need to be informed well in advance about both the performance metrics that will be applied and the funding outcomes of the PBF in any funding cycle. On both counts we recommend that providers are given advance notice of at least one academic year. We encourage the Department to consider prioritising one or two performance criteria during the first year of operation to assist universities to improve their results with relevant funding before transitioning to a system that includes all performance criteria for the next funding cycle.

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

- While a regional-based population growth approach seems compelling on first sight, the exact parameters remain unclear. Does regional-based refer to the State or Territory or will it even be district based? Furthermore, how will it take account of the overlaps in the distribution of source locations from which providers draw students?
- We are concerned that the proposed PBF scheme does not provide providers the opportunity for 'real growth' in CSP places.

Consideration 2: how to treat a university's PBF amount from 2021

The accumulative approach where subsequent years are added to the current PBF amount provides a greater performance incentive but also risks creating a system of winners and losers and locking some providers out of the market. Another risk to consider is the lack of planning security universities will face. The add-on approach would keep previous years separate and lower the funding at risk. As such, this approach provides more planning security and constitutes our preferred model.

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

The performance criteria in the Discussion Paper (student experience, graduate outcomes, and equity) are a sensible choice given the limited set of options available for measuring performing in higher education. We recognise the complexity of performance measures while also acknowledging that providers do not control all the factors that may contribute to their performance on a given measure.

Feedback on some of the specific performance metrics proposed in the Discussion Paper:

Student experience

- Speed of completion should not be addressed with a blanket rule of 6 years but rather needs to measure completion relative to EFTSL consumed so as to take account of part-time students, study breaks, and similar.

Graduate outcomes

- The proposed measures are a good first approximation for the short term, but will increasingly need to take account of the diverse forms of labour market participation and engagement in further learning. With regards to the question at what time graduate outcomes will be measured we recommend a more sophisticated approach than measuring outcomes 4 months post-graduation.



Equity

- We recommend also including participation by students from culturally diverse backgrounds (for example where English is not the first language/language spoken at home).
- We recommend changing the parameter ‘participation’ by students from low SES, regional or indigenous backgrounds to ‘completion’ rates, taking into account the number of equity students who successfully complete their studies.

In addition to these performance measures we would like to encourage the Department to consider how success of the scheme will be evaluated over time and adjusted to address problems identified. Consideration should be given to the amount of funding universities re-invest or allocate from different revenues into improving the student experience.

3. How should the PBF scheme be designed?

We strongly support the concept of combining core compulsory PBF measures with supplementary measures as this accounts for sector diversity and mission differentiation. However, it is crucial to find the right balance between core and supplementary measures as a PBF scheme with too many options risks providers attempting to game the system. We endorse the design principles suggested by Go8 as they constitute a comprehensive, transparent and fair approach:

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 stakeholders.
4. Acceptability	There is broad acceptance of the method applied and the legitimacy of the data used to measure performance aligned with the 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 incentivises 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 their performance.

Go8 Submission Design Principles

4. How should performance measure benchmarks be set?

- We share the Department’s assumption that universities have a significant influence on their attrition rates.
- Instead of the Department collecting and evaluating the data we recommend that the task is allocated to an independent expert advisory group.
- We prefer the second approach where universities need to rank in the top 50% in at least one performance measure. Even though the 50% appears to be an



arbitrary number this approach is more holistic as it does focus only on attrition rates and gives providers more choice.

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

As outlined previously, we are concerned that the proposed PBF risks entrenching groups of ‘winner’ and ‘loser’ providers, with the losers receiving progressively less funding to invest in improvement. The two options for redistributing PBF funding notionally linked to unsuccessful universities would be likely to exacerbate this outcome. We therefore recommend the consideration of options that would continue to provide positive funding incentives for providers that do not meet the minimum standard in a given year.

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

The lag should be as small as possible to ensure that the PBF outcomes are based on the most recent available data.

7. How should the PBF scheme be regulated?

Recommendations should ideally be put forward by an independent advisory group/council with strong expertise in higher education and with representation of students and employers to ensure perspectives from all impacted stakeholders are included. Experts with recent operational experience within the higher education sector in Australia and internationally should be included on this expert body.

Appendix C

Summary of key reform proposals contained in the Department of Education and Training's [Performance-based funding for the Commonwealth Grant Scheme Discussion Paper](#), released 18 December 2018

The Government has proposed that from 2020 performance funding will be available to universities above their 2017 maximum Commonwealth Grant Scheme (CGS) funding amounts for non-designated (bachelor degree) places. The increase of funding will be applied to each university's Maximum Basic Grant Amount (MBGA) as set by the Minister for Education and will be capped at a level aligned to population growth in the national 18-64 years old population (expected to be 1.1 to 1.2% annually for the foreseeable future). The University of Sydney's MBGA in 2018 and 2019 was \$260.7 million.

The estimated total funding available for allocation to universities through this proposed PBF system is around \$70m/year across the sector. We understand that this "at risk" PBF funding will effectively replace the annual indexation of CGS for non-designated places that was in place prior to the CGS funding freeze that has been applied since the 2018 grant year. We estimate that the University of Sydney would receive around \$5 million in additional CGS funding in 2020 if it met the Government's proposed PBF requirements.

Possible performance metrics proposed in the paper include:

- 1) **STUDENT EXPERIENCE:** First-year student attrition/retention; student completion within six years; overall student satisfaction;
- 2) **GRADUATE OUTCOMES:** Full-time employment rate; full-time further study; and
- 3) **EQUITY:** Participation by students from low SES, regional/remote or Indigenous backgrounds.

The paper also discusses the possibility of using HELP debts not expected to be repaid by students who studied with each university as a performance measure. Further key components of the PBF scheme include:

- **Application:** PBF funding will apply to all non-designated places.
- **Element of choice:** The concept of combining core compulsory PBF measures with supplementary measures to be chosen by universities from a list of several options.
- **Attrition rates:** The Department assumes that universities should have significant control over their student attrition rates. Two methods to calculate attrition rates are suggested. To account for different provider missions a university's attrition rate could be assessed against its own rolling average, rather than benchmarked against its peers. Alternatively, universities are required to be ranked in the top 50 per cent for at least one of a range of performance measures. This approach could offer an element of choice for universities.
- **Unallocated funding:** The Discussion Paper presents three options how the PBF funding of unsuccessful universities could be distributed.
 - a) Funding will be distributed amongst successful universities on a pro rata basis.
 - b) Universities that meet stretch targets in addition to the minimum requirements, will have the funds added to their MBGA proportionally.
 - c) Funding will be made available via the reallocation of designated places.
- **PBF funding from 2021:** The question remains whether subsequent years of PBF funding should be added to each university's MBGA (add-on approach) or whether to keep it separate, so that the amount of funding at risk would grow each year (accumulative approach).



- **Timing:** The Discussion Paper proposes that around August each year the Department would assess each provider's performance, with providers advised in September/October about their revised MBGA. Fortnightly CGS payments to providers, reflecting the revised MBGA amount would commence the following January.