



**KEEP
CALM
AND
FIX
COLLEGE**

BY DYLAN SCOTT

FOR YEARS, STATES HAVE DITHERED OVER PAY-FOR-PERFORMANCE IN HIGHER EDUCATION. IN BRITAIN, THEY'VE BEEN DOING IT FOR DECADES.

SIX YEARS AGO, officials from the Higher Education Funding Council for England (HEFCE) came to the United States to share their vision for funding colleges and universities: The focus was how many students a school graduates instead of how many students a school enrolls. It was, in short, performance funding for higher education.

It was an idea that had confounded American states for years. Experiments in similar funding approaches, undertaken in fits and starts beginning in the 1970s, had been abandoned one by one. Perhaps most famously, South Carolina put all of its eggs in the performance basket in 1996, basing 100 percent of its higher education funding on metrics like graduation rates. There was a sense among legislative proponents and a business coalition that supported the change that public universities and colleges, like other branches of government, needed to become more efficient and that market-like incentives were the way to achieve this. Seven years later, South Carolina had to dump the formula, thanks to

a fierce backlash from the university faculty as well as pushback from administrators who were overloaded from trying to implement the program.

That's why, when the English visitors from HEFCE arrived in Chicago in July 2007 to speak at an international forum hosted in part by the State Higher Education Executive Officers (SHEEO), their American counterparts were ready to listen.

"We're working on the same kind of problems. How do you get a wider level of educational attainment?" says Paul Lingenfelter, president of SHEEO. "There's no special wisdom in any other country, but what we've learned is there are intelligent people working on these issues all over the globe and it helps to be a part of the conversation."

Thanks to the SHEEO conference and the confluence of other pressures—sharply circumscribed budget limits and low course-completion rates—performance-based funding for higher ed is coming stateside. More than half of states have expressed an inter-

est in moving in that direction, a dozen or so are actively developing policies to fund higher education by making sure public dollars are incentivizing results and a few have already implemented new systems. In their pursuit of the best way to do that, states are looking for lessons from their English allies.

The specifics of the formula and the politics behind rewarding performance are only part of what makes the English model tick. It's also about the philosophical underpinnings. "The driver for these institutions is the pursuit of knowledge and the public benefit," says Steve Egan, director of finance and corporate resources at HEFCE. A lot of the English institutions were set up with those altruistic objectives, he points out, noting that those objectives remain a strong part of who they are—and they are buttressed by a performance funding model that rewards results. "It's about those larger social goods. That's the secret," he says. "You can't make that happen with a funding system or a regulatory system. The core of it is the universities themselves."

In other words, aligning funding streams with the fundamental goal of higher education—to educate students and do it well—allows universities to stop worrying about how many students they can send acceptance letters to and start concentrating on how they can better educate the students that they have.

 One fundamental feature separates the U.S. system from the U.K. model: when the student counting starts. American public universities, by and large, receive a per-student allotment from the state based on how many students are enrolled at the beginning of the school year. In England, the counting takes place at the end of the school year. Schools receive funding only for the students that make it through, which is a more effective way of promoting student retention.

"Those that perform well get a lot. Those that don't get nothing," Egan says. That's the bedrock of the performance-based funding model that his country uses to ensure the £4.7 billion (about \$7.6 billion) it spends on higher ed instruction at nearly 250 universities and further education colleges (similar to U.S. community colleges) is well spent.

The best universities in Great Britain, such as Cambridge and Oxford, have retention rates around 99 percent, the highest possible figures, comparable to Harvard and Yale in the United States. The British national mean sits above 80 percent, while America averages closer to 75 percent.

That means the U.S. is spending a lot of money—tuition fees and general spending have been on the rise for years—but only achieving middling results. More students are enrolling than graduating. That's led to a lot of interest in throwing out the whole U.S. system, which only rewards getting students in the door, and moving toward a model like the U.K.'s, which rewards getting them out. "There is all sorts of interest in emphasizing completion," says Aims McGuinness, senior associate with the National Center for Higher Education Management Systems, who has studied the U.K. higher education system. "But the question is: How do you do it?"

The United Kingdom has had a fair amount of practice. Dating back to the 1980s, the country has linked its funding allocations to

an institution's performance on specific metrics. The formula was most recently revised in the mid-2000s, particularly to encourage schools to recruit and retain students from low-income geographic areas. Up to 10 percent of a school's teaching funding is connected to its ability to enroll those students, who are identified by their postal code. It's an unconventional performance metric, but one that U.S. policymakers have taken an interest in as access equity has become a major issue in this country as well. In a similar manner, England has introduced incentives for schools to enroll students in certain fields like science or medicine that are expected to have a high demand but currently have a shortfall in graduates entering the labor force.

Most of the other 90 percent of funding, however, is based on specific measurable criteria, most of it locked into completion rates. If a student enrolls in an institution at the beginning of the year and finishes there at the end, the school receives credit and full funding for that student. If the student doesn't finish, the school can be penalized and lose money.

That's one of the important lessons from the United Kingdom: leverage. Almost all funding for U.K. higher ed is founded on outcomes of some kind, and policymakers credit that wholesale approach to its success. U.S. experiments in performance-based funding have generally not been as bold. Aside from the example of South Carolina, which was a disaster for different reasons, most states have limited the performance-based portion of their higher education funding to 5 percent or so. What they found was that it wasn't enough money to encourage change. When up to 95 percent of their money was still wrapped up in recruiting and enrollment, schools continued to focus their efforts there.

"There's no magic number, but you've got to get into double-digits to get the institutions to pay attention," says Travis Reindl, program director for postsecondary education at the National Governors Association. "It gives you a better shot that you'll see the corresponding changes on the campus."

When South Carolina tried to move to a fully performance-based system, it encountered a vicious pushback from its schools and their staff. So how has England gotten its institutions on board? By using specifics. Before the beginning of every school year, HEFCE outlines its performance expectations with each individual school. Exact metrics are set. Then the school and the commission sign a contract, allowing both sides to acknowledge before the funding cycle even begins that they understand what's at stake and how it will be determined. "That's huge. That's worth trying to do," says Jane Wellman, executive director for the National Association of System Heads, which represents more than 50 systems of U.S. public colleges and universities. "The basic notion that there will be an understanding of the criteria and the performance expectations trumps everything else." The English, she says, "did that pretty well."

Not everyone is convinced. The U.K. model differentiates between teaching, research (which accounts for about \$1.6 billion) and other funding (a little more than \$1 billion). Within each of those spheres, there is a formula for determining funding. Research funding, for example, is based in part on how many peer-reviewed studies a university's faculty had published in

the previous year. There is a concern among some in the United States that you could over-formulize, and by extension, take some of the discretionary power away from the school presidents and boards who have presumably been placed in those positions to make decisions about how money is being spent and whether it is being spent wisely.

“The passion for formulizing these things takes away from what I thought I was being paid for, which is making judgments,” says D. Bruce Johnstone, professor of higher and comparative education at the State University of New York at Buffalo, and former president of that school. “You can formulize and formulize and formulize these things, but it sometimes takes away from the comprehensive judgment of the chancellors and school boards.”

Since that 2007 SHEEO meeting, the English tenets for higher education funding have begun to permeate U.S. education policymaking. States have begun rebooting their performance-based funding efforts in the last few years and building on lessons from the U.K. system: putting enough money at stake, having well-defined goals for institutions to work toward and awarding outcomes instead of inputs.

Tennessee perhaps moved closest to the English system when it revamped its funding model three years ago. Though state officials say they largely came up with their own formula from scratch—they were only vaguely familiar with the U.K. model—their result bears some striking similarities to the British pay-for-performance model. For starters, Tennessee decided to put all the money on the line. Like others, the state had experimented with a limited amount of performance-based funding (5 percent) 30 years ago. But also like others, the state found that wasn’t enough to leverage change.

Tennessee’s new formula puts 100 percent of a school’s funding on the line and links it to specific outcomes, such as degree production, graduation rates and research output. Schools are rewarded for recruiting students from a lower socioeconomic background, much like the postal-code incentives in England. To ensure buy-in from the higher education community itself, faculty and administrators were brought into planning meetings and provided input on the specific metrics that they would be measured by. Outcomes for differ-

ent schools are weighed differently, depending on the institution’s population and academic mission, another idea that had already appeared in the English model. To ease the transition, the state limited the amount of money that an institution could lose or gain in the first few years. Early results are positive, according to Tennessee officials. Degrees awarded and graduation rates are on the rise.

“Trying to just tweak the status quo wasn’t good enough, so we decided to go for it,” says Russ Deaton, the Tennessee Higher Education Commission’s associate executive director for finance and administration. “It’s a new philosophy. The school’s money is not its own. They have to relinquish it and earn it back.”

If the initial success of Tennessee’s new performance-based funding system is any indication, the British influence is likely to grow. The National Governors Association, which has studied the U.K. model at length, is working with states including Nevada to implement performance-based funding systems based on some of the same principles. Deaton reports that Tennessee has already fielded calls from some 30 states and had extensive conversations with 15 about how their model could be translated across the U.S.

The renewed interest in performance-based funding rests on the current confluence of three circumstances, says the National Governors Association’s Reindl: The economy needs more people with a higher level of education, state governments’ budget situation requires more fiscal discipline, and the disparity in college completion across different demographics demands an overhaul in incentives for higher education institutions. Those underlying factors don’t seem to be going away,

which likely will lead states to continue exploring the concept. As the Tennessee program already suggests, the standards upon which the English model is based indicate it is an improvement over America’s past failures in performance-based funding.

As many as 20 states are expected to introduce performance-based funding legislation in the next two years. “The numbers are showing that we’re well into version 2.0. It’s in play,” Reindl says. “It’s got a lot of potential, and it could be a significant force toward achieving the changes we’ve been looking for.” The U.S. similarities with the U.K. system, Reindl adds, “represent an evolution. We’re getting better at this.” **G**



“HOW DO YOU GET A WIDER LEVEL OF EDUCATIONAL ATTAINMENT? THERE ARE INTELLIGENT PEOPLE WORKING ON THESE ISSUES ALL OVER THE GLOBE AND IT HELPS TO BE A PART OF THE CONVERSATION.”

— PAUL LINGENFELTER OF SHEEO

Email dscott@governing.com