

Developments in higher education in the new German federal states and the Brandenburg model of performance-linked university funding

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Introduction

Since the early 1990s at the latest, people have realised that a reform of higher education is essential if universities and colleges are to meet the demands already placed on them, and to cope with the new challenges they are facing. This has been discussed under key headings such as "The new role of universities in the knowledge society", "Globalisation and internationalisation" and "Linking science and business".

The quality of a country or a region as a "science location" and the quality of the universities themselves depends among other things on motivating the young people who will become the researchers of the future, and providing them with a stimulating environment. Cutting edge research in the natural sciences, humanities, and social sciences can only be achieved if the universities place the highest priority on promoting the very best students.

The resources of the universities, colleges, and extra-mural research institutions must be targeted more effectively, and the cooperation between them must be enhanced – both in terms of the actual research work and also the education of the new generation of scientists.

In times of tighter public budgets, goal-oriented controls on funding are necessary. The universities must be given more financial responsibility, and incentives must be provided to encourage the efficient use of funds. One instrument for achieving this is the performance-linked allocation of funds. This takes account of the growing autonomy of universities and colleges, provides incentives for improved performance at all levels, and promotes a healthy spirit of competition throughout the higher education sector.

Other countries have already implemented a variety of models for performance-related funding. As a rule, these are restricted to the funds for teaching and research. All the models make a distinction between a basic volume-related element and a part which is directly related to performance or which is incentive-oriented. The approach to the performance-linked allocation of funding in Germany's federal system of higher education can be demonstrated by taking Brandenburg as an example.

University autonomy

The development of a system for the performance-linked allocation of funds is a part of the overall strategy adopted in the Federal State of Brandenburg to strengthen university autonomy. This is also reflected in Brandenburg's Higher Education Law, which gives increased responsibility to rectors and university presidents.

University autonomy and financial responsibility

The Brandenburg model of performance-linked allocation of funds is aimed at strengthening the financial autonomy of universities and colleges, while at the same time increasing competition both within and between the various institutions of higher education. It further promotes the autonomy of the universities, and in many cases requires significant reorientation. As universities gain more autonomy, they will have to shoulder more responsibilities and make effective use of the increased scope for action in order to be successful in the future.

The model in the wider context of the new control strategy

Along with the existing instruments for globalisation, performance and cost accounting, the model for the performance-linked allocation of funds, coupled with target agreements, represents a further step in higher education towards what we call the new control strategy. The instruments have been adapted to the special needs of the university sector, but without reducing the emphasis on economic efficiency as a controlling factor.

Special features of the Brandenburg model for the allocation of funds

The Brandenburg model for the allocation of funds was developed jointly by our Ministry of Science, Research and Cultural Affairs together with the universities and colleges. It draws on the experience in other federal *laender* in Germany and includes additional new developments. These new elements perhaps make it interesting for other regions and countries which want to introduce strategies for the allocation of funding, or wish to modernise existing systems. The model for funding allocation has a series of special features which make it clearly different from other models:

- The model applies to all the universities, colleges and the colleges of arts.
- It covers the entire budget of each institution, and does not only address individual budget items.
- The funds are allocated on the basis of three financial pillars (basic expenditures, performance-linked funding, and agreements for structural development).
- The allocations are based in part on a performance-related formula, but also on target agreements drawn up on a case-by-case basis.
- The model has a strong link with student demand; the largest part of the allocation depends on the numbers of students in degree courses. However, the introduction of a "demand independent proportion" introduces an element into the model which is related to the research capacity, in the form of professorships. The allowance for special factors makes it possible to take aspects into consideration which would not be covered by the standard formula.
- The budgets are calculated in an analytical process on the basis of standard costing values. The overall budget available is then distributed proportionately between the universities and colleges on the basis of the values determined in this way.

Details of the Brandenburg model of funding allocation

The Brandenburg model of performance-related allocation of funds is based on three financial pillars. The basic funding, the performance-related funding, and target agreements for structural development.

Basic budget

The introduction of a new, performance-oriented allocation of funds first requires the development of standards for a basic budget. Different subjects generate different costs, and so related subjects which are similarly cost-intensive are grouped together in subject clusters (six clusters for the universities, seven for 'Universities of Applied Sciences', and one for the College of Film and Television). Standard costing values are also determined for the professorial chairs.

In a further step, the overall standard costing value is divided into a part which is related to student demand and a part which is not demand-related. In this way, the allocation of funds to the institutions of higher education is linked to the developments in student numbers, but still provides a certain amount of protection against fluctuations in student numbers.

The Brandenburg Ministry of Science, Research and Cultural Affairs has set the proportion of the budget which is not dependent on student demand at 25 % for the humanities and social science subjects at the universities and the College of Film and Television, 40 % for the natural sciences and engineering at the universities, and 15 % for the 'Universities of Applied Sciences'.

Due to the link to the numbers of students, the demand-related portion provides an effective incentive. If the numbers of students drop, then this leads to a reduction in the level of funds allocated.

There are certain cost factors which are not reflected in the model, most of them related to political decisions or special historical developments, and these have been taken into account by creating **special factors** as an additional category. Such special factors might include the politically-desired use of listed historical buildings at above-market prices.

Performance-related funding

The performance-related part draws on the performance of the universities and colleges in teaching, research, the promotion of young researchers, internationalisation, and equality.

A number of indicators are used to measure performance. These include the number of students obtaining degrees, the level of third-party funding acquired, the number of PhDs, the number of foreign students, the number of newly enrolled female students, the number of post-graduate female students, and the number of female professors. The performance indicators were adapted in the case of the College of Film and Television to include artistic developments as an equivalent to doctorates.

The performance-related funding covers 20 % of the overall budget. It is intended that this factor should become increasingly important in future.

Target agreements

The third pillar of the model is formed by the target agreements. In addition to allocations based on the standard formula, this makes it possible to take into account the individual profiles of the universities and colleges, and to support their structural decisions. The funding comes from a structural pool provided for in the model.

The target agreements are an instrument for the state control of the institutions of higher education, and played an important role in particular during the introduction of the performance-linked fund allocation model in Brandenburg.

The target agreements did not cover all the goals and activities of the universities, but included selected projects which both the Ministry and the university regarded as priorities for the period covered by the target agreement. In this way, special financial support could be provided for individual structural goals from the structural pool, in addition to the standard funding provided on a one-size fits all basis.

The target agreements are based on the framework planning of the Ministry and the strategic plans of the universities and colleges. In its endeavours to promote the modernisation of the institutions of higher education in Brandenburg, and to significantly increase their contribution to the overall structural development of the federal state, the Ministry of Science, Research and Cultural Affairs has set up the following higher education goals:

- To secure and increase the performance and attractiveness of university teaching and research by means of cooperation and networking,
- To promote the establishment of priorities and to enhance the profiles of the universities,
- To increase the contribution of the universities to the structural development of Brandenburg, in particular by means of knowledge transfer to businesses,
- To further improve the internationalisation of degree courses,
- To strengthen basic and applied research by networking and cluster formation,
- To systematically and continually promote the development of young scientists,
- To develop the market-orientation of further education provisions.

The target agreements between the Ministry and the institutions of higher education offer both parties a reliable basis on which to plan future developments, with a direct link being established between the performance of the universities and colleges and any corresponding obligations of the Ministry.

Damping factor

In the introductory period the impact of the model has been damped. This provides the universities and colleges with an opportunity to adjust to the new criteria under which funds are allocated. The step-wise implementation of the model by means of adjustments to the damping factor is intended to prevent financial hardships for the individual universities. In particular it will help to prevent unwanted negative competition, without distorting the financial ranking in terms of profit and loss.

Reporting

University autonomy brings with it the need for a detailed system for reporting results. For this reason, a method for the description of products and performances was already introduced with relation to the globalisation of higher education budgets. With the increase in financial autonomy, the product and performance accounting will be further improved.

Future prospects

The implementation phase for the model was followed immediately by an evaluation phase. Where readjustments are necessary, these are being negotiated with the universities and colleges.

The model for the performance-linked allocation of funds provides a further instrument within the new control strategy of the Brandenburg Ministry of Science, Research and Cultural Affairs. The implementation of the model offers a great opportunity to improve standards and performance in the higher education sector, and at the same time to improve the efficiency of funding allocation.