



Australian Government

Tertiary Education Quality and Standards Agency

# TEQSA's

# Risk Assessment Framework

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# Introduction

## Background

The Tertiary Education Quality and Standards Agency (TEQSA) risk assessments of registered higher education providers are a key component of TEQSA's risk-based approach to assuring higher education standards. The Risk Assessment Framework (RAF) outlines the key steps and components of the risk assessment process, and provides detailed supporting information on the risk indicators used. Information on how risk assessments form part of TEQSA's approach to quality assurance can be found in the paper *'A risk and standards based approach to quality assurance in Australia's diverse higher education sector'* <http://www.teqsa.gov.au/regulatory-approach/teqsa-and-quality-assurance>.

TEQSA first released a Regulatory Risk Framework in early 2012. A review was conducted in late 2013, drawing on the experience of the first cycle of risk assessments and feedback from the sector. Informed by the review, this is version two, re-titled TEQSA's Risk Assessment Framework<sup>1</sup>. It represents a simplified and more robust framework. A summary of the review process and consultation outcomes is available at <http://www.teqsa.gov.au/news-publications/current-consultations>.

Under the ESOS Act, TEQSA regulates a number of ELICOS and Foundation Program providers that are not registered higher education providers. TEQSA's approach established under the RAF also applies to these providers, but with a tailored set of risk indicators and information requirements. More information for these providers is available at <http://www.teqsa.gov.au/for-providers/provider-resources>.

TEQSA is committed to continuing to refine the RAF over time, with experience of applying the RAF in its assessment processes, feedback from providers and through consultation with peak bodies. TEQSA will also continue to expand available information on the RAF and other processes through the TEQSA website.

<sup>1</sup> *Minor updates were made in March 2015. Further changes were made in February 2016, specifically the Indicator 2: Student Load (see Appendix One).*

## Information Sources

TEQSA works closely with the Department of Education and Training to access data for providers that already report data to existing collections in order to minimise reporting burden, and is supporting work led by the Department towards a single higher education collection. TEQSA is committed to reducing burden on providers by utilising existing information sources to the extent possible for its assurance purposes, and remove any overlap in reporting through data sharing arrangements with other agencies.

TEQSA sources a limited set of key data directly from some providers through an annual Provider Information Request (PIR). The PIR gathers a limited set of key data from some providers that are not required to report, or only partially report, data in the Department's Higher Education Statistics Collection (through the *Higher Education Information Management System* – HEIMS). TEQSA has reduced its annual reporting requirements since 2012 and is continuing to work with the Department of Education and other stakeholders to further reduce reporting burden, while maintaining its capacity to assure standards under a risk-based approach.

Further information about TEQSA's PIR is available at <http://www.teqsa.gov.au/for-providers/provider-obligations/data-collection>.

# Overview

## Purpose of risk assessments

TEQSA's risk assessments provide a snapshot of providers across the sector to help prioritise TEQSA's focus in undertaking its assurance activities. They assist TEQSA to give effect to its principles of reflecting risk, proportionality and necessity, as outlined under the *Tertiary Education Quality and Standards Agency Act 2011* (the TEQSA Act). They also inform risk-based regulation of providers under the *Education Services for Overseas Students Act 2000* (the ESOS Act).

Through the RAF and use of risk assessments, TEQSA aims to:

- ▶ Reduce burden on the sector by using risk assessments to inform a differentiated approach to evidence and reporting requirements in assessment processes (e.g. for renewal of registration and course accreditation applications);
- ▶ Strengthen the protection of students' interests and the sector's reputation by monitoring key aspects of providers' operations during registration periods;
- ▶ Support TEQSA case managers and providers to engage in early discussion about emergent issues prior to any scheduled assessment process; and
- ▶ Support quality improvement activities through the sharing of information with providers about potential risks and good practices in the sector.

TEQSA's risk assessments do not draw conclusions about compliance with the Threshold Standards or the ESOS Act and National Code<sup>2</sup>, but rather identify potential risks of non-compliance. In other words, risk assessments may identify 'leads' that warrant closer consideration by TEQSA case managers, but do not confirm that there is necessarily a problem.

The purpose of the RAF is not to identify all institutional risk or to replace or replicate a provider's own risk management. The RAF focuses on key risks across the sector that can be readily measured on a regular basis. TEQSA's assessment processes, such as a renewal of registration, involve a deeper assessment of evidence to determine compliance with the Standards.

## Approach

The RAF enables a consistent, structured and systematic approach to assessing risk across all providers. This is achieved by using a standard format and set of risk indicators across areas of institutional practice and outcomes that are central to all providers.

TEQSA recognises, however, the breadth of diversity in the sector and the importance of provider context in assessing potential risks. TEQSA also recognises that innovation often involves a degree of risk taking and does not consider risk as necessarily negative or that all risk must be controlled or eliminated. To support this in practice, TEQSA's approach allows for expert judgement and consideration of providers' history, context and own risk management within the risk assessment process. Dialogue between TEQSA's case managers and providers about potential risks also enables TEQSA to better understand where risks may reflect strategic decisions taken by the provider for innovation and growth, and where risk controls are in place.

TEQSA's risk assessments are predominantly focused at the institutional level, but may also consider risks relating to specific aspects of a provider's operations, such as particular cohorts of students and/or areas of course offerings.

TEQSA's approach to risk assessments is informed by the ISO Risk Management Standards, while adapted for TEQSA's regulatory context and purpose.

<sup>2</sup> National Code of Practice for Registration Authorities and Providers of Education and Training to Overseas Students 2007.

# Risk Assessment Process

## Overview

TEQSA undertakes an annual cycle of risk assessments of all providers, following TEQSA's PIR and acquisition of data from existing annual national collections where available. TEQSA may choose to update a risk assessment outside of the annual cycle in response to emerging information. An overview of key steps in TEQSA's risk assessment process is reflected in Figure 1 below and further outlined in the following sections.

Figure 1 – Key Steps in Risk Assessment Process



## Steps in the Assessment

Key steps in the risk assessment process, as reflected in the figure above, are:

### 1. Risk Assessment

- ▶ TEQSA gathers existing information from various sources, mainly the PIR, HEIMS, national survey data, findings from TEQSA assessment processes, and information from previous TEQSA risk assessment cycles.
- ▶ TEQSA considers the history and context of the provider, its approach to delivery, and findings from previous assessment processes (positive and adverse).
- ▶ TEQSA undertakes an analysis of risk indicators, guided by risk indicator thresholds, trends, and other relevant context.
- ▶ TEQSA undertakes a holistic evaluation of the history, context and indicator analysis to determine overall risk ratings, with explanatory notes where significant risk is identified.

### 2. Dialogue with Provider (optional)

- ▶ If significant risks are identified, the TEQSA case manager may invite the provider to discuss the risk assessment and provide any broader context and information on its strategies and any risk controls in place. This may lead to adjustments in the risk assessment.

### 3. Next Steps

- ▶ The finalised risk assessment is used to inform the scope of scheduled assessment processes (e.g. renewal of registration application processes) and, in some cases, may lead to further interaction with a provider ahead of an assessment process.

## What the Process Involves for Providers

It is optional for providers to respond to TEQSA's annual risk assessments, unless specifically requested by TEQSA.

TEQSA undertakes the necessary data calculations and analysis to prepare risk assessments. TEQSA may issue a risk assessment to a provider if:

- ▶ A moderate or high risk rating is applied in the overall evaluation (i.e. against 'Risk to Students' and/or 'Risk to Financial Position');
- ▶ There are significant gaps in data or there is no confidence in the data; or
- ▶ A provider requests a copy of its TEQSA risk assessment and/or a discussion about risk.

A provider that receives a risk assessment with an invitation to comment may choose not to provide additional information. If TEQSA considers it necessary to take further steps as a result of a final risk assessment, this is made clear in correspondence with the provider.

In many cases providers will not hear from TEQSA in relation to an annual risk assessment cycle – particularly if the assessment is low risk and/or risks are already subjected to existing reporting requirements or conditions.

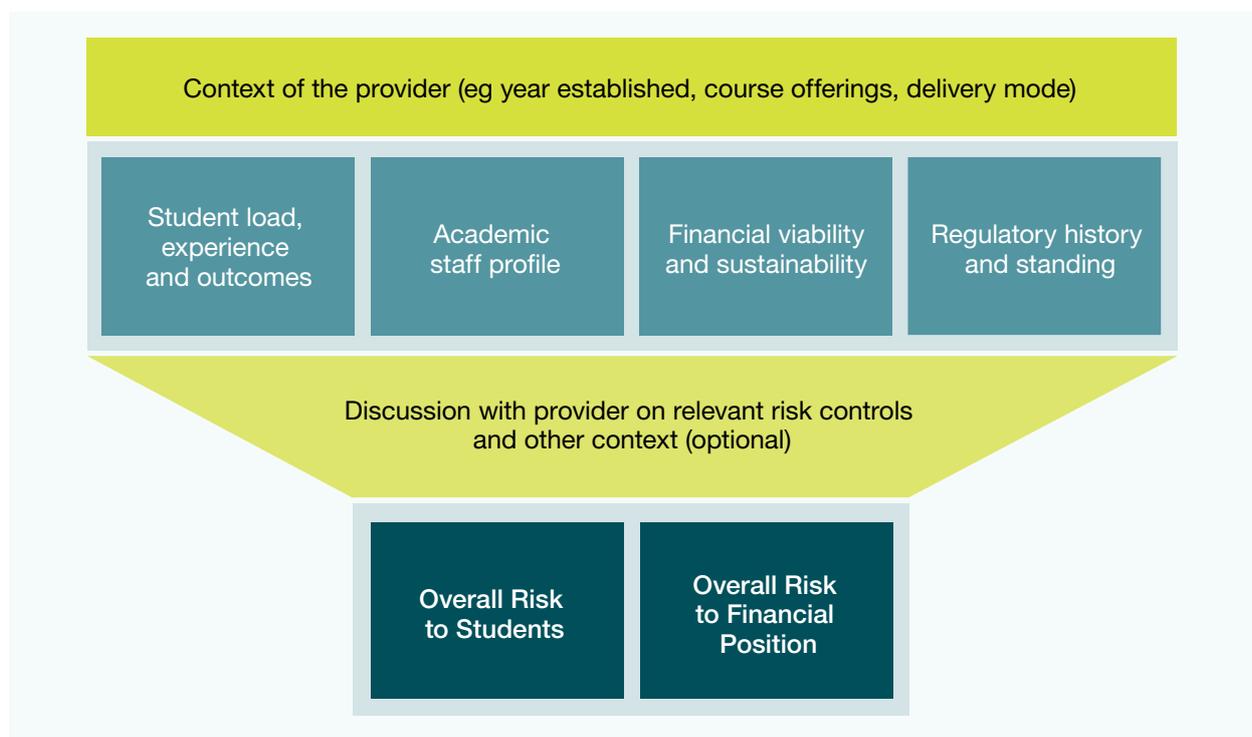
A provider will receive a copy of its latest risk assessment where there is a forthcoming renewal of registration process.

# Key Components of Risk Assessments

## Overview

An overview of the key components of a risk assessment is reflected in Figure 2 below and further detailed in the following sections.

Figure 2 – Key Areas Considered in Risk Assessment



## Overall Risk Evaluation

TEQSA makes an overall evaluation against: 'Risk to Students' and 'Risk to Financial Position'. The evaluation uses a high, moderate or low rating (represented with traffic light colours). This is a qualitative expert judgement taking into consideration the provider's context, history and standing, and analysis of risk indicators.

Where an overall evaluation is not able to be established due to lack of information or track record, conflicting information, or unreliable data, the overall rating may be suspended or a rating of 'No Confidence in Data' may be applied.

## Four Key Risk Areas

TEQSA focuses on four key areas in risk assessments to support the overall evaluation:

1. Regulatory history and standing;
2. Students (load, experience and outcomes);
3. Academic staff profile; and
4. Financial viability and sustainability.

Considered together, these areas provide coverage across key aspects of providers' operations and all contribute to a view of potential risks to academic standards. In particular, the role of regulatory history in the

risk assessment highlights any risks to academic standards identified through previous TEQSA assessment processes. This may include, for example, findings relating to:

- ▶ Quality assurance processes in a past renewal of registration process;
- ▶ Admission practices in a past renewal of course accreditation process; or
- ▶ Professional accreditation status through a material change notification.

The other key risk areas are informed through the assessment of a set of risk indicators.

## Risk Indicators

Risk indicators have been identified giving consideration to data availability (on an annual basis), applicability across the sector, and to different provider circumstances. The indicators, with descriptions and links to the Standards, are set out at *Appendix 1*. Supporting technical information on the indicators is provided at *Appendix 2*. The indicators are rated using a traffic light system.

A combination of input and output/outcome indicators are used, recognising that relying solely on output/outcome indicators would mean a focus on the detection of confirmed failure, but not prevention. A combination of indicators also provides a more holistic view of a provider's operations noting the limitations of individual indicators.

The assessment of indicators using student data includes a specific focus on any onshore and offshore international student populations (where possible). This allows a view of organisation-wide risk, as well as risk to these cohorts of students. An integrated approach of this kind is consistent with the considerable overlap between the ESOS Act and National Code, and the TEQSA Act and Threshold Standards.

## Risk Thresholds

In assessing risk indicators, TEQSA considers a set of risk thresholds, while taking into account provider context and risk controls (where information is available).

TEQSA has adopted a systematic approach to developing its risk thresholds, which includes consideration of the following dimensions:

### 1. Reference material

Documentation such as past regulatory and quality assurance reports, and providers' risk management and strategic plans, can provide views on common issues such as attrition and student-staff-ratio.

### 2. Statistical analysis of the sector

Status quo and trends in the sector can shed light on the discriminating power of a risk threshold.

### 3. Experience from previous risk cycles

TEQSA's experience of applying the risk thresholds can help to ascertain their efficacy.

### 4. The nature of indicators

Consideration of the different nature of indicators can inform whether the indicators lend themselves to a more absolute setting of risk thresholds or whether more emphasis is given to levels that vary from sector trends. For example, if the sector average attrition rate was significantly increasing, TEQSA may take a view that this does not alter the level considered to indicate a risk to standards.

These dimensions are evaluated holistically, based on available information, and there is no single consideration that would automatically overrule others. Professional judgement is used, with regard to the specificities of each indicator, in determining the levels which may represent potential risk.

Further information about TEQSA's approach to determining risk thresholds is made available on its website and will be updated as needed. The risk thresholds themselves are held confidentially within TEQSA. Risk thresholds are considered in the context of other information and are not the sole determinant of risk ratings.

In the risk assessment and in any communication with the provider, TEQSA will explain the basis for an overall moderate or high risk rating in the context of the provider's particular circumstances.

## Risk Controls

As noted earlier, if a risk assessment identifies potential concerns that may warrant further consideration by TEQSA, a provider is invited to comment on the assessment, on a voluntary basis. The provider may comment on the factual accuracy underpinning the observations, provide relevant information about risk controls that it has in place in relation to the potential risks identified, or any other information that the provider considers relevant.

TEQSA's consideration of the provider's response may lead to an adjustment of the risk assessment. Examples of evidence and context that may lead to adjustments of risk ratings are available in a published information sheet on TEQSA's website, and may be updated from time to time.

Noting that innovation often involves a degree of risk, a provider may choose to demonstrate that the level of risk is acceptable in its circumstances.

# Outcomes of Risk Assessments

## Actions in Response to Risk Assessments

A final risk assessment will typically identify action in line with the following:

<b>No action</b>	If no significant risks are identified overall, or risks are already known to TEQSA with a response already in place (such as additional reporting requirements), then TEQSA will not take any action in response to the risk assessment. The risk assessment will continue to be updated annually.
<b>Recommendation</b>	TEQSA may recommend that the provider closely monitor identified risks and/or put in place appropriate controls or improvement strategies. A recommendation arising from a risk assessment does not constitute a formal condition on registration.
<b>Request for Information</b>	TEQSA may identify risks that require further consideration by TEQSA. In such cases, TEQSA may seek additional information from the provider so that TEQSA may determine if further action is necessary. Requests for information may also be used to monitor identified risks between risk assessment cycles.
<b>Regulatory action (e.g. compliance assessment or conditions)</b>	If TEQSA identifies significant risks, it may determine that regulatory action is necessary outside a scheduled assessment process. This may include, for example, undertaking a compliance assessment to satisfy TEQSA that the provider continues to comply with the Threshold Standards, or imposing formal conditions on registration.
<b>To be considered in scheduled assessment process</b>	If the provider has a scheduled assessment process (e.g. re-registration), TEQSA may indicate that risks identified in the risk assessment will be considered further in that process rather than identify additional action at that time.

## Links with Scheduled Assessment Processes

A risk assessment is one input to inform the scope of evidence required in renewal of registration or course accreditation processes.

If a provider is evaluated as low risk overall in relation to Risk to Students and Risk to Financial Position (and satisfies other criteria), then the application and assessment process focuses on reduced core evidence requirements. If a provider is evaluated as presenting a high or moderate risk overall in relation to Risk to Students and/or Risk to Financial Position, then the scope of the assessment process may be expanded. In exceptional circumstances, an expansion may be considered necessary where a provider is evaluated as low risk overall, but a significant trend or specific issue is identified. TEQSA case managers determine the scope and discuss requirements with the providers.

Further information about TEQSA's approach to tailored renewal of registration and course accreditation processes is available on the TEQSA website.

It should be noted that, as scheduled assessment processes are more in-depth and consider wider evidence, it is possible for a scheduled assessment to identify compliance issues that had not previously been identified as potential risks in a TEQSA risk assessment.

# Administration

## Privacy and Confidentiality

Given the potential sensitivity of risk assessments and associated documents, provider risk assessments are treated confidentially by TEQSA. Risk assessments and associated documents relating to individual providers are not publically released by TEQSA or shared with other providers. Similarly, a TEQSA risk assessment is to be treated confidentially by the provider, noting that the provider may not publish a risk assessment or make it available to any person other than those employed by the provider. TEQSA may share risk assessments with other government agencies (refer to 'Information Sharing').

While TEQSA has certain statutory obligations of confidentiality, pursuant to Division 2 of Part 10 of the TEQSA Act, providers should note that TEQSA also operates within a public accountability framework. This includes obligations:

- ▶ to provide information to Ministers, the Parliament or Parliamentary Committees.
- ▶ under the *Freedom of Information Act 1982*, the *Auditor-General Act 1997*, and the *Ombudsman Act 1976*.
- ▶ to provide reasons for TEQSA's decisions, or details about TEQSA's activities, including in the context of court or tribunal proceedings.

If TEQSA receives a request to provide an applicant's confidential information, TEQSA will endeavour to consult the applicant, and to provide the applicant with an opportunity to make submissions on whether TEQSA should release the information. However, in certain cases this course of action may not be possible.

## Freedom of Information

TEQSA is subject to the *Freedom of Information Act 1982* (the FOI Act). TEQSA will respond to requests for access in accordance with the requirements of the FOI Act. For further details on FOI, please consult the TEQSA website:

<http://teqsa.gov.au/about/freedom-information>.

## Information Sharing

A key function of TEQSA's establishment as the national higher education quality assurance agency includes disseminating information about higher education providers and their awards. This function is specified in paragraph 134 (1) (e) of the TEQSA Act, which notes that TEQSA may collect, analyse, interpret and disseminate information relating to higher education providers, regulated higher education awards and for quality assurance practice and improvement in higher education.

To provide a broad overview on risks in the higher education sector and to share information on good practices, TEQSA may publish high-level sector analyses. Any analysis that is published will be at a high level only and will not contain any provider level risk information. Information on risks in the sector and good practices may also be shared through information sheets on TEQSA's website and presentations at TEQSA provider roundtables.

TEQSA may share risk assessments, or components of risk assessments, with other Commonwealth agencies (eg Australian Skills Quality Authority and the Department of Education and Training) where there is an established need and where it reduces the reporting or compliance burden on providers. Any sharing of risk assessments with other Commonwealth agencies will be established under appropriate arrangements (eg Memoranda of Understanding or Information Sharing Protocols) with the relevant agency.

In considering any requests to share risk assessments or their components, TEQSA will give due regard to all confidentiality provisions through which the agency obtained this information from a provider. This means that risk assessments would not contain identifying personal information on individual members of organisations, their staff or students.

# Appendix 1: Risk Indicators, Description of Risk and Links to Standards

## Risk indicators

Risk Indicator	Description of Risk	Mapping with Threshold Standards and ESOS Act/National Code*
<b>Student Profile and Outcomes</b>		
<b>1 Cohorts completed</b>	<p>An entity that has recently commenced delivery as a higher education provider carries initial operational, business and quality risks. For example, meeting student projection targets, meeting financial targets, whether infrastructure and staff resources are maintained with the rate of student growth, and whether governance bodies successfully implement key policies and quality assurance activities. In counting the number of cohorts completed the measure will be at the institutional level (as opposed to course level).</p> <p>Where applicable, attention will also be given to recently registered CRICOS locations, with any previous track record of establishing and managing new locations given consideration.</p>	<p>PRS 1 – Provider standing</p> <p>PRS 2 – Financial viability and sustainability</p> <p>PRS 5 – Management and human resources</p> <p>PRS 7 – Physical and electronic resources and infrastructure</p> <p>EA Part 2, Division 3, Section 9AB (1)(f)</p> <p>NC Standard 14: Staff capability, educational resources and premises</p>
<b>2 Student load</b>	<p>A significant increase in student load has the potential to impact on the quality of student experience unless planned for and managed, for example, through adequate investment in infrastructure, academic teaching staff, student support and teaching and learning resources.</p> <p>Factors that may be considered in assessing this indicator include, for example, the provider's strategic planning objectives, student support arrangements and capacity to accommodate and manage changes in student population. Consideration is also given to trends in student load prior to the application of a rating.</p>	<p>PRS 2 – Financial viability and sustainability</p> <p>PRS 5 – Management and human resources</p> <p>PRS 6 – Responsibilities to students</p> <p>PRS 7 – Physical and electronic resources and infrastructure</p> <p>PCAS 2 – Course resourcing and information is adequate</p> <p>NC Standard 2 – Student engagement before enrolment</p>

\* Potential links to the Threshold Standards and ESOS Act/National Code may vary depending on the nature and context of the risk identified. This mapping is therefore not exhaustive of all possible scenarios and is a guide only.

3	<p><b>Attrition rate</b></p> <p>High attrition rate / low progression rate / or low or significantly decreasing completions, each indicate potential quality issues in admission processes, teaching and learning processes, and overall student experience.</p> <p>Factors that may be considered in assessing attrition, progress and completion indicators include for example, trend, graduate satisfaction measures, or relevant programs in place to increase retention / assist student progress / assist students complete their course.</p> <p>Consideration may also be given to the reasons for attrition, such as the proportion of students who transfer to another higher education provider.</p>	<p>PRS 3 – Corporate and academic governance</p> <p>PRS 4 – Primacy of academic quality and integrity</p> <p>PRS 5 – Management and human resources</p> <p>PRS 6 – Responsibilities to students</p> <p>PCAS 3 – Admission criteria are appropriate</p> <p>PCAS 4 – Teaching and learning are of high quality</p> <p>PCAS 5 – Assessment is effective and expected learning outcomes are achieved</p> <p>NC Standard 6 – Student support service</p> <p>NC Standard 10 – Monitoring course progress</p> <p>NC Standard 11 – Monitoring attendance</p> <p>See mapping for attrition rate</p>
4	<p><b>Progress rate</b></p> <p>See description for attrition rate</p>	<p>See mapping for attrition rate</p>
5	<p><b>Completions</b> (by Undergraduate / Postgraduate Coursework and Higher Degree by Research, as applicable)</p>	<p>See description for attrition rate</p>
6	<p><b>Graduate Satisfaction</b> (by Undergraduate / Postgraduate Coursework and Higher Degree by Research, as applicable)</p> <p>Low graduate satisfaction across the institution reflects overall student experience and signals potential issues in relation to the quality of the course. For example, the level of staff and support available to students, the quality of teaching, and adequacy of learning resources. Poor graduate satisfaction may also impact future market demand.</p> <p>Academic staff indicators may provide important context in considering this indicator. Consideration may also be given to survey sample size and overall response rates.</p>	<p>PRS 3 – Corporate and academic governance</p> <p>PRS 5 – Management and human resources</p> <p>PRS 6 – Responsibilities to students</p> <p>PCAS 2 – Course resourcing and information are adequate</p> <p>PCAS 4 – Teaching and learning are of high quality</p> <p>NC Standard 6 – Student support services</p>

<p><b>7 Graduate destinations</b></p>	<p>Very low employment or further study rates signal that students may not be well-equipped with the necessary graduate attributes to successfully transition into the next stage of their chosen profession or study. Factors such as fields of education, provider mission, location, survey sample size and response rates may also be considered when rating this indicator.</p>	<p>PRS 3 – Corporate and academic governance  PRS 5 – Management and human resources  PRS 6 – Responsibilities to students  PCAS 5 – Assessment is effective and expected learning outcomes are achieved  NC Standard 6 – Student support services  NC Standard 14 – Staff capability, educational resources and premises</p>
<b>Staff Resources and Profile</b>		
<p><b>8 Senior academic leaders</b></p>	<p>A relatively low number of senior academic leaders embedded within the organisation may compromise the strength of the organisation's academic capability. Senior academic leaders typically make a strong contribution to key academic policies for the organisation, internal quality review, supervise staff and show professional leadership in their field of expertise.</p> <p>In assessing risk in relation to senior academic leaders, consideration may be given to context such as the size and scope of a provider's operations, and a close institutional relationship with another higher education provider.</p>	<p>PRS 4 – Primacy of academic quality and integrity  PRS 5 – Management and human resources  PCAS 1 – Course design is appropriate and meets the Qualification Standards  PCAS 4 – Teaching and learning are of high quality</p>
<p><b>9 Student to staff ratio (SSR)</b></p>	<p>A high ratio of students to teaching and learning staff provides a broad indication of potential constraints on the level of support available to students, the quality of the learning experience for students, and the average teaching workload. It is not proposed here as a proxy for class size.</p> <p>In assessing risk in relation to SSR, consideration may be given to context such as trend, delivery model and mode, and relevant insights offered by other indicators relating to student outcomes and experience.</p>	<p>PRS 5 - Management and human resources  PRS 6 - Responsibilities to students  PCAS 4 - Teaching and learning are of high quality  NC Standard 14 – Staff capability, educational resources and premises</p>

## 10 Academic staff on casual work contracts

It is important for the provider to ensure that casual staff have adequate access to resourcing and support and are given the opportunity to integrate into the academic culture of the organisation. A significantly high proportion of casual staff increases the risk of these staff not being appropriately supported and resourced to provide a continuity of support for students, anchor academic activities, engage in scholarly activities, and be active contributing members in a community of scholarship.

In assessing risk in relation to casual staff, consideration may be given to context such as trend, field of education (including the need for staff currently practicing in the area of expertise), delivery model or use of current industry professionals in specialist areas, in conjunction with strategies in place to support the engagement of casual staff and their ongoing professional development. Consideration may also be given to insights offered through other indicators, such as those relating to student outcomes and experience. This indicator does not propose that staff on casual contracts are less qualified or less able to deliver quality teaching than permanent staff, but rather reflects inherent risks around mechanisms for effective integration and engagement.

PRS 4 – Primacy of academic quality and integrity  
PRS 5 – Management and human resources  
PCAS 1 – Course design is appropriate and meets the Qualification Standards  
PCAS 4 – Teaching and learning are of high quality  
NC Standard 14 – Staff capability, educational resources and premises

## Financial Viability and Sustainability

### 11 Financial viability

This composite indicator considers risk to a provider's current and immediate-to short-term strength and capacity. Measures included within this indicator include profitability, liquidity, gearing, debt servicing and cash flow.

- i. Operating Profit Margin %: Provides an indication of the provider's ability to manage revenues and control expenses in order to generate a surplus which can be used in the future to support the capacity of the provider to sustain its higher education operations.*
- ii. Liquidity: Provides an indication of the provider's capacity to meet financial obligations within its ordinary operating cycle.*
- iii. Total Liabilities-to-Tangible Assets: Provides an indication of assets available to satisfy the provider's financial obligations.*
- iv. Debt Service Coverage: For providers with borrowings, provides an indication of the provider's capacity to amortise and service the debt whilst reinvesting in the fixed assets of the business.*
- v. Operating Cash Flow Ratio: Provides an indication of the provider's capacity to meet current financial obligations based on the cash flow generated from its operations*

The corporate structure and ownership model as well as the financial resources available through affiliated or related parties may be considered in applying a rating.

PRS 2 – Financial viability and sustainability  
EA Part 2, Division 3, Section 9AB (1)(f)

## 12 Financial sustainability

This indicator provides a longer-term view of a provider's strength and capacity and its ability to exhibit structural characteristics which support operating endurance. Measures are generally analysed over a three-year period and cover revenue changes, assets, employee benefits, enrolments and revenue diversification.

- i. *Change in revenue %: Provides an indication of any change in the level of activity in the provider. Revenue is the key source of operating income for providers and allows the provider to effectively meet higher education objectives. This is measured over a three-year period.*
- ii. *Asset (Capital) replacement: The provider's fixed asset base contributes to the effective delivery of higher education objectives. As assets deteriorate this measure gives an indication of the provider's track record of reinvesting in the fixed asset base over a three-year period.*
- iii. *Change in Employee Benefits Ratio: Staff typically comprises the major cost item for many providers. Staff are critical to the effective achievement of higher education objectives. This measure provides an indication of the change in total staff costs (academic & non-academic staff) relative to the level of activity over a three-year period.*
- iv. *Year on Year change in Commencements (EFTSL): Provides an indication of changes in demand for the provider's offering and its ability to maintain student load and enrolment momentum.*
- v. *Revenue concentration: Diversification of revenue sources allows the provider to reduce financial and business risks by spreading risks across different activities and respond more effectively to changes in its trading environment.*

The corporate structure and ownership model as well as the financial resources available through affiliated entities may be considered in applying a rating.

### - Other identified risk

Allows for a provider-specific risk, for example as identified by a provider through a Material Change Notification or identified by TEQSA through a recent regulatory review process. While TEQSA believes its approach to using the revised indicators above, adjusted for contextual factors, allows for a significant degree of flexibility in the revised framework, it also regards it as important to have the capacity to define and utilise an indicator specifically tailored for a particular provider or situation if this is warranted.

PRS 2 – Financial viability and sustainability

PRS 7 - Physical and electronic resources and infrastructure

NC Standard 14 – Staff capability, educational resources and premises

# Appendix 2: Technical Information on Risk Indicators

## Risk Indicators

Indicator	Description of Measure	Risk Elements	Calculation	Example	Data Source
<b>Student Profile and Outcomes</b>					
1 Cohorts completed	At least three cohorts of students completed and five years of higher education delivery undertaken at the institutional level.	R1 = Number of cohorts completed R2 = Number of years of delivery	R1 < 3 and/or R2 < 5	A provider has been delivering higher education courses for 4 years and has graduated two cohorts of students.	TEQSA/ HEIMS/ PIR*
2 Student load	Based on Department of Education (DoE) Definition: Percentage change of <b>total</b> student load (i.e. all reported students in a higher education course), measured in EFTSL (Equivalent Full-Time Student Load), in the Reference Year over a specified period.	R1 = Total EFTSL for Reference Year R2 = Total EFTSL for Reference Year - 1	% change in student load = $\frac{R1 - R2}{R2} \times 100$	R1 = 150 R2 = 140 Change in Student Load = $\frac{(150 - 140)}{140} \times 100 = 7.1\%$	HEIMS/ PIR
3 Attrition rate	The percentage of first year commencing students (higher education only) in a year who neither complete nor return to study in the following year to the total commencing students. Adjusted attrition rate may be used if available. Trend may also be considered.	R1 = Commencing students (headcount) in Year X (Cohort A) R2 = Cohort A Continuing students (headcount) in Year X + 1 R3 = Completed students (headcount) in Year X (Cohort A)	As per HEIMS Calculation 1st year Attrition Rate = $\frac{R1 - R2 - R3}{R1} \times 100$	R1 = 100 R2 = 90 Attrition Rate = $\frac{(100 - 90)}{100} \times 100$ Attrition rate = 10%	HEIMS/ PIR

\* Tertiary Education Quality and Standards Agency, Higher Education Information Management System and Provider Information Request

<p><b>4 Progress rate</b></p>	<p>Based on Department of Education Definition: The percentage of actual student load (EFTSL) for units of study that are passed to all units of study completed (passed + failed + withdrawn), in the last academic year or 12 month period. Trend may also be considered.</p>	<p>R1 = Actual student load (EFTSL) for units of study that are passed in the last academic year or 12 month period  R2 = Actual student load (EFTSL) for units of study that are failed in the last academic year or 12 month period  R3 = Actual student load (EFTSL) for units of study that are withdrawn in the last academic year or 12 month period</p>	<p>As per HEIMS Calculation  Progress Rate = <math display="block">\frac{R1}{(R1 + R2 + R3)} \times 100</math></p>	<p>R1 = 154  R2 = 27  R3 = 15  Progress rate = <math display="block">\frac{154}{(154 + 27 + 15)} \times 100</math>  = 78.6%</p>	<p>HEIMS/ PIR</p>
<p><b>5 Completions</b>  (by Undergraduate / Postgraduate Coursework and Higher Degree by Research, as applicable)</p>	<p>Based on Department of Education Definition: Percentage change of total Undergraduate (UG) and Post Graduate (PG) Coursework / Higher Degree by Research (HDR) student completions in the Reference Year. Absolute level and trend may also be considered.</p>	<p>R1 = Completions for Reference Year  R2 = Completions for Reference Year - 1</p>	<p>% change in completions = <math display="block">\frac{R1 - R2}{R2} \times 100</math></p>	<p>R1 = 15000  R2 = 14580  Change in Completions = <math display="block">\frac{(15000 - 14580)}{14580} \times 100</math>  = 2.8%</p>	<p>HEIMS/ PIR</p>

**6 Graduate Satisfaction**  
 (by Undergraduate / Postgraduate Coursework and Higher Degree by Research, as applicable)

Mean percentage agreement (agree and strongly agree responses) of Overall Satisfaction Item (OSI) of the (Undergraduate & Postgraduate Coursework) Course Experience Questionnaire (CEQ) administered by Graduate Careers Australia.  
 Mean percentage agreement (agree and strongly agree responses) of Overall Satisfaction Item (OSI) of the (Higher Degree Research only) Postgraduate Research Experience Questionnaire (PREQ) administered by Graduate Careers Australia.

Where providers do not participate in national surveys, other survey results and trend may be considered. Generally, to be considered they would achieve a minimum response rate of 35% for the relevant cohort and broadly conform to the definitions in this table (i.e. are a measure of overall course satisfaction).

R1 = Total number of responses to questionnaire in Reference Year  
 R2 = number of positive responses to questionnaire (i.e. the number of responses above a neutral response. Could be "moderately agree, agree, somewhat agree, strongly agree".

Mean percentage agreement =  $\frac{R2}{R1} \times 100$

**Example 1:** based on 5 point GCA questionnaire  
 No of response:  
 Strongly Disagree = 10  
 Disagree = 20  
 Neutral = 30  
 Agree = 10  
 Strongly Agree = 20  
 Total number of responses = 90  
 R1 = 90  
 R2 = Agree + Strongly Agree = 10 + 20 = 30  
 $= \frac{R2}{R1} \times 100 = 33.33\%$

**Example 2:** based on 7 point Provider questionnaire

No of response:  
 Strongly Disagree = 10  
 Disagree = 15  
 Moderately Disagree = 20  
 Neutral = 10  
 Moderately Agree = 30  
 Agree = 60  
 Strongly Agree = 10  
 Total number of responses = 155  
 R1 = 155  
 R2 = Moderately Agree + Agree + Strongly Agree = 30 + 60 + 10 = 100  
 $= \frac{100}{155} \times 100 = 64.5\%$

\* Graduate Careers Australia (GCA)

<p><b>7 Graduate destinations</b></p>	<p>Percentage of bachelor graduates in full-time employment or full-time study</p> <p>Graduate Destination Survey (GDS) mean full-time employment of those seeking full-time employment, and further study of those seeking further study.</p> <p>Where providers do not participate in national surveys, other survey results and trend may be considered. Generally, to be considered they would achieve a minimum response rate of 35% for the relevant cohort and broadly conform to the definitions in this table (i.e. are a measure of graduate destinations).</p>	<p>R1 = Total number of responses to questionnaire</p> <p>R2 = Total number in full time employment</p> <p>R3 = Total number in full time study</p> <p>R4 = the number of students who did not want to pursue further study or full time employment</p>	<p>Percentage of bachelor degree graduates in full-time employment or full-time study</p> $= \frac{(R2 + R3)}{(R1 - R4)} \times 100$ $= \frac{(40 + 20)}{(100 - 5)} \times 100 = 63\%$	<p>R1 = 100</p> <p>R2 = 40</p> <p>R3 = 20</p> <p>R4 = 5</p> <p>Percentage of bachelor degree graduates in full-time employment or full-time study</p> <p>GCA/PIR</p>
<p><b>Staff Resources and Profile</b></p>				
<p><b>8 Senior academic leaders</b></p>	<p>The ratio of the total academic staff (headcount), at Levels D and E (or equivalent as coded in the PIR), or above, to the number of ASCED BFOEs offered.</p> <p>Equivalency in terms of qualifications, experience and duties may also be considered, as may salary levels.</p>	<p>R1 = Above Senior Lecturer (headcount)</p> <p>R2 = Number of BFOEs</p>	<p>Ratio of Senior Academic Leaders (headcount) to the number of BFOE offered =</p> $\frac{R1}{R2} : 1$	<p>R1 = 548</p> <p>R2 = 9</p> <p>Ratio of total academic staff (headcount) at Levels D and E (or equivalent as coded in the PIR), or above, to the number of BFOEs offered</p> $= \frac{548}{9} : 1$ $= 60.9 : 1$ <p>HEIMS/PIR</p>
<p><b>9 Student to staff ratio</b></p>	<p>The ratio of total onshore coursework student load (EFTSL) to total onshore teaching only (TO) and teaching and research (T&amp;R) staff full time equivalent (FTE) employed by the provider, including casuals.</p> <p>Consideration may be given to trend and offshore SSR data where available.</p>	<p>R1 = Total onshore coursework EFTSL in the Reference Year</p> <p>R2 = Total onshore Academic FTE with either a TO or T&amp;R function employed in the Reference Year</p>	<p>Student to Staff Ratio =</p> $\frac{R1}{R2} : 1$	<p>R1 = 124.2</p> <p>R2 = 5.7</p> <p>Student to Staff Ratio = 21.8 : 1</p> <p>HEIMS/PIR</p>

<p><b>10 Academic staff on casual work contracts</b></p>	<p>The percentage of academic FTE employed on a basis other than full time or fractional full time to total academic FTE employed on a full time or fractional full time basis by a provider.</p> <p>Trend may also be considered.</p>	<p>R1 = Total Academic FTE R2 = Total Academic FTE less full time and fractional full time staff</p> $\frac{R2}{R1} \times 100\%$	<p>% casual academic FTE to total academic FTE =</p> $\frac{(200)}{(1700)} \times 100\%$ <p>% casual academic FTE to total academic FTE = 11.76%</p>	<p>R1 = 1700 R2 = 200</p>	<p>HEIMS/ PIR</p>
<p><b>Financial Viability and Sustainability</b></p>					
<p><b>11 Financial viability</b></p>	<p>i. Net result; Adjusted Revenue ii. Current assets; Current liabilities iii. Tangible assets; Total liabilities iv. Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) ; Cash outflows for property, plant and equipment; Interest expense; Tax expense v. Operating cash flow; Current liabilities</p>	<p>FV = Financial Viability indicator FV1 = Operating profit margin % FV2 = Liquidity FV3 = Total Liabilities-to-Tangible Assets FV4 = Debt Service Coverage FV5 = Operating cash flow ratio</p> <p>a = weighting for FV1 b = weighting for FV2 c = weighting for FV3 d = weighting for FV4 e = weighting for FV5</p>	<p>FV = (FV1 x a) + (FV2 x b) + (FV3 x c) + (FV4 x d) + (FV5 x e)</p> <p>N/A</p> <p>DoE*/ PIR</p>		

\* Department of Education

<i>Operating profit margin %</i>	<p>Net Result (Profit/Loss or Surplus/Deficit) excluding:</p> <ul style="list-style-type: none"> <li>- Abnormal or non-recurring items. This may include items such as asset revaluations or significant restructuring costs.</li> </ul> <p>Adjusted Revenue is total revenue excluding:</p> <ul style="list-style-type: none"> <li>- Capital grants</li> <li>- Abnormal or non-recurring items</li> </ul>	<p>NR = Net Result</p> <p>AR = Adjusted Revenue</p>	$FV1 = \left( \frac{NR}{AR} \right) \times 100$	<p>NR = \$122,959</p> <p>AR = \$1,424,363</p> <p>FV1 = 8.63%</p>	DoE/PIR
<i>Liquidity</i>	<p>Current Assets (Excluding related party loans/receivables)</p> <p>Current Liabilities (Excluding related party loans/payables)</p>	<p>CA = Current Assets (Excluding related party loans/receivables)</p> <p>CL = Current Liabilities (Excluding related party loans/payables)</p>	$FV2 = \frac{CA}{CL}$	<p>CA = \$304,374</p> <p>CL = \$343,316</p> <p>FV2 = 0.89</p>	DoE/PIR
<i>Total Liabilities-to-Tangible Assets</i>	<p>Tangible assets (Excluding related party loans/receivables)</p> <p>Total liabilities (Excluding related party loans/payables)</p>	<p>TA = Tangible assets (Excluding related party loans/receivables)</p> <p>TL = Total liabilities (Excluding related party loans/payables)</p>	$FV3 = \left( \frac{TL}{TA} \right) \times 100$	<p>TL = \$150,000</p> <p>TA = \$750,000</p> <p>FV3 = 20%</p>	DoE/PIR
<i>Debt Service Coverage</i>	<p>Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)</p> <p>Cash outflows for property, plant &amp; equipment</p> <p>Finance cost</p> <p>Cash Outflow for Repayment of Borrowings</p>	<p>EBITDA = Earnings before Interest, Tax, Depreciation and Amortisation</p> <p>COPPE = Cash Outflows for property, plant &amp; equipment</p> <p>FIN = Finance cost</p> <p>CORB = Cash Outflow for Repayment of Borrowings</p>	$FV4 = \frac{(EBITDA - COPPE)}{(FIN + CORB)}$	<p>EBITDA = \$500,711</p> <p>COOPE = \$223,997</p> <p>FIN = \$4,340</p> <p>CORB = \$223,997</p> <p>FV4 = 1.21</p>	DoE/PIR
<i>Operating cash flow ratio</i>	<p>Operating cash flow (excluding dividends received and interest received)</p> <p>Current liabilities (Excluding related party loans/payables)</p>	<p>OCF= Operating cash flow</p> <p>CL = Total current liabilities (Excluding related party loans/payables)</p>	$FV5 = \frac{OCF}{CL}$	<p>OCF = \$276,728</p> <p>CL = \$343,316</p> <p>FV5 = 0.81</p>	DoE/PIR

12 Financial sustainability*	DoE/PIR	DoE/PIR
<p>i. Adjusted Revenue</p> <p>ii. Cash outflows for property, plant and equipment; Depreciation</p> <p>iii. Total Employee benefits expense; Adjusted Revenue</p> <p>iv. Current year commencing EFTSL; Prior year commencing EFTSL</p> <p>v. Maximum revenue source; Adjusted Revenue</p>	<p>FS = Financial Sustainability indicator</p> <p>FS1 = Change in Revenue %</p> <p>FS2 = Asset (Capital) Replacement</p> <p>FS3 = Change in Employee Benefits Ratio</p> <p>FS4 = YoY Change in Commencements (EFTSL)</p> <p>FS5 = Revenue Concentration</p> <p>f = weighting for FS1</p> <p>g = weighting for FS2</p> <p>h = weighting for FS3</p> <p>i = weighting for FS4</p> <p>j = weighting for FS5</p>	<p>FS = (FS1 x f) + (FS2 x g) + (FS3 x h) + (FS4 x i) + (FS5 x j)</p> <p>N/A</p>
<p>Adjusted Revenue is total revenue excluding:</p> <ul style="list-style-type: none"> <li>- Capital grants</li> <li>- Abnormal or non-recurring items</li> </ul>	<p>AR = Adjusted Revenue</p> <p>AR<sub>n-2</sub> = Adjusted Revenue 2 years prior to current year</p> <p>AR<sub>n-1</sub> = Adjusted Revenue 1 year prior to current year</p> <p>AR<sub>n</sub> = Current Year Adjusted Revenue</p>	<p>AR<sub>n-2</sub> = \$500,000</p> <p>AR<sub>n-1</sub> = \$520,000</p> <p>AR<sub>n</sub> = \$560,000</p> <p>FS1 = 5.8%</p> $\Delta_1 = \frac{AR_{n-1} - AR_{n-2}}{AR_{n-2}}$ $\Delta_2 = \frac{AR_n - AR_{n-1}}{AR_{n-1}}$ $FS1 = \left( \frac{\Delta_2 + \Delta_1}{2} \right) \times 100$

\* Please note: Minor corrections have been made to some of the financial sustainability equations, as at 23 June 2014.

Asset (Capital) Replacement	Cash outflows for property, plant & equipment Depreciation	COPPE = Cash Outflows for property, plant & equipment Depn = Depreciation n = current year figure	$FS2 = \frac{\left(\frac{COPPE_n}{Depn_n}\right) + \left(\frac{COPPE_{n-1}}{Depn_{n-1}}\right) + \left(\frac{COPPE_{n-2}}{Depn_{n-2}}\right)}{3}$	COPPE <sub>n</sub> = \$100,000 COPPE <sub>n-1</sub> = \$120,000 COPPE <sub>n-2</sub> = \$90,000 Depn <sub>n</sub> = \$90,000 Depn <sub>n-1</sub> = \$100,000 Depn <sub>n-2</sub> = \$110,000 FS2 = 1.04	DoE/PIR
Change in Employee Benefits Ratio	Total Employee Benefits Expense Adjusted Revenue is total revenue excluding: - Capital grants - Abnormal or non-recurring items	TEBE = Total Employee benefits expense AR = Adjusted Revenue n = current year figure	$x = \frac{TEBE_{n-2}}{AR_{n-2}}$ $y = \frac{TEBE_{n-1}}{AR_{n-1}}$ $z = \frac{TEBE_n}{AR_n}$ $FS3 = \left(\frac{(z - y) + (y - x)}{2}\right) \times 100$	TEBE <sub>n</sub> = \$15,000,000 TEBE <sub>n-1</sub> = \$18,500,000 TEBE <sub>n-2</sub> = \$19,000,000 AR <sub>n</sub> = \$30,000,000 AR <sub>n-1</sub> = \$35,000,000 AR <sub>n-2</sub> = \$36,000,000 FS3 = -1.4%	DoE/PIR
YoY Change in Commencements (EFTSL)	Current year Commencing EFTSL Prior year Commencing EFTSL	CN = Commencing EFTSL n = current year figure	$\Delta_1 = \frac{(CN_n) - (CN_{n-1})}{CN_{n-1}}$ $\Delta_2 = \frac{(CN_{n-1}) - (CN_{n-2})}{CN_{n-2}}$ $FS4 = \left(\frac{\Delta_1 + \Delta_2}{2}\right) \times 100$	CN <sub>n</sub> = 1200 CN <sub>n-1</sub> = 1250 CN <sub>n-2</sub> = 1400 FS4 = -7.4%	DoE/PIR

<i>Revenue Concentration</i>	Largest revenue source. Revenue is sub-totalled into the following categories: Higher education – Domestic: Revenue earned by the provider from the delivery of its own higher education courses to domestic students. Higher education – International: Revenue earned by the provider from the delivery of its own higher education courses to international students (onshore and offshore). Higher education – Third Party Delivery: Revenue earned by the provider from the delivery of another provider's higher education courses. Non-higher education – Domestic: Revenue earned by the provider from the delivery of its own non-higher education courses (such as VET) to domestic students. Non-Higher Education – International: Revenue earned by the provider from the delivery of its own non-higher education courses (such as VET or ELICOS) to international students. Government Grants: Revenue from Commonwealth, State or Local government sources (excludes Capital and infrastructure grants) Donations: Revenue earned from donations and bequests made to the provider. Other: Other revenue earned by the provider such as non-education related commercial activities or investment income. Adjusted Revenue is total revenue excluding: - Capital grants - Abnormal or non-recurring items	LRS = Largest Revenue Source AR = Adjusted Revenue	FS5 = $\left(\frac{\text{LRS}}{\text{AR}}\right) \times 100$	LRS = 798,998 AR = 1,424,363 FS5 = 56.1%	DoE/PIR
- Other identified risk					