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# Should university funding be tied to student performance?

How do we measure success?

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## Partners



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Government funding for Australian universities could soon be based more on how students perform - including academic results, whether they complete uni and get a job – and less on the number of students universities manage to enrol.

So why is this change likely?

There are concerns that while [more money is being spent on higher education](#), retention rates [either haven't improved or have decreased](#) in some instances, and students are struggling to find [well-paid jobs](#) post graduation – or jobs at all.

These issues are likely to translate into more performance-based funding.

Governments want universities to enrol students who will graduate, obtain work and serve the national interest. They also want prospective students to know their chances of success before choosing a course and institution. Tying public funding directly to outcomes is designed to increase efficiency and transparency.

## **Other countries already doing this**

At least 35 US states have introduced some type of performance funding for universities. This ranges from small bonuses to larger incentives of around [90%](#) of state funding. As state budgets tighten, governments (and private donors) want to see real outcomes for their money.

In the UK, the government is rolling out the [Teaching Excellence Framework](#), which aims to reward universities that demonstrate they are providing excellent teaching to students by allowing institutions to raise their fees, in line with inflation.

The [framework](#) will be based on student retention, employability metrics, and student satisfaction ratings.

Universities will only be able to charge maximum tuition fees if they record satisfactory achievement against these standards.

## **This is already happening in some areas of Australian HE**

Performance funding exists only in some areas of higher education in Australia.

PhD completions count towards the [research block grant](#) funding of each university. The Australian government allocates nearly A\$2 billion annually to universities through this fund, to help support infrastructure and other costs of research.

Employability and completion rates are also major components of the new [Indigenous Student Success](#) fund, which supports scholarships, mentoring and tutoring.

In increasing the proportion of funding tied to success and completion rates, the [government noted](#) that Indigenous students were 2.5 times more likely than other students to drop out in their first year of university.

But Education Minister Simon Birmingham has signalled there will be further reform.

The higher education standards panel is [reviewing](#) retention and completions “to consider what further reforms are required to help lift student success”.

[Quality Indicators of Learning and Teaching](#) have also been developed to provide more information on university outcomes and help inform the enrolment decisions of students.

The [minister](#) regularly emphasises the need for the Australian government to reward completions, including through funding.

Although there are some programs in place, performance based funding in Australia could expand in many ways.

The government has released indicators for university attrition rates, completions, and graduate outcomes. All of these can be used to allocate funds. However, performance based funding can become a significant risk to students, especially in terms of equity.

## **Attrition rates are hard to measure**



Some students take longer to graduate than others. from [www.shutterstock.com](http://www.shutterstock.com)

Attrition rates are arguably [overstated](#). Many students who withdraw from university [simply return after a year](#) and are likely to have taken a formal leave of absence. These students are still counted as part of the university's attrition rate.

Students who transfer between universities are also counted within the institutional attrition rate. Any "crisis" of attrition is therefore exaggerated.

## **Students' background a big influence**

With both retention and completion rates, a major determinant of outcomes is the type of students who are enrolled.

Group of Eight universities usually enrol the most academically prepared students, which is reflected in their high retention and completion rates.

Regional universities typically have [lower retention](#) and completion rates because they enrol less prepared students.

Simply rewarding the universities that enrol the most prepared students would not capture institutional performance.

## **Employability also hard to measure**

Measuring graduate outcomes is also problematic. Some groups of students have relatively [poor](#) graduate outcomes, such as those with a disability or non-English speaking background.

But these outcomes are often a reflection of employer [discrimination](#) and unconscious bias rather than university performance.

Another risk in performance-based funding is narrowed entry pathways, where the only students allowed to enrol are those most likely to succeed.

This effect can reproduce disadvantage, and block regional, mature age, or Indigenous students, those from low socio-economic status (SES) or non-English speaking background students, and those with a disability.

This issue has emerged in some US states, where there has been a [decline](#) in financially disadvantaged student numbers and a [decrease](#) in African-American and Latino entrants to some universities.

## **Rewarding outcomes or performance?**

Rewarding outcomes is a very different concept from rewarding performance, and would likely reproduce inequality. To measure actual performance, we would need to control for the student population and context, and to measure changes over time.

In Ohio, Tennessee, and Indiana, completions by [“at risk”](#) students are weighted higher.

The UK government is now two years into a five-year program to implement the Teaching Excellence Framework. Consultation and technical [papers](#) are highlighting similar issues with age, ethnicity, disability and location of institutions. Universities will be benchmarked according to the demographics and academic preparedness of their student populations.

## **Problems to address**

How should we then measure employment outcomes, for example, of regional universities where local unemployment rates may be higher?

What time frame do we measure performance in? The UK government has agreed to consider institutional results averaged over a [three-year period](#).

Since attrition and graduate outcomes are lagging indicators, there could be a significant delay between performance improvement and reward funding.

Other [unintended consequences](#) exist in the US, including higher compliance costs and a perceived weakening of academic standards.

And [evidence](#) from the US suggests little overall benefit has been made by introducing performance-based funding.

More public funding tied to performance is likely to happen here in Australia. But we will need to learn from overseas experiences and ensure it does not threaten equity.