

Review of the Allocation Model for
Funding Higher Education Institutions

Working Paper 7: The System Performance Framework
and its Link to Performance Funding

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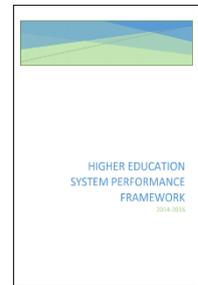
1. Overview

A key feature of the educational landscape in Ireland is the strategic dialogue and performance framework that helps to steer higher education towards key national objectives. This paper provides an overview of the performance funding component and strategic dialogue process that is currently operated by the Higher Education Authority (HEA). In order to decide how performance funding should evolve in Ireland, it is first necessary to understand the context in which it has evolved. Thus, the HEA's rationale for developing this approach, complementing the existing Recurrent Grant Allocation Model (RGAM) and free fees funding, is explored herewith.

2. Performance funding – the essential elements

When performance funding was implemented in Ireland, a new funding relationship between Higher Education Institutions (HEIs) and the HEA was effectively introduced. In so doing, this mechanism complemented and built upon the existing HEA funding allocation system. The performance-funding approach in Ireland has three key elements:

- 1) An overarching set of national strategic objectives for the sector to deliver, as outlined in the *Higher Education System Performance Framework*.¹
- 2) A 'compact' agreement between each HEI and the HEA which sets out major strategic goals for each institution and provides measures for assessing progress and performance.²
- 3) An overview role for the HEA that assigns it responsibility to:
 - Oversee each individual HEI's progress against its own goals and, if appropriate, to withhold funding where progress is unsatisfactory;
 - Report to the Minister for Education and Skills regarding system-wide progress on the overarching set of objectives; and
 - Advise the Minister on system changes that may be required (funding, policy or regulatory) to better enable the system to deliver on those goals.³



Having this system in place ensures that there is direct accountability for delivery of a series of defined, high-level objectives both by individual institutions and by the sector in its entirety.

3. Process

The compact process commenced in 2013 with the publication by the Minister for Education and Skills of the *Higher Education System Performance Framework*, which sets out a range of national system objectives across key policy areas. The framework notes essential enabling actions that need to be put in place to ensure that these objectives can be delivered. Objectives relate to the broad role of higher education, encompassing such areas as skills development, widening access, and excellent teaching, learning and research. Framework objectives are set at a high level and give considerable freedom to

¹ DES: *Higher Education System Performance Framework, 2014-16*, 2013. See <https://www.education.ie/en/The-Education-System/Higher-Education/HEA-Higher-Education-System-performance-Framework-2014-2016.pdf>.

² See, for example, the Maynooth University compact: http://www.heai.ie/sites/default/files/nuim_compact_050614_final_editsdocx.pdf.

³ See details of the most recent system report of the HEA to the Minister for Education and Skills here: <http://www.heai.ie/news/minister-bruton-publishes-performance-report-ireland%E2%80%99s-higher-education-system>.

institutions regarding how they deliver performance in these areas. Arising from the publication of the framework, the HEA invited HEIs to submit compacts, which were to be structured on a rolling three-year basis. The HEA provided a template and guidelines to assist institutions in their preparation of the compact.

The essential aim of the compact was to invite each HEI to set out specific objectives under seven principal domains:

- 1) Regional clusters.
- 2) Participation, equal access and lifelong learning.
- 3) Excellent teaching and learning and quality of student experience.
- 4) High quality, internationally competitive research and innovation.
- 5) Enhanced engagement with enterprise and the community and embedded knowledge exchange.
- 6) Enhanced internationalisation.
- 7) Institutional consolidation.



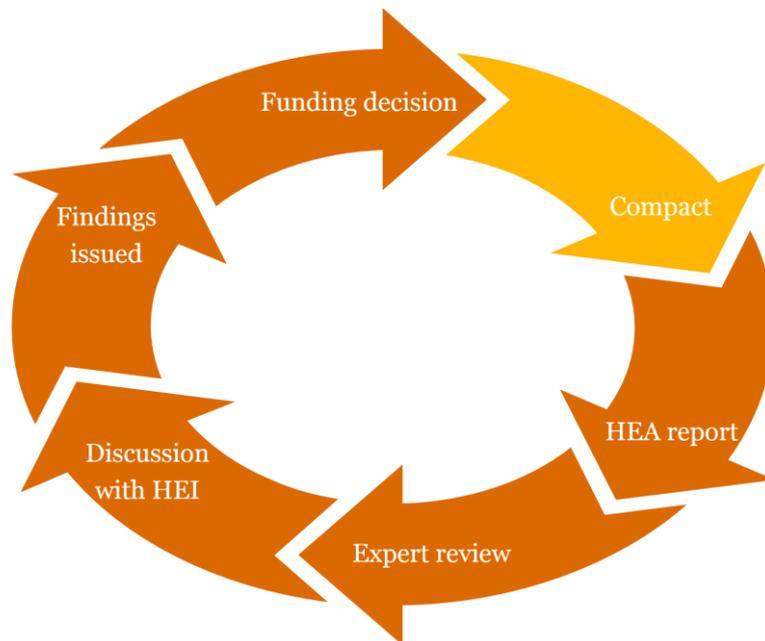
In preparing the compact, the HEI would necessarily have regard to both the Minister’s high-level objectives and to the strategic priorities of the institution. Notably, the process does not require each institution to contribute equally to all principal areas. The ambition was to create a system whereby each institution would seek to achieve excellence in line with its own mission, capabilities and views vis-à-vis the regional, national and international context. The aggregate outcome of the institutional compacts would be that the full set of institutions could be assessed against national objectives. If it transpired that, even after dialogue with institutions, an important objective was not being adequately met, the HEA would then be in a position to intervene with policy or regulatory changes to steer the system to better meet those needs. To date, such system-level intervention has not been necessary. However, this does not indicate that higher education is fully meeting all demands placed upon it; instead, it reflects that, in a context of diminishing per-student funding, the capacity of the sector to achieve more is severely limited.

The compact process is aligned with the HEA’s collation and monitoring of institutional profile data. An up-to-date statistical profile was given to each institution to underpin its compact submission.⁴ In so doing, this assists the institution in positioning its own profile within the context of the overall sector or of other relevant institutions. In addition to the compact, the HEA requests that institutions provide an outline of their expected profile over the following three years to facilitate understanding

⁴ For example, see HEA: *Higher Education System Performance Institutional and Sectoral Profiles, 2012-13*, November 2015, http://www.heai.ie/sites/default/files/institutional_profiles_2012-13_pdf_version.pdf.

of the overall sectoral direction and to consider this within the context of the demand for higher education, progress on access targets, internationalisation, etc.

Since its introduction in 2013, the step-by-step HEA process for agreement and subsequent review of compacts is as follows:



- 1) The HEI submits a proposed compact (in the first year of the process) or a self-evaluation of progress (in subsequent years) against agreed targets.
- 2) The HEA executive team undertakes a review of the proposed compact or the self-evaluation and prepares a report outlining the HEA's view of strengths, weaknesses and issues for further discussion with the HEI in question.
- 3) The HEA convenes a small group of national and international experts in higher education with expertise in institutional leadership and/or institutional evaluation to review the HEA reports.
- 4) Following the latter review and any necessary amendments, the HEA issues its review to the HEI, with an outline agenda for discussion.
- 5) Following that meeting, the HEA issues its findings, either to agree the compact (in the first year) or on progress against objectives (in subsequent years).
- 6) If performance is deemed to be very poor, the HEA may withhold an element of the grant that would otherwise have been received by the HEI. The amount held back is not 'set in stone' but is guided by the principle that it must be large enough to effect behavioural change but not so large as so endanger institutional stability. The framework currently allows for up to 10% of institutional funding to be withheld on the basis of performance as measured against the 3-year compacts.
- 7) In such an instance, the HEI concerned has an opportunity to revert to the HEA with a revised compact within 3 months, which addresses issues raised by the HEA and sets out appropriate changes. This could take the form of either demonstrated performance improvement or changes in strategy: for example, in terms of the number of priorities selected, or the ambition of performance being sought. The HEA may, if satisfied with that change, restore funding.
- 8) Following an opportunity for any final submissions to query issues of fact, the HEA then publishes its findings.

4. Context for introduction of performance funding/strategic dialogue

The imperative for reform and introduction of performance funding in Ireland was shaped by several contextual factors, including the following:

a. International competitiveness

There was a recognition that Irish HEIs increasingly competed for funding, students and staff with international HEIs and needed to improve performance to be able to compete effectively.

b. Institutional diversity

There was concern that the system could evolve to a situation where all institutions sought to replicate each other in terms of undergraduate offerings and postgraduate activity, which would imperil the ability of the system to meet the diverse needs of Irish students, society and the economy.

c. Accountability for performance

There was a need for a better system to demonstrate to wider society how Irish HEIs were meeting national needs and to demonstrate the value for money that was being achieved through public investment in higher education.

These factors provided key context to the development of the HEA's performance-funding mechanism.

5. Role of RGAM in development of performance funding

In considering how best to address these issues and to introduce an overt performance-funding element, a first step was to consider how to incorporate this into or alongside the Recurrent Grant Allocation Model (RGAM).

The pre-existing RGAM and associated free fees allocation system was deemed to be relatively simple, clear and transparent in its operation. The RGAM had built-in features which encourage student enrolment and retention by only counting students who are present well into their academic year of study. It has also built in measures to provide incentives for research activity in universities (through the 5% research top slice) and for widening access (providing a 33% weighting to recognise extra costs incurred in supporting students from under-represented groups). Furthermore, the HEA can top slice funding in response to imperatives, particularly a scenario where higher-education capacity needs to be built up quickly to meet student and employer demand in certain disciplines.

However, the RGAM, free fees and top-slice funding were silent on overall strategic direction and performance of institutions. For example, institutions could choose to launch new undergraduate programmes or initiate new research activity without any form of guidance or oversight. Inevitably, this raised concerns about duplication of activity. More generally, institutions could operate without any overarching strategy to guide activity but simply respond to ongoing opportunities. Finally, the RGAM did not provide a basis to measure wider institutional performance or ongoing improvement in that performance.

6. Extending the RGAM to provide for greater impetus for performance?

Several possible performance-funding approaches were considered. Specifically, the extension of the RGAM to provide additional metrics which would inform funding allocations was considered. These

metrics could cover broad domains such as teaching, knowledge transfer, and internationalisation. However, as discussed below, some key doubts and questions arose.

a. *Are there sufficiently robust indicators available to measure progress in these areas?* In many instances, there was a strong policy case for encouraging different types of activity but significant problems with finding clear, transparent data that would effectively quantify the activity. For example, Knowledge Transfer Ireland provides an annual report of knowledge-transfer activity by institutions in the form of patents, licenses, spin-outs, etc.⁵ However, the range of ways in which knowledge transfer happens is very diverse and depends on the type of institution being considered. A significant range of metrics would need to be introduced, with provision to distinguish between types of institutions' activity. This would significantly reduce the simplicity of the model, and would run risks of creating undesirable effects, as institutions would undertake different sorts of behaviour that might not align with their mission or capabilities to pursue extra funding.

b. *How would the principle of institutional diversity be accommodated in such a situation?* The RGAM, as it stood, did not provide for institutional diversity; all institutions were funded according to their student numbers and benchmarked against each other within their sectors. If the scope of the indicators in the RGAM were widened significantly and institutional diversity were still to be encouraged, it would need a very comprehensive set of indicators per domain, which would reflect the different capacities and roles of institutions in delivering against those domains. For example, a broad range of metrics would necessarily create the capacity for a small Institute of Technology with little research activity to adopt a measure like consultancy, where a big IoT with a large research programme might wish to measure patents or spin outs. Even in that context, there would be a concern that the inclusion of new domains in the RGAM would require each institution to participate in the domain to some degree, regardless of whether it was a priority for the institution or how it fitted institutional strategy.

c. *Is there a trade-off between a more prescriptive funding model and overall institutional effectiveness?* Institutions are aware of the need to manage student numbers to maximise RGAM drawdown, but otherwise retain control over the block grant towards institutional priorities, informed by regional and national needs. The principle is that those who are closest to managing the activity of the institution are by far best placed to use resources intelligently to deliver maximum impact. However, if the RGAM were to have many built-in priorities, each affecting grant allocations, HEIs may lose that control over the block grant as they seek instead to meet the goals of each individual priority. This would also militate against coherent institutional planning to identify and to exploit synergies between different but related activities.

d. *Is there a risk of duplication?* State agencies provide dedicated funding for areas such as research, knowledge transfer, and internationalisation. Adding extra indicators to the RGAM could potentially duplicate those allocations. For example, some HEIs could be successful in earning funding from Enterprise Ireland (EI) for knowledge transfer, which would then lead to extra income from RGAM, while institutions who had not been successful in that allocation from EI would be penalised doubly. In terms of advancing the main objective, HEA funding would only be acting to mirror the EI allocations; it would not be effective in advancing achievement of key objectives.

⁵ KTI: *Review of the outcomes reported in the KTI AKTS 2015*, http://www.knowledgetransferireland.com/About_KTI/Reports-Publications/Review-of-the-Outcomes-Reported-in-the-KTI-AKTS-2015.pdf.

In the context of the foregoing, it was deemed by the HEA to be more helpful not to radically alter the scope or function of RGAM but to look at erecting a complementary mechanism. Thus, performance funding was based around strategic dialogue as opposed to an alteration of the RGAM.

7. Reflections on process to date

The HEA has now completed three cycles of the strategic dialogue process. This includes an initial compact-agreement phase and two cycles of review of progress. Some high-level reflections on the process to date are outlined below.

An initial concern was that institutions would resist the process in the form of limited or defensive engagement with the HEA. This was quickly revealed not to be the case. On the contrary, on reviewing the proposed compacts, the HEA observed that many institutions sought to achieve a very ambitious trajectory, at a time when public funding for higher education was declining while student numbers were growing quickly. The HEA may, in hindsight, have underestimated a tendency in institutions to wish to be seen to be high performing within the higher education system.

An additional concern was that – for some or, perhaps, several institutions – the process of strategic planning was not as strong as might be hoped. Issues around the identification and management of risk emerged in discussions, with some institutions not demonstrating how risk considerations informed strategic planning. Many institutions were not highly skilled at priority setting. In some cases, all issues seemed to be priorities, and the identification of robust objectives and clear performance indicators under those priorities was not always strong. Institutions were frequently unable to identify potential synergies between priorities and how they could pursue and exploit such synergies.⁶

A key challenge for the State is to set priorities at a system level but to allow for a diverse set of responses to those priorities. A natural tendency when viewing policy objectives is to wish for all institutions to make significant contributions to achieve all policy goals. However, this would be inimical to institutional development, particularly where the demands of international competition are pushing institutions to focus resources around developing and sustaining excellence in a small number of areas.

To date, only three institutions have been characterised as performing sufficiently poorly as to necessitate a funding hold back. These situations arose in the first review year. In each case, the institution in question resubmitted its compact with substantial revision, and the funding was subsequently released. These revisions ranged from significant improvement in the strategic focus of the compact to a de-prioritisation of objectives to better align the HEI resource base with ambition.

A relevant consideration here is whether the application of a penalty is an appropriate method and measure of the success of the system. Certainly, some external stakeholders would view financial penalties as desirable to emphasise the need for value for money and to punish bad behaviour. However, that viewpoint in turn embeds the process in a punitive type of culture. An undesirable consequence of this would be for institutions to lower the scale of their ambition, to seek to conceal areas of activity, and, in general, to curtail their participation in the process. This places an onus on the HEA to encourage institutions to raise their ambition in the compact and, simultaneously, to be

⁶ An issue in this regard is that some Irish HEIs have a very small institutional management team, on whom the process of planning and performance measurement depends. Their capacity to address this performance funding is inevitably somewhat limited. Some institutions are beginning to respond to this through the allocation of specific posts to assist in institutional planning.

probing of institutional self-evaluation. In considering how performance funding should evolve in Ireland, it will be necessary to consider whether a reward-based structure should be incorporated therein.

While the application of a penalty is a negative outcome, it is noteworthy that the HEA perspective from the outset has been highly constructive in nature. The process of dialogue seeks to ensure that the system is meeting aggregate needs, and that individual institutions are planning and prioritising objectives in a coherent and strategic manner. The process is intended to send clear signals to institutions where this type of planning is not apparent; the aim would be that institutions would respond appropriately without necessitating permanent reductions in funding. The HEA has spent considerable effort engaging with the HEIs to reassure them that it seeks to operate the process constructively. If an institution aims for a very ambitious goal and only manages to attain, for example, 80% of that goal, the HEA does not immediately classify this as failure; instead, it assesses what was achieved to judge the relative success that this might represent.

There is a frustration among some institutions that the process is asymmetrical from an institutional perspective: poor performance will be punished, but there is no State reward for good performance. A counter-argument is that the state is entitled to expect strong strategic planning and performance from institutions who strongly guard their autonomy; also, strong performance brings its own rewards, whether that be research funding, international students, commercial income, or reputational enhancement.

There is some dissatisfaction within the sector at the limited scope of the process. The following points have been raised:

- There is a need to better align the budget process operated by the HEA with the strategic dialogue process.
- The management of HR within HEIs, particularly the capacity of the institutions to manage redundancy, is outside the scope of this process.
- The management of capital allocations is outside the process.

A final perspective is the challenge, specifically for the HEA, in reporting overall system performance. Implicit in performance assessment is consideration of the resources available to carry out that task. Typically, greater delivery for lower resource is viewed as a positive outcome, but the narrative of Irish higher education tests that perspective. By the simplest measures of student enrolment and graduation, the system has displayed very strong performance. When this is expanded to include further measures (e.g. research performance, access and international students), we again see that the system has performed very well. But the dialogue process reveals that this performance is being delivered at a price of undertaking very high levels of risk within the system (academic, operational and financial). Furthermore, the system is clearly running down its capital assets as provision is not being made for adequate investment to offset depreciation. In this context, while performance is strong in terms of policy priorities, when considered in terms of the overall health of the system, performance could be viewed as exceptionally risky. In a context where there is no clear direction on future funding of higher education (public or private), and very evident demands for more higher education (particularly from students and employers), this presents a challenge to define the type of performance that we should seek from Irish higher education.

The role of benchmarking will also be critical in establishing the system performance framework an effective tool in maximising the performance of individual institutions. Within performance funding you have the opportunity to improve the performance of the individual HEIs by benchmarking their

performance in certain areas against their own starting point rather than effectively pitting them under each metric against the strongest performing institutions in the system. So for example while the block grant may be an effective tool to support access by the inclusion of a cost-based weighting for recruiting and retaining access students, it is a bad tool for improving progression and completion. All the international literature and our own studies tell us that the biggest contributor to successful student completion are the student's academic entry scores and full-time attendance. Thus in any block grant allocation based on completion rates, or progression or graduation rates - HEIs who admit more low-points students and more part-time students will always lose grant share to high-points, full-time attendance institutions – they will in effect be penalised for attending to a significant national strategic objective. However, if they are given an opportunity in performance dialogue to present their T&L and Retention/Progression strategies, based on the unique profile of their students and on their unique programme portfolio, their own performance improvement and capability development can be recognised, and the overall system improved. The same applies to the research mission of the IOTs – if research funding is allocated from one pot with the universities and measured on a single set of research metrics - competitive income earned or Ph Ds graduated or whatever – IOTs will lose funding share – but if they are allowed are benchmarked against their own starting point, their performance and that of the system is improved.

8) Issues for Further Discussion

The following issues are worthy of further discussion in the context of the role of future funding model in working with the System Performance Framework to maximise the performance and impact of the higher education system:

- Provision of further challenge within the strategic dialogue process around the engagement mission of institutions, in order to give further assurance on areas of performance including industry responsiveness (including support of SMEs), pre-entry access engagement and economic, social and community partnerships to drive wider regional development. This would allow a link between these somewhat intangible aims (in terms of clear objective metrics) and the awarding of performance funding.
- As additional resources become available for the higher education sector, consider how the performance compact system can reward institutions for good performance as well as penalising those that fall short of required standards. The degree to which this would need to be underpinned by consistent cross-sectoral objective performance data and a balanced scorecard approach also needs to be considered.
- The more consistent use of international benchmarking within the strategic compact process to ensure that performance is clearly placed in the context of the distinct mission of the institution and objectively rewarded in the link to associated performance funding.
- Consider whether, as part of the wider provision for 10% of institutional funding to be withheld on the basis of performance, specific funding mechanisms should be put in place to recognise institutional success in areas such as governance compliance, skills development, access and retention, research and innovation or industry engagement.
- Consider whether the initial phase of strategic dialogue – that between the HEA and DES at which 3-year system targets are agreed - could be informed by an agreed/proposed Standard Unit of Resource, a target (% increase in) intake based on demographic projections, a funding plan (state, student& other, employer – with or without loans), and an efficiency factor

- Consider whether all targeted competitive funding programmes could and should be set out as components within the 10% performance funding provision. For example, if 2% of institutional funding was set aside for Springboard, PATH, ICT skills and other competitive funding programmes, then institutions would effectively be competing to ensure that their overall allocation was above 'par'.