

Review of the Allocation Model for
Funding Higher Education Institutions

Working Paper 5: Key Issues and Questions

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1) Introduction

This paper sets out some of the key issues and questions on which the review must focus over the coming months to set the future funding approach. It is intended to sit as a 'bridge' between the first phase of the review, which has focused on building understanding around the current context and situation, and the second phase, which targets consultation with all key stakeholders on the desired future direction. The paper should therefore help to ensure this second phase remains focused on areas of greatest relevance and serve as a reference point over the remaining course of the project.

2) Reflections on the current situation

In the previous four working papers, we have reviewed the strategic context (WP2), the higher education sector (WP1), the existing funding approach (WP3) and equivalent international funding models (WP4). This has demonstrated that Ireland has a strong higher education system, characterised by one of the highest global participation rates and a diverse range of regionally dispersed institutions. It has also successfully created a strong sense of a cohesive system with a common purpose, helped by its relatively manageable size (with 24 public HEIs); a clear policy direction from Government; and a strategic dialogue and performance framework that helps to steer HE towards key objectives.

Finding the most effective means of funding higher education in Ireland requires an understanding of this unique and rapidly evolving environment, with influencing factors including:

- uncontrolled student recruitment by institutions with state funding based on share of a fixed funding pot;
- a substantial demographic bulge, with higher education having accommodated significant growth in student numbers and expected to have the capacity to facilitate a continuation of this trend into the future;
- declining income in real terms, with the consequences of falling funding per student and rising student/staff ratios;
- limited flow of students between the further education and higher education systems.

In short, this creates a perfect storm, where increasing the funding base under the sector is the only feasible means of securing a viable future. This is widely recognised by Government, with the Cassells report offering the prospect of additional funding, although how and when the preferred option will be selected and implemented is still being determined. What is clear is that a necessary condition of additional funding is widespread acceptance that the HE system is delivering efficiently, effectively and demonstrably against public and governmental expectations.

The existing funding model is generally respected as a fair and transparent system. The block grant approach which allocates public funding on the basis of broad performance, subject to meeting accountability and transparency standards, but allows institutional autonomy on how this is spent, is typical of nearly all international higher education funding approaches.

Nonetheless there are concerns that the funding model needs to continue evolve to better reflect the unique conditions and changes in student base, funding profile, operations and performance since it was established. It is also important that the model underpins a clearer demonstration of how higher education delivers the outcomes required from the emerging Government policy agenda and provides confidence that the promised additional investment for the system will be channelled in an effective and impact-driven manner.

3) Balancing autonomy and accountability

One of the core dilemmas in public higher education funding is how to balance the need for institutional autonomy which underpins the agile and responsive HE system required with the need to ensure focus, accountability and value-for-money from the significant Exchequer investment.

There is strong evidence that the protection of institutional autonomy is key to the success of the internationally strongest HEIs¹. This autonomy is central to institutions' capacity to develop and follow their own strategic and business plans, grow their own sources of income, set their own curricula, manage their estates, and hire and deploy staff as appropriate². It allows them, for example, to anticipate and respond to changing patterns of student demand and to work with local employers to fast-track solutions to regional skills and innovation requirements. It should also facilitate more strategic investment to advance specialisms, reputation, performance and mission differentiation.

There is however no fundamental contradiction between allowing autonomy and facilitating public accountability. The latter relates to demonstrating, via appropriate records, reporting and governance procedures, that acceptable practices are followed for the handling of public funds, and that, having accepted funds against a commitment to deliver various objectives (essentially, a contract), those objectives have indeed been delivered.

3) Finding the right balance within the funding model

In Working Paper 3, we set out the three key components of the current funding model: block grant; performance funding; and top-sliced targeted funding (either directed for specific purposes or distributed via competitive programmes). Finding the appropriate balance between these different components in order to maximise the performance of the higher education system and deliver on key Government objectives must be a key consideration of the review.

In the current funding model, the largest element is a **block grant**. It is important to understand what this means, and why there is a clear case for its continuation, perhaps in a revised form, as a fundamental feature of a future funding model. Block grants do **not** mean that money is granted for an HEI to use regardless of any governmental expectations and do not imply an escape from accountability. The grant is composed of elements that reflect public policy expectations (e.g., teaching a certain number of students, addressing the particular needs of students from disadvantaged backgrounds, or with disabilities, supporting priority subjects). Having built the grant up from those elements, it is then passed over as a whole for the institution broadly to use as it judges best, alongside other funds that it might have from fees, EU schemes, industry contracts and commercial revenue in order to deliver the agreed objectives. The capacity to manage funding streams, and to cross-subsidise, within limits, across the varied activities of the institution, is one of the key ways that institutions can maximise efficiency and drive change.

A revised funding model could therefore include a block grant as a key feature, built up from elements that derive from the objectives set by Government in allocating funds for HE; with institutions then expected to report on how they had delivered on those expectations. But precisely how they use their funds (including other funds that may be at their disposal) to achieve those outputs would be a matter for institutional autonomy. However it may well be possible to move to a

¹ In, for example, P.Aghion et al, 'The governance and performance of universities: evidence from Europe and the US', National Bureau of Economic Research, April 2009

<https://dash.harvard.edu/bitstream/handle/1/12502061/Governance%20and%20Performance%20of%20Universities.pdf?sequence=1>

² It should be recognised that current employment controls constrain HEIs relative to international comparators

more outcome based approach within the block grant allocation and to reflect different things in line with evolving Government and higher education strategy.

It is also important to note the role that top-slicing for strategic purposes plays in facilitating more efficient and effective systems. It can help to drive particular objectives such as promoting shared service initiatives, supporting system restructuring, addressing legacy system costs (e.g. pension liabilities) or facilitating new types of funding for provision (e.g. in the transfer of funding for medicine and nursing from the Department of Health). When compared with international funding models, the level of top-slicing in Ireland is more significant, and there is a need to look at whether elements of top-sliced spend remain valid. Alternatively, they could be mainstreamed into ongoing block grant support to recognise that they are now part of the core HEI mission, or evolve into the performance funding component where they can be linked to specific strategic objectives.

We have also seen in the past the value of competitive funding schemes to target specific issues and facilitate innovative and cost competitive solutions to deliver on particular objectives. The Strategic Innovation Fund, which allowed institutions or groups of institutions to compete for funding for transformative projects that could improve the performance and impact of higher education produced many key outcomes that have had a lasting impact in the system (e.g. a teaching and learning innovation network, the building of innovation capacity in IoTs through a technological sector research fund). More recently, Springboard has offered a very successful model of delivering free flexible skills-based provision to allow unemployed people to up-skill and obtain employment. There are also occasional competitive calls for providers to deliver particular programmes or meet a particular graduate skills need (e.g. most recently in early childhood education), where a discrete amount of funding becomes available, although there is not always a clear protocol for how this integrates with the wider funding model over time. The enthusiasm for competitive funding at institutional level has declined in recent years as contracting Exchequer investment has placed an over-riding focus on maintaining core operations, leading to calls to maximise the amount of block grant funding provided to the sector.

The role of the system performance framework is also critical. Having this system in place means that there is now direct accountability for delivery, both by individual institutions and by the sector as a whole, of a series of objectives defined on a rolling basis by the Minister for Education and Skills. This framework allows up to 10% of institutional funding to be withheld on the basis of performance against 3 year institutional compacts agreed with the HEA. While there is evidence that the approach has developed strategic thinking and capacity across the sector and ensured increased focus on key priority areas, there is a need to look at how this performance funding component should evolve. This should include consideration of whether its sole focus should remain on the compacts, and whether it should, in future, incorporate a reward as well as a penalty based structure.

5) Addressing some fundamental questions

In considering the future funding approach, a series of fundamental questions emerge. These require careful analysis, to ensure any changes can deliver improved performance and impact and avoid any unintended consequences if implemented.

- **Input vs Outcome based system.** A natural goal of any investment strategy is to maximise the outcomes and impacts achieved. This should mean, as far as possible, that the funding model should reflect the defined outcomes. This is a more complex challenge in higher education as the outcomes and impact are often not realised until many years later (e.g. in employment, skills, innovation or entrepreneurship), and often have many contributing factors, making attribution of effect to cause difficult. The costs of HE are also significantly

driven by the number of students and the inflexibility to manage staff resources effectively, which account for 65% to 80% of overall spend, is currently very limited. Nonetheless there should be scope to consider whether outcomes such as credits obtained, graduation, retention and research impact could have a more prominent role within the funding model.

- **Balancing the needs of universities and IoTs.** There is an established policy commitment to a binary system of higher education, with a traditional university and technological sector, and this has been reflected in a binary funding approach, with separate pots for allocation to each cohort, and separate (though similar) allocation methodologies. There is now potential for different types of institution to emerge (including the creation of technological universities), while changing patterns of student demand distort relative funding levels in each cohort. The funding profile of universities has changed significantly in recent years, reflecting both the decline in state funding and institutional revenue diversification initiatives, with the sector now sourcing the majority of its income from non-Exchequer sources, and there has been a drive for investment in areas of excellence and strength that can maintain international competitiveness. For the IoTs, there is a key question of how best to recognise their particular role in facilitating regional access to HE and in driving regional innovation and entrepreneurship. The review will seek to determine the most appropriate funding model to balance the needs of universities and IoTs.
- **Facilitating growth without undermining quality of provision.** The existing approach of allowing HEIs to grow student numbers in line with demand while maintaining a fixed (and recently declining) base of funding has presented real challenge for HEIs and is unique in an international context. Nonetheless it has facilitated the transformative impact of higher education, providing mass access to higher education for the first time and fuelling a highly skilled workforce which has underpinned Ireland's economic growth. Demographic projections suggest that student demand will continue to grow, but there are already severe capacity concerns and risks attached to maintaining the ongoing quality of provision. While the review is focused on the allocation model rather than overall levels of funding, it will need to consider how the funding approach reflects the need for continued growth of the system while protecting the quality of learning being delivered.
- **Balancing the need for core resources and incentivising HEIs.** A block of grant funding is required to maintain the ongoing viability of institutions, and also allow them the flexibility to respond to changing market and economic needs. However it is important that the determination of this block does influence the types of behaviour sought from across the system. At the same time there are always new and evolving national objectives which will require a more targeted approach in order to stimulate innovative and proactive responses from institutions, whether this is via adjustments within the block grant, use of the performance funding component or via targeted competitive funding calls. Finding an appropriate balance which ensures ongoing sustainability but steers institutions in the desired directions will be a key challenge for the future funding approach.
- **Balancing simplicity with the need for impact across a range of areas.** A successful funding model must be transparent and understandable, with institutions clear on the broad drivers of the allocation received. There is a risk that applying too many variables in the process of allocating institutional funding makes the overall model difficult to comprehend, has the potential to drive contradictory behaviour, and leads to an overly complex and costly additional data gathering process. However this need for simplicity in the future funding model must also be balanced with acknowledgement that there are clear policy imperatives for higher education, and that there is an onus on the funding system to support their

delivery. Using the combination of funding mechanisms, from block grant, performance funding framework, top-slices and competitive funding, in the most effective manner to ensure impact across key areas, will be an important priority. So too will ensuring appropriate phasing of any changes proposed, in order to allow institutions to adjust their future planning to incorporate the new model and ensure ongoing sustainability.

- **Finding a standardised funding approach to meet the needs of a non-standardised system.** Different providers within the higher education system have a legacy of different arrangements in place and the current funding approach has shown some inflexibility in recognising what appear to be anomalies within the system. Issues include variations in the length of courses offering the same accreditation levels, and different levels of resource commitment and contact hours in provision offering the same number of credits. There is also some inconsistency in the treatment of part-time provision between the RGAM for universities and IoTs. While a system should encourage different academic courses (and there is a key quality assurance aspect to ensuring that it works effectively), care should also be taken not to encourage unintended behaviour. Therefore in setting the parameters for efficient and effective state funding in higher education, it should be considered whether some further standardisation of programme-based funding is required.

This is not an exhaustive list of the types of questions that need to be considered as the review progresses, but it is an indication of the key and sometimes contradictory issues that must be taken into account when charting an appropriate way forward.

6) Prioritising the stakeholder 'wish list'

If we consider all of the expectations set out in national strategies and by different stakeholders for higher education in Ireland, there is a long list of areas where a funding model could potentially influence behaviour. As noted above, the key will be balancing these wide ranging priorities with the need for simplicity within the approach to funding. The wish list of ideas and options in terms of the funding of higher education are set out below to illustrate the multiplicity of proposals as we try to shape a fair and transparent methodology for allocating future investment. It will be important that stakeholders consulted during the funding review also consider where the most immediate priorities lie in evolving the funding model, in recognition that embedding too many levers within it will be counterproductive to ensuring system performance, progress and impact. This may also mean that the most effective approach involves embedding of some objectives over the medium to longer-term to avoid major disruption from implementation of all proposed change within a very short timeframe.

How we fund?

- Move to a single tranche of funding for IoTs & Universities
- Institutions rewarded for good performance as well as penalised within the performance funding framework
- IoTs recognised for role in provision of level 6 and 7 and links to Industry
- Fee grant subsumed into core grant and allocated on basis of RGAM weightings
- Take account of student contribution within grant allocation
- Cap student numbers to ensure sustainability
- Apply a fixed unit of resource per student
- Remove pension costs from the funding model

- Mainstream activities previously supported via top-sliced funding.

How we recognise mission diversity?

- More metric-based approach to funding research in universities
- Recognition of research overhead gap from competitive research awards
- Scope for funding excellent and transformative propositions
- Recognition of the regional innovation and regional access role in IoTs
- Reward teaching and learning performance, quality and innovation
- Much wider base of access metrics taken into account in setting allocations
- Ringfence funding provided for access
- IoTs recognised for role in provision of level 6 and 7 and links to Industry
- Recognising different access roles and progression and retention of lower points students
- Recognition of wider enterprise development, innovation and knowledge transfer role
- Recognition of multi-campus provision

How do we drive skills development?

- Incentivise lifelong learning and access to higher education by existing workforce
- Support development of online learning and new forms of delivery
- Fund the development of new apprenticeships
- Support requirement for increased work placement components in provision
- Build in incentives to address regional or national skills gaps
- Introduce more targeted competitive funding calls addressing skills needs
- Introduce demand-side funding (i.e. subsidise student contribution) for courses focused on particular skills needs
- Incentivising inclusion of entrepreneurship modules in all programmes

Are there additional components which could be added to the model?

- Deal with discipline specific issues by changing weightings
- Match funding to incentivise revenue diversification
- Annual capital infrastructure maintenance and renewal contribution
- Introduce funding mechanism linked to governance compliance
- Funding strategy to support implementation of the recommendations of the Gender Review
- Weightings/incentives for collaborative provision
- Incentives to encourage 'dip in dip out' provision and transfer of credits

The list may expand as the review consultation process progresses, and should be used as a reference point throughout the remainder of the exercise. For those that can be incorporated, a key role for the reformed funding system is to provide the evidence of delivery against these expectations. However at the same time, an approach needs to be found that is practical and manageable, and attempting to cover all of these objectives in an overly complex funding model is not viable for the reasons noted above.

In considering what can be achieved in respect of policy steers, it is important to acknowledge that a significant proportion of funding is essentially committed even before it is allocated (e.g. salary, pensions). As the number of policy steers built into a funding model increases, the 'leverage' that each can apply is reduced. Too many policy steers means that the effect of each one is offset by the

effect of all the others: the model becomes ever more complex, and ever more ineffective. There must therefore be a sensible balance.

This does not mean that we ignore the very valid expectations of Government and others from a higher education system. The challenge of the review will be to prioritise those critical areas of impact which should be reflected in the overall grant allocations given to institutions, with further consideration on how the system performance framework can facilitate the delivery of the wider range of objectives. In this regard the review must investigate whether there are things that need to evolve within the performance funding approach to ensure that these objectives will be pursued and achieved.

7) Focusing on core components

Amidst the wide range of differing objectives, there are some core components which characterise most international funding models. If the most appropriate approach to each of these components can be found, this will provide the foundation of a solid performance driven higher education system, with scope to target evolving priorities.

- **Understanding of costs:** A key attribute of every higher education funding system should be a consistent and comparable understanding of the costs of that system. There is a high degree of openness in terms of sharing of costs across the Irish system, yet there are differences in the budgeting and cost measurement approach between universities and IoTs that means that there is not a consistent analysis of the cost of provision across institutions. This can make it more difficult to determine the ongoing appropriateness of model weightings and the minimum standard resource required to pay for different types of students. An analysis of the cost base, and the options around how the costing system might be made more robust to underpin an effective future funding model, is the subject of future Working Paper 6.
- **Performance system:** Significant effort has been put into establishing a system performance framework as noted earlier in the report, and it has widened the scope of accountability for institutional performance. While the framework is linked to a performance funding mechanism, this only currently provides for penalties for HEIs deemed to be poor performers against agreed compacts. Consideration needs to be given to whether and how the performance system and performance funding needs to evolve and balance the other components of the funding model to ensure focus on all of the key objectives sought from the higher education system. The performance framework will be considered in Working Paper 7.
- **Access and retention:** Access is a core part of the existing RGAM and it remains a key priority of Government. It is important that there is a clear and shared understanding of the specific access objectives that must be underpinned by future funding, and which of those commitments within the National Access Plan should be linked directly to the model. There is ongoing work on a data strategy to understand access issues more fully across the system, while there is also a growing recognition of the different access roles of different institutions, and the need to reflect on the characteristics of different cohorts when considering progression and retention performance. There is a debate about whether access funding should be ring-fenced or mainstreamed as part of a new funding approach, and also whether access plans should be given a more formal footing as part of that approach, to ensure that a wide range of access objectives can be met without generating an overly complex funding allocation approach. This will be examined in Working Paper 8.
- **Research, innovation and entrepreneurship:** Funding for research has been a core component of the university funding approach, but has not been built into the model for IoTs, other than in a higher weighting for postgraduate students. If the model is to fund this type of activity, there must be a clear exposition of exactly what is meant by research and

innovation activity in higher education, and the motivation for funding this activity. To reflect the different missions of HEIs in this space, there is merit in looking at whether a wider, more metric-based approach be adopted for allocating research funding and whether the current level of top-slicing is appropriate for universities. The role of the IoTs in regional innovation and enterprise development also needs to be considered in this context. Indeed most HEIs are engaged in stimulating entrepreneurship, supporting young innovative businesses and other knowledge transfer activities and a consistent system which recognises the differentiated roles across research, innovation and entrepreneurship will be looked at within Working Paper 9.

- **Teaching mission:** In international funding models for higher education, delivery of the teaching mission is an aspect of performance which is often overlooked, principally because the models themselves tend to be driven by student numbers which reflect teaching activity, and teaching quality often tends to be the preserve of an agency which is separate from the funding body. The delivery of high quality learning is critical however and must be at the forefront of the future funding approach, considering the extent to which funding rewards excellence and innovation in provision, reflects costs, drives more flexible offerings and ensures responsiveness to skills needs. This will be further discussed in Working Paper 10.

Considering the current approach, key issues and options for development across each component will be a critical challenge of the review, and it is proposed that the next series of working papers will set these out. The options can then be considered as a collective, with their impact at institutional and system level modelled and analysed in order to draw overall conclusions about the most effective future approach to funding higher education.

8) Relationship with the level and source of Funding

The remit of this review is confined to the allocation of higher education funding and we are not asked to consider the level or source of future system funding, which is the subject of parallel work elsewhere. Nonetheless this latter issue does have a bearing on the most appropriate future funding approach, and the review findings need to reflect the potential funding options that may be implemented.

The Cassells report is clear that there is insufficient funding in the higher education system, and that more must be found if Ireland is to have a successful and competitive system that can deliver all that is sought from it. However it is also clear that increased investment must be introduced in tandem with reform of the funding model to ensure that it is channelled for maximum impact. Care must be taken in imposing radical change on a system that is already demonstrably struggling. If increased state funding is delivered as set out in the Cassells report, then there is a real opportunity for this to be targeted in key areas while maintaining a core base of funding to sustain existing operations. Without this additional funding a multitude of new and different levers impacting upon the existing funding base are likely only to have negative repercussions for future higher education performance and sustainability.

The Cassells report also flags the option of increased industry and student contributions (via an income contingent loan scheme) to the cost of higher education, to reflect their status as the other two core beneficiaries of the system (alongside the state/public good). While it is not clear if and how such contributions will be sourced, it is important that the funding model proposed is able to respond to any changes or increases in this type of funding, with viable mechanisms by which increased investment can be targeted to meet particular requirements from the investor (i.e. if an increased industry contribution to higher education is brought forward, there will be an expectation that

industry can influence how this is directed towards key skills or competitiveness issues). The review recommendations must therefore make some provision for such steps to ensure a future funding model is equipped for any of the proposed developments in the level and source of funding.

9) Focusing the consultation process

Given the key issues and questions raised in this paper, it is important that all key stakeholders are given an opportunity to input into the potential solutions in a future funding approach. Those identified are reflected in the series of structured questions posed as part of the open consultation process which ran from 27th January to 24th February, and focused on ten distinct themes.

1. The core principles underpinning the future model
2. Facilitating planning and longer-term certainty
3. Student-driven funding model and outcome-based approaches
4. Overall approach to funding
5. Balance between block grant, targeted and performance funding
6. Reflecting relative costs across disciplines
7. Incentivising development of part-time, flexible and online provision
8. Responding to skills development needs
9. The funding model as a tool to support good governance
10. Integration with the wider funding landscape

The issues and questions will also help to focus the targeted consultation exercise, during which the Chair, HEA and expert panel will meet a range of relevant organisations, key experts and representatives to seek direct feedback. A summary of the outcome from the open call for submissions, and the themes identified from subsequent consultation meetings, will provide a platform for considering the different options and will be set out in future working paper 11.