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To whom it may concern,

The Australian Technology Network of Universities (ATN) would like to thank the Department for the opportunity to comment on the “Performance-based funding for the Commonwealth Grant Scheme Discussion paper”.

The ATN is a national collaborative group of four major Australian universities: University of Technology Sydney, RMIT University, University of South Australia and Curtin University. The ATN firmly believes that a sustainable, accessible, quality education and research system are core to Australia’s long-term prosperity and societal wellbeing. The ATN believes in a transparent, fair and equitable higher education system both for students and institutions.

The ATN does not oppose performance-based funding, in fact the ATN has previously supported performance-based funding policies. Despite this, the ATN does not support the methodology outlined in the consultation paper for performance-based funding, especially tying performance to population growth on frozen 2017 Maximum Basic Grant Amounts as this results in universities receiving ever decreasing returns on Commonwealth funding.

Rationale for Performance Funding

The ATN understands the Government’s rationale for introducing performance funding into the higher education system. Incentivising universities to improve their performance against a set of performance criteria not only drives a high-quality education sector to further improve but also ensures that the recipients of government funding are being expected to be accountable for that money. The ATN believe that any performance funding scheme should be underpinned by a set of principles to guide its objectives and the primary principles would be to support and reward the achievement of quality student outcomes. The objective of raising student outcomes requires funding to be applied to both quality achievement and improvement.

ATN Principles for Performance Funding

The ATN does note that there is already a large amount of innovation in teaching and learning service delivery as Australian universities, first and foremost, serve the communities in which they operate. This results in significantly different institutional missions and therefore differing focuses and offerings within the Australian higher education sector. Therefore, the ATN does not believe a blanket approach to performance metrics will be effective, rather it has the potential to create perverse incentives in the sector and inequality between institutions. For planning purposes and to provide certainty, a model that provides for at least a three-year performance funding agreement cycle is necessary.

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The ATN firmly believe that any performance-based funding that is not allocated, should remain in the sector. Moving that funding into consolidated revenue does not help universities truly improve, rather it suggests that any attempt at performance-based funding is a measure designed to limit university funding. Universities are not a cost on the Australian Government, rather universities provide substantial economic benefits. Modelling from Universities Australia in 2018 noted that for every Australian who misses out on a university qualification due to the funding freeze is a cost on the Australian economy of over \$450,000 in GDP and over \$150,000 in tax revenue.

Metrics for effective performance funding

The measurement of the metrics should be negotiated on an institution by institution basis through each institutions funding agreement. The extant quantum of each metric would need to account for the student cohort that a university enrolls and the broader environment in which the university operates. It would not be acceptable to apply a blanket quantum of improvement to every university in Australia as universities operate in vastly different communities. Sydney is different to Melbourne and Melbourne is different to Townsville. The extent to which improvement is measured needs to be the result of thorough understanding of the operating environment of each university. The discussion paper acknowledges this fact noting that there are considerable differences between institutions.

The ATN does not hold a definitive view on what the metrics should be, noting however that the potential performance measures identified on page 13 of the discussion paper do provide a starting point for further consultation with the sector. Each ATN university will make their own submission identifying the metrics they believe should be used for performance-based funding.

The ATN would like to note that any metric used will need to meet a quality collection threshold standard where data is accepted to be consistently collected and be highly robust. A key element of the metrics would be ensuring that any metrics are well established and have a clear definition.

Additionally, all data that is collected need to be on a sector wide basis, utilising CHESSN to ensure that institutions are not being punitively punished for students electing to study at other institutions, especially without additional context. For example, if a student studying at Curtin University decides to move back to Melbourne for any reason and needs to take a break from their studies but subsequently decides to return to study at RMIT, Curtin University should not be punished through loss of funding. Ideally, any metric using student base measures will wait until a unique student identifier is rolled out across both higher and tertiary education sectors to fully capture student movement across the Australian post-school education environment.

The ATN does not believe that there should be any ranking of university performance indicators. Such a ranking would not be useful either for performance funding nor the sector. Any ranking could potentially have unintended consequences, especially when any ranking would not be comparing like for like and could easily be misinterpreted. For example, ranking institutions will cause some universities to appear that they are not performing on a certain measure, when this may not be case. In addition to this, the ATN wishes to note that for many measures there is no statistically significant difference between institutions.

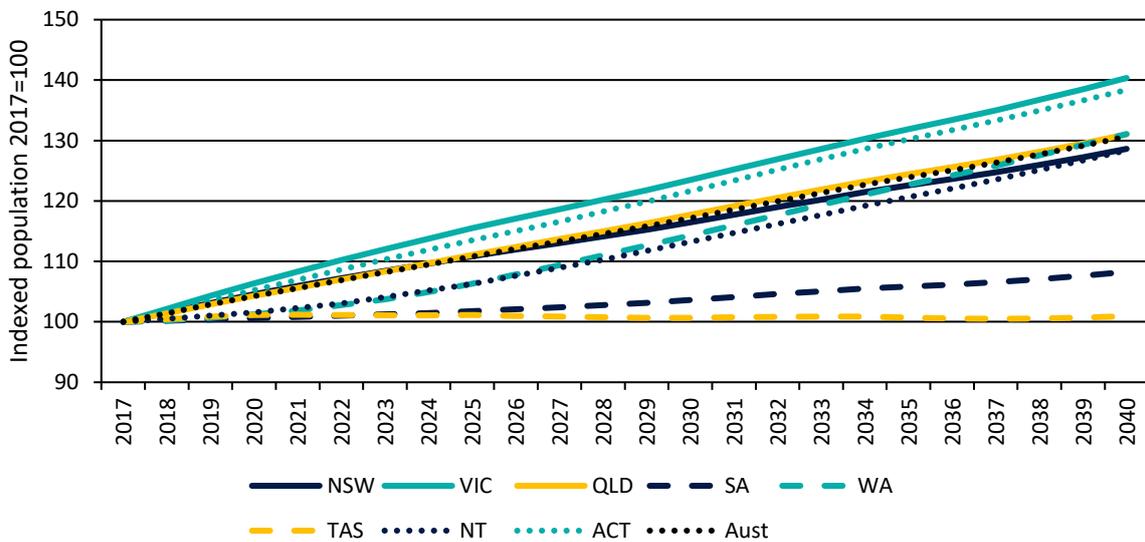
Finally, the ATN does not believe measures such as Debt Not Expected to be Repaid is a valid metric. There are too many outside factors for universities to be held accountable for student repayment of HELP. Similarly, any graduate outcomes measure will need to be used carefully as universities cannot account for broader economic situations.

Issues with the proposed performance funding model

The ATN does not support the proposed model of performance-based funding as outlined in the discussion paper. The continued use of the Maximum Basic Grant Amount capped at 2017 levels is a retrograde step that will ensure that universities continue, in perpetuity to receive less real Commonwealth funding. Furthermore, applying population growth to Maximum Basic Grant Amounts, only where universities have met performance criteria ensures that universities are not able to respond to the varied needs of their communities and the demand from students. These issues are explored in depth below.

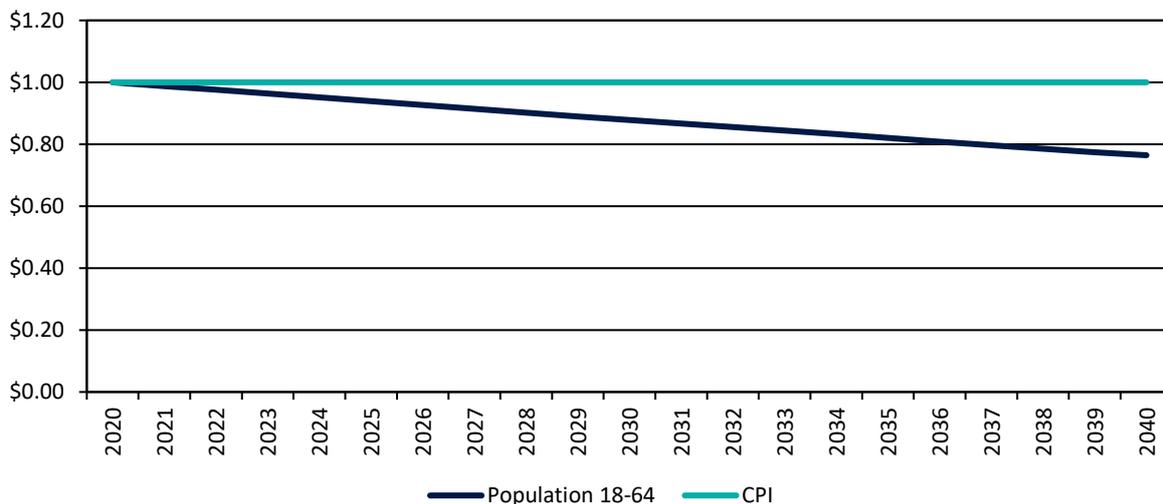
Despite the ATN's reservations about the performance-based funding scheme outlined in the discussion paper, the ATN would not support the use of regional, local or state population projections to determine funding growth. The below graph highlights this difference in the 18-64 age population projections at a state level. From 2017 through to 2040, the growth in population projects in states varies wildly with Victoria recording 40 per cent growth, while Tasmania only records less than one per cent growth. Such a methodology would create a multi-tiered university system, noting that universities enrol students from all over the country, and would not create an equal and fair university system. As noted in the 2018 Undergraduate Applications, Offers and Acceptances report, just over 12 per cent of all undergraduate applications to universities were from out of state applicants. At a state level, interstate applications are not equally distribution with the ACT and NT having less than 70 per cent of applicants living in their states. In 2017, approximately 19 per cent of all students studied outside of the state where their institution is located. Any state-based funding growth scheme would be fundamentally unfair. At an intrastate level, these percentages are likely to be even more pronounced.

Figure 1. State based population estimates, 18-64¹



The proposed performance-based funding scheme would ensure that universities receive less real Commonwealth funding even if they met all their performance metrics. Such a scheme does not reward performance, rather it punishes all universities by ensuring that Commonwealth funding is reduced on a real basis. The graph below shows that by 2040, the real reduction in funding by utilising 18-64 population as a growth rate mechanism compared to the Consumer Price Index, results in a 20 cent on the dollar reduction.

Figure 2. Comparison between population and CPI indexation²



¹ Data sourced from Australian Bureau of Statistics - 3222.0 - Population Projections, Australia, 2017

² CPI assumed to be 2.5%, population sourced from Australian Bureau of Statistics - 3222.0 - Population Projections, Australia, 2017

The above chart reflects the impact of the population index on Maximum Basic Grant Amount funding. While this illustrates the real reduction in funding, this does not address the fundamental problem of how the Maximum Basic Grant Amount is calculated and the impact that freezing funding has on a universities ability to respond to student demand. The Maximum Basic Grant Amount is the direct result of a university’s student profile as calculated in 2017, essentially the Basic Grant Amount calculated as per the Higher Education Support Act 2003 Section 30-27. As a result, depending on a university’s student profile (the number of students studying each subject) the Maximum Basic Grant Amount for universities across the sector will vary. Given the Maximum Basic Grant Amounts are frozen at 2017 levels, it is important to acknowledge that there is a potential \$20,720 difference in Commonwealth contributions between students studying commerce and agriculture.

What is not noted in the discussion paper is that the cluster funding that contributes to a university’s theoretical Maximum Basic Grant Amount, the Commonwealth contributions, remain indexed at CPI. Therefore, one institution with the same student load and profile between two consecutive years will receive less Commonwealth funding per student. Even with the proposed full performance-based funding applied to the Maximum Basic Grant Amount, a university’s actual Basic Grant Amount will be higher. Below are the Commonwealth contributions for 2017 and 2019, highlighting the fact that the contributions continue to grow in line with CPI, however due to the Maximum Basic Grant Amount stipulated in university Funding Agreements, universities will not receive the full funding, regardless of the students they enrol and the fields in which students enrol. This places universities under increasing cost pressures and provide disincentives for universities to fully meet student demand.

Figure 3. Commonwealth Contributions by funding cluster, 2017 and 2019³

Funding Cluster	2017	2019
Cluster 1	\$ 2,089	\$ 2,160
Cluster 2	\$ 5,809	\$ 6,008
Cluster 3	\$ 10,278	\$ 10,630
Cluster 4	\$ 10,695	\$ 11,061
Cluster 5	\$ 12,641	\$ 13,073
Cluster 6	\$ 14,113	\$ 14,596
Cluster 7	\$ 17,971	\$ 18,586
Cluster 8	\$ 22,809	\$ 23,590

The freezing of Commonwealth funding at 2017 levels which results in the inability of a university to rebalance their student profile, is fundamentally unfair and does not allow universities to respond to student demand appropriately. By leaving the cap on the Maximum Basic Grant Amount, universities would be unduly punished if they were to attempt to rebalance their student portfolio. While the

³ Data sourced from: <https://www.education.gov.au/funding-clusters-and-indexed-rates>

ATN is not opposed to performance funding, the ATN does oppose the proposed performance-based funding scheme built upon the continued use of the frozen Maximum Basic Grant Amount.

Possible solutions to the proposed performance funding model

As noted above the ATN does not oppose performance-based funding for Australian universities, however we do have serious concerns about the proposed mechanisms. The ATN would like to propose two alternative models for performance-based funding that will enable universities to continue to receive proper funding while also engaging in true performance.

One potential model could be the restoration of indexation for Commonwealth contributions with performance funding sitting on top of the Commonwealth Grants Scheme. Reinstating proper indexation as outlined above will allow universities to be adequately funded for meeting student demand and ensure that universities are adequately funded for the teaching activities they conduct. Performance funding could then either be allocated as additional funds to the sector, or as a negative value on indexation, year to year, inspiring institutions to meet their performance criteria. To ensure that no unallocated funds leave the sector, these funds should be pooled into an additional fund to support sector wide initiatives and projects targeted at improving performance according to performance metrics.

An additional possible model for performance-based funding could be applying a performance funding mechanism to a percentage of the difference between a university's Maximum Basic Grant Amount in a previous year and the Basic Grant Amount calculated in any year. This would allow institutions to be funded appropriately based on their actual student load if they met the performance metrics outlined in their Funding Agreement. Like above, any funds that were not allocated to institutions should remain in the sector through reallocation into an additional fund to support sector wide initiatives and projects targeted at improving performance according to performance metrics.

In conclusion, the ATN does not oppose performance-based funding, especially a scheme that is principled in design and has been carefully set out to create improvement. Despite this, the ATN does not support the methodology outlined in the consultation paper for performance-based funding, especially tying performance to population growth on frozen 2017 Maximum Basic Grant Amounts as this results in universities receiving ever decreasing returns on Commonwealth funding.

Please do not hesitate to contact the ATN Directorate on (02) 5105 6740 or via e-mail at info@atn.edu.au to discuss any elements of the submission further.

Yours sincerely,



Alec Webb

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