

University Alliance response to HEFCE review of teaching funding method

Consultation question 1

Do you broadly agree with our statement of the purpose of HEFCE's funding for teaching?

1. We support HEFCE's statement of purpose for funding teaching. The three strands highlighted (to support the wider public benefits, to ensure an appropriate level of investment in HE and to address policy objectives) summarise the position well.
2. We consider that an essential role of HEFCE is to achieve an appropriate balance between these three priorities to provide the best environment for the UK higher education sector to thrive.

Key principles of the UK higher education system

3. Alongside these key principles for the teaching funding method we would highlight the following key principles which we see as crucial to maintain within the wider UK system:
 - **Recognition that universities are vital to the future of the UK economy:** It is critical that there remains cross-government support for the role of universities as drivers of innovation and wealth creation within the UK's knowledge economy.
 - **An independent funding body:** Having a separate, independent funding body ensures an appropriate balance between accountability for public money and an autonomous university system - this creates the best environment for an innovative, flexible and competitive higher education sector.
 - **Stable, predictable core funding:** The value of stable funding streams for teaching and research is that they enable universities to invest against agreed priorities and to manage fluctuations in the market, whilst simultaneously allowing funding councils to put efficient controls and levers into the system.
 - **Effective quality assurance system that ensures minimum standards and value for money:** The quality assurance system needs to have a continual focus on review, improvement and safeguarding standards within universities whilst incorporating externality through rigorous cyclical reviews by the Quality Assurance Agency and the external examiners system.

Supporting the wider public benefits: a strong case for both public and private investment in higher education

4. The question of appropriate balance between public and private funding should not be driven only by economic pressures on the government but based on a coherent argument about the desirable extent of public support for higher education.

5. The investment of public funding in higher education is just that – an investment. 2007/08 data shows that the sector contributed over £59bn and over 668,500 full time equivalent jobs to the UK economy¹. In the UK's global, knowledge-based economy, where 80% of new jobs are in high-skill areas and rapid growth industries take a high-tech, high-skill and innovative approach, universities are playing a critical role in driving the UK's economic future.

6. As HEFCE moves from defining principles to looking at the detail of the future T funding mechanism it will be important to think carefully as a sector about how we define and measure what is valuable about a university learning environment as well as the value of that in terms of graduate outcomes which then justify public investment over and above alternatives.

Ensuring an appropriate level of investment in HE: UK universities still not in a sustainable funding position

7. We recognise that there has been significant, much needed, additional investment in HE over the last decade with a direct impact on the ability of the sector to expand provision while investing in a quality student and learning experience. Variable fees have provided genuine additional income for universities due to the Government's commitment to maintain the standard unit of resource for higher education.

8. However, this additional income has not been sufficient to maintain a sustainable funding position for universities as even with the full additional fee income the sector is still at 83% of the 1989 public funding level (and would be at 60% without fees). We would highlight the evidence of the Financial Sustainability Strategy Group, which concluded that without increased investment there was a real danger that the quality of the student experience and the UK's success in higher education could not be sustained.²

¹ Universities UK, The impact of universities on the UK economy - 4th report, 2009. <http://www.universitiesuk.ac.uk/Publications/Documents/EconomicImpact4Full.pdf>

² JM Consulting, The sustainability of learning and teaching in English HE. A report prepared for the Financial Sustainability Strategy Group, 2008. <http://www.hefce.ac.uk/Finance/fundinghe/trac/fssg/FSSGreport.pdf>

Addressing policy objectives: recognising the shared economic priorities of government and universities

9. The Government shares many of the economic priorities of universities including: equipping a highly-skilled workforce; driving innovation through partnership with business and world-leading research; providing real-time business solutions through shared expertise; providing entrepreneurial leadership in areas such as regeneration and sustainability; and fostering social mobility and inclusion.

10. The question is how to achieve these shared priorities and how to maintain the UK's position in having a high-quality, leading university sector in a climate that doesn't allow for a significant increase in investment in higher education. We outline some proposals that address this in our publication: 'Efficiency, leadership and partnership: an approach that delivers shared economic priorities.'³

Consultation question 2

Do you broadly agree that our funding method should give institutions the freedom to manage provision in a way that best responds to the needs of students, employers and society?

11. We strongly agree that a vital element of the funding method is the autonomy of universities to manage provision – precisely because it is universities which are best placed to know how to respond to the needs of students, employers and society.

Autonomy enables universities to manage drivers in the system and focus on priorities and strengths

12. The autonomy of institutions has been shown to have a direct correlation with the quality of a system, with the UK recognised as being distinct in both its level of autonomy and its quality.⁴ A separate funding body for universities, at arms length from government, has existed since the early 1900s. Successive governments have sought a balance between directing investment towards particular high-level skills and areas of research, requiring accountability for that public investment whilst allowing universities to be sufficiently autonomous as to collectively achieve the position as one of the best higher education sectors in the world.

13. Within this system, universities have sought to develop strategies that focus resource on their strengths. The system is driving significant efficiencies while autonomy allows institutions to identify which areas should be prioritised in terms of

³ See http://www.university-alliance.ac.uk/downloads/Publication_Efficiency_Leadership_Partnership.pdf

⁴ P Aghion et al, 'Higher aspirations: An agenda for reforming European universities', 2008 <http://aei.pitt.edu/8714/01/BPJULY2008University.pdf>

investment and development. Within this system universities are increasingly seeking to establish a distinct identity to ensure that they are adding value alongside institutions working in other areas across the higher education sector.

Universities are best placed to manage growth in the sector

14. It is critical to the success of the UK HE sector and the ability of individual institutions to deliver economic priorities that institutions have internal freedoms to meet their particular markets' needs; to do this effectively requires hands on knowledge of those markets.

15. Because of their close partnership with industry, including new industries, universities are helping to create demand for high level skills as well as being best placed to identify and deliver the high-level skills needs articulated by business. A university-led (and business-led) approach to meeting graduate skills needs is essential given the diversity of sector specialisation across the UK - for example the automotive industry in Manchester, the Aeronautical industry in Bristol, the High-tech industries around Hertfordshire and the Maritime industry in Plymouth and Portsmouth.

Targeted funding streams within the block grant

16. We are supportive of the continued use of targeted funding streams within the block grant, particularly in the case of support for widening participation and retention activities. We assume that targeted funding streams will be used for relatively longer term policy objectives as opposed to funding directed through the strategic margin. This is an area which will need detailed consideration as HEFCE seek to develop the detail of the future funding method.

Consultation question 3

Do you broadly agree that our funding method should enable us to incentivise change which is in the public interest?

17. To a certain extent it is vital that the funding method is able to support areas of provision which are critically important for the economy and society. For example, this has most clearly been demonstrated in the case of support for strategically important and vulnerable subjects.

18. However, we would be concerned if there was too narrow a focus on the funding method, and indeed the steer from government, as the mechanism through which to achieve change that is in the public interest. It is vital that universities are seen as partners in this - with their own set of complex and interconnected stakeholders

and drivers - which means they are highly motivated to innovate and work flexibly to achieve maximum impact. As noted above there are many shared priorities between government and universities, with universities often best placed to understand how best to achieve results.

Driving efficiency and quality through core funding for teaching

19. Alongside this relationship, HEFCE has an important balancing role to play which may need to be emphasised more clearly as a key principle albeit in relation to the need for stable and predictable funding. Therefore, before considering changes which might be made to incentivise change it is important to identify and recognise the existing levers and drivers of efficiency within the HEFCE T Grant.
20. In effect, the HEFCE T Grant enables government funding to follow the student directly while ensuring that the system is sufficiently well managed to guard against fluctuations in demand with key skills for the economy continuing to be delivered. This approach to funding higher education enables:
- HEFCE to control the total budget on behalf of Government
 - HEFCE to put efficient levers and controls within the system
 - universities to reconcile innovation with protecting academic and financial standards
 - universities to plan, adapt provision in partnership with employers and make progress against strategic priorities (e.g. STEM) rather than having to respond to fluctuation in patterns of demand
21. The HEFCE formula-based funding method means that it allocates billions of pounds of public funding against a very small administrative cost, making it one of the most efficient delivery mechanisms across the public sector. We would argue that the vast majority of funds should be directed through the block grant based on the proven ability of UK universities to use autonomy effectively to focus on priorities and high quality outcomes.

Consultation question 4

Do you broadly agree that we should achieve this through a 'strategic margin'?

22. Based on the above understanding of the current system we are not convinced that a strategic margin is the best way to incentivise change. The University Alliance publication 'Efficiency, leadership and partnership: an approach that delivers

shared economic priorities⁵ demonstrates a number of ways in which the current system has enabled Alliance universities to develop practice which is entrepreneurial, innovative and effective. In a tighter funding environment it will be critical to evaluate whether introducing a strategic margin would be the most effective use of public money in order to deliver against shared priorities.

23. The consultation document notes that the margin would represent a small minority of total recurrent teaching funding. We consider this to be a key principle as we would be wary of such a move laying the foundations for further diminution of the core grant. As noted above, we consider the core grant to be an essential feature of a system which already enables universities to operate flexibly and focus on strengths.

24. It is also important to situate this proposal within the wider system as there are likely to be a number of factors which affect how successful such a mechanism would be to drive change. Our members have raised a number of concerns as to how a strategic margin might work in practice:

- the likely continuing costs of new kinds of activities after funding has been recycled
- how funding through the strategic margin would fit with the normal cycle for higher education activity – for example the 18 month recruitment cycle and (in most circumstance) the enrolment of students for a three year period
- the criteria for deciding whether activities are funded through the core, targeted funding streams or the strategic margin
- the ability of institutions to absorb the risk of bidding for short-term funding within a tight funding climate

Consultation question 5

Do you broadly agree that our funding method should be compatible with various modes of study, including flexible provision?

25. We strongly agree that the funding method should be compatible with various modes of study. Indeed, we consider that HEFCE has already been fairly effective at adapting to new modes of delivery. In particular, we welcome the recent move to change the completion definition to incorporate the final assessment taking place within 13 months of the start of the year of programme of study.

⁵ See http://www.university-alliance.ac.uk/downloads/Publication_Efficiency_Leadership_Partnership.pdf

26. In looking more broadly at changes which might be made to the system we strongly agree that a priority should be to strike an appropriate balance between enabling flexibility of provision and encouraging retention of students. Before moving to a credit based system it will be important to evaluate carefully whether there are means to support greater diversity within the current funding method.
27. There are mixed views about modular funding amongst our members but what is clear is that it would not be an easy fix. Nonetheless, we would support further exploration of the advantages and disadvantages of such an approach alongside a re-evaluation of potential adjustments which could be made within the current system.

Consultation question 6

Do you broadly agree that our funding method should be as simple and easy to understand as possible?

28. We agree that the funding method should be as simple and easy to understand as possible and believe this to be consistent with the principle of having core stable funding delivered through the block grant. Institutions may then develop their own internal cost structures to discharge their obligations, whilst working within the funding allocation.
29. While we appreciate that a degree of complexity has been introduced into the system over time as HEFCE has sought to manage different policy imperatives we are supportive of the way in which HEFCE has been able to do this whilst sticking to the key principles as outlined under question 1. Again, this is an area where HEFCE has an important balancing role to play – between keeping the system simple with limited administrative burden while ensuring that it is flexible enough to meet the needs of an increasingly diverse sector.

Consultation question 7

Do you broadly agree that our funding model should be responsive and dynamic?

30. We agree that the funding model needs to be responsive and dynamic. We believe that a key way in which the current system enables this is through the block grant that provides a stable basis from which universities can pursue innovative and dynamic approaches. Through this method, universities have been able to work effectively to respond to change and develop new modes of delivery.

31. Whilst we understand that HEFCE would wish to evaluate the current operation of the tolerance band we would like to highlight the importance of some kind of mechanism with which to manage the potential volatility of student numbers. Any replacement mechanism, or adjustment to the existing mechanism, would have to be carefully modelled to ensure that there were no unintended consequences.

The need for a more flexible regulatory framework that reflects the dual nature of universities as both public and private organisations

32. Alongside T funding methodology it is also important to recognise the wider regulatory framework within which universities are operating that can sometimes constrain or determine how dynamic or flexible an institution can be:

- **Employment law that creates a more level playing field with private providers:** In terms of employment, universities operate public-sector contracts, terms and conditions. This is largely for historic reasons, including the transfer of former local authority contracts in post-92 universities. Given that they are both public and private organisations, universities should have greater flexibility of employment and contract arrangements that best meet the needs of their staff and of the organisation across different areas. This would put them on a more level playing field with private providers and other businesses where they operate in highly competitive, commercial markets.
- **Greater flexibility in pension requirements:** The current regulations in this area can be too restrictive and should be looked at to ensure that universities are able to implement pension schemes that best meet the needs of their staff and their organisation. In particular the compulsory nature of universities having to offer access to particular pension funds should be reviewed. In addition, the Government should implement a consistent approach regarding Financial Reporting Standard 17 (FRS17) because of the significant implications for the transparent reporting of liabilities and financial health.
- **A more flexible tax framework:** Under VAT rules reflected in EU agreements, buying services rather than providing them in-house may incur a VAT cost that can act as a barrier to implementing Shared Services. This issue has been well documented in the past⁶ and measures have been introduced for some public bodies to remove these disincentives so that VAT can be reclaimed for appropriate services. We strongly support the

⁶ For example see the NAO report "Improving corporate functions using shared services", November 2007, http://www.nao.org.uk/publications/0708/improving_corporate_functions.aspx

work of BUFDG in this area and recommend that this issue should be given greater priority for action by the Government.⁷

- **Achieve better regulation that is focussed on outputs:** We welcome the Coalition Government's commitment to reduce regulatory burden as part of their wider policy to stimulate growth. For universities specifically, this would best be progressed through greater support for the work of the Higher Education Better Regulation Group to continue to improve regulation in the higher education sector. Better regulation should drive improvements in outputs rather than focus on inputs.

Consultation question 8

Do you broadly agree that, to achieve value for money, our funding method should continue to reflect the impact of income from tuition fees and contributions from employers?

33. We agree that, in principle, public funding should be one part of a funding system which incorporates contributions from both graduates and employers as beneficiaries. However, there are a number of factors which need to be taken into account in terms of how the funding method reflects this additional income.
- Until universities have reached a sustainable funding position, it is vital that non-public income is treated as additional. This principle is closely linked to the importance of the unit of resource (see paragraphs 7 and 8)
 - Clearly this question is likely to be particularly affected by the outcomes of the Browne Review – until that time it will be difficult to anticipate the likely income from graduate contributions⁸ in the future
 - There are inherent difficulties with measuring and sustaining income from employers due to short-term profitability drivers. While we recognise the importance of income from business being recognised within any future funding method, the role of HEFCE to guard against fluctuations in income is likely to be particularly important for this income stream.

Consultation question 9

Do you consider that any other principles or features should be fundamental to our teaching funding method?

34. See our key principles outlined in paragraph 3

⁷ The implications for student finance would also need to be considered.

⁸ Our proposals for a Graduate Contribution Scheme are described in the University Alliance publication, 'Proposal for a Graduate Contribution Scheme in England', 2010, http://www.university-alliance.ac.uk/downloads/Publication_Proposal_for_a_Graduate_Contribution_Scheme_in_England.pdf

Consultation question 10

What are the advantages / disadvantages associated with each of the options in paragraph 60? Are there other effective alternatives?

(a) Allocating student numbers

35. This option is worth exploring further as a continuation of the existing approach which has been fairly successful at managing growth within the system. Given that growth within the system is likely to be restricted for the foreseeable future this approach might be advantageous as it would allow HEFCE to prioritise provision in particular areas such as NINJ and STEM. Issues which may need to be explored include: the impact on institutions which might lose student numbers and how these would be identified, timing of allocation decisions and the sustainability of subject areas from which numbers are recycled.

(b) Rewarding action that best achieves policy priorities through additional funding – with a potential focus on quality provision

36. We agree that the principle of driving quality provision is an important one but believe that the best way to do this is through the effective regulation of minimum standards and by strengthening existing drivers of quality within the system. We need to take a holistic view of that way in which quality is assured – through employer engagement and professional accreditation, through the way in which institutions work with students at an institutional level and through the work of the Quality Assurance Agency.

(c) Incentivising change through additional funding

37. Our comments here are in line with those for the strategic margin (see paragraphs 22-24)

(d) Discouraging action that is not compatible with policy objectives

38. Again HEFCE's balancing role would be important to ensure that short-term policy objectives do not have a negative affect on the diversity of the system and sustainability of some subject areas.