HIGHER EDUCATION AUTHORITY
AN tÚDARÁS um ARD-OIDEACHAS

25th August 2014

Dear President,

I am writing in relation to the further development of the strategic dialogue process that was initiated in 2013 and recently culminated in the publication of the 2014 Higher Education System Performance report.

As you know, there has already been considerable discussion and consultation with the sector in the development of the strategic dialogue process. Given the very significant change being introduced, the HEA intends the development of strategic dialogue to be an iterative process, in consultation with the sector. In 2015, for the second phase of the process, we intend to introduce further changes to the process, namely to develop the funding aspects. The broad intention is that the process will allow for the allocation of performance funding based on the institution's performance against its compact.

The HEA has commissioned a review of other performance funding systems which has been undertaken by Dr. Richard Thorn. Taking into account that review, as well as earlier consultation on strategic dialogue, the HEA now sets out its proposed approach to performance funding in 2014. I also attach the full copy of Dr. Thorn's review.

I would welcome your views on the proposed approach and would appreciate if you could let me have your comments by Wednesday 17th September.

Yours sincerely,

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Tom Boland,

Chief Executive.

HEA proposals – Performance Funding

August 2014

Proposals

Principles

The process should be underpinned by the following principles.

1) The balance between institutional autonomy and accountability has been established over many years as a policy principle. To achieve this policy objective, it is imperative that the evaluation process provides for institutions meeting the national objectives, as expressed through the 7 compact domains, in ways that are coherent with their own mission. To evaluate institutions using a rubric and/or quantitative measures common to them all would drive homogeneity and run the risk of gaming and thus be counterproductive to the aims of the national strategy on mission differentiation.
2) The process should recognise the expectations and requirements that have already been established through various document releases including the compact structure (and institutional commitments therein) and system report.
3) The ground rules must be established and adhered to. These include clarity on the beginning, middle and end point of the cycle, the ground rules, definitions, descriptors etc. of the process and adherence, as far as possible, to these over the course of the cycle.
4) There must be recognition that while some aspects of institution performance are discernible in the short (1 to 2 year) term, many are not.
5) Where institutional performance is dependent on matters outside of the control of the HEI (e.g. the HR/IR framework) then this must be taken into account.
6) Because much of the evaluation is concerned with mission and strategy, qualitative judgments will be required and thus a peer review process will be required. This must be, and be seen to be, credible and expert.
7) A reward/penalty structure that incentivises performance without destabilising the system.
8) Reduction of administrative and bureaucratic requirements by
    a. re-use of existing evaluation outputs for the HE system, e.g. QQI, EI, ISSE, INES and EI surveys/reviews.
    b. use of the SRS of the HEA to prefill reporting templates with data common to all institutions.
    c. use of probing/analytical self evaluation reports by the HEI's themselves as one of the bases for evaluating performance.

Process

1. The framework for the first cycle of strategic dialogue and compacts has already been established (objectives for 2016 set in 2014).
2. In implementing the performance evaluation process there should be two reviews **in 2015 and 2016** assessing HEI performance against its agreed objectives, with a maximum of 7% of recurrent funding at stake annually (5% conditional and 2% competitive – see below).

3. There should be a **final review in 2017** (giving a defined three year cycle) which should evaluate overall performance within the cycle, and form the basis for the next set of 3 year compacts.
4. A **peer review process** that is chaired by the HEA and populated (max 5 to 6) with independent individuals who have a proven capacity to probe and analyse institutional performance. The sector should have some input into the selection process of such individuals (in terms of ideal competencies, and capacities). The **Performance Review Group** to be supported by the executive of the HEA.
5. A **framework** that evaluates institutional performance in each of the 7 domains having regard to particular institutional mission
    a. clusters,
    b. participation, access and lifelong learning
    c. teaching and learning,
    d. research and innovation,
    e. engagement,
    f. internationalisation,
    g. consolidation.
6. An **assessment and marking protocol** for each of the seven domains above in which marks (1, 2 or 3) are awarded based on four components
    a. a self evaluation report,
    b. progress against own mission-coherent objectives
    c. progress as benchmarked against appropriate peer institutions (in this regard the profiling work undertaken by the HEA is noted).
    d. a meeting with senior management of the institution by the Performance Review Group.

Appendix one provides suggested descriptors for the three categories proposed. It should be noted that where an institution decides to deprioritise a particular domain, it may still be awarded marks provided it can robustly and critically justify such a decision. Conversely, where an institution indicates substantial levels of activity in a particular domain, low marks may be awarded if the justification for the activity does not cohere with the particular mission of the HEI.

Process for allocation of conditional 5%

To ensure ongoing coherence with the process and achievement against own objectives it is recommended that up to 5% of the total 7% may be allocated to each institution conditional on their performance against their own objectives. Where an institution is deemed not to have met the requirements to draw down the 5% funding in full, the institution concerned will be afforded an opportunity to "win back" any withheld funding through the preparation of a revised plan for consideration by the HEA within 6 months of the funding decision. Where, after further engagement, such funding is still withheld, it will be allocated across the sector using the RGAM.

Process for allocation of competitive funding (2%)

To allocate the competitive funding component, the total marks (maximum of 21 - 3 marks by 7 domains) of all HEIs would be placed in a ranking to determine the allocation (or not) of performance funding; the top third to receive the full 2%, the middle third to receive 1% and the bottom third to receive no performance funding allocation for the duration of the cycle to 2017.

A **robust evidence base for decision making** that includes

a. A probing self evaluation that deals with progress against own objectives and progress within sector
b. Pre filled data from the SRS
c. Other relevant data sources such as QQI, EI, INES, ISSE.
d. A meeting with senior management of the HEIs.

Appendix One

Draft Descriptors for Judgement Categories in Performance Evaluation System

Progress Against Own Objectives

Mark	Descriptor
1	No or little progress against mission-coherent objectives is demonstrated through a descriptive self evaluation report and from data supplied by the HEA or by other sources of information such as QQI, INES, ISSE and EI. No or little understanding of progress amongst peer institutions in the domains is demonstrated through poorly developed benchmarking techniques. No or limited ability by a senior management team to demonstrate a capacity to analyse and learn from the experiences of peer institutions. The senior management team displays no or a limited ability to reflect on institutional performance.
2	Adequate progress against mission-coherent objectives is demonstrated through a reasonably analytical and probing self evaluation report and from other data sources. There is adequate understanding of progress against peer institutions demonstrated through a benchmarking process and reflected in a reasonably probing and analytical self evaluation report. The senior management team demonstrates a developing ability and understanding of the implementation of benchmarking processes so as to enhance institution performance. The senior management team demonstrates that it is developing an ability to reflect on institutional performance and the underpinning decision making processes that support enhanced institution performance.
3	Excellent progress against mission-coherent objectives is demonstrated through a robust, probing and analytical self evaluation report and from other data sources. The institution demonstrates an excellent capacity to undertake peer scanning and benchmarking through a robust and probing self evaluation report. The senior management team demonstrates an excellent understanding of the institution's position nationally and internationally and the ability to translate this understanding into enhanced institutional performance. The senior management team demonstrates an excellent ability to learn from past successes and failures and to translate that into policy decisions to meet current and future challenges.

Background Paper – A review of Performance Funding

Introduction

The Higher Education Authority has issued a RFT to undertake research on the operation of performance funding in certain higher education systems (specifically Hong Kong and the Netherlands). The wider objectives of the research, as indicated in the RFT, are provided in Appendix One of this document. For the purposes of this Guidance Note four objectives are identified

- How do the systems of interest evaluate institutional performance?
- How do the systems of interest discriminate between institutional performance?
- How do the systems of interest allocate performance funding?
- What weaknesses are apparent in the systems of interest and how might challenges that arise in the context of applying them in the Irish context be dealt with?

The call for research on this matter follows a decision by the Authority to introduce a performance funding component to the existing funding model for higher education institutions funded by the Irish state. In preparing this Guidance Note it should be noted that Ireland has operated a funding model very substantially based on performance (the Recurrent Grant Allocation Model) since the early 2000's and this performance related component is additive in respect of developing the mission and strategy component of the funding model.

The principles upon which a performance funding component should be based were initially raised in the OECD *Review of Higher Education in Ireland* (OECD, 2004) considered in Higher Education Authority (2007) and developed further in the *National Strategy for Higher Education to 2030* (Department of Education and Skills, 2011). Additionally, Authority decisions taken during the course of the development and implementation of a strategic dialogue process (see below) have further developed the policy and operational framework within which performance funding will operate.

This Guidance Note sets out the context within which the operation of the performance evaluation process will take place, the approach adopted to develop a recommended process and the recommended approach. The document also includes a full list of references used during the course of the research and the names and affiliations of individuals interviewed as part of the research.

Context and Policy Background

In 2004 the OECD conducted a review of higher education in Ireland (OECD, 2004). In inviting the OECD to undertake a review of higher education in Ireland the need to balance accountability with institutional autonomy in any recommendations was clearly spelt out in the terms of reference *viz*

> *Potential approaches to the future resourcing of the higher education sector and institutions that can best enable achievement of the strategic objectives established for the sector, having regard to the governance, accountability, efficiency and effectiveness requirements associated with the high level of public investment in the sector, broad public policy interests and principles of academic freedom and institutional autonomy.*

The OECD's *Review of Higher Education in Ireland* made a number of recommendations about the funding of higher education in Ireland generally but for the purposes of this Guidance Note two recommendations are of relevance *viz* nos. 43 and 46

> *There should be a new model for resource allocation to HEIs .....; such a funding model, although containing many common elements should be differentiated between the university and the institute of technology sectors so as to preserve the distinctive roles of the two sectors;*
>
> *Capital funding for new building should be included within the new Tertiary Education Authority's resource allocation process but should be linked to the strategic funding component which itself should be geared to the achievement of the national strategic agenda;*

These recommendations, made within a context of balancing accountability with autonomy, make it clear that key objectives of any revised funding model should assist in mission differentiation and coherence with a national strategic agenda.

While many of the recommendations of the OECD were implemented it was left to Higher Education Authority (2007) to develop further the principles upon which a performance funding component to the funding model might be developed. This document, *inter alia,* identifies key goals for the higher education sector in teaching and learning, undergraduate programme provision, access, research, skills needs and lifelong learning. Significantly, the document in advising on the setting of goals, references both building on institutions' own strengths and progress towards standards to be achieved by the sector as a whole.

> *...It is not expected that standards will necessarily be uniform across the sector; institutions should reflect on and build upon their own distinct strengths and capacities in setting their standards.*
>
> *The HEA may from time to time directly specify national measurable standards to be achieved by the sector as a whole. Each individual institution will, through its progress, contribute towards these identified standards. ...*

In this instance, though accountability and autonomy are not specifically mentioned, the intention is clear; institutions should build on their own strengths while at the same time contributing towards the achievements of the whole sector in meeting national standards.

The *National Strategy for Higher Education to 2030* (Department of Education and Skills, 2011) commented generally and specifically on the funding relationship between HEI's and the state. The strategy makes it clear that accountability and operational autonomy are to be matched.

> *Funding and operational autonomy must be matched by a corresponding level of accountability for performance against clearly articulated expectations. This requires well-developed structures to enable national priorities to be identified and communicated, as well as strong mechanisms for ongoing review and evaluation of performance at system and institutional levels*.

The implementation of this high level principle would be via *'... a system of service level agreements as part of a broader strategic dialogue.'*. These service level agreements would be supported by two performance enhancing systems. First '...*a performance incentive system whereby institutions who deliver the agreed level of service at a lower cost be allowed to retain the savings generated for investment'* and financial penalties for '...*institutions that fail to deliver on their commitments...'.* Second, *'Dedicated performance funding will be used to promote performance on key national priorities'.*

The *National Strategy for Higher Education to 2030*, as with both the OECD (2004) and HEA (2007) documents, emphasises the need for institutions to contribute towards the attainment of national objectives while being given the operational freedom to determine how this takes place; accountability and autonomy. The policy position in respect of institutional autonomy and accountability has been quite consistent over the last 10 years; this policy position is important when it comes to considering some principles which might underpin a performance evaluation framework.

In an undated consultation document released in the period following the publication of the *National Strategy for Higher Education to 2030* the Higher Education Authority (Higher

Education Authority, undated) sought views on the operation of a performance funding process. Specific issues which helped shape the HEA's position in that document included concerns over measuring only that which can be measured, philosophical concerns about the betrayal of more fundamental, though less easily measurable purposes of higher education, ensuring an emphasis on essential indicators of performance that focus on the medium term, an over simplistic setting of universal targets and the costs of performance measurement. The consultation document also noted that ...*A more sophisticated approach to performance setting is required. An important option here is to craft targets to individual institutions, so as to set targets in the context of current performance and wider institutional strategy*… thus clearly making the link between institution strategy and funding.

As this report is being prepared the HEA is developing the first system level report based on the outcome of a first cycle of strategic dialogue. V3.0 of this report (Higher Education Authority, 2014) was made available to the author and it further clarifies a number of policy and operational positions in respect of performance funding as follows;

1) The Department of Education and Skills has set out **a framework of national objectives** that the HE system must meet (Department of Education and Skills, 2013). This document sets out seven objectives as follows;
    a. Human capital needs,
    b. Access and lifelong learning,
    c. Teaching and learning,
    d. Research,
    e. Internationalisation,
    f. Restructuring of the system,
    g. Accountability

2) The **headings (domains) of the compacts have already been established** and mapped on to the national objectives in 1) above *viz*
    a. clusters,
    b. participation, access and lifelong learning
    c. teaching and learning,
    d. research and innovation,
    e. engagement,
    f. internationalisation,
    g. consolidation

3) **Performance funding will comprise a maximum of 10%** of the budget allocated to HEI's.

4) The **first performance targets have been set** in the compacts developed in the 2013/2014 strategic dialogue process. These targets have generally been set for the end of 2016. The process of reviewing targets for the end of 2016 will commence in early 2015.

5) **Performance Funding for 2014 will have been allocated based on the quality of engagement** with the process of strategic dialogue during the 2013/2014 process.

6) **In 2015, the HEA intends to seek a second set of submissions from institutions**, to be returned by June 2015. These compacts will present data on performance against 2014 targets and include

   i. First self-evaluation report from HEIs on their performance against compact with particular emphasis on performance against first interim targets (including feedback on same) that were to be achieved by end 2014.
   ii. Revised objectives and indicators in the light of any developmental work undertaken.

7) The HEA will carry out its process of review of proposals and engagement with institutions with a view to having this **second set of compacts agreed before the end of 2015**.

8) **In the longer term the intention is to move the process to a more regular 3 year cycle.** This would involve a major review every third year, and a less intensive process between those major reviews. However, the HEA will use a risk based approach to focus its attention on areas or institutions requiring particular focus between the major reviews.

It is clear from the foregoing that **the policy background to the inclusion of performance funding includes both mission differentiation and national priority dimensions.** That this is the case is important to note because, as will be shown below, the nature of the operation of performance funding in different jurisdictions is closely related to the objectives of the performance funding model.

It is also the case that **certain components of the evaluation process have been pre set** (see 1 to 10 above). This latter point is important because, again as will be noted below, a key component of the process, if it is to be respected amongst the stakeholders, is that the 'ground rules' do not shift during the process.

Process and Methodology

The RFT notes that the research should answer four questions in respect of the Dutch and Hong Kong systems of performance evaluation *viz*

- How do the systems of interest evaluate institutional performance?
- How do the systems of interest discriminate between institutional performance?
- How do the systems of interest allocate performance funding?
- What weaknesses are apparent in the systems of interest and how might challenges that arise in the context of applying them in the Irish context be dealt with?

The RFT further requires that these questions be answered through a literature review and interviews with key persons from these systems. The literature review was conducted through the online database of IT Sligo Library, the author's own library, inputs from the Executive of the Higher Education Authority and materials supplied by interviewees. A full list of references used in this Guidance Note is provided in the References section towards the end of the document.

In developing a methodological approach to dealing with the questions noted above it was also decided to 'sense check' possible approaches with individuals from within the Irish higher education system. Unlike those interviewed in respect of the Dutch and Hong Kong systems the Irish interviewees were not official representatives of their institutions or sectors and, to protect their confidentiality, their names have not been included in the list of interviewees in Appendix Two. A semi-structured interview approach was used in all interviews. The questions used in the interviews are provided in Appendix Three.

Literature Review

It should be noted that this literature review is concerned primarily with how the funding systems are operated rather than with the funding systems themselves. An overview of the literature is provided that has extracted information relevant to the issue of how the systems of performance funding are evaluated.

Estermann *et al* (2013) provide a useful overview of the basic types of performance funding approaches in Europe. They note that performance funding is understood differently across Europe; it can be equated with formula based funding, aimed at undergraduate inputs and outputs and linked to performance contracts. Performance funding is also increasingly being impacted by national policy considerations such as a desire for internationalisation and mobility. In the research underpinning the analysis the authors note that 'performance contracts' are a feature in 15 of the 22 systems examined. In those systems where contracts are used the selection of objectives may be done in collaboration between the public authority and the individual university to foster profiling.

Two publications, having their genesis in the work of the Centre for Higher Education Policy Studies (CHEPS) at the University of Twente, should be noted when considering funding models across Europe and further afield. Jongbloed (2010) in work undertaken by CHEPS on behalf of the European Centre for Strategic Management of Universities considers funding from a governance perspective and traces the main shifts in funding models e.g. from input/market oriented to outcome/market oriented. Benneworth *et al* (2011) provide a comparative analysis of funding systems in Australia, Denmark, England and Wales, Finland, Germany, Hong Kong, New Zealand, Norway and Germany; the paper was prepared by CHEPS as a backdrop to consideration by the Dutch authorities when considering a performance evaluation system within the Netherlands. Benneworth and his co-authors are mainly concerned with the structure of the systems rather than with their operation. However, they do highlight a range of tensions and contradictions in the systems analysed that are of relevance to the current analysis.

- There is a tension between having a clear and transparent monitoring and evaluation framework on the one hand and concerns about the validity of indicators and measurements.
- The use of indicators that are beyond the control of the institutions themselves.
- The need for flexibility at institutional level so as to allow institutions to focus on matters they feel are relevant to themselves.
- Performance contracts that force institutions to focus on the same things thus driving institutions in the same direction.

Benneworth *et al* specifically reference the Hong Kong System as one which appears to address many of the institutional concerns by allowing the institutions themselves to set the objectives and then be evaluated against their own objectives. The Hong Kong approach is considered in more detail below.

For the purposes of the current work some of the specific country findings by Benneworth and his colleagues are worth noting as follows.

In **Denmark**, both teaching and research are funded on an outcomes based (number of graduates) system – the so called 'taximeter' system. There has been no evaluation of the funding process (or contracts) at the time of writing but there has been an evaluation of the reform programme (Danish University and Property Agency, 2009). Although the evaluation concluded that the experience of performance evaluation, from a management perspective has been good insofar as steering power and focus are concerned, from an academic perspective there is believed to be low trust as a result of loss of academic freedom. The system is a formula funded one with no obvious evidence of a peer review process within the system of funding (apart from the high level evaluation noted above).

In **Finland** a four year agreement that is heavily formula funding driven is in operation. The agreements set the tasks, profile and focus areas for each higher education institution as well as discipline specific degree targets and other quantitative objectives and development measures for the institutions. The four year agreements include a four year target arrangement and annual written feedback loops. As with Denmark there is no evidence of peer review as part of the process.

In **Germany** the funding model has a formula or indicator based element, a contract or mission based part and an incremental or discretionary part. The extent to which each of these is used depends on the State. It does appear as if there is a move to more formula based finding and a fear is expressed that because the indicators are the same it will drive homogeneity. It was not possible to determine the form of the evaluation process for the mission based component of the funding model.

The Netherlands

The information on the Dutch system of performance funding is derived from published and unpublished documentation supplied by a number of officials from the Dutch Ministry of Education, Culture and Science (see Unpublished Documentation section below). Some clarifications and additional insights were obtained during the course of interviews with the same officials and these are dealt with further below.

The current performance funding process derives from the recommendations of the Veerman Committee (Chaired by Prof. Dr. C.P. Veerman) (Ministry of Education, Culture and Science, 2010). The main recommendation was a long term strategy to improve the quality and diversity of Dutch higher education using profiling, differentiation in the range of programmes, a reduction in student based funding in favour of mission based funding and greater autonomy in the selection of students (apart from a few programme areas, e.g. medicine, there is an open access policy in the Netherlands). The recommendations were translated into a strategic agenda for higher education (Ministry of Education, Culture and Science, 2011).

Prior to, and overlapping with, the deliberations of the Veerman Committee the Dutch authorities had been using collective agreements with the higher education sectors in the Netherlands. These were unsuccessful and following the publication of the Veerman Committee report and the development of the strategic agenda a decision was taken to move to a strategic dialogue model with performance agreements with individual HEI's at the heart of the process. Further, a 7% performance funding component was introduced to reward 'quality and profile' performance. As part of the process, in December 2011, the HEI's agreed to the system of performance agreements and performance based funding and the State Secretary for HE committed to implementing appropriate legal and financial conditions so as to realise the ambition of the agreements.

The main components of the process are

1. A **strategic plan**[1] (max 40 pages) consisting of
   a. A general description of the current profile
   b. A strengths and weaknesses analysis
   c. Institution ambitions for the years 2012 to 2016 in three domains
      i. Educational achievement (all institutions to address 7 performance indicators *viz* dropout rate in first year, first year switch rate, quality/excellence[2]three possible indicators provided - teacher quality, class contact time, indirect costs)
      ii. Education and research profile (in response to national priorities around research, innovation, programme offerings, etc)
      iii. The impact and utilisation of research.

2. An **independent Review Committee** (Chair Prof. Dr. Frans van Vught and consisting of appointees from the research university sector, the HBO sector, a labour market statistician/economist and an industry representative.) The Committee was established on foot of legal advice to the effect that unless it was independent of the Ministry its recommendations/decisions could be challenged. The Review Committee has its own Secretariat and reports directly to the Secretary of State for HE. The recommendations of the Review Committee have been upheld to date by the Secretary.

3. The Review Committee utilised **three criteria in** reaching its conclusions *viz*
   a. Are the goals ambitious and realistic?
   b. Do they fit the national policy agenda (see 1,c. ii above)?
   c. Are the plans achievable/do-able?

   Each criterion was marked on a scale of 1 to 5 inclusive and criterion b. above received double marks thus providing for a maximum score of 20. Categories of marks were established and performance described as unsatisfactory (4-11), good (12-14), very good (15-17) and excellent (18-20). Institutional submissions were compared against their own stated mission, context, history, etc and against similar institutions (identified using U-Map[3])[4]

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[1] Institutions were asked to set their own strategic goals given their context, history and student population.
[2] Three indicators were provided *viz* percentage of programmes with 'good' or excellent' judgment by the Dutch accreditation organisation, student satisfaction and percentage of students in honours tracks.
[3] The U-Map system is an EU sponsored HEI classification system that allows institutions to identify similar types of HEI's based on a range of indicators and characteristics including teaching and learning, regional engagement and research. (www.**u-map**.eu)
[4] A detailed memorandum (originally in Dutch but translated to English for the author) lays out the work method and assessment framework of the Review Committee. This document provides in detail the general criteria for assessment, the weightings given to each of the three criteria, the minimum marks to be obtained for each criterion and the descriptors for the marks 1 to 5 for each of the three criteria. The qualitative descriptors are provided in Appendix Five of this document.

Senior management from each of the HEIs was met during the evaluation process but site visits were not made.

4. **Where an institution received a positive evaluation a performance agreement was made** and the institution received 5% of the funding available to it in the form of **conditional funding**. The institution will be required to meet its agreed obligations under the agreement if it is not to lose this conditional funding in the next round of performance evaluations. A portion of the budget (2%) was allocated as **selective funding** and, unlike the conditional funding, was allocated based on the scores obtained in the evaluation. In the case of the HBO Raad (Universities of Applied Sciences) this selective funding was directed towards the establishment of centres of expertise in applied research.

5. A **mid-term** review is to be held in late 2014 at which time progress against the national objectives and profiling agreed to by the HEI will be assessed. If the evaluation is positive then the balance of the selective funding will be paid. If a HEI does not meet its targets on the conditional funding (the 7 indicators – see above) then the conditional funding component will be reduced in the round of funding 2017 to 2020.

The experience to date of this very structured approach will be dealt with in the following section on findings from the interviews.

Hong Kong

Information on the Hong Kong system has been gathered from both available literature (LEGCO Panel on Education (2011) and Benneworth *et al* (2011)) and an extensive interview with John Randall (Secretary to the University Grants Committee (UGC) for the evaluation process described below).

In the early 2000's the Secretary of State for Education and Manpower commissioned the UGC) to conduct a review of higher education. Stewart Sutherland (then Principal of the University of Edinburgh) undertook the review and this was published in 2002. Arising from the review the Hong Kong authorities established a *Performance and Role Related Funding Scheme* (PRFS) for the 2005-2008 triennium to encourage role differentiation within an overall system of higher education. A critical feature of the scheme was that it tied together funding allocation, performance and performance against role. The scheme has evolved over successive iterations and is now in the 2012-2015 cycle.

The scheme has the following characteristics.

1. The **PRFS makes a proportion of the funding** which would be allocated to HEI's available only through competition. The proportion (6%) is in the form of funded student numbers which is top sliced and placed in a pool.

2. Each institution is required to submit an **Academic Development Proposal** (ADP) that focuses on strategic issues and performance. The ADP is required to focus on the full range of activities, and not just the best and worst elements, of institution activity. HEI's are required to report on progress against previous objectives.

3. The **ADP is evaluated** (see below) and on the basis of the evaluation and the extent to which the HEI has adhered to its agreed role funding (student numbers) is reallocated to the HEI.

4. F**our general indicators (criteria)** are used within which other institution specific indicators are aggregated.

    a. Strategy – The institution has a strategy which enables it to deliver high quality and internationally competitive taught programmes which are consistent with its role; and which incorporates, where appropriate, collaboration with other institutions and the provision of any relevant self-financing activities.
    b. Teaching and Learning – The institution provides teaching and learning opportunities which are effective in enabling students to achieve outcomes which:
        i. attest to personal and intellectual development
        ii. match international standards for the award of degrees
        iii. prepare students for their careers, and
        iv. meet the needs of Hong Kong
    c. Advanced Scholarship – The institution engages effectively in advanced scholarship appropriate to its role, and uses that scholarship to inform its undergraduate teaching and future research activity.
    d. Business and the Community – The institution has working relationships with business and the community that are appropriate to its role, which facilitate knowledge transfer, and inform its teaching.

5. **An evaluation panel** made up of overseas academics and local people not connected with the HEIs carried out an evaluation based on clear guidelines supplied to the HEIs. Each of the four criteria was considered under a range of headings as follows:
    a. Progress against objectives and whether the objectives lay on a range from 'easily satisfied' to 'realistic but challenging'.
    b. Sufficiency, quality and relevance of the evidence presented; sufficiency did not mean quantity.
    c. The level of analysis by the HEI of progress against objectives; mere description was not sufficient.

During this part of the process senior staff from the HEIs were met by the panel but site visits were not made.

6. **Judgements against the criteria** are made using the categories 'low', medium' and 'high'. For each of the criteria, descriptors of low, medium and high were provided to the panel. These are given in Appendix Four. Each submission was scored on each of the four criteria and the three scores for each criterion combined to give a final rating. These ratings were then used to place institutions in rank order. In the final consideration only gross differences between institutions were considered in the redistribution of student places. Once allocated the funding the HEI retains those funds until the end of the cycle (there is no midterm review). If an institution does not meet the targets that it set for itself this could be taken into account in a following cycle.

7. **Results of the process were not published.**

The experience to date of this process will be dealt with in the following section on findings from the interviews.

It should be noted that whereas the Netherlands evaluation process compared the performance of institutions against themselves and peer institutions the Hong Kong model compares institutions only against themselves before ranking takes place. It should also be noted that in the case of the Dutch evaluation process only potential future performance has, to date, been evaluated. In the Hong Kong process, while a number of cycles have been run, it appears that the emphasis is on directing future performance rather than measuring past performance. Both these positions are substantially different from the situation in Ireland where the evaluation of actual performance will be at the centre of the upcoming evaluation process.

Interviews

It was noted in the process and methodology section above that two groups of people were interviewed *viz* representatives of/people familiar with the Dutch and Hong Kong systems and Irish HEI representatives. This section synthesises the findings from these interviews. In each case a semi structured approach to the interviews was adopted and the questions which formed the basis of the interviews are given in Appendix Three.

In the case of the Dutch and Hong Kong interviews the emphasis was on ensuring a full understanding of how the process for performance evaluation operated for institutions individually and in comparison to each other, how funding is allocated, the perception of the process amongst stakeholders and strengths and weaknesses of the process. The previous section of this Guidance Note has described in some detail the main elements of each system's process for performance evaluation and this will be summarised in the findings section below. Here, the author is solely concerned with the additional information gained as a result of the interviews.

In the Netherlands the experience to date suggests a number of positive experiences *viz*

- A clearer alignment between the national and HEIs agendas,
- More bilateral contacts between the HEIs and the Ministry,
- The opportunity for senior management in the HEIs to use the performance contract process as a means of leveraging change,
- The restructuring and rationalisation of programmes, e.g. the universities in Utrecht and Eindhoven have merged science faculties.

Notwithstanding the positive experiences issues remain to be resolved as follows:

- The use of the categories of unsatisfactory, good, very good and excellent led to media confusion that these were statements about the institutions rather than their plans.
- A change of government between the initial compact agreements and the midterm review and the failure of the government to enact legislation agreed to at the outset has led to a diminished level of trust between the parties,
- The process imposes a significant bureaucratic and administrative burden on both the HEIs and the Ministry,
- The HEIs had no input into the composition of the Review Committee.

In Hong Kong the experience indicates that there are positive experiences as follows:

- The process has been effective in curtailing mission drift,
- HEIs have become more self aware which in turn has led to more coherent development, plans and conscious steps to promote continuous improvement,
- The process has helped institutions face hard decisions about underperforming, programmes. And to develop and use appropriate indicators and benchmarks.

Areas where the process has experienced problems include

- A tendency to reinforce success,
- Too short a cycle (three years),
- There are no site visits that would allow triangulation of findings,
- The time commitment required for the process is significant,
- Results are not published which means that the transparency of the process is open to question

<u>Consultation within Ireland</u>

As part of the study, short consultations were held with a small sample of practitioners in the Irish system. This was not intended to represent full consultation, but rather to gather insights from individuals of experience to assist in the planning process and to sense check possible approaches. The interviews with practitioners attempted*, inter alia,* to establish views on the desirable characteristics and components of a process, the role of the executive of the HEA versus that of a peer review group (if one was used), the role of site visits (if any), the allocation of the performance funding component.

In addition to the requirement for a transparent and accountable process, as required in the RFT, the other desired characteristics noted by interviewees were that the process should be

- Comparable and consistent across institutions,
- Appropriate to the institution,
- Simple, 'lean and mean' including use of outputs from QQI processes but without a direct link between quality and funding,
- Carried out using clear and pre defined definitions of data and judgement descriptors,
- Easily understood.

The elements to the process should include

- A probing and analytical self evaluation,
- Peer review (every three years) to allow judgments on qualitative matters,

- An internal comparison against the institution itself (i.e. its baseline performance and the progress made in the identified priority areas) plus some benchmarking against the sector,
- Site visits could be a part of the process but not every year. (Views of interviewees were split on this matter. It was noted that unlike a quality review where it is necessary to meet students and staff to fully interrogate systems and processes this may not be necessary in this process),
- Period audit checks of institution-provided data could be part of the process.

The peer review panel should be credible and be seen to be credible in terms of its capacity to consider and make findings in respect of institutional performance. Ideally there should be scope for the sector to provide some input into the formation of the panel, as regards the sorts of experience and capacities that would be desirable for panel members.

The results should be widely circulated amongst the HEIs and should be used as a means to enhance accountability of HE amongst the wider public.

It should be possible to gain or lose money from the performance fund. However, because of the current financial position of many of the Irish HEIs the funding (or a large part of it) should be awarded conditional upon meeting targets rather than being withheld up front and won back.

Findings

How do the systems of interest evaluate institutional performance?
In the Netherlands a strategic plan that consists of a general description of the current profile of the institution, strengths and weaknesses analysis and a set of institution ambitions for the years 2012 to 2106 in three domains (educational achievement, education and research profile and the impact and utilisation of research) was submitted to a Review committee. The strategic plan was evaluated by an independent Review Committee using three criteria *viz, a*re the goals ambitious and realistic, do they fit the national policy agenda and are the plans achievable/do-able? The three criteria are marked on a scale of 1 to 5 against the HEI's own stated mission, context, history, etc and against similar institutions. Double marks were awarded in respect of criterion b. above. If an evaluation was successful the HEI received 5% of the funding available to it in the form of funding that is conditional upon meeting targets in the current (2012-2106) cycle. If the HEI fails to meet the agreed targets then funding will be reduced in the second cycle. A portion of the budget (2%) was allocated as selective funding and, unlike the conditional funding, was allocated based on the scores obtained in the evaluation. A midterm review will consider the HEIs performance

against the national objectives and profiling and if performance is satisfactory the balance of the selective funding will be awarded.

In Hong Kong each institution is required to submit an Academic Development Proposal that focuses on strategic issues and performance. The ADP is evaluated by the UGC using a panel of lay people (not associated with the HEIs) and overseas academics. Four general indicators are used (strategy, teaching and learning, advanced scholarships and research and business and the community) and the HE proposals are considered under the headings progress against objectives, sufficiency of evidence and quality of reflection and categorised as low, medium or high. Marks are awarded and then an overall ranking of HEIs is made. The ranking determines whether or not a HEI regains funding (expressed in student numbers) which has been previously top sliced.

How do the systems of interest discriminate between institutional performance?
In the Netherlands institutions are evaluated against their own stated mission, history and against similar institutions and awarded marks between 1 and 5 for each criterion with one criterion receiving double marks thus having an achievable 20 marks.

In Hong Kong institutions are evaluated against themselves using the four criteria for each of which three qualitative descriptors at ‘low’, ‘medium’ and ‘high’ were available. Marks are then awarded and these marks are used to rank the institutions against each other.

How do the systems of interest allocate performance funding?
In the Netherlands a successful evaluation results in the award of a performance contract and conditional funding. The quality of the submission is used to determine the allocation of selective funding particularly in respect of the national objectives. An institution with a plan judged as ‘excellent’ got 2.5 times more budget than institutions of the same size with plans judged as ‘good’. A midterm review is used to consider progress against national objectives and profiling and if successful the balance of the selective funding is awarded.

In Hong Kong, the ranking, referred to above, is used to reallocate funding (expressed as student numbers) that has been top sliced. However, only gross differences between institutions are used to reallocate funding. There is not a precise formula linking position in the rankings with funds allocated. An institution may keep "at risk" funding, lose all or some of the "at risk" funding" or gain some additional funding over and above the "at risk" element.

What weaknesses are apparent in the systems of interest and how might challenges that arise in the context of applying them in the Irish context be dealt with?

The lessons learned from the experiences in the Netherlands and Hong Kong suggest a small but significant number of issues that if not dealt with carefully can lead to issues arising with the process. These issues can be divided into three categories; trust, process and the review group.

Issues of **trust** revolve primarily around the establishment of the ground rules, agreement on the context and clear definitions and descriptors used in the evaluation process. In practice this will require early publication of the terms of reference of a peer review process, the criteria, descriptors and definitions being used in the process and a commitment, both political and administrative, not to change the ground rules (e.g. changing national objectives) during the cycle of the process. Given the question of maintenance of trust it should be noted that this Guidance Note has identified several areas where *de facto* commitments regarding process have already been made.

Issues of **process** are concerned mainly with the mechanics of the process. Matters that are likely to give rise to challenges for both the HEIs and those managing the evaluation process include the additional administrative burden of yet another process and being confined to too short a cycle within which change can be reasonably expected to take place and thus be evaluated. The first round of the dialogue process sought to address many of the sectoral concerns, through, for example, use of HETAC and IUQB reports, and pre-population of data using data drawn from the HEA statistics system. It would be important to continue this process and as far as possible to use data that are already available and that can be prefilled in any template. It would also be desirable to reuse relevant data from other sources such as QQI, use ‘light touch’ midterm review processes and midterm self evaluation reports. Unlike the Finnish and Danish systems that are purely formula driven, the Dutch and Hong Kong systems both require peer judgement in respect of the qualitative components of the evaluation framework. If the HEA is to build an evaluation process that provides for evaluation of qualitative components it is a *sine qua non* that a credible **Peer Review** panel will be required. In establishing the group it may be desirable to consult with relevant stakeholders (HEIs, employers and students), particularly in relation to desirable panel competencies and capabilities. All efforts to avoid a situation where the recommendations of the group are seen to be capable of political or administrative adjustment are obviously to be avoided. It is notable that in several places the credibility of the PRTLI process was praised.

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Appendix One
Extract from Request for Tender

The HEA wishes to commission a research piece on the operation of performance funding in certain higher education systems specifically Holland and Hong Kong.

The research will focus primarily on how these systems

- evaluate institutional performance,
- discriminate between institutional performance and
- allocate performance funding. The research should specifically consider the transparency and accountability of the systems to the institutions concerned and wider stakeholders. The research should comment on the perceived success of the systems. The research should identify any key success factors in the operation of these systems.

The research should also identify any weaknesses in the systems surveyed, and any challenges that might arise in applying such systems in an Irish context.

The research would be carried out via

- A desk review of literature
- Discussions with key individuals (the HEA will endeavour to assist in arranging such interviews). While the research might include visits to Holland, it is not anticipated that there would be a need for visits to Hong Kong.

Appendix Two
List of People Interviewed

Boselie, Floor	Dutch Ministry for Education, Culture and Science. Programme for Performance for Evaluation.
Hageman, Rene	Association of Universities in the Netherlands (VSNU).
Minnee, Ron	Director of the Directorate on Higher Education and Student Finance, Dutch Ministry for Education, Culture and Science.
Randall, John	Independent higher education consultant and Technical Secretary to the Performance and Role Related Funding Scheme of the University Grants Committee of Hong Kong.
Rijghard, Saskia	Dutch Ministry for Education, Culture and Science. Programme for Performance for Evaluation.
van Niekerk, Wim	Secretary of the Higher Education and Research Review Committee, Dutch Higher Education Performance Evaluation.
van Vught, Frans	Chairperson of the Higher Education and Research Review Committee, Netherlands.

Appendix Three
Questions Used in Semi Structured Interviews

Questions for Interviewees in Dutch and Hong King Systems of Higher Education

- Please describe in outline how the compact system works in the Netherlands/Hong Kong.
- How do the Dutch/Kong Kong systems actually measure performance of institutions against agreed targets?
- How do the Dutch/Kong Kong systems distinguish performance between institutions?
- Once performance is evaluated how is performance funding allocated?
- How is the evaluation process perceived amongst stakeholders?
- What are the key strengths and weaknesses of the evaluation process?

Questions for Interviewees in Irish Higher Education Institutions

- What would you consider to be the characteristics of a successful performance evaluation process, as set in the context of the mission based compact being adopted in Ireland?
- What might be the main elements of a process that would deliver these characteristics?
- Can you point to a similar process in Ireland or elsewhere that you believe exhibits those characteristics?
- Is there an ideal balance between qualitative and quantitative performance evaluation within a performance evaluation framework?
- What role, if any, does peer, as distinct from executive, review, have to play in performance evaluation?
- Is it necessary to have site visits as part of a performance evaluation process?
- Should the results be published or not?
- Should any rewards or penalties be scaled within the 10% performance fund available or should it be all or nothing?
- Have you any other observations you would like to make on the process to be adopted?

Appendix Four

Descriptors for Judgement Categories Used in Hong Kong Performance Evaluation System

Performance indicators and benchmarks

Low: Indicators and benchmarks are not clearly stated and used; or are unrealistic in relation to role; or are easily satisfied. There is little evidence of progress towards achievement of objectives stated in proposals for the current and previous triennia.

Medium: Indicators and benchmarks are clearly stated and relevant to role, and provide an adequate and realistic measure of progress. Reasonable progress made towards achievement of earlier objectives.

High: Indicators and benchmarks are clearly stated and relevant to role, are realistic but challenging, and underpin a culture of continuous improvement. Good progress towards achievement of earlier objectives.

Sufficiency, quality and relevance of evidence presented

Low: Evidence is inadequate, and/or discloses an unsatisfactory level of performance in relation to role, strategy and performance indicators.

Medium: Evidence is sufficient and discloses an acceptable level of performance in relation to role, strategy and performance indicators.

High: Evidence is sufficient, uniformly relevant and of good quality, and discloses a good level of performance in relation to role, strategy and performance indicators.

Evaluative nature of submission

Low: The submission is merely descriptive, with little strategic vision.

Medium: The submission provides an adequate rationale for past policy decisions and identifies a strategic approach to future development.

High: The submission provides a good rationale for past policy decisions, demonstrates an ability to learn lessons from both success and failure, and offers a strategic approach to future challenges.

Appendix Five

Descriptors for Judgement Categories Used in Netherlands Performance Evaluation System

Ambition Level and Reality Value

Definition

The criterion of "ambition level and reality value" is defined as the degree to which the institution is pursuing an improvement in its (activities and) performance, such that, at the same time, a reasonable case is made that the ambition can be realised. It is important that a balance is struck between the activities and performance level pursued, on the one hand, and the chance of realising them, on the other.

Points	***Meaning***
5	The institution proposal is exceptionally ambitious. The ambition can be realised convincingly given the context, history and chosen strategy with the institution's associated measures. It is expected that the institution, in achieving the ambition, will strongly improve its position from the current situation or could consolidate its current strong position. Clearly visible and verifiable progress compared with the current situation can be expected during the review in 2016. If an institution has already built up a clear-cut profile in recent years in combination with continually proven high quality, then maintaining the same high level will also be classified as ambitious.
4	The institution proposal is ambitious. Given the context and history of the institution, the ambition can be realised it seems. The ambition can be securely realised given the context and history of the institution and the chosen strategy with associated measures. It is expected that the institution, in achieving the ambition, will improve its position from the current situation; visible and verifiable improvements over the current situation can be expected during the review in 2016.
3	The institution proposal is ambitious for the most part. The ambition can be realised it seems given the context, history and chosen strategy with associated measures. Visible and verifiable improvements over the current situation can be expected in most of the components during the review in 2016.
2	The institution proposal falls short for the most part with respect to ambition and feasibility, given the context and history of the institution. Visible and verifiable improvements over the current situation can be expected only for a few components during the review in 2016.
1	The institution proposal falls far short with respect to ambition and feasibility, given the context and history of the institution. Visible and verifiable improvements over the current situation cannot be expected during the review in 2016. It is expected that the institution will not improve its position over the current situation with this formulation of the ambition.

Connection with Developments Pursued at the System Level: Developing Focus Areas and Differentiation

Definition

In various documents (strategic agenda, outline agreements, Innovation contracts and "Human Capital Agendas" in the top sectors, Master Plan for Science and Technology, sector plans, EU programmes "Horizon 2020" and "Erasmus for all") hopes for the future development of higher education, research and valorisation are recorded. They form the basis of the second criterion. The RC will make an assessment of the degree to which the proposals are in keeping with two main priorities: developing focus areas and differentiation in the education provided.

Points	***Meaning***
5	The institution proposal is very sharply focused on differentiation and the development of focus areas. The institution proposal contains clear-cut choices strongly focused on this with respect to the course programmes and research offered. The choices are very closely related to the relevant (regional or (inter)national) environment.
4	The institution proposal is sharply focused on differentiation and the development of focus areas. The institution proposal contains clear-cut choices focused on this with respect to the course programmes and research offered. The choices are closely related to the relevant (regional or (inter)national) environment.
3	The institution proposal is substantially focused on differentiation and the development of focus areas. The institution proposal contains choices focused on this with respect to the course programmes and research offered. The choices are sufficiently related to the relevant (regional or (inter)national) environment.
2	A limited part of the institution proposal is focused on differentiation and the development of focus areas. The institution proposal contains a few choices focused on this with respect to the course programmes and research offered. The choices are moderately related to the relevant (regional or (inter)national) environment.
1	The institution proposal is not or is barely focused on differentiation and the development of focus areas. The institution proposal contains no or hardly any choices focused on this with respect to the course programmes and research offered.

Feasibility

Definition

The third criterion used by the RC concerns the “feasibility” of an institution proposal. This criterion is involved only in the assessment made for the selective budget.

For the criterion of “feasibility”, the RC is concerned with the extent to which the institution makes a plausible case that it can realise the profile it seeks. For this reason, the institution should indicate – briefly, but as concretely as possible – how it plans to realise the ambitions.

Points	***Meaning***
5	The institution proposal is extremely feasible. The institution has set clear priorities for the deployment of capacity and resources and indicates very convincingly how the strategy with associated goals will be realised.
4	The institution proposal is feasible. The institution has set priorities for the deployment of capacity and resources and indicates convincingly how the strategy with associated goals will be realised.
3	The institution proposal is largely feasible. For a large part of the strategy and associated goals, the institution indicates convincingly that they will be realised.
2	The institution proposal is no more than partially feasible. It is insufficiently clear how the strategy with associated goals will be realised.
1	The institution proposal is not feasible or is barely feasible. It is (fairly well) unclear how the strategy with associated goals will be realised.