Future directions for TEQSA's regulatory Risk Framework

Sector discussion Paper – Navitas Limited submission

October 2013

Objectives and key proposed changes
1. Simplify the design, including reducing the number of indicators to focus on key risk areas
1.1. Focus on four key areas of risk: *(i) students (load, outcomes and experience);* *(ii) academic staff profile;* *(iii) financial viability and sustainability; and* *(iv) regulatory history and standing.* Reduce and reshape the overall risk evaluation areas from three to two - *'Risk to Students'* and *'Risk to Financial Position'*
1.2. Focus on a refined set of *risk indicators* (12 are proposed from the current 46) that are measurable on an annual basis, can apply or be adapted to different provider contexts and delivery models, and enable clear consideration of the international student cohort.
2. Improve information for providers, including in relation to risk definitions, thresholds and controls
2.1. Share information with providers on the *risk threshold methodology* and where the provider sits in the *distribution* of sector data.
2.2. Assist providers with guidance about relevant information on *risk controls* and *context* that TEQSA may take into account when finalising risk ratings.

1. Simplify the design, including reducing the number of indictors to focus on key risk areas

1.1 Key risk areas
Consultation Question: Does the proposed approach reflected in **Figure 1** offer an improvement to the current approach? If not, why and what changes would you propose?
Response: Navitas is of the view that the proposed approach reflected in **Figure 1** is an improvement to the current approach. Firstly, the reduction in the number of risk indicators is welcome. However the Risk Framework does not make it clear that the Risk Assessment will be based only upon factors that increase the risk to students or the overall financial risk of the provider. In the previous application of a Risk Framework by TEQSA risk factors were applied that either; a) Applied indicators incorrectly such that they demonstrated no relationship to actual risk; or b) Applied indicators that were not appropriate risk measures in that they did not reflect a measure of risk. The Risk Indicators in Attachment B appear to continue with this shortcoming. Navitas recommends that the risk framework applied by TEQSA must include Risk Indicators that actually reflect demonstrable risks to students or pose a financial risk to the provider.

1.2 Refinement of risk indicators
Consultation Question: Is the reduction in the number of risk indicators and the proposed selection of indicators at **Attachment B** appropriate for capturing key risks of non-compliance in the sector? If not, why and what changes would you propose?
Response: Firstly, the reduction in the number of risk indicators is welcome. In the previous iteration of the TEQSA risk assessment each Navitas college was assessed and reported as a separate entity. It is recommended that TEQSA should include in the Risk Assessment the outcomes of the parent entity, or as in the case of Navitas the accumulated outcomes of the whole entity when assessing individual Risk Indicators. For example, Cohorts completed should take into consideration the 20 years of student completions across Navitas colleges. In relation to specific Risk Indicators the following concerns are raised: **Student Load** – student load in and of itself is not a risk indicator. The narrative appears to refer to student load volatility against budget. Clearly large movements in student load are not risk in themselves if they are in accordance with a college plan. For example, the Navitas Newcastle International College (NIC) is anticipated to achieve a 400% growth on prior year however this is in line with the financial plan and budget and poses no risk to students or the financial position of NIC. Negative student load variances to budget would be a more appropriate risk indicator; positive variances are unlikely to pose a risk where they are consistent with strategic and operational planning frameworks. **Attrition/Completion rates:** With the increasing diversity of current and emerging models/modes of delivery (in part reflective of life-long learning trends and students increasingly studying part-time whilst also working and taking breaks during their studies) there is a need to explore new ways of effectively measuring Completion and Attrition rates. Navitas encourages TEQSA to enter into discussions with the sector to determine the most valid methodology for these indices. **Graduate destinations** – Again this indicator needs to be assessed within the operating environment of the institution. It not applicable to most Navitas pathway colleges as the students are articulating into the partner university. **Senior academic leaders** – Navitas pathway colleges are a partnership with a university. This pathway is embedded in the partner university's academic processes. As a consequence it is not appropriate to assess the risk of Navitas pathway college based upon the proportion Level D and Level E academic in a college. Each Navitas college appoints a senior leadership structure however key aspects regarding academic policies, course development, internal quality review and accreditation are managed by senior academic leaders within the partner university. The risk assessment requires looking at the intersection/ joint framework of both institutions. **Senior academic leaders/BFoE:** The use of this measure without consideration of EFTSL per BFoE can present a distorted measure of the appropriateness of a provider's senior academic leadership for the size and scope of the organisation. This is particularly the case for providers undertaking planned expansion or reduction of programs across differing BFoE. **Staff EFT:** Navitas queries the fixed term reporting requirement that mandate a fixed reference date. Embedded in this requirement is an assumption that staff loads remain equal during and across each academic term, which is contrary to the diversity of current and emerging models of delivery. **Academic staff on casual work contracts** – Navitas notes that TEQSA rates academic staff on casual

or sessional contracts as a risk factor. The use of this indicator to determine risk implies that the way in which staff are employed adds to the risk associated with education delivery. Such an assumption requires factual support. Navitas is not aware that there is evidence to support this assertion. Navitas believes TESQA should make explicit the attributes and capabilities permanent staff bring to an organisation and then assess institutions against those criteria rather than an arbitrary risk indicator of permanency.

Navitas university pathway colleges have a largely casual teaching workforce. Navitas maintains that the context within which pathway colleges operate mitigates any risk in relation to casual staff, namely:

- All academic staff employed by Navitas colleges are approved by the University partner.
- The casual employment of academics allows Navitas to match teaching capacity to the demand and more carefully control staff: student ratios.
- There is a constant supply of available, well qualified staff as a consequence of the way in which universities employ their academic staff allowing them to undertake additional employment with third parties (Outside Work rights).
- The staff engaged are generally academics of the partner university and therefore of the same standard as that institution.
- The casual employment contract allows Navitas to choose high quality academics as demonstrated by students' surveys and learning outcomes and conversely, not employ academics who cannot demonstrate positive, quality outcomes.
- PhD students from the partner university are a source of well qualified teaching staff at the colleges and are only available as casuals;
- College curriculum is largely drawn from the partner university, not developed by the pathway college.
- The partner university provides robust academic moderation processes of assessment.

Navitas would therefore maintain that the casual employment of academic staff supports high quality learning outcomes and lowers the risk of teaching delivery as we are able to both match teaching capacity to demand and are also in the unique position to 'cherry-pick' only the best and most engaging academic to teach in a Navitas college.

All teaching staff appointments are subject to partner university approval and, regardless of whether ongoing or casual, teaching staff:

- contribute to Teaching and Learning Plans / Days;
- are actively engaged in academic committees and leading continuous improvement;
- participate in performance planning;
- contribute to program and course monitoring;
- are available for student consultations; and
- undertake professional development supported by a college budget.

Navitas university pathway colleges have been operating under this model for over 15 years with no evidence of a problem.

In addition, Navitas has a number of niche providers, e.g. SAE or ACAP, where specialist teaching expertise is sourced from industry. Expert practitioners, who are selected for industry and teaching expertise, teach as sessional staff rather than end their careers as practitioners. Where practitioners are used as regular and reliable members of the teaching staff this is a desirable strength in terms of currency and relevance for a program.

Financial viability – It is pleasing to see some of the less helpful measures financial viability indicators removed. Consideration should always be given to an organisation's individual circumstances and how they impact key financial ratios and calculations. Such circumstances might include ownership by a parent entity, application of accounting policies [e.g. non-refundable fee-help payments reflected as a current liability (income in advance) at reporting date] and the appropriate level of investment in property, plant and equipment for the business model in question.

The proposed composite indicator provides no indication of how each of the components are to be used to determine a measure of risk. As suggested above, Navitas would recommend that the Navitas Parent entity be used as the reporting entity for assessing the financial viability for all Navitas colleges as:

a) Navitas Limited, the parent entity for Navitas provides full operating guarantees to its owned and controlled entities; and
b) In 20 years of operating Navitas has met all liabilities and legal obligations irrespective of the financial performance of individual colleges.

Financial sustainability – The comments relating to the above indicator of Financial Viability are applicable for this indicator. In addition, some of the components of this indicator are not measures of risk, at least not without an implied assumption that may be unwarranted. This includes:

- Change in revenue% - Navitas submits this should only be when there is a negative variance to budget.
- Asset (Capital) replacement - The spend on asset replacement is a poor indicator of risk and no real indicator of quality. The problem with this indicator includes:
    - The threshold of what is described as an asset item is different for different organisations depending upon their respective accounting policies. Some organisations may capitalise all purchases over $1,000, others may choose $5,000 as the threshold.
    - The way an organisation chooses to acquire assets also influences asset replacement expenditure. The use of a finance lease or rental arrangement increases operating expense and decreases expenditure on assets.

  It makes no sense to use as a risk indicator a value that varies depending upon an organisation's specific accounting policies.
- Year-on-Year change in Commencements – Navitas contends this should only be negative variance to budget.
- Diversity of revenue – It is unclear from the documentation how TESQA will determine whether revenue of an institution is diverse. In the case of Navitas the bulk of revenue is sourced from fee-paying students however the organisation has a diverse range of colleges (over 110) that underpin this 'common' income source.

2. Provide more information to providers, including on risk definitions, thresholds and controls

2.2. Examples of information considered in finalising risk ratings
Consultation Question: Should information about risk thresholds be released by TEQSA?
Response: Navitas is of the view that transparency is a key component supporting continuous improvement and quality outcomes and would support information about risk thresholds being released by TEQSA to providers with the following caveats. • The provision of detailed information and where required, further consultation on risk

thresholds as they are to be applied

- Navitas would not wish to release individual college financial information however will make relevant financial information available at a whole of entity (Navitas Limited) level.
- Where Risk Indicators used actually reflect demonstrable risks to students or those that pose a financial risk to the provider

Consultation Question: If yes, what information would strike an appropriate balance in supporting providers to understand risk assessments, while preventing the potential misinterpretation or misuse of the thresholds?

Response:

In the context of the above, Navitas urges TEQSA to consider releasing to providers the following:

a. the methodology for how risk thresholds are determined, and

b. contextual information on how a provider is situated relative to the sector, through splitting sector data into equal groupings. In connection with this point, Navitas suggests that such information may be a more useful, particularly for good practice guidance, if reframed to reflect tiered sector median benchmarks or threshold measures.

Consultation Question: Apart from better information about the nature of information TEQSA takes into account in finalising risk ratings, are there other areas of the risk process and/or profile that would benefit from further explanation by TEQSA?

Response:

Refer above for suggested reframing of information suggested at 2.2(b).