

Australian Catholic University

Submission to the Australian Government Consultation on Performance-Based Funding for the Commonwealth Grant Scheme

February 2019

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EXECUTIVE SUMMARY

Australian Catholic University (ACU) acknowledges the opportunity to respond to the Australian Government's discussion paper *Performance-based Funding for the Commonwealth Grant Scheme* (Discussion Paper).

ACU notes that the proposal for performance-based funding (PBF) was announced in the Mid-Year Economic and Fiscal Outlook in December 2017. The significant and unexplained delay in consultations in the intervening period has contributed to the broader sense of funding uncertainty in the university sector.

At the outset, ACU reiterates its opposition to the introduction of PBF for the Commonwealth Grant Scheme (CGS) for the following reasons:

- The policy lacks a sound rationale and is not evidence based. Indeed, Australia should learn from international attempts to implement PBF in higher education that have demonstrated its various shortcomings.
- The introduction of a PBF scheme is unlikely to support the Government's objectives in respect of higher education, such as improving student outcomes, ensuring a well-prepared workforce or improving access to higher education for under-represented cohorts.
- The policy will add unnecessary complexity and place further administrative burden on both the Government and universities.

Nevertheless, ACU acknowledges that Government policy is to introduce a PBF scheme from 2020. Under this scheme, university funding for non-designated bachelor-level places would grow in line with population growth in the 18-64 year old age bracket, with such funding allocated subject to universities meeting specified performance requirements.

If such a PBF scheme is to be introduced, ACU recommends that it should be developed upon the following principles:

- The scheme should be simple, understandable and transparent.
- Performance benchmarks should draw upon the most common, reliable and current measures.
- The measures chosen should involve the least possible lag time between outcomes and reporting.
- Universities should have the capacity to influence the outcomes of the measures on which PBF is dependent.
- Uncertainty and administrative costs should be minimised, including by precluding the need for institutional negotiations or ministerial discretion in the setting of performance metrics.

In keeping with the above principles, ACU proposes a PBF scheme that utilises the most reliable and current measures that are available across the three broad categories of higher education data: student data, equity data and Quality Indicators for Learning and Teaching (QILT) data.

A total of five measures are proposed for utilisation in the PBF scheme. These would comprise:

- four core measures; and
- one additional measure, chosen from a prescribed list, which each institution could nominate as an institutional priority for the following year.

Each university would be assessed against its own performance, rather than against sector-wide benchmarks, to account for variances between universities' student profiles, institutional missions and geographical locations.

Each institution would be required to meet at least four of the five annual benchmarks – measured as the three-year rolling institutional average for each metric – to receive its full performance-related funding in any given year. Universities that meet three metrics would receive 75 per cent of their performance-related funding, with PBF reduced in 25 per cent increments down to no performance-related funding for universities that fail to meet any of the five PBF benchmarks.

ACU further recommends that:

- Funding growth available under the PBF scheme should be based on each state/territory's population growth rather than a uniform figure based on the national population growth rate. As a national university, with campuses in five states and territories, this will have limited impact on ACU; however, as a principle, in a regulated environment, growth in available university places (supply) should broadly correlate with the growth in population (demand). This model should also take into account the growing proportion of students who undertake tertiary education online or via distance education.

- Any performance funding withheld from universities that have failed to meet performance benchmarks should be directed back to those universities on a tied/managed basis to support their improvement in the underperforming areas. The principle underlying performance funding should be to incentivise improvement – in the interests of the students attending Australian universities – rather than to penalise institutions. Reducing the funding of universities that fall short of their benchmarks is likely to further weaken those institutions, resulting in a cycle of underperformance, rather than improvement.
- Beyond 2020, performance funding under the PBF scheme should be added to universities’ maximum basic grant amount (MBGA) rather than allocated on an alternative or discretionary basis, which would add to funding uncertainty.
- There should be appropriate acknowledgement in each university’s funding agreement with the Commonwealth to reflect the proportion of funding that is subject to the institution meeting its performance requirements.
- The proposed PBF scheme and performance metrics should be rigorously interrogated prior to implementation. This should be undertaken in close consultation with universities, in a timely manner.
- An independent, transparent review of the PBF system should take place two years after its commencement to assess its impact and determine whether it has resulted in any unintended consequences.

PERFORMANCE-BASED FUNDING FOR HIGHER EDUCATION IS UNNECESSARY AND INEFFECTIVE

Lack of evidentiary support to justify introducing performance-based funding to the CGS

As a threshold point, ACU contends that there is no compelling case for introducing PBF to the CGS.

The international examples of PBF schemes in higher education referred to in the Discussion Paper¹ have proven problematic. New Zealand, for instance, decided to discard its scheme from 2018 on the basis that it added unnecessary complexity in its tertiary funding system.² Instead, the New Zealand Government will use other levers to encourage better educational performance, including by actively investing in programs known to lift student achievement.³

Moreover, other countries have struggled to identify suitable performance standards, an experience reflected in extensive criticism of the UK’s ‘Teaching Excellence Framework’.⁴

While the Australian Government appears to recognise this challenge, acknowledging that “performance measures can be challenging and will need to reflect a balance between a broad range of priorities and endeavours undertaken by universities”,⁵ ACU is concerned that there is an under-appreciation of the long-term costs and implications of pursuing with this agenda.

Research cited by ACU in a previous submission to Government⁶ indicates a lack of evidence for the contention that making higher education funding contingent on performance-based metrics achieves the types of goals identified by the Government:

The research literature does not provide firm enough evidence that performance funding significantly increases rates of remedial completion, retention and graduation. When such claims are made, they are often not based on solid data that control for other possible causes of changes in student outcomes beyond performance funding. In fact, the few careful multivariate quantitative analyses of the impacts of performance funding on retention and graduation rates have largely failed to find statistically significant positive impacts.⁷

In the US, a 2015 study of Indiana’s public universities (where PBF has been used) highlighted significant issues: ‘[P]erformance funding decreased admissions, increased selectivity, and may have further marginalised

¹ See the Discussion Paper, at 9.

² Tertiary Education Commission, New Zealand, ‘Performance-linked funding to end’ (7 November 2018), at <https://www.tec.govt.nz/news-and-consultations/performance-linked-funding-to-end/>

³ Tertiary Education Commission, New Zealand, ‘Performance-linked funding’ (7 November 2018), at <https://www.tec.govt.nz/funding/funding-and-performance/funding/performance-linked/>

⁴ For instance, critique of the UK’s experience with the ‘Teaching Excellence Framework’ (TEF), in attempting to assess and benchmark UK universities on the ‘quality’ of teaching using metrics such as student satisfaction and retention rates, has included observations of ‘lack of clarity’, ‘eccentric and unintended outcomes’ and that it is more about fees than teaching excellence and the public benefit of education. E.g. see University College London, ‘UCL’s Response to Government on the Teaching Excellence Framework’, (21 July 2016); Gardner, M., ‘Why Birmingham’s Performance Funding Plan Won’t Improve Australian Universities’, *The Conversation* (9 May 2017); Forstenzer, J., ‘Why the Teaching Excellence Framework is Flawed’, *The Guardian* (23 February 2016).

⁵ Discussion Paper, at 6.

⁶ Australian Catholic University submission to the Senate inquiry into the *Higher Education Support Legislation Amendment (A More Sustainable, Responsive and Transparent Higher Education System) Bill 2017*.

⁷ Dougherty, K. J., and Reddy, V., ‘Performance Funding for Higher Education: What are the Mechanisms? What are the Impacts?’ 39(2) *ASHE Higher Education Report* (2013).

underrepresented minority and low-income applicants.⁸ Other studies⁹ have similarly revealed unintended negative impacts of performance-contingent funding on overseas higher education institutions. These include:

- ‘gaming’ of the system by some institutions to secure funding;
- a weakening of academic standards – including reports of institutions lowering academic requirements in class (or inflating grades), reducing degree requirements, and pushing students through developmental education more rapidly, as a means of ensuring good results in performance indicators;
- restrictions on student admissions, particularly to the detriment of ‘less prepared’ students (often students from disadvantaged backgrounds), to focus on ‘better-prepared’ students so as to ensure that performance outcomes are not adversely affected by seemingly weaker students;
- increased institutional compliance costs, as institutions are forced to account formally for performance requirements;
- narrowing of institutional mission to focus on areas rewarded through performance funding;
- lower staff morale; and
- prioritisation of bureaucratic imperatives over best academic practice.

ACU maintains that, rather than placing a percentage of CGS funding at the mercy of performance hurdles, the Government should continue to work with universities to strengthen student success through initiatives such as the Higher Education Participation and Partnerships Program and positive, targeted incentives such as reward funding for innovative practices in the sector.

Universities are already highly accountable

It is important to recognise that universities are already highly accountable. Existing mechanisms and regulatory provisions within the higher education system, which require and incentivise universities to improve student learning and outcomes, already ensure the accountability of universities. The Tertiary Education Quality and Standards Agency (TEQSA) provides regulatory and quality assurance authority for the higher education sector and QILT operates as an incentive – in a competitive market – for universities to continuously improve teaching and learning and student outcomes.

The introduction of a demand driven funding system (now effectively capped) to the higher education sector compelled universities to improve teaching, learning and student outcomes, to innovate and to offer a high-quality higher education to attract and retain students. A return to a full demand driven funding system would be the most effective and efficient way of realising the Government’s objectives of a student-responsive higher education sector and one which will meet the skills needs of the economy into the future, while supporting equitable access to a university education for all Australians.¹⁰

Furthermore, universities have been working to strengthen student success, with identifiable results. For instance, despite the introduction of the demand driven funding system in 2012 (phased-in from 2009), which has seen more than 200,000 additional students enter Australian universities, student attrition rates have remained broadly steady.¹¹

Finally, ACU considers the suggestion that the CGS needs to be used to incentivise universities to ensure quality student outcomes – on the basis that the CGS “as a direct financial incentive, is the most important lever the Government has to drive university behaviour”¹² – is reductionist and inappropriately suggests that money is the only driver of university teaching and learning.

⁸ Umbricht, M. R., Fernandez, F., and Ortagus, J. C. ‘An Examination of the (Un)Intended Consequences of Performance Funding in Higher Education’ 1-3 *Educational Policy* 1 (2015), at 24.

⁹ For instance see Lahr, H., Pheatt, L., Dougherty, K. J. et al, ‘Unintended Impacts of Performance Funding on Community Colleges and Universities in Three States’, *Community College Research Center (CCRC) Working Paper No. 78* (November 2014). Accessible via <https://ccrc.tc.columbia.edu/media/k2/attachments/unintended-impacts-performance-funding.pdf>; Yi, P., Kwak, J., and Kim, J., ‘The Impact of Performance Funding on Institutional Performance Over Time: Evidence from South Korean Universities’ 16(4) *Asia Pacific Review* 505 (December 2015); Dougherty, K. J., Jones, S. M. et al, *Performance Funding for Higher Education* (2016), at 171-202; Umbricht, M. R., Fernandez, F., and Ortagus, J. C. ‘An Examination of the (Un)Intended Consequences of Performance Funding in Higher Education’ 1-3 *Educational Policy* 1 (2015).

¹⁰ As ACU observed in a previous submission:

Under the demand driven system, universities must more sharply focus their services on students. While students have always been a primary focus for higher education providers, the demand driven system facilitates greater competition between institutions. In order to attract students, institutions are forced to work harder to ensure the delivery of quality education and to strengthen their respective reputations. Under such a system - where funding follows the student - students are effectively “higher education ‘shoppers’ who are more interested than ever before in specific learning outcomes, job guarantees, and prices”.

- ACU Submission to the Review of the Demand Driven Funding System (December 2013)

¹¹ See Australian Government Department of Education and Training, ‘Selected Higher Education Statistics’. Accessible via <https://www.education.gov.au/higher-education-statistics>

¹² Discussion Paper, at 5.

In reality, universities inherently (and increasingly) place student success and outcomes as a top priority, not merely because of funding implications but as a matter of mission and broader commitments to social justice and the community. This encompasses consideration of the real impacts on: student self-esteem and wellbeing; the debt burden placed on both the student and public purse; and, especially, the community service obligations of the university in supporting successful outcomes for academics, students, industry and wider society. Australian universities are acutely aware that paying attention to these considerations is essential to maintaining broad public support.

OBSERVATIONS ON THE DISCUSSION PAPER

While ACU broadly opposes the introduction of PBF, ACU accepts that, in the context of the Government's desire to introduce a PBF scheme, the design principles outlined in the Discussion Paper are a reasonable starting point. There is, however, a disjuncture between the articulated design *principles*¹³, and some of the design *options* and *measures* subsequently canvassed for the PBF scheme. For example, the Discussion Paper states that the design of the PBF should be “based on a transparent, clearly defined and rigorous methodology” and should allow for “accurate performance measurement in a cost efficient manner”.¹⁴ However, the use of regression analysis (a suggested design option) to compare institutional performance while accounting for the different student cohorts at each university is unduly complex and not conducive to the objectives of clarity and transparency. It would require complicated, and likely controversial, calibration to design and to ensure accuracy.

While the design principles appropriately provide that performance measures should “be within control of a university”, draw from “reliable and relevant data” and “be appropriately accurate”, measures such as graduate employment rates, student and/or employer satisfaction surveys, and student debt not expected to be repaid (DNER) do not convincingly meet these standards on the basis of currently available data.

Although universities have a role to play in educating and equipping students with skills and knowledge that will assist them to effectively contribute to the workforce, and can also facilitate industry linkages to support the university to work transition, graduate employment outcomes are not entirely within universities' control. For instance, a range of external factors will impact on graduate outcomes and do not relate to university performance or education quality. Such factors include:

- the state of the broader economy, particularly periods of downturn;
- workforce recruitment practices in some sectors, such as casualisation of the teaching workforce by some state governments;
- Federal Government migration policy and changes to the Skilled Occupation List; and
- personal factors, such as students' decisions to delay entry into the workforce to have children, support a family, illness, etc.

Further, measures such as student and employer satisfaction are subjective in nature, and have varied response rates across institutions. For example: response rates for the Employer Satisfaction Survey (ESS) are currently particularly low sector-wide. QILT will likely need to aggregate data over three years due to low response rates in order to establish a valid statistic therefore utilising ESS data may not be a reliable measure at this point in time. There is perhaps also a risk that, in the longer-term, student/employer satisfaction surveys may be vulnerable to some institutions seeking to strategically ‘game’ these measures; for example, by influencing how/when they are completed and by whom.

Student debt not expected to be repaid is a measure that falls almost entirely outside of universities' control and should not be utilised in a PBF scheme at any point. The incorporation of DNER as a performance measure is likely to have a particularly adverse impact on universities that produce graduates who typically earn lower wages e.g. nurses and teachers; on access to higher education for women (who may leave the workforce to have children); and individuals from lower socioeconomic backgrounds (who may be perceived as higher risk in terms of debt repayment).

In a recent article, journalist Julie Hare highlights some of the issues raised by the prospect of making universities partly responsible for repaying their students' loans:

If universities were required to be responsible for loan repayments would they be discouraged to enrol women? Would they stop offering some disciplines, such as science, with low graduate incomes and low repayment rates? Should universities be held responsible for students' poor choices of life circumstances that lead them to drop out? Can universities predict workforce demands and if not, should they be punished for structural changes in the economy?¹⁵

¹³ Specifically, see the Discussion Paper, at 10.

¹⁴ Discussion Paper, at 10.

¹⁵ Hare, J., ‘Letter from Australia: Stick or carrot – the value of performance-based funds’, *Wonkhe* (20 January 2019). Accessible via https://wonkhe.com/blogs/letter-from-australia-stick-or-carrot-the-value-of-performance-based-funds/?utm_medium=email&utm_campaign=Monday%20Morning%20HE%20Briefing%20-%2021%20January&utm_content=Monday%20Morning%20HE%20Briefing%20-

RESPONSE TO QUESTIONS RAISED IN THE DISCUSSION PAPER

How should the PBF scheme be designed and how should performance measure benchmarks be set?

Guiding principles for the PBF scheme

ACU considers that the concept of “performance” in the higher education sector should broadly revolve around:

- improving the experience of students while at university;
- increasing the accessibility of a university education (especially for equity groups); and
- facilitating strong graduate outcomes, particularly employability.

If a PBF scheme is to be introduced, ACU recommends that it should be developed upon the following principles:

- The scheme should be **simple, understandable** and **transparent**.
- Performance benchmarks should draw upon the most **common, reliable** and **current measures**. Among other things, this means:
 - The scheme should utilise the most recent data for each performance measure.
 - The measures chosen should involve the least possible lag time between outcomes and reporting.
 - Measures should be selected from available information and data sets, rather than requiring new measures to be developed and reported on.
- Uncertainty and administrative costs should be minimised, including by **precluding the need for institutional negotiations or ministerial discretion** in the setting of performance metrics. Such negotiations or uncertainty would:
 - create undue complexity in the scheme;
 - require a significant time investment, on an annual basis, constituting a similar negative experience to the former mission-based compact negotiations; and
 - place additional administrative and financial burden on both Government and universities.
- Universities should have the capacity to influence the outcomes of the measures on which PBF is dependent.

Proposed PBF scheme design and performance measures

In keeping with the above principles, ACU would suggest a PBF scheme that utilises the more reliable and current measures available from across three broad categories of higher education data, i.e. student data, equity data and QILT data.

A total of five measures are proposed for utilisation in the PBF scheme (see Table 1). These would comprise:

- (a) four core measures, against which every university’s performance would be assessed; and
- (b) one additional measure, chosen from a prescribed list, which each institution could nominate (by 31 December in a given year) as an institutional priority for the following year.

Each institution would be required to meet at least four of the five annual benchmarks – measured as the three-year rolling institutional average for each metric – to receive its full performance-related funding in any given year. Universities that meet three metrics would receive 75 per cent of their performance-related funding, with PBF reduced in 25 per cent increments down to no performance-related funding for universities that fail to meet any of the five PBF benchmarks (see Table 2).

Each university would be assessed against its own performance, rather than against sector-wide benchmarks, to account for variances between universities’ student profiles, institutional missions and geographical locations.

This model would encourage a PBF system whereby each institution is incentivised to continually improve its own performance in respect of key metrics directly associated with student experience, student outcomes and equity, theoretically resulting in overall improvement across the sector.

Table 1: Proposed PBF Scheme and Performance Measures

Core Measures (applicable to all universities)	Adjusted attrition rate for domestic commencing bachelor students (student data) ¹⁶
	Participation rate of low-SES domestic students ¹⁷ (equity data)
	Student satisfaction rate in overall quality of the educational experience (QILT data: Student Experience Survey - undergraduate level)
	Full-time employment rate for undergraduate students (QILT data: Graduate Outcomes Survey).
Additional Measure (each university would <u>select one</u> measure for the following year from the eight available options)	Equity
	1. Participation rate for students from Indigenous backgrounds.
	2. Participation rate for students from non-English speaking backgrounds.
	3. Participation rate for students with a disability.
	4. Participation rate for students from regional/remote backgrounds
	QILT
	5. Student satisfaction rate in teaching quality (QILT data: Student Experience Survey - undergraduate level).
	6. Longitudinal full-time employment rate (i.e. 3 years following graduation) (QILT data: Graduate Outcomes Survey).
Student data	
7. Student completion rate for commencing domestic bachelor students - 6 year.	
8. Student completion rate for commencing domestic bachelor students – 9 year.	

The minimum performance benchmarks for each university in a given year should be set by using a **rolling three-year average** of the individual university’s performance for each measure. This is intended to strike a balance between using the most recently available data and accounting for annual fluctuations that may occur for a variety of reasons (such as changes to course offerings etc.).

Assessing universities against their own performance is the more appropriate and fair approach. Utilising blunt sector-wide benchmarks would fail to take into account, for example, the inherent differences in student profiles, enrolment patterns, geographical locations or individual university missions. For instance, a university that may have a top-ranked School of Arts and especially strong Performing Arts offerings may nevertheless be disadvantaged in terms of its graduate employment rates compared with a university that is more narrowly vocational in focus.

Assessing a university against its own historical performance is a more simple and transparent method than attempting to use regression analysis or calculating weighted cohorts across the sector to account for differences in student characteristics and university profiles. It also minimises the risk of unintended consequences whereby universities are incentivised to change their enrolment plans, eliminate courses that may not serve the performance measures or otherwise seek to become clones of one other in pursuit of meeting rigid performance measures.

Table 2. Proposed Regime - Awarding of Performance Funding

No. of Performance Measures Met	% of Performance Funding Allocation Secured
4-5	100%
3	75%
2	50%
1	25%
0	0%

¹⁶ The new *adjusted* attrition rate identifies the proportion of students who commenced a course in a given year (e.g. year x) who neither complete in that year or the following year (i.e. year x or year x +1). The new adjusted attrition rate calculation is similar to the normal attrition rate calculation, however it is based on a match process using both the StudentID and the Commonwealth Higher Education Student Support Number (CHESSN). This gives a more accurate attrition rate calculation, as it identifies students at either the same or a different higher education institution. In other words, if a student moves from one institution to another in the following year, he or she would be counted as retained in the new adjusted attrition rate calculation, but attrited in the normal attrition rate calculation. For the new adjusted attrition rate, it is only those students who left the higher education system entirely (that is, they were no longer at any institution) that are counted as attrited.

¹⁷ Domestic onshore students. While no equity measure is ideal, the low-SES participation rate gives a sufficiently broad-based figure. This can be contrasted, for example, with the participation rate of Indigenous students, which can be nominated by institutions as an “additional” measure but, due to the relatively small numbers involved and the significant variability, should not be mandated as a core measure.

Which performance measures should the PBF scheme draw on?

ACU believes the performance measures identified, above, would be the most appropriate measures to draw upon. These measures have been identified as those which:

- (a) reflect the overarching “performance” of universities, namely:
 - student experience;
 - student outcomes; and
 - the accessibility of a university education;
- (b) have the most accurate, reliable and timely available data; and
- (c) have some potential to be positively influenced by university practice and investment, noting that they may also be subject to external factors, such as broader economic circumstances.

With respect to the use of attrition rates, ACU stresses that *adjusted attrition* rates should be utilised, as this is the most appropriate and accurate measure of student attrition. A student who remains in higher education but shifts between institutions does not represent an institutional failure. Indeed, in some cases, it is the high calibre of the student’s performance at their original institution that has led to an elite institution offering the student a place as a transfer student.

Furthermore, if the adjusted attrition rate is utilised, it will be necessary for the Government to provide universities with periodic reports regarding attrition rates (i.e. more frequently than the current delayed annual release of statistics) to allow for institutions to track how they are performing on this measure. Currently, universities do not typically have this information and, once a student has left an institution, they cannot be traced at the institutional level.

While advocating the use of student satisfaction as one of the four core measures, ACU cautions against overemphasis or disproportionate use of “soft measures” (such as student and employer satisfaction surveys), which are subjective in nature. These measures also have varied response rates across institutions that make institutional comparisons difficult. As currently conducted, they are perhaps also more vulnerable to being ‘gamed’ in terms of sample selection. Any use of soft measures should be balanced with more concrete, objective measures, such as adjusted attrition.

Finally, as indicated above, ACU strongly opposes the use of HELP debts not expected to be repaid (DNER) as a performance measure. DNER is almost entirely outside of universities’ control and is not an appropriate measure for determining university funding. Incorporation of DNER as a performance measure is likely to have adverse impacts on universities that produce graduates who typically earn lower wages, on access to higher education for women, and individuals from lower socioeconomic backgrounds. This would have a detrimental impact on graduate supply in core areas of workforce shortage (especially in health and education), and access to higher education for equity groups.

Should the PBF funding of unsuccessful universities be redistributed?

ACU strongly recommends that any performance funding withheld from universities that have failed to meet two or more performance benchmarks should be directed back to those universities on a tied/managed basis to support their improvement in the underperforming areas.

The principle underlying performance funding should be to incentivise improvement – in the interests of the students attending Australian universities – rather than to penalise institutions.

Reducing the funding available to universities that fall short of their benchmarks is likely to further weaken those institutions, resulting in a cycle of underperformance, rather than improvement. It would be an unusually regressive policy to take funding from universities that may be struggling and provide it to stronger institutions. It would likely result in them falling further behind, to the detriment of the reputation and quality of the Australian university sector as a whole.

Rather, the funding should be made available to these institutions on a tied or hypothecated basis with the requirement that it be demonstrably devoted to improving performance in the areas in which they failed to meet their performance benchmarks.

In order for a university to be eligible for the portion of performance funding that has been withheld, the Department of Education and Training may:

- (a) direct the university how to use the allocated funds to improve its performance in the areas where it did not meet the performance measures; and/or
- (b) require the provision of a written plan from the university setting out how the funds will be used to improve its performance against the relevant measure(s), including evidence that the funds will be dedicated for this purpose.

ACU firmly contends that withheld funds should not be pooled and redistributed (whether proportionately or in the form of ‘stretch’ targets¹⁸) among universities that successfully meet performance targets. Such an approach would be unusually regressive and would serve to entrench relative advantage/disadvantage in the sector. Depriving underperforming universities of funds would be to the detriment of students at those institutions.

How should the PBF scheme be implemented?

ACU recommends that, beyond 2020, performance funding to universities under the PBF scheme should be added to universities’ maximum basic grant amount.

Funding growth available under the PBF scheme should be based on each state/territory’s population growth rather than a uniform figure based on the national population growth rate. As a national university, with campuses in five states and territories, this will have limited impact on ACU; however, as a principle, in a regulated environment, growth in available university places (supply) should broadly correlate with the growth in population (demand).

At the same time, the model should also take into account the growing proportion of students who undertake tertiary education online or via distance education. Adjustments to CSP allocations based on state/territory population projections may therefore be necessary to accurately reflect demand for CSPs at the local/institutional level.

Furthermore, ACU notes that the Government intends to cap the overall PBF amount at the same level regardless of which rate is used, i.e. the total PBF amount should “not exceed that defined by the national population growth rate”, amounting to approximately \$70 million annually.¹⁹ ACU observes that this small increase is likely to be insufficient to meet the growth in demand for CSPs into the future, given the indexation of per-student CSP funding and population growth, in the absence of a more responsive, fully demand driven funding system.

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

ACU recommends using performance measures that have minimum lag to the extent possible. The most recent data (a rolling average of the latest available three years) should be utilised to benchmark performance. For this reason, ACU would recommend not mandating as a core measure the use of student completion rates which typically have a large lag time – i.e. spanning across 6-9 years – that, to an extent, reflect university performance in the distant past.

How should the PBF scheme be regulated?

While introduction of the PBF scheme should not require legislative amendment, there should be appropriate acknowledgement in each university’s funding agreement with the Commonwealth to reflect the proportion of funding that is subject to the institution meeting its performance requirements to provide transparency and a level of funding certainty.

An independent, transparent review of the PBF system should take place two years after its commencement to assess its impact and determine whether it has resulted in any unintended consequences.

¹⁸ As canvassed in the Discussion Paper, this proposition would entail a PBF scheme whereby universities exceeding the minimum performance standard(s) would receive further performance funding.

¹⁹ Discussion Paper, at 12.