Funding Systems and Their Effects on Higher Education Systems

COUNTRY STUDY – IRELAND

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Executive Summary

Introduction

At the time of this OECD study, Ireland was in the unique position of having just completed a consultation process on the introduction of a new funding model. At the same time, an OECD review of Ireland's higher education system was taking place. Both of these processes provided ready made submissions from the full range of stakeholders. Accordingly Ireland did not need to issue questionnaires or conduct interviews to prepare this report. Ireland's country study, therefore, focuses on the "old system" of recurrent funding for universities and its effects, the "new system" and its intended effects as well as the reasons for changing the system.

National Background

Ireland has a higher education system primarily funded by the State. Over 90% of students in higher education in Ireland are in institutions of a public nature, i.e., they are established under laws specifically relating to higher education. The public system is binary, with a university sector and an institute of technology sector. They are long established, one being over 400 years old, others trace their original establishment back 150 years, (the two most recent were established in 1989). The Institutes date, in the main, from 1970 though some have their origins in 19th century foundations.

The universities charge significant fees to postgraduate and part-time undergraduate students. Until 1995 the same position applied in relation to full-time undergraduate courses. The Government then decided to introduce free tuition fees for full-time undergraduate students (EU) and to recompense the higher education institutions for fee income thereby foregone. In both sectors the State is almost the sole provider of funds, accounting for between 80 and 90% of total institutional income. Even when fees were charged to undergraduate students the proportion of income provided by the State never fell below 70%.In 2006 the HEA will have funding responsibility for the whole of the higher education sector.

Changing Management Structures and Culture in Irish Higher Education

The present OECD/IMHE study on Funding Systems and their Effects on Higher Education has been undertaken at a time of great change in this area in Ireland. A momentous change in regard to the arrangements for the funding of institutes of technology in which nearly half the total number of students in Ireland are enrolled is about to take place. It is intended over time that these institutions will move from a system of financing based on an incremental budget system to a formula based system, as used for the universities. It is intended that management will have greater responsibility and accountability and scope for entrepreneurial activity than ever before. While the existing system operating in the university sector has been broadly satisfactory, there have been some criticisms over the years. Among these is the perceived need for greater transparency in the system, increased responsiveness to national objectives and greater scope for the institutions by encouraging initiative and managerial entrepreneurship. This has resulted in a new financing mechanism being introduced in 2006 and it will be fully developed over the next few years. It parallels general government policy for the Irish public sector with an emphasis on delivering on nationally and regionally identified objectives and needs, value for money, and with an overall emphasis on developing institutions that are more strategically focused and outcomes oriented.

The Government in 2003 invited the OECD to review the Irish higher education system. The report of this expert group, published in 2004 contained recommendations of relevance to the funding system and the Government in April, 2005 announced a number of decisions in this regard. All of this activity has contributed to the Authority's considerations of the matter and there has been no shortage of useful comment from the various stakeholders on the matter which, of course they see as vital to their future.

Funding System 1990-2005

The HEA allocates core recurrent funding annually through a system of block grants which cover both teaching and basic research. The core recurrent funding allocation to the universities up to 2005 was informed by a formula based unit cost system, the main inputs to which are the audited financial statements and certified student enrolments of the universities. In addition, a grant is made in lieu of undergraduate tuition fees which is based on course fees multiplied by certified student enrolments. Earmarked funding for increases in the output of graduates with particular skills deemed to be in short supply is provided in the form of a grant per additional student. A small proportion of the total amount of the recurrent funding of the universities is distributed through a Strategic Initiatives Funding scheme which is an incentive funding scheme used to promote the development of particular policy priorities of the Department of Education and Science and the HEA. Initiatives which have been funded in the past include major initiatives to widen participation, to improve equality of access, to promote excellence in teaching and learning, to improve retention and completion rates, etc.

Institutions may allocate the funding internally as they see fit. Work on this system commenced in 1990 and it was fully operational in 1995.

Development of new funding allocation model

With the aid of a consultant the HEA reviewed the main features of the funding mechanisms used in higher education systems in a number of other countries and regions, including a critical meta-level analysis of the principles underlying them, with a view to identifying examples of best and successful practice of relevance to the system in Ireland

The Authority having considered the matter at length and in considerable detail prepared a consultative document for consideration by all the stakeholders. The proposed revised funding model had the following objectives:

- to support institutional autonomy, while providing meaningful accountability to the various stakeholders;
- to promote a strategic approach by institutions to their long-term development, consistent with their existing strengths and capabilities;
- to reward institutional responsiveness to national and regional needs;
- to support excellence in teaching, learning and research;
- to increase opportunities for students from all types of backgrounds to benefit from higher education;
- to provide positive incentives to institutions to diversify and increase their income from non-state sources, consistent with their mission;
- to provide stability in funding from year to year and encourage efficiency in the use of public funding;
- to be transparent and rational; and
- to monitor and review outcomes, but not give rise to disproportionate compliancy costs.

Using these design principles the funding framework envisaged by the HEA in its consultation paper was as follows:

"Core" funding linked to student numbers and types but distributed on a "block" grant basis, i.e., the internal allocation of funds is at the discretion of the institution. Money should "follow the student". The funding rate and criteria should be relatively simple, transparent, rationally based and equitable as between institutions and reflect cost differences between subject disciplines and students categories. Some performance related elements should be included in the "core" funding formula (e.g. intake and output rates). Ideally these should be benchmarked against best international practice. Share of performance related funding should be sufficiently large to influence institutional behaviour positively, while at the same time it should not put at risk the financial stability of the institution.

Strategic funding to be provided in priority areas and to be allocated on a competitive and performance related basis.

In this regard the HEA proposed that about 10% of the overall block grant, possibly rising to 15% over time should be made available to support "the development of strategic long-term planning and processes" in institutions, and that this should be evaluated by an "independent assessment panel comprising both international and Irish members"

Major new initiatives to be funded on a competitive basis, e.g., new faculties, research programmes etc; experimental and innovative programmes to be provided, as appropriate, on a pilot basis, after which they should be evaluated and either abandoned or mainstreamed.

Finally, diversification of funding sources would be encouraged.

While this project was in train, the Government invited the OECD to review Irish higher education. The top level international team appointed by the OECD for this purpose invited submissions from a wide body of interests and it generated a considerable amount of innovative thinking from all stakeholders on the existing third-level system, including its financing. These documents were widely circulated and were of considerable help to the Authority in finalizing its design of a new funding mechanism.

HEA Revised Funding Mechanism

The Authority held a seminar in October 2004 at which the feedback from stakeholders to the consultation document and the observations of the OECD Review Group on the model were considered. This seminar afforded considerable insight into the advantages and disadvantages of the proposed model, pitfalls and gaps, and what the institutions most wanted to see in any scheme. The OECD report had stated that the model must provide implicit strategic direction for the higher education system, that the block grant mechanism should be kept as simple and transparent as possible, that the core grant should include some element for research and that there needed to be explicit recognition in the model of the importance of widening participation. At the seminar there was

agreement on the need for core funding to be associated with output measures on Access and Retention and for it to recognize research success through possible indicators such as PhD numbers, publications and research income earned. The model was finalized in 2005 and a detailed description of the mechanism was circulated to the institutions and the Department of Education and Science. The new system was used in part in the allocation of the grant for 2006.It will be fully operational in 2008.

The following is a summary of the three separate but related elements of the model:

- An annual recurrent grant, allocated to each institution using a formulaic approach. Clarity, transparency and fairness as to how the institutions are funded are key objectives, with uniformity of core grant funding for students in the same broad areas, regardless of the institution at which he/she chooses to study and recognition of the extra costs which arise in the case of students from certain backgrounds, e.g., socio-economic disadvantage, disability, mature second-chance students. Ninety-five percent of annual recurrent funding is allocated on the basis of student numbers in four broad subject weighted price groups. The remaining five percent is allocated using specific research performance criteria.

- Performance related elements, benchmarked against best national and international practice, with greater emphasis on setting targets and monitoring outputs. The HEA will reserve an element of the annual recurrent grant pending confirmation of strategic plans which are coherent with and, supportive of institutional and government strategy and which deliver appropriate outcomes.
- Mechanisms which will promote innovation generally, but especially in specified areas which support national strategic priorities. A Strategic Innovation Fund will be established which will be allocated to institutions on a competitive basis. The funding methodology will have specific emphasis on coherent strategies and inter and intra-institutional collaboration.

The model is being phased in over a three year period, 2006 – 2008. During this period there will be on-going consultation with the institutions on the detail of the model and following from this it is anticipated that the model will be further developed and refined.

Once implementation of the HEA Recurrent Grant Allocation Model is complete, institutions will have responsibility for setting out, in a strategic way, how they will address key internal and national policy issues. It will also be their responsibility to set institutional targets and it will ultimately be their success or failure in reaching those targets that will determine their level of funding. Institutions will be supported in developing and implementing new approaches and it is those which are most innovative which will benefit most. While it is early days in relation to the new funding model, it is already apparent that institutional strategic plans are more focused on National priorities and related targets and outcomes.

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1 National Background

Ireland has a higher education system primarily funded by the State. Over 90% of students in higher education in Ireland are in institutions of a public nature, i.e., they are established under laws specifically relating to higher education. The public system is binary, with a university sector and an institute of technology sector. They are long established, one being over 400 years old, others trace their original establishment back 150 years, (the two most recent were established in 1989). The Institutes date, in the main, from 1970 though some have their origins in 19th century foundations.

The universities charge significant fees to postgraduate and part-time undergraduate students. Until 1995 the same position applied in relation to full-time undergraduate courses. The Government then decided to introduce free tuition fees for full-time undergraduate students (EU) and to recompense the higher education institutions for fee income thereby foregone. The same policy also applies in the institute sector, though here fees were, traditionally much lower than in the universities and they concentrated on 2 year and 3 year courses. In both sectors the State is almost the sole provider of funds, accounting for between 80 and 90% of total institutional income. Even when fees were charged to undergraduate students the proportion of income provided by the State never fell below 70%.

Thus the interaction between the institutions and the State is very important. The universities have always had considerable autonomy and this was given recognition by the establishment of the Higher Education Authority (HEA) by law in 1971. It has the responsibility for allocating state funds to them. Its membership is appointed by Government and half of the members are academics and half from outside the sector and, in some cases from the private sector.

The Institutes are at present funded directly by the government Department of Education and Science (DES) which exercises considerable control on their operations with staffing numbers being decided by the DES.

In both sectors salaries and conditions of service are determined centrally; highly centralized wage bargaining is a characteristic of the Irish public service. The universities are permitted as a major and exceptional matter to offer fixed term contracts which may exceed these levels of remuneration.

Just over half the students in higher education are enrolled in universities though more than half new entrants enroll on the generally shorter courses in the institute sector. Ireland has achieved a participation rate of 55% in higher education, a remarkable rate when one considers numbers in second level only started to grow vigorously in the late 1960s. In this Ireland differs from most of its European neighbors who enjoyed high growth rates since the 1950s. Indeed the small size of the higher education sector until the 1970s onwards, and hence the amount of state funding needed to operate the system meant the funding system and its objectives did not become matters of public importance until much later.

The desirability of one funding body for all higher education has been acknowledged by all the stakeholders involved for many years and since the early 1990s this has been government policy. This change, which it is widely agreed has major administrative, managerial and legal implications and opportunities for the institute of technology sector is now taking place. In 2006 the HEA will have funding responsibility for the whole of the HE sector.

Changing Management Structures and Culture in Irish Higher Education

The present OECD/IMHE study on Funding Systems and their Effects on Higher Education has been undertaken at a time of great change in this area in Ireland. As mentioned above a momentous change in regard to the arrangements for the funding of institutes of technology in which nearly half the total number of students in Ireland are enrolled is about to take place. It is intended over time that these institutions will move from a system of financing based on an incremental budget system to a formula based system, as used for the universities. It is intended that management will have greater responsibility and accountability and scope for entrepreneurial activity than ever before. While the existing system operating in the university sector has been broadly satisfactory, there have been some criticisms over the years. Among these is the perceived need for greater transparency in the system, increased responsiveness to national objectives and greater scope for the institutions by encouraging initiative and managerial entrepreneurship. This has resulted in a new financing mechanism being introduced in 2006 and it will be fully developed over the next few years. It parallels general government policy for the Irish public sector with an emphasis on delivering on nationally and regionally identified objectives and needs, value for money, and with an overall emphasis on developing institutions that are more strategically focused and outcomes oriented.

In addition the Government in 2003 invited the OECD to review the Irish higher education system. The report of this expert group, published in 2004 contained recommendations of relevance to the funding system and the Government in April, 2005 announced a number of decisions in this regard. All of this activity has contributed to the Authority's considerations of the matter and there has been no shortage of useful comment from the various stakeholders on the matter which, of course they see as vital to their future.

2 Funding System 1990-2005

The HEA allocates core recurrent funding annually through a system of block grants which cover both teaching and basic research. The core recurrent funding allocation to the universities up to 2005 was informed by a formula based unit cost system, the main inputs to which are the audited financial statements and certified student enrolments of the universities. In addition, a grant is made in lieu of undergraduate tuition fees which is based on course fees multiplied by certified student enrolments. Earmarked funding for increases in the output of graduates with particular skills deemed to be in short supply is provided in the form of a grant per additional student. A small proportion of the total amount of the recurrent funding of the universities is distributed through a Strategic Initiatives Funding scheme which is an incentive funding scheme used to promote the development of particular policy priorities of the Department of Education and Science and the HEA. Initiatives which have been funded in the past include major initiatives to widen participation, to improve equality of access, to promote excellence in teaching and learning, to improve retention and completion rates, etc.

A key strength of the unit cost system is that costs are identified annually to course and even to course-year level per student. The data is robust, based on certified accounts, certified student numbers and teaching contact hours. An added benefit of the system is the detailed costing and management information which can be used by the universities in their internal allocation and budgetary systems. The grant allocation by the HEA is a block grant. Institutions may allocate the funding internally as they see fit. Work on this system commenced in 1990 and it was fully operational in 1995.

In the Institutes the recurrent funding mechanism is based on the annual negotiation of programme budgets between the individual institutes and the Department of Education and Science. The system is an incremental system with last year's budget used as base. Added to this are inescapable increases in salaries and non-pay costs. Any anticipated savings are subtracted. An estimate of income which the institutes will themselves generate from other income is then deducted from the overall estimate of necessary expenditure to arrive at the amount of the grant income required.

In addition to this grant, a grant in lieu of fees is made based on course fees and certified student enrolments. It is envisaged that the transfer of funding responsibility for the institutes to the HEA will in time involve the introduction of a formula based funding system using unit costs for recurrent funding as part of a move towards greater institutional autonomy.

It has long been recognized in the universities, the DES and the HEA that the funding system has important implications for the efficiency of the higher education system. The system used in the 1970s and 1980s served the higher education system well in that it led to the orderly financing of the sector, the elimination of significant accumulated deficits and controlled increases in student fees. It was accompanied by massive increases in student numbers, a major objective of national policy. There was, however a lack of transparency and it was also considered that it did not contribute to efficiency and effectiveness, the major issue in public policy internationally in the 1980s. It was also considered that it tended to exacerbate the dependence of institutions on the Exchequer and hence stifled more entrepreneurial management or financial autonomy in the universities. Many countries developed formula based funding allocation methods to alleviate this situation. In Ireland in 1990 a unit cost system was developed on the basis described above. It included an incentive to institutions to seek non-Exchequer income and incorporated targets for such income, for tuition fee income, divided between undergraduate and post graduate and in effect devolved responsibility for allocation of its income to the institution itself.

When the new funding model was being developed, the objective was, inter alia, to put a model in place which would feed into the annual Estimates negotiation between the then Department of Education and the Department of Finance and thereby influence the amount of the overall recurrent allocation voted annually by the legislature. However, the Departments were unable to agree to such an approach, possibly because it entailed a capitation element in the grant, which they had never been willing to agree in respect of higher education. Accordingly, the unit cost data, rather than determining the overall grant to institutions, was used to inform individual institutional grant allocations, i.e., as an instrument for the distribution of the monies voted by the legislature for the universities block grant. On the income side the aim was that total income of an institution would be split between target percentages for undergraduate fees, postgraduate fees and “other income” and state grant. The “other income” target was to provide an incentive to institutions to find a small proportion of their income by earnings for services, postgraduate fees, interest earnings, fees for non-EU students, etc. The % for undergraduate fees was an upper limit to avoid excessive increases in such fees: any percentage above it resulted in the state grant % being reduced.

A major change in the context in which the system was originally introduced was the decision by Government in 1995 to abolish undergraduate fees for full-time students and compensate the institutions for this by providing a separate grant based on student numbers and course fees adjusted annually. A further factor has been the inability of the universities, with one exception to achieve the (relatively) modest target for other income. It had thus become something of a dead letter. Clearly some other means was needed to incentives institutions to widen their sources of income.

3 Development of New Funding Allocation Model

The financial situation of higher education in most countries has changed greatly in the late 1990s. Internationalisation of higher education, greater realization of the implications of the knowledge society/economy for national higher education systems the widening of the sources of income for institutions which up to then could rely on government to meet their requirements. These factors and others more local in Ireland highlighted the importance of the funding model. A major change in Ireland was the funding of research in higher education institutions by the Department of Education and Science (renamed in 1997). Previously all such direct funding of research had been by way of project research by the government departments responsible for industry, agriculture, health etc. By Irish standards massive funding of research, principally in the universities was introduced. This of course effects the financial balances of the institutions greatly and, indeed their mission as teaching and learning institutions.

A further change in the late 1990s was the introduction of funding for national objectives in regard to equality of access, transfer and progression of students between courses and institutions, specific funding for increases in student numbers in areas where manpower shortages had been identified, chiefly in ICT, science and technology, and health sciences.(the sea change in the Irish economy occurring from the mid-1990s and known as the "Celtic Tiger" had caused a transformation of major proportions in the place of higher education in Ireland's consciousness). All of these factors led the HEA, with the support of DES and the universities and later the institutes to review its funding mechanism. This review was in the context of the changes mentioned above but also in the context of the "deregulation" of higher education in Ireland and elsewhere at that time.

With the aid of a consultant the HEA reviewed the main features of the funding mechanisms used in higher education systems in a number of other countries and regions, including a critical meta-level analysis of the principles underlying them, with a view to identifying examples of best and successful practice of relevance to the system in Ireland The review focused on:

- the appropriate balance between input-based and output-or performance –based funding.
- examples of best practice in the application of output-or performance –based funding.
- what are the major pitfalls in the application of output-or performance-based funding systems.
- examples of the successful application of performance –based funding systems for both degree-granting and non-degree granting institutions, and /or for universities and institutions of a different character e.g., conservatories, art schools, etc
- examples of successful use of performance indicators as a basis for the funding of third-level education

- types of incentives which can be built into public funding systems to encourage institutions to diversify and increase their income from non-state sources, and any particular risks associated with such incentives

This ambitious review clearly, it will be seen incorporated the reservations of stakeholders shared to some extent by the HEA on the existing scheme. Trust and confidence in any new scheme, and particularly one being devised when the HEA's responsibilities were about to be changed radically was paramount. The Authority having considered the matter at length and in considerable detail prepared a consultative document for consideration by all the stakeholders. The proposed revised funding model had the following objectives:

- to support institutional autonomy, while providing meaningful accountability to the various stakeholders;
- to promote a strategic approach by institutions to their long-term development, consistent with their existing strengths and capabilities;
- to reward institutional responsiveness to national and regional needs;
- to support excellence in teaching, learning and research;
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Strategic funding to be provided in priority areas and to be allocated on a competitive and performance related basis.

In this regard the HEA proposed that about 10% of the overall block grant, possibly rising to 15% over time should be made available to support “the development of strategic long-term planning and processes” in institutions, and that this should be evaluated by an “independent assessment panel comprising both international and Irish members”

Major new initiatives to be funded on a competitive basis, e.g., new faculties, research programmes etc; experimental and innovative programmes to be provided, as appropriate, on a pilot basis, after which they should be evaluated and either abandoned or mainstreamed.

Finally, diversification of funding sources would be encouraged.

While this project was in train, the Government invited the OECD to review Irish higher education. The top level international team appointed by the OECD for this purpose invited submissions from a wide body of interests and it generated a considerable amount of innovative thinking from all stakeholders on the existing third-level system, including its financing. These documents were widely circulated and were of considerable help to the Authority in finalizing its design of a new funding mechanism. The submissions considered of most weight are summarized below to indicate the state of thinking on this question by interested parties.

The Committee of Heads of Irish Universities strongly advocated “that the conclusion of the OECD that “the art of policy making will in future involve ensuring that public goals are met in higher education through influence rather than direction should inform the Government’s approach to the development of the Irish Higher Education”. Their submission also stated that “The current practice and philosophy of annual budgets are the antithesis of good planning and damaging to the achievement of all stated and shared objectives”. How universities are to be resourced to meet national objectives is a public policy issue. Over-dependence on state funding limits the university autonomy and its ability to act strategically, flexibly and responsively”. Also” a flexible and strategic financing model is needed. It should specify outcomes expected, incorporate incentives for national priorities (to replace targeted funding), provide the means for effective macro-management of the system and provide for the balance between autonomy and accountability that empowers institutions and their staffs to take the initiatives necessary to develop and sustain excellence in higher education”.

The Council of Directors of the Institutes of Technology recommended that a single agency for all higher education charged with oversight of (higher education)

policy be established, including planning and implementation.

Such a structure will be able to provide the coherence and strategic thrust required. Its perspective will be that of demand rather than supply and its culture should facilitate responsiveness and flexibility. All public funding of higher education should be aligned with the objectives of national policy and disbursed by the proposed single agency. A funding structure based on a unit cost model, multi-annual funding cycles and a medium and long term programmes of capital expenditure should be developed. Higher Education should be incentivised to internationalise its services.

The HEA in its submission to the OECD group reflected the views set out in its consultative document referred to above and highlighted the concerns of some interests that public accountability and value for money issues needed to be addressed. It proposed a new approach whereby HEIs as autonomous but strategically governed and managed institutions would have the capacity to address complementary portfolios of aims within an increasingly diverse funding environment . In this model increasingly autonomous and market-sensitive institutions have the capacity to respond quickly and effectively to public interest agendas at national and regional levels and also take a greater responsibility for their own financial sustainability.

The Department of Education and Science in its submission to the OECD review group and in its response to the HEA consultation paper emphasized the clearly acknowledged importance of higher education as a leader in driving Ireland's economic development. It said "Future Government public expenditure policy will have to balance many competing long-term and short-term social and economic objectives ….."Particular reference was made to the need to take account of wider policy issues around achieving and maintaining equity of access and developing and protecting overall capacity for meeting national skills needs.

In its Report the OECD Group said that while "the assessment of financial management practices has highlighted some weaknesses, the ongoing financial sustainability of universities and institutes of technology remains a fact. Irish institutions have remained financially viable while ensuring a world-class education for their students and producing a world class quality".

Commenting on the HEA's proposed revised funding model, the OECD review team stated:

"We have no great disagreement with the statement of objectives as they stand but our preference would be to emphasise certain points more strongly. We believe a funding model deriving from public funds must provide implicit strategic directions for the tertiary education system consistent with the maintenance of institutional autonomy. Any new funding model must therefore complement a comprehensive, integrated and coherent set of financing policies which aligns the goals in the national strategic agenda with those of tertiary education. Such policies should:

- Link national strategy effectively with institutional strategies, as appropriate;
- Provide incentives for institutions, individually and in collaboration with one another to address national priorities;
- Create and sustain the capacity of institutions in a manner consistent with their mission."

Other recommendations made by the Review Team included the following:

- The principles which should be incorporated into the funding model should include keeping the core funding block grant as simple and transparent as possible.
- The 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.
- Model should include explicit recognition of importance of widening participation.
- Model should include some incentive to recognize research success.
- Cross institutional collaboration should be made a priority.
- Strategic funding element should be linked to extent to which an institution's strategic plan reflects national priorities.

Further support for the Authority's approach to a new funding mechanism came from a highly important report of The Enterprise Strategy Group(1). It recommended that a funding framework be devised that combines core funding with a competitively based element, allocated on the basis of performance and the successful achievement of outputs. In addition, it recommended that the development of additional diverse sources of private funds should be actively encouraged.

The Government in 2005 announced that it was adopting in principle many of the Group's broader recommendations.

4 HEA Revised Funding Mechanism

The Authority held a seminar in October 2004 at which the feedback from stakeholders to the consultation document and the observations of the OECD Review Group on the model were considered. This seminar afforded considerable insight into the advantages and disadvantages of the proposed model, pitfalls and gaps, and what the institutions most wanted to see in any scheme. The OECD report had stated that the model must provide implicit strategic direction for the higher education system, that the block grant mechanism should be kept as simple and transparent as possible, that the core grant should include some element for research and that there needed to be explicit recognition in the model of the importance of widening participation. At the seminar there was agreement on the need for core funding to be associated with output measures on Access and Retention and for it to recognize research success through possible indicators such as PhD numbers, publications and research income earned. The model was finalized in 2005 and a detailed description of the mechanism was circulated to the institutions and the Department of Education and Science. The new system was used in part in the allocation of the grant for 2006.It will be fully operational in 2008

The following is a summary of the three separate but related elements of the model:

- An annual recurrent grant, allocated to each institution using a formulaic approach. Clarity, transparency and fairness as to how the institutions are funded are key objectives, with uniformity of core grant funding for students in the same broad areas, regardless of the institution at which he/she chooses to study and recognition of the extra costs which arise in the case of students from certain backgrounds, e.g., socio-economic disadvantage, disability, mature second-chance students. Ninety-five percent of annual recurrent funding is allocated on the basis of student numbers in four broad subject weighted price groups. The remaining five percent is allocated using specific research performance criteria.

- Performance related elements, benchmarked against best national and international practice, with greater emphasis on setting targets and monitoring outputs. The HEA will reserve an element of the annual recurrent grant pending confirmation of strategic plans which are coherent with and , supportive of institutional and government strategy and which deliver appropriate outcomes.

- Mechanisms which will promote innovation generally, but especially in specified areas which support national strategic priorities. A Strategic Innovation Fund will be established which will be allocated to institutions on a competitive basis. The funding methodology will have specific emphasis on coherent strategies and inter and intra-institutional collaboration.

The model is being phased in over a three year period, 2006 – 2008. During this period there will be on-going consultation with the institutions on the detail of the model and following from this it is anticipated that the model will be further developed and refined.

Once implementation of the HEA Recurrent Grant Allocation Model is complete, institutions will have responsibility for setting out, in a strategic way, how they will address key internal and national policy issues. It will also be their responsibility to set institutional targets and it will ultimately be their success or failure in reaching those targets that will determine their level of funding. Institutions will be supported in developing and implementing new approaches and it is those which are most innovative which will benefit most.