



Queensland University of Technology

Response to the Performance-based funding for the Commonwealth Grant Scheme discussion paper

The primary principles driving QUT's response to this paper are: policy coherence, the avoidance of perverse incentives or outcomes, rigour and fairness.

Accordingly, the overarching caveats that derive from our close consideration of issues presented in the discussion paper and articulated below in response to the specific consultation questions are:

- A Performance-Based Funding regime can only be as sound as the rigour and accuracy of the measures of performance upon which it depends;
- In particular, only measures that correspond to actual institutional performance should be used, rather than those highly correlated to external factors such as socio-economic status or existing rates of employment; and
- Given the policy is intended to improve performance across the system, under-performing institutions should be assisted to improve their performance.

QUT is unconvinced that the first two conditions are met by any of the proposed performance measures, to the degree of confidence required for the distribution of funding, which must be (and be seen to be) fair, rigorous and structured to drive actual performance improvements. Additionally, we reject the discussion paper's proposal to reallocate CGS funding for institutions found wanting, as a plain violation of the policy intent as expressed in the third condition.

We therefore recommend in the strongest terms that the Performance-Based Funding regime not be implemented unless and until continued research and consultation produces rigorous, evidence-based measures in which the sector has confidence as genuine barometers of actual institutional performance. This will not be achieved by attempting to identify, devise, test and develop performance measures intramurally; instead, the Department will need to undertake this work openly and collaboratively with the sector as a condition of possibility for the achievement of the necessary sector confidence.

Additionally, it is QUT's view that the Performance-Based Funding regime as mooted must not be implemented without substantial revision of the reallocation principle from a revenue withdrawal response to an aid and assist model.

Further, nowhere in the discussion paper is it made clear what performance issues the PBF is attempting to correct. At a minimum any concerns about current performance should be clearly articulated and targeted, and a convincing argument mounted to show that a PBF is the best way to remedy problems. If there are systemic performance issues across the sector, it may well be more effective to establish a Higher Education Commission to implement ongoing systemic change processes to drive improvement of the performance of the sector broadly. By contrast, where there are systemic performance issues at specific institutions, it would likely be more effective and efficient to approach them on a case-by-case basis and rectified in a targeted way – typically involving the provision, rather than the removal, of resources.

1. How should the PBF scheme be implemented?

Consideration 1

If the PBF scheme is implemented, and if the scheme is implemented according to population growth for 18-64 year-olds, the same rate of growth should be available to all eligible institutions across the sector according to the national population growth rate.

However, QUT does not advise indexing CGS growth in the PBF scheme to a population growth rate, as this effectively fixes for all time the proportion of Australians in higher education study to the current ratio. The proportion of people in study at the moment of MYEFO 2017, when growth was paused, is a function of a large number of contingent factors in play at that historical moment, such as the unemployment rate at the time, the duration of the demand driven system, the effectiveness of HEPPP measures, cost of living pressures, and many other variables. That proportion is historically contingent and is therefore not an appropriate basis for setting participation rates into the future.

Instead, QUT recommends not setting a cap (whether absolute or relative) on PBF growth, allowing the flexibility for institutions severally (and jointly as a sector) to respond to changes in demand in the future.

If the decision is nonetheless taken to fix growth in PBF-dependent CGS to a population growth rate, it should not be pegged to a subset of the national population growth rate, but instead to the growth rate of the entire population of people eligible to undertake higher education. To exclude people over 65 is not only inherently ageist but is indirectly a breach of the principle of universal access to higher education, as it would provide a material incentive for the sector to restrict participation of those not contributing to the growth in the PBF funding pool.

This policy proposal is particularly short sighted in light of the very clearly telegraphed need for retraining right through working life, and the likelihood that those living increasingly long lives will continue to work and participate beneficially in society well beyond the traditional retirement threshold. Indeed, there are indications that retirement as traditionally conceived may well fade and even disappear, so the fixing of an age referent in line with an already outdated paradigm of working-life limits is poorly conceived.

On the question of national versus local or regional growth, the model does not take the population growth in areas external to the university's immediate proximity into account. Students who regularly commute from outside major centres (such as from Geelong to Melbourne, Wollongong to Sydney, Sunshine Coast to Brisbane, etc.) would not be counted in this measure of area population growth. It also prejudices universities located in metropolitan areas with capped population growth potential, but whose catchment extends beyond their own geographical bounds. For example, the population of inner-city Melbourne will approach capacity, but the pool of students residing outside these borders could grow. Conversely, some universities in regional centres have mitigated their exposure to risks associated with fluctuating local population by developing online and distance offerings, rendering a regional population index far less relevant to their actual situation.

Consideration 2

Each year's additional PBF CGS allocation should stand alone, and the sum at risk should not accumulate. Growth in the Demand Driven System was paused at an arbitrary point, which has no intrinsic merit as a 'year zero' for the PBF scheme. The mark should reset each year.

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

Only performance funding measures that have proven reliability and rigour as proxies of actual performance should be employed. Performance metrics can be attractive due to their deceptive simplicity: often they are

presented as single numbers or percentages, easy to rank and to deploy in formulae. However they are very often the final expression of deeply complex arrays of different (frequently conflicting) inputs, many of which have little or nothing to do with the performance of institutions.

Several examples of the problematic nature of nominated measures have been seen in other jurisdictions. The potential performance measures cited in the Discussion Paper's Table 1 are drawn from TEF (UK), PLF (NZ), and Tennessee and Louisiana in the United States, most of which are either discontinued in their original jurisdiction or poorly translated into this Discussion Paper.

- TEF is an indicator of the quality of undergraduate teaching that UK universities may opt-in to be measured by. It is not used to allocate funding. Due to concerns about formulation, opt-in numbers dropped from 130 in 2017 to 23 in 2018.
- Performance-linked funding has been discontinued in NZ, in an attempt to simplify the complex tertiary funding system and support a broader, system-wide approach to assessing performance through students' outcomes.
- Of the US states to adopt performance-based funding, Tennessee is one of the most successful. This is due to the highly contextualised nature of their models – measures are created using a collaborative approach and account for institutional diversity within a jurisdiction. To transplant measures directly without that scaffolding would compromise their rigour and utility. If a performance-based funding system is created, it must not attempt to simply replicate the measures, but instead seek to emulate the process and principles by which they were created.

Additionally, many of these proposed measures are open to gaming or influencing, in order to maximise scores and thereby revenue. As Werner Heisenberg observed in another context, you cannot observe a system without interacting with it: this is perhaps especially true when humans and money are involved.

Below is a discussion of the potential performance measures proposed in the discussion paper and the degree to which they match the actual performance that they seek to capture.

Attrition – First-year student attrition / retention

Attrition is an oft-quoted yet deeply flawed metric. The idea seems simple – students who achieve poor grades or are not engaged are more likely to drop out, and therefore universities who are not teaching and supporting those students are performing poorly. Its superficial appeal sees it used in mainstream media debates as a proxy for institutional performance, but the real story beneath these figures is so complex as to render this metric all but meaningless as a basis for comparison between institutions.

2017 Student Experience Survey (SES) data shows differing attrition rates between equity groups. In the 2017, 20% of undergraduates indicated that they had considered leaving university studies. Undergraduate Indigenous students (29%) and students with a disability (28%) were more to consider early departure, as were older students (22% for those between 25 and 39 years of age and 24% for those aged 40 years and over). The most common reasons given for undergraduate students considering early departure - including health or stress, difficulties relating to finances and workload, and study/life balance - were situational in nature and out of institutional control.

The discussion paper states that “in the case of first-year attrition, the influence of student backgrounds on institutional performance may be overstated.” However, the research paper cited to support this assertion also states that controlling for student characteristics will almost halve the variation in institutional attrition rates. That is, student characteristics such as low SES account for over half of the variation in institutional attrition rates. Attrition is not inherently an indicator of that university's failure, as many factors outside of teaching quality and student support contribute to students' decisions to continue or discontinue study. This was true when the early-century influx of ex-students into the booming mining industry by no means

represented a failure on the part of the tertiary system. It is equally true when an MBA student turns their successful project into a business mid-semester; when an engineering student decides that uni is not for them and takes up an apprenticeship; when financial pressure causes a primary breadwinner to pause study to make a living, perhaps never to return; or when a student takes time off to start a family, or to care for a chronically ill parent.

In all such cases, the choices of individual students – which sum to a university's attrition rate – have little to nothing to do with the performance of the institution. Even when performance is a component of a complex individual decision, a simple percentage obviously does not capture the extent of its influence.

Furthermore, to provide institutions with a material incentive to entice such students to stay is not in the interests of the student, their peers, and the institution or education policy objectives. The continuation of an insincere student is not optimal use of university funding or student potential. A university should not be punished if it assists a student to make the right decision, saving the student from years of unnecessary study and the public from funding an unused or underutilised degree.

Use of attrition as a performance measure also raises issues around how universities will be forced to react in order to stay competitive. It is well established that high-SES correlates to low attrition rates, more strongly than any other factor. Allocating funding based on attrition rates would pressure universities to minimise its low-SES student enrolment. Correcting for low and high SES only solves this one demographic influence: there are literally dozens of others. Furthermore, attaching funding to retention will project insidious pressure on staff, potentially affecting grading decisions around the pass/fail threshold, and favouring disingenuous career advice in the hope of retaining wavering students who may be better off leaving.

Graduate outcomes: Student completion within six years

In Australia, recent graduates are surveyed by QILT four months after graduation to provide details on their activities, with a sub-sample followed up three years later. While short-term employment rates vary significantly between Australian universities, variation between the full-time employment rates for universities is greatly decreased three years after graduation, and many more graduates on average are employed than they were four months out. Particularly in light of the increasing fluidity of the labour market, impacting particularly on younger people and recent graduates, the significance of the short-term data is highly questionable, while the longer-term data provides little basis for differentiation.

This measure is also subject to complexities that compromise its rigour as a proxy for institutional performance. For example, institutions with higher proportions of full-time workers during their student days will usually return high graduate employment rates, for the simple reason that those students held a job all along. This has nothing to do with the institution but will inflate its apparent performance according to this metric.

The discussion paper states that “With higher education considered an experience good (a good whose quality is difficult to assess in advance), students may not necessarily choose the best quality product for them, limiting the capacity for the market to see improvements in quality.” This sentiment is predicated on an inaccurately transactional view of higher education. Students are certainly entitled to expect quality education, support and accreditation – and the Australian higher education sector is already very good at delivering those. But as students have diverse, multi-dimensional aspirations and expectations, the “best quality product for them” does not necessarily map exclusively or even significantly onto the employment outcome. To argue that it does or should is simply to ignore the vast multiplicity of reasons that actual students undertake higher learning.

Furthermore, given the casualisation and interdisciplinary mobility of the modern workforce, and the fact that many students decide on their course while coming out of secondary education, it is inappropriate to punish universities if some students are unable to determine their vocational purpose perfectly prior to enrolment.

Additionally, as the GDS is a self-selecting survey, its data should be used very cautiously when attempting to extrapolate to an entire graduate population. For this reason alone it should not be relied upon as a basis for funding allocation.

Student satisfaction: Overall student satisfaction

A study released by the American Political Science Association last year found that student evaluations are often biased,¹ compromising their utility as a means of differentiating or benchmarking universities. It may not be possible to discern whether a student's negative evaluations are a function of the difficulty of the course or the 'reliability' of the instructor, or due to actual teaching issues that impede learning. The study found:

- The rate at which students were filling out evaluations has gone down precipitously in the electronic age.
- The tone of their comments has started to resemble that of internet message boards, with more abuse and bullying.
- Students who were aware of some or all of their grades tended to be harder on faculty members in both written comments and numerical assessment.

Student satisfaction surveys are also either self-selecting or compelled, each of which brings its own problematic aspects to the interpretation of data, especially for funding distribution purposes. Additionally, in-class surveys are eminently open to gaming when resources are on the line, when students are aware or are made aware of the funding implications of their responses.

Equity – Participation by students from low SES, regional/remote or Indigenous background

Equity student retention highlights the need to integrate student equity into any effective performance funding model. Student attrition, completion rates and times, satisfaction and graduate outcomes are all affected by SES, background, location, ethnicity and language.

If universities were motivated to increase retention and completion rates under a model that did not adequately adjust for equity, they would focus on restricting access rather than developing value-adding initiatives. It is poor public policy to implement a regime that provides a material incentive to reduce opportunities for access, participation and success of those already structurally disadvantaged in higher education, relying only on goodwill and a sense of responsibility among universities to resist the logic of further exclusion. This is not a thought experiment: this marginalisation is exactly what happened in a number of American jurisdictions under similar regimes to that proposed, to the detriment of under-represented student groups.²

The distribution of disadvantaged students is quite uneven across the sector. Individual metrics, such as attrition, completion and graduate outcomes will also differ by equity group and location. It is not likely that the complexity of this scenario can be solved for algorithmically, making the setting of participation benchmarks deeply fraught. Instead, performance funding objectives need to align with the broader national objectives for higher education, including statutory commitments to equity. Embedding equity principles in performance funding requires the rewarding and fostering of genuine transformative performance rather than simplistic outcome measures.

¹ Mitchell, KMW and Martin, J. 'Gender Bias in Student Evaluations,' *PS: Political Science & Politics*. 51:3, July 2018, pp. 648-652.

² Dougherty, KJ et al. *Performance funding for higher education*. Baltimore: Johns Hopkins UP, 2016. Snyder, M, & Fox, B. *Driving Better Outcomes: Fiscal year 2016 state status & typology update*. <http://hcmstrategists.com/drivingoutcomes/wp-content/themes/hcm/pdf/2016-Report.pdf>

3. How should the PBF scheme be designed?

For the foregoing reasons, it is impossible to find a sector-wide 'one size fits all' approach to a PBF scheme because with any metric there is the possibility of perverse outcome and gaming of the system; a bundle of metrics only exacerbates rather than mitigates this risk. There is no basis for considering the overall design of the system without addressing these fundamental problems. Precedent counsels refraining from overall design questions due to the considerable risk that this will encourage the policy build to commence despite the materials being markedly substandard. Let us as a sector work together with government to establish first whether performance measures are up to the job: only then should we set about designing the system that implements them.

However, should design commence before those significant problems are resolved, it certainly should be tailored to take account of the unique mission and characteristics of each institution. Whether there would be enough commonality across the sector to sustain the use of common core measures is a question that cannot be answered ahead of the completion of the considerable work mentioned above.

4. How should performance measure benchmarks be set?

The discussion paper quotes the Department's 2017 discussion paper *Improving retention, completion and success in higher education* by saying that "controlling for student characteristics appears to make very little difference to the relative performance of institutions in terms of measured attrition rates" (p73). However, the previous paragraph also contains the following:

Controlling for student characteristics certainly makes a difference, as shown by Table A1... Controlling for student characteristics reduces variation in institutional attrition rates by just under half. The standard deviation of adjusted institutional attrition rates is 7.5 percentage points which reduces to 4.4 percentage points for the OLS method and 4.3 percentage points for the logit method, as shown by Table A1. (p.72)

Student characteristics accounts for a majority of variation between the institutional attrition rates. If the PBF is introduced this fact must be foregrounded, not minimised, as it is fundamental to the integrity of design.

Taking each Example Scheme in turn:

Example Scheme A implies that attrition will decrease at a steady rate indefinitely: this is obviously unrealistic, as a certain level of attrition will always be produced as a result of external factors, economic movements and school leaver cohort differences. Indeed, it is quite possible that there are already institutions that are performing so well that only these external factors are driving their attrition. The problem for the PBF is that it is impossible to know whether this is the case.

Regarding **Example Scheme B**, target cohorts are afforded that designation because they are underrepresented; they are targeted as a group in order to increase engagement. The decision to weight target cohorts by the size of the cohort in will make it difficult for universities to take the necessary risks to increase access to education in these groups. As equity groups are small percentages of university student populations, a PBF provides an incentive for larger institutions to poach the best of equity and target cohort students.

Example Scheme C's regression model has potential as a performance measure, as it minimises some of the compromising deficits of the other models. As the discussion paper points out, however, it would add

significant complexity, and reduce opportunities for broad tertiary approaches, which have been cited as reasons for the discontinuation of PBF in New Zealand.³

Raw metrics are poor proxies of teaching and learning performance. High-SES students are likely to complete their degrees, regardless of where they undertake them. The transformational process of study for a Low-SES student may be more valuable, even if those students “succeed” at lower rates.

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

University systems tend to succeed as a whole, not at one another’s expense. Redistribution of stretch funding would result in a zero-sum game, incentivising competitive action such as poaching students through transfers (which would inflate completions and competitor attrition) and militating against cross-institution collaboration.

Where performance is deemed to be wanting, funding withheld by formula should not be redistributed but utilised to provide targeted intervention aimed at rectifying problems and improving performance. The proposal to redistribute funds to other universities would strengthen better performing universities and weaken less strongly performing universities, producing a perverse outcome of entrenching lower performance. A well designed scheme would instead seek to build mechanisms to increase the quality of the system overall and to spread high performance behaviour through the sharing of best-practice.

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

The ideal of same year performance being unattainable at present, the next best standard is that PBF funding should be determined by performance data from the prior year. Any further lag would be unacceptable.

7. How should the PBF scheme be regulated?

The characterisation of the Commonwealth Grant Scheme “as a direct financial incentive” overdetermines the significance of the revenue driver in the complex of motivations driving universities’ behaviour. While operational funds are crucial, of course, they are subordinate to the higher order missions of maximising institutional reputation for student success and research achievement.

Instead of viewing CGS as an incentive, it should be viewed as the means by which performance is achieved, sustained and improved. Removing CGS funding in response to any performance concerns will harm future performance, not improve it.

Where performance is found by reliable means to be below expectations, the way to improve it is by implementing targeted programs. Specific performance measures are difficult to arrive at to the degree of reliability required to direct funding.

Our preferred option is the establishment of a Higher Education Commission to regulate the CGS, including any PBF. Failing that, regulation of the PBF should be subject to the *CGS guidelines* so Parliament has design oversight in the form of a disallowable instrument. The PBF scheme should not be regulated by Ministerial discretion alone.

³ <https://www.tec.govt.nz/news-and-consultations/performance-linked-funding-to-end/>
<https://teu.ac.nz/2018/11/performance-linked-funding/>