



ACADEMY OF  
THE SOCIAL SCIENCES  
IN AUSTRALIA

# Academy Response to Performance-Based Funding for the Commonwealth Grant Scheme Discussion Paper

*15 February 2019*

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## 1. Overview

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The Academy of the Social Sciences in Australia (ASSA) shares the commitment to enhance university teaching effectiveness, deliver good outcomes for graduates, and achieve equity in attainment rates across Australia, including in the regions. However, the proposed Performance-Based Funding for the Commonwealth Grant Scheme is articulated in a way which cannot guarantee these outcomes, and indeed may lead to adverse unintended consequences. The Academy recommends the Scheme be deferred until extensive consultation with all stakeholders has been completed, and rigorous analysis of it by relevant social science experts demonstrates the likely effectiveness of the Scheme, or the lack thereof. If the Scheme is implemented nevertheless, it should explicitly recognise and assess the likelihood of adverse unintended consequences of the metrics proposed, and then be implemented in a modified form founded on the proper analysis of the metrics proposed and their likely effects. The best intentions of this Scheme could be achieved through the better policy of increasing overall university funding through mechanisms that do not require significant outlay nor micromanagement of universities. Recommendations to this end are outlined in this submission.

### 1.1. Recommendations:

**Recommendation 1:** Delay implementation of the Scheme until significant consultation with the experts, including members of this Learned Academy, has been completed—and only implement it if the evidence points clearly in the direction of effective and positive impact.

**Recommendation 2:** Restore all funds cut from the Research Support Program and commit to a robust framework for university funding in order to enable universities to operate effectively.

**Recommendation 3:** If the idea of the Performance-Funding Scheme stands up to proper expert scrutiny, it should be implemented in a form which addresses evident problems in student survey and employment outcome metrics. To achieve this, the Expert Panel should consult directly with the relevant experts for conceiving and applying accurate metrics.

**Recommendation 4:** Increase overall research investment by committing to clear steps towards lifting Australian R&D investment from its current low rate of 1.88% of GDP to match the OECD average of 2.4% by 2025, with the longer-term specific goal of reaching the current OECD Best Practice frontier of 3% by 2030.

**Recommendation 5:** Consider an income-contingent loan scheme for university-business research and development partnerships.

## 2. Introduction

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The Academy shares the intent expressed in the terms of reference for the Performance-Based Funding for the Commonwealth Grant Scheme. However, the measures proposed in the Discussion Paper are likely to be insufficient to address these issues. They are also likely to generate adverse unintended consequences. Furthermore, the Scheme purports to address issues in university teaching quality even where it is not apparent such issues exist.

This Submission provides an analysis and suggests funding arrangements that would represent better policy than this Scheme, while being consistent with its best intentions. It also details how these policies could be implemented at relatively low cost in times of budgetary restraint.

## 3. Ambiguity in Scheme Rationale

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The terms of reference for the Performance-Funding Scheme state various aims, however it is not clear what the Scheme aims to achieve beyond better graduate outcomes and improved university education performance.

### 3.1. Increase in quality and decrease in attrition

The Scheme seeks to increase quality and decrease attrition. Recent Department of Education and Training data shows that higher education has maintained or increased its high quality across numerous measures. This is despite recent turbulence in the higher education environment, including qualitative expansion in participation, the GFC, and an increase in staff turnover, including through an increase in the rate of casually employed university educators.

Analysis conducted by Universities Australia shows that first-year attrition rates are around 15 percent, and six-year completion rates are around 66 percent. These are the same attrition and completion rates observed in 2005<sup>i</sup>. There is no evidence of any decline in quality or increase to attrition<sup>ii</sup>.

### 3.2. Improvement of graduate employment rates

The Scheme seeks to improve graduate outcomes. Graduate outcomes are already strong. Graduates employed within three years of graduation remains at a very high 90 percent<sup>iii</sup>. Australian university graduates are 2.5 times less likely to be unemployed than those without post-secondary education<sup>iv</sup>. Evidently, graduate employment rates bear witness to the strong performance of Australian university education.

In addition to this, it must be noted that employment rates across the whole Australian economy are heavily influenced by factors that are largely unrelated to university performance. These include the condition of the labour market and the health of the economy overall. For instance, graduate employment, like overall employment, was adversely affected by the GFC. But on no serious analysis can this be meaningfully linked to the individual performance of Australian universities<sup>v</sup>.

### 3.3. Enhance system transparency

The Scheme seeks to enhance system transparency<sup>vi</sup>. The Discussion Paper points to the Government's own Quality Indicators Learning and Teaching (QILT) website which provides data promoting this goal by informing potential students before they make their choice between institutions.

Independent of this, universities have advanced internal self-regulation measures. There is nothing to suggest these fail to provide sufficient transparency for informed choices by prospective students or their parents. A review of higher education regulation co-authored by Professor Valerie Braithwaite, a Fellow of this Academy, found that:

All higher education providers are highly attuned to the importance of reputational capital for attracting students and therefore develop effective internal regulatory mechanisms to ensure provision of quality higher education.<sup>vii</sup>

In addition to this, all universities must comply with the requirements of the Government's Tertiary Education Quality and Standards Agency (TEQSA), which sets standards that universities must meet, and monitors them against teaching, course design, learning

outcomes, and progression related criteria. Together, these measures ensure university transparency. This is well documented in extensive literature, including from the review mentioned above, which points out:

TEQSA regulates a sector that for the most part was already compliant, self-regulating, and monitored<sup>viii</sup>.

It is very clear from multiple reviews and sources: *the higher education system is already transparent and well regulated.*

There is no need to introduce further layers of what the Discussion Paper calls ‘monetary accountability’ - monetary accountability has already been achieved. Going further to tie funding to specific measures of ‘performance’ is highly likely to have adverse unintended consequences. There is a wealth of literature on the risk of gaming where funding is linked directly to selected measures of performance. Most recently, this has been demonstrated by the Banking Sector Royal Commission. Indeed, some adverse effects are already being felt—the same review mentioned above notes how ‘TEQSA’s blank slate approach as part of its ‘independent’ position has set-up an environment of regulatory over-reach’<sup>ix</sup>.

All in all: i) Australian universities deliver the goods, ii) Australian universities are already subject to performance incentives, and iii) Australian universities are already transparent.

This being so, it is not apparent what the problem is that the Scheme is seeking to solve. There is independent expertise that should be consulted by Government in the development of substantial policy changes such as that proposed by this Scheme.

**Recommendation 1:** Delay implementation of the Scheme until significant consultation with the experts, including members of this Learned Academy, has been completed—and only implement it if the evidence points clearly in the direction of effective and positive impact.

## 4. Instability Hurts the Whole University Ecosystem

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Universities require stable policy and predictable funding to produce their best research and conduct their best teaching. For many years, the policy and funding environment was sufficiently stable. Changes to it only occurred at a considered pace and in an evolutionary manner. This was the fertile ground for the extremely strong performance of Australia's higher education and research system, which this submission highlighted earlier.

In recent times, however, the higher education environment has been unpredictable and unstable. Commonwealth Grants Scheme funding has been frozen. Research Block Grants have been cut. Instability and unreliable career prospects have seen only minimal increases to the number of Australian domestic doctoral candidates in recent years. And there is concern about cuts to the Higher Education Participation and Partnerships Program (HEPPP). This program, which in the DET's own words 'aims to ensure that Australians from low SES backgrounds who have the ability to study at university have the opportunity to do so'<sup>x</sup>, has been repeatedly cut, despite its success in making higher education more accessible.

**Recommendation 2:** Restore all funds cut from the Research Support Program and commit to a robust framework for university funding in order to enable universities to operate effectively.

## 5. Issues with Prefigured Metrics for Performance-Based Funding

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If the proposed Scheme is implemented, the metrics it would apparently use are concerning. Social science research indicates these metrics are not only unlikely to have the effects they are intended to have, but will likely have adverse unintended consequences. This submission draws attention to two potential measures for performance-based funding in the Discussion Paper, and highlights the issues with them in their current articulation:



## 5.1. Student experience survey, course experience questionnaire

The Discussion Paper indicates student experience surveys and course experience questionnaires could be used to analyse university performance for the sake of distributing funding. This is done on the assumption student evaluations positively correlate with teaching ability. There is no agreement among the experts about the nature of the relationship between student evaluations and teaching ability, and how teaching ability should be measured<sup>xi</sup>. Some studies suggest a positive correlation between student evaluations and teaching ability—but many throw the credibility of student evaluations as a method for appraising teachers' performance into doubt<sup>xii</sup>. Crader and Butler argue student evaluations amount to a popularity contest that does not have any clear relation to good teaching. They find faculty believe factors like class size impact student evaluation, and argue teaching ability is not the main variable affecting student evaluations<sup>xiii</sup>.

Simpson finds student evaluation of teaching effectiveness negatively correlates with the workload and difficulty of a course. Teachers report a conflict between the goals of teaching an intellectually challenging course, which tends to result in less favourable student evaluations, and providing higher grades and lower workload, which tends to result in more favourable student evaluations. He argues students are unable to evaluate effective teaching and should not be allowed to do so<sup>xiv</sup>.

Student evaluations also bear the mark of various biases. For instance, Boring's analysis suggests that in the US, women would receive higher scores for doing the same thing had they been male, and men would receive lower scores for doing the same thing had they been female. And her analysis of French data shows less effective male teachers receive better student evaluations than more effective female teachers<sup>xv</sup>.

On top of all this, McKeachie argues that *even if* student evaluations were reliable, this kind of scheme generates the situation whereby many teachers who receive strong ratings in absolute terms receive weaker ratings in relative terms. This often has demotivating and demoralising effects<sup>xvi</sup>. And if these effects undermine teaching effectiveness, then the result is that a scheme of extrinsic rewards which displaces the more motivationally important intrinsic rewards of teaching<sup>xvii</sup>.

While student evaluations may provide some useful feedback, appraising teaching effectiveness by student evaluations is not appropriate. If teaching ability is going to be used to distribute funding, it must be effectively measurable—not only to get things right, but to avoid the adverse unintended consequence of creating imperatives for teachers to seek popularity, make content less challenging, mark more generously, and fail to push students to the limits of their intellectual potential for fear of resentment and punishment in evaluations<sup>xviii</sup>. In order to improve teaching quality, more attention must be paid to teaching and to proper peer review and analysis of outcomes than to student evaluations. Use of student survey data alone in this context is fraught, and it is prudent to apply it only after very careful consideration, or sidestep it altogether.

## 5.2. Full-time employment rates, student repayment of DNER

The Discussion Paper indicates full-time employment rates and payment of debt not expected to be repaid (DNER) could be used to distribute the Fund. Earlier, this submission drew attention to the fact that Australian graduates are 2.5 times less likely to be unemployed than those without post-secondary education. Thus the question of graduate outcomes seems settled. However, to the extent it is not, it is important to reiterate a point this submission made earlier: full-time employment rates are largely determined by the overall health of the economy on one hand, and labour market conditions on the other. Student repayment of DNER is naturally strongly linked with full-time employment rates. So, again, these metrics should be used only with the greatest caution, if at all.

**Recommendation 3:** If the idea of the Performance-Funding Scheme stands up to proper expert scrutiny, it should be implemented in a form which addresses evident problems in student survey and employment outcome metrics. To achieve this, the Expert Panel should consult directly with the relevant experts for conceiving and applying accurate metrics.

The Academy has access to the relevant experts, and invites the Expert Panel to accept its offer to work with it to better conceive metrics for university performance.

## 6. A Better Policy: Obviate the Need for Increased Competition for Funding by Properly Investing in Higher Education and Research

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The Academy reiterates policy recommendations it has made on previous occasions. Earlier, this submission drew attention to the very strong performance of Australia's higher education and research system. This strong performance takes place despite public underfunding, relative to comparator OECD countries: Australia invests 1.88% of its GDP in research and development<sup>xix</sup>—by contrast, the current OECD average for research and development expenditure as a share of GDP is 2.4%, and the current OECD best practice frontier is 3%.

Australia risks underinvestment in research, which is a reliable foundation for economic and social progress. Enhancing overall research support has a multiplier effect on the economy, extending knowledge infrastructure, promoting technological innovation, and thus creating skilled jobs. Research investment is one of the most effective ways to achieve the stated aims of this Scheme. Improving the university ecosystem as a whole has natural flow on positive effects for education and graduate capacity. In purely economic terms, research overall currently pays a real return on investment of around 20%<sup>xx</sup>. This contrasts favourably with the government hurdle rate of return of 7%<sup>xxi</sup>. It also has strong public support, so its investment is not only economically responsible, but politically prudent.

This is consistent with Parker's analysis in his recently released report on tertiary education in Australia, 'Reimagining Tertiary Education in Australia: From Binary System to Ecosystem'<sup>xxii</sup>. The Parker report shows that all parts of the education network need good support. There should not be cuts, but an increase in support by public funds.

**Recommendation 4:** Increase overall research investment by committing to clear steps towards lifting Australian R&D investment from its current low rate of 1.88% of GDP to match the OECD average of 2.4% by 2025, with the longer-term specific goal of reaching the current OECD Best Practice frontier of 3% by 2030.

There are a number of ways in which Government support of research and development could be enhanced, both through private sector incentives and through direct government support. The Academy suggests that new schemes, such as the provision of income contingent loans to university and business partnership research and development, are long overdue reforms that would be highly cost-effective compared to government subsidised loans and government grants. These could be used for regional, rural, and remote research and development projects as an initial implementation of the scheme<sup>xxiii</sup>.

**Recommendation 5:** Consider an income-contingent loan scheme for university-business research and development partnerships.

The central message of this Submission is the need for the Government to set an overall target for research supported by specific policies. The Academy stands ready to assist in such efforts.

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The Academy is available at any time to further discuss this submission.

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## 7. About the Academy

The Academy of Social Sciences in Australia (ASSA) promotes excellence in the social sciences and in their contribution to public policy.

The social sciences are a group of like-minded academic disciplines that work on systematic development of logic and evidence to understand human behaviour in its social setting, including the nature of economic, political, and community activity and institutions. ASSA is an independent, interdisciplinary body of over 650 Fellows, elected by their peers for their distinguished achievements and exceptional contributions across 18 disciplines. ASSA coordinates the promotion of research, teaching and advice in the social sciences, promotes national and international scholarly cooperation across disciplines and sectors, comments on national needs and priorities in the social sciences and provides advice to government on issues of national importance.

Established in 1971, replacing its parent body the Social Science Research Council of Australia, founded in 1942, ASSA is an autonomous, non-governmental organisation, devoted to the advancement of knowledge and research in the various social sciences.

[www.assa.edu.au](http://www.assa.edu.au)

## 8. References

- <sup>i</sup> Department of Education and Training (2017) Higher Education Student Statistics 2016, Appendix Table 2.
- <sup>ii</sup> Department of Education and Training (2017) Cohort Analysis for domestic commencing bachelor Table A and Table B institution students, 2005-2015
- <sup>iii</sup> '2018–19 PRE-BUDGET SUBMISSION' Universities Australia, pp. 17-18 < [https://consult.treasury.gov.au/budget-policy-division/2018-19-pre-budgetsubmissions/consultation/view\\_respondent?show\\_all\\_questions=0&sort=submitted&order=ascending&q\\_text=universities&uuld=102\\_5600293](https://consult.treasury.gov.au/budget-policy-division/2018-19-pre-budgetsubmissions/consultation/view_respondent?show_all_questions=0&sort=submitted&order=ascending&q_text=universities&uuld=102_5600293) >
- <sup>iv</sup> ABS (2017) Education and Work, Australia, May 2017, Cat. No. 6227.0, Commonwealth of Australia, Canberra
- <sup>v</sup> Discussion Paper (p. 17): Universities are not responsible for the broader economic conditions that affect graduate employment ... (p. 19) Level of debt repayment is influenced by a number of factors, in particular the economy and labour market. This, in addition to the time between first enrolling students and measuring any performance, means that institutional performance may only play a minor role in determining repayment rates.
- <sup>vi</sup> Discussion Paper (p. 5): The current system already offers universities some performance incentives ... the Government has responded to concerns regarding university admission practices, student retention and graduation rates through the introduction of new transparency guidelines for admissions, expansion of the Quality Indicators for Learning and Teaching (QILT) website and public release of retention and completion data at the individual university level ... (p. 13) In addition to the measures outlined here, further measures of performance could become available in future as the Government pursues its accountability and transparency agenda.
- <sup>vii</sup> Dow K, Braithwaite V (2013) *Review of Higher Education Regulation*, Commonwealth of Australia, Department of Education and Training, p. 22 < <https://docs.education.gov.au/system/files/doc/other/finalreviewreport.pdf> >
- <sup>viii</sup> Ibid. p. 40
- <sup>ix</sup> Ibid.
- <sup>x</sup> Department of Education and Training, 'Higher Education Participation and Partnerships Program (HEPPP)' < <https://www.education.gov.au/higher-education-participation-and-partnerships-programme-heppp> >
- <sup>xi</sup> Even research which argues for a positive correlation between student evaluations and teaching performance makes caveats like: 'A meta-analysis of the literature shows that a small average relationship exists between learning and the evaluations but that the association is situational and not applicable to all teachers, academic disciplines, or levels of instruction. It is concluded that the more objectively learning is measured, the less likely it is to be related to the evaluations' ['Student Evaluations of Teaching: Are They Related to What Students Learn?: A Meta-Analysis and Review of the Literature', Clayson D, *Journal of Marketing Education*; Boulder Vol. 31, No. 1, (Apr 2009): 16]
- <sup>xii</sup> e.g., Johnson V (2003) *Grade inflation: A crisis in college education*. New York, NY: Springer-Verlag; 'Are student evaluations a valid measure of teaching effectiveness: Perceptions of accounting faculty members and administrators', Morgan D, Sneed J, Swinney L (2003) *Management Research News*; Patrington Vol. 26, No. 7, pp. 17-32
- <sup>xiii</sup> Crader K. and Butler J Jr. (1996), 'Validity of Students' Teaching Evaluation Scores: The Wimberly-Faulkner-Moxley Questionnaire', *Educational and Psychology Measurement*, 56, pp. 304-14
- <sup>xiv</sup> Simpson R (1995), 'Uses and Misuses of Student Evaluations of Teaching Effectiveness', *Innovative Higher Education*, Fall, pp. 3-5
- <sup>xv</sup> Boring A, Ottoboni K, Stark, P (2016) Student evaluations of teaching (mostly) do not measure teaching effectiveness. Retrieved from Science Open Research. doi:10.14293/S2199-1006.1.SOR-EDU.AETBZC.v1, *Journal of Public Economics* Volume 145, January 2017, pp. 27-41
- <sup>xvi</sup> McKeachie W (1996) *Student ratings of teaching* (Occasional Paper No. 33), American Council of Learned Societies, University of Michigan < [http://archives.acls.org/op/33\\_Professional\\_Evaluation\\_of\\_Teaching.htm](http://archives.acls.org/op/33_Professional_Evaluation_of_Teaching.htm) >
- <sup>xvii</sup> Frey B, Oberholzer-Gee F (1997) The cost of price incentives: An empirical analysis of motivation crowding-out, *American Economic Review*, 87, 746–755; Kreps D (1997) Intrinsic motivation and extrinsic incentives, *American Economic Review*, 87, 359–364
- <sup>xviii</sup> Hornstein H (2017) 'Student evaluations of teaching are an inadequate assessment tool for evaluating faculty performance', *Cogent Education* 4: 1304016 <<http://dx.doi.org/10.1080/2331186X.2017.1304016> >
- <sup>xix</sup> Universities Australia (14 Dec 2018), 'Funding Cuts Risk Life-Changing Research: as R&D Spend Plunges' < <https://www.universitiesaustralia.edu.au/Media-and-Events/media-releases/Funding-cuts-risk-life-changing-research-as-R-D-spend-plunges#.XGYEd1wzaUI> >
- <sup>xx</sup> Universities Australia (2009) *Economic Modelling of Improved Funding and Reform Arrangements for Universities*, KPMG Econtech
- <sup>xxi</sup> Office of Best Practice Regulation 2010, *Best Practice Regulation Report 2009-10*, Department of Finance and Deregulation, Canberra < [https://www.pmc.gov.au/sites/default/files/publications/best\\_practice\\_regulation\\_report\\_2010\\_0.pdf](https://www.pmc.gov.au/sites/default/files/publications/best_practice_regulation_report_2010_0.pdf) >
- <sup>xxii</sup> Parker S (2018) *Reimagining Tertiary Education: From Binary System to Ecosystem*, KPMG < <https://home.kpmg/content/dam/kpmg/au/pdf/2018/reimagining-tertiary-education.pdf> >
- <sup>xxiii</sup> C.f.: <http://www.assa.edu.au/wp-content/uploads/2016/11/Budget-Submission-on-funding-research-ASSA-19-January-2017.pdf>