HEFCE T funding v. vouchers

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Context: understanding the higher education 'market'

1. Universities operate in a complex, semi-regulated market. As largely autonomous institutions in receipt of public funding, they operate within an intricate eco-system of regulation, funding or market incentives from a wide range of sources (public and private) and well-established hierarchies.

2. UK universities operate a non-standardised system of degree classifications and are mostly self-regulating through the QAA with HEFCE operating as a financial regulator in relation to use of public funding. The 'UK HE' brand as a whole is based on quality and, therefore, the drivers for high quality provision and self-regulation on standards are very strong. Given the nature of academic culture, these have always been innate within the system with few exceptions.

3. 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 quality. 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 in high-level skills and research, requiring accountability for that public investment whilst allowing the sector to be sufficiently autonomous so as to achieve its position as one of the best HE sectors in the world.

4. There are many aspects of this complex semi-regulated market that are inter-dependent and also fragile. The Browne Review has recognised from the start that any changes to one part of the system will have consequences for the rest and that a whole-system approach is needed when considering HE funding and student finance.

5. Universities do not undertake a single function but instead operate a set of interdependent and mutually reinforcing activities. This is not just about the interconnectedness of teaching and research but also about the revolving door of knowledge exchange, business engagement and private enterprise. If you take the delivery of high-level skills for economic growth as one example, universities are working to balance supply and demand of applications against a number of funding streams and the needs of business. They are simultaneously working in partnership with the students within a research-informed learning environment that aims to equip them for manifold change in the 21^{st} century. All of this has to take place within a regulatory framework for standards and an accountability framework for the use of public funds.

HEFCE block grant v. vouchers

6. It is only within the context of this complex and multi-faceted market that the importance and value of a stable, block grant for teaching can be properly understood. Taken in isolation, it could be argued that the HEFCE ‘T’ grant is quite inefficient and superficial arguments for a more efficient, market-driven mechanism such as a voucher system for teaching funding might look seductive. Given the many market forces and drivers of efficiency that already exist within the system, however, the value of a stable funding stream that allows universities to invest against agreed priorities and enables them to manage fluctuations in the market, whilst simultaneously allowing HEFCE to put controls and levers into the system in an extremely efficient manner, cannot be overstated.

7. In effect, the HEFCE ‘T’ Grant is very similar to a voucher system but with HEFCE in charge of it. It confers the advantages of a voucher system whilst mitigating the disadvantages.

8. One of the main advantages of a voucher system is that the money follows the student. This is the case with the HEFCE ‘T’ Grant because the volume measure is the number of students studying at the institution in any particular subject cost band. The HEFCE ‘T’ Grant has the additional advantage that it funds on the basis of completion which drives the very high completion rates in the UK system in comparison to other countries. This is, in itself a major contributing factor to the relative efficiency of the system.

9. Efficiency is another advantage claimed by the voucher system but it is unclear how it could be more efficient than the HEFCE ‘T’ Grant. 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. The formula-based approach also allows HEFCE to put controls or incentives into the system in an extremely efficient manner.

10. By contrast, a voucher system might seem efficient but the complexity and cost of administering such a scheme should not be under-estimated. There are some very difficult questions to resolve, including: what the value of the voucher would be; who would determine the value; who gets a voucher and who determines eligibility and who allocates the voucher.

11. Furthermore, there would have to be a significant role for HEFCE (or an alternative body) to step in where there was market failure. This could include having to set up systems of supplementary payments for high-cost, strategic and vulnerable subjects.

12. Other areas of market failure in an unregulated market are likely to include over-demand for the most ‘popular’ causes and geographical clustering that would inhibit access in some areas of the country.

13. There would also be significant regulatory and quality issues for a central body to manage if vouchers could be taken to any institution. There would be questions about who is delivering and what types of provision are allowed to expand. The lack of controls in the system should raise concerns for any Government concerned with achieving the right balance of high-level skills needed for the economy.

14. Finally, there is no clear control of overall budget. Once the system has been set up it is not clear how you could control both the value of the voucher and the overall system cost.

15. Not only does the HEFCE ‘T’ Grant mitigate the disadvantages of a voucher system, it also confers the following advantages for universities and HEFCE:
    - it enables HEFCE to control the total budget on behalf of Government
    - it enables HEFCE to put efficient levers and controls within the system
    - a stable, block grant enables universities to invest in areas of economic or strategic importance (e.g. STEM) where this runs counter to trends in demand for a period of time
    - a predictable, stable funding stream allows universities to plan and make progress against strategic priorities rather than having to respond to rapid fluctuations in demand

16. For a more detailed discussion of these issues, including international comparisons, please see the HEPI report: http://www.hepi.ac.uk/466-1722/Vouchers-as-a-mechanism-for-funding-higher-education.html